



## MACARTHUR COAL LIMITED (ASX: MCC): RESPONSE TO PEABODY STATEMENTS 8 April 2010

### Key points:

- **The Macarthur Board does not believe the current Peabody proposal is capable of being a superior proposal to the Gloucester and Middlemount transactions. Macarthur is therefore not permitted under its Bid Implementation Agreement with Gloucester to engage with Peabody on the basis of this proposal**
- **There is no binding or definitive proposal from Peabody which would be capable of consideration by shareholders and no offer has been made by Peabody direct to the Macarthur shareholders**
- **Peabody has had significant time to formulate and make a definitive proposal and has failed to do so**
- **The Macarthur Board believes shareholders have all information required to make an informed decision at Monday's shareholder meeting and that it has no basis to delay the meeting.**

As announced on 31 March 2010, Macarthur Coal Limited ("Macarthur") received an unsolicited, indicative, non-binding and conditional proposal from Peabody Energy Corporation ("Peabody") on 30 March 2010 regarding a possible offer to acquire all the shares in Macarthur for cash consideration of A\$13.00 per share ("Initial Indicative Proposal"). Having regard to the nature of the proposal and the trading price for Macarthur shares at that time, the Board of Macarthur announced on 31 March 2010 that this proposal had been received and that Directors believed it was not in the best interests of shareholders.

Subsequently, on 6 April 2010, Macarthur received a revised indicative, non-binding proposal from Peabody regarding a possible offer to acquire all the shares in Macarthur for cash consideration of A\$14.00 per share ("Revised Indicative Proposal"). This proposal was again highly conditional, including but not limited to conditions relating to Peabody Board approval, due diligence and regulatory approvals. In relation to financing, Peabody simply stated its confidence in being able to finance the transaction, rather than providing any definitive confirmation of funds being available.

The Board of Macarthur has consequently announced on 7 April 2010 that they have determined that this Revised Indicative Proposal:

- does not represent an adequate premium for control of the company; and
- remains highly conditional and uncertain, meaning the Macarthur Board could have no reasonable confidence of the proposal ultimately being put to shareholders as an offer.

Consequently the Board of Macarthur has advised that shareholders should TAKE NO ACTION in regard to the Peabody proposal, or any communication that they receive from Peabody or its advisers.

Macarthur is legally obliged under the Bid Implementation Agreement with Gloucester not to engage with Peabody unless Macarthur's Board determines, among other things, that:

- the Revised Indicative Proposal could reasonably be a superior proposal; and
- after receiving advice from its legal or other professional advisers, that failing to respond would in the reasonable opinion of the Macarthur Board be likely to constitute a breach of fiduciary or statutory duties or could reasonably lead to a contravention of law.

To be a "superior proposal", the Macarthur Board must determine that it is:

- reasonably capable of being completed on a timely basis taking into account all aspects of the proposal; and
- more favourable to Macarthur shareholders than the Gloucester offer (taking into account, among other things, all legal, financial, regulatory and other aspects of the Revised Indicative Proposal and Peabody's identity).



For the reasons stated above, the Board of Macarthur does not believe the Revised Indicative Proposal could reasonably be a superior proposal and is therefore not permitted to engage with Peabody in relation to it.

The Board of Macarthur also notes that Peabody has taken full page advertisements in major Australian newspapers highlighting their perspective on the Peabody proposals and on the previously announced Macarthur offer for Gloucester Coal Limited, for the interests in the Middlemount joint venture not owned by Macarthur and for the acquisition of Middlemount marketing rights, being considered at the General Meeting of Macarthur shareholders scheduled for Monday 12 April 2010.

Your Directors believe that the Peabody advertisements are self serving and are potentially misleading.

The Directors are not currently inclined to a public debate on the statements made by Peabody. To do so would incur substantial expense to shareholders. Furthermore, the Peabody proposals have been highly conditional and in the Board's opinion, do not represent an adequate premium for control of the company. Nevertheless we consider it is appropriate to put on record a response to these statements.

Responding to the comments in Peabody's advertisements, Macarthur notes that:

- The outlook for resources and the coal sector has improved significantly over the past quarter. As such, any valuation range published for Macarthur that does not incorporate updated pricing estimates needs to be considered in that context. The Board of Macarthur believes it is not at this time necessary to update the independent expert report published by Loneragan Edwards on 16 February 2010 ("LEA Independent Expert Report"), given that in forming its conclusions, this report essentially compares the relative value of Macarthur scrip and the assets to be acquired by Macarthur, rather than absolute value of Macarthur shares today.
- Macarthur is not issuing shares to Gloucester shareholders, including Noble at \$9.70 per share. Macarthur will issue shares to Gloucester shareholders at an exchange ratio of 0.84 Macarthur shares for every 1 Gloucester share. \$9.70 was simply the price used to determine an alternative cash consideration to Gloucester minority shareholders of \$8.00, using the same exchange ratio.
- Noble will be receiving Macarthur shares at A\$9.70 per share to the extent that the Middlemount transaction completes and Noble elects to use the proceeds of certain loans to subscribe for Macarthur scrip. However in this case the Macarthur Board remains comfortable with the consideration being offered in light of the recent strengthening of coal prices which will in turn increase the value of the asset being acquired, being a significant interest in a joint venture already owned and controlled by Macarthur and associated matters.
- Noble will not have a controlling influence over Macarthur's ongoing operations and strategic directions. Following the proposed takeover of 100% of Gloucester and acquisition of Noble's interests in Middlemount, Noble is expected to have a shareholding of between 21.3% and 24.0%, which will be counterbalanced by other key strategic shareholders (CITIC Group (and associated entities), ArcelorMittal SA and POSCO) who will collectively hold approximately 34.8% of the pro forma entity<sup>1</sup>.
- Macarthur believes there are numerous strategic and operational benefits in the proposed acquisitions of 100% of Gloucester and Noble's interests in Middlemount. Furthermore, through the proposed acquisitions, Macarthur shareholders will be provided exposure to Gloucester's suite of high quality coal assets, as well as diversifying Macarthur's geographical, product and infrastructure mix.

The Macarthur Board has considered Peabody's Revised Indicative Proposal carefully and recognised that it is highly conditional and below both recent trading prices for Macarthur and most equity analyst price targets. In addition, the highly conditional and uncertain nature of the Revised Indicative Proposal means that the Board of Macarthur can have no reasonable confidence of the proposal ultimately being put to shareholders as an offer.

<sup>1</sup> Assumes that the Middlemount transaction completes, Noble elects to apply the proceeds of certain loans relating to the Middlemount transaction to subscribe for additional Macarthur shares and that all Gloucester minority shareholders elect to receive Macarthur scrip. It excludes the impact of the CITIC transaction.



Accordingly, and in view of its fiduciary obligations to shareholders, the Board continues to recommend that shareholders vote in favour of the resolution at the Macarthur Shareholders' Meeting scheduled for 12 April 2010 and has determined not to defer that meeting. The meeting is to approve the proposed issue of Macarthur shares to Noble under the takeover of 100% of Gloucester, the acquisition of Noble's interest in the Middlemount joint venture and the acquisition of marketing rights for Middlemount Coal and associated transactions.

Macarthur notes that it was advised by Peabody's advisers late yesterday that Peabody had waived the requirement in the Revised Indicative Proposal that Macarthur confirm by no later than 5 pm yesterday that it would defer the Macarthur shareholder meeting.

Instead, Peabody is seeking in an application lodged with the Takeovers Panel only last night to delay Macarthur's shareholder meeting. Macarthur notes that Peabody had access to all the information sent to shareholders in relation to the shareholder meeting (released to ASX on 26 February) for over one month before it first communicated its indicative, non-binding proposal to Macarthur on 30 March 2010. It is disingenuous for Peabody to now seek to delay the shareholder meeting in circumstances where it has not made a binding offer to Macarthur shareholders.

Macarthur notes, in response to specific queries from shareholders, that:

- shareholders are entitled to amend their proxies at any time up to 11 am on Saturday 10 April 2010 and even if the proxies have been lodged, shareholders can still attend in person or by corporate representative and vote at the meeting; and
- should the shareholder meeting be postponed or adjourned for any reason, shareholders would be given an opportunity to withdraw or replace their proxies.

The Macarthur Board is committed to being in regular contact with shareholders and will keep you informed of future developments. In the interim, the Macarthur Board urges shareholders to not have any regard to public statements issued by Peabody or any other third party. Should you have any queries, please contact Macarthur's shareholder enquiry line on 1300 160 409 (or +61 3 9415 4147).

**For further information, please contact:**

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**About Macarthur Coal**

Macarthur Coal (ASX: MCC) is the world's largest producer of seaborne low volatile pulverized coal injection coal (LV PCI) used for steel making. As a supplier to the world's leading steel producers, Macarthur exports its entire product around the globe.

The Company currently operates two mines in Queensland's Bowen Basin and plans to double its production capacity in the next five years through the development of the Middlemount Mine project and an additional mine from its extensive project portfolio.