

ASSOCARBONI ANNUAL MEETING

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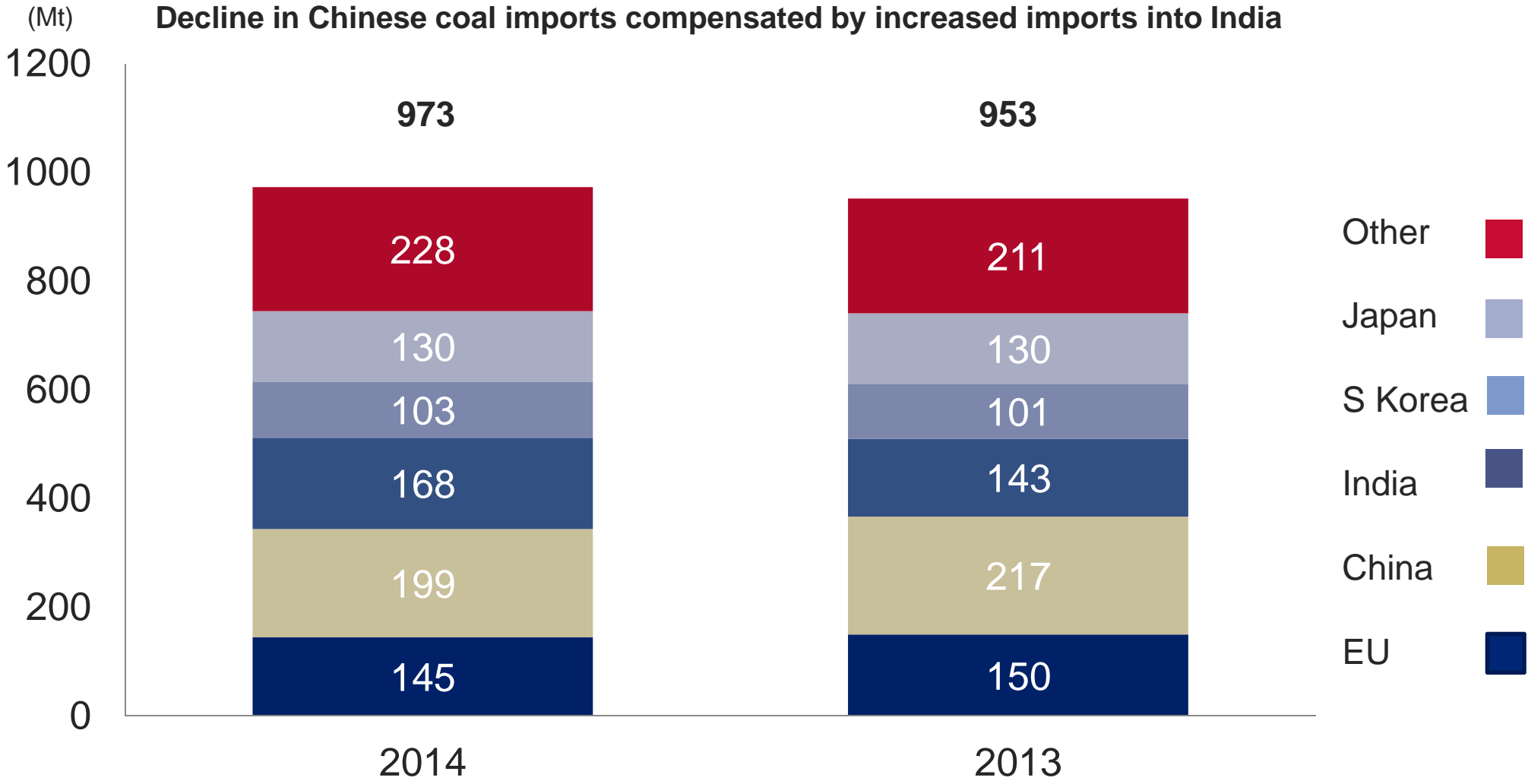
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- **Review of 2014 Thermal Coal Market**
- **Views on the forward market**
- **Inter fuel economics**

THERMAL COAL 2014 REVIEW

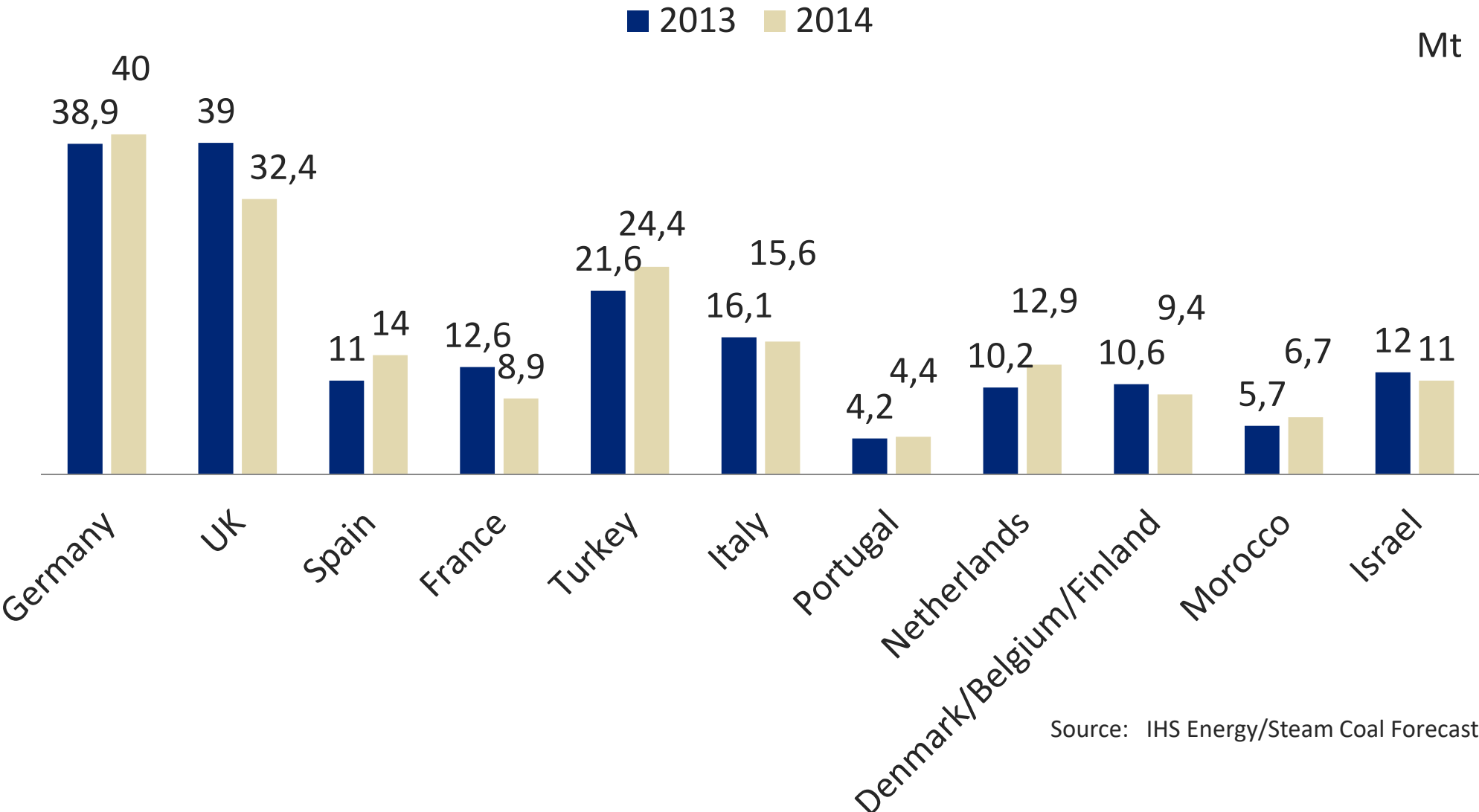


INTERNATIONAL THERMAL COAL DEMAND 2014 – MODEST GROWTH



Source: IHS Energy Steam/Coal Forecaster

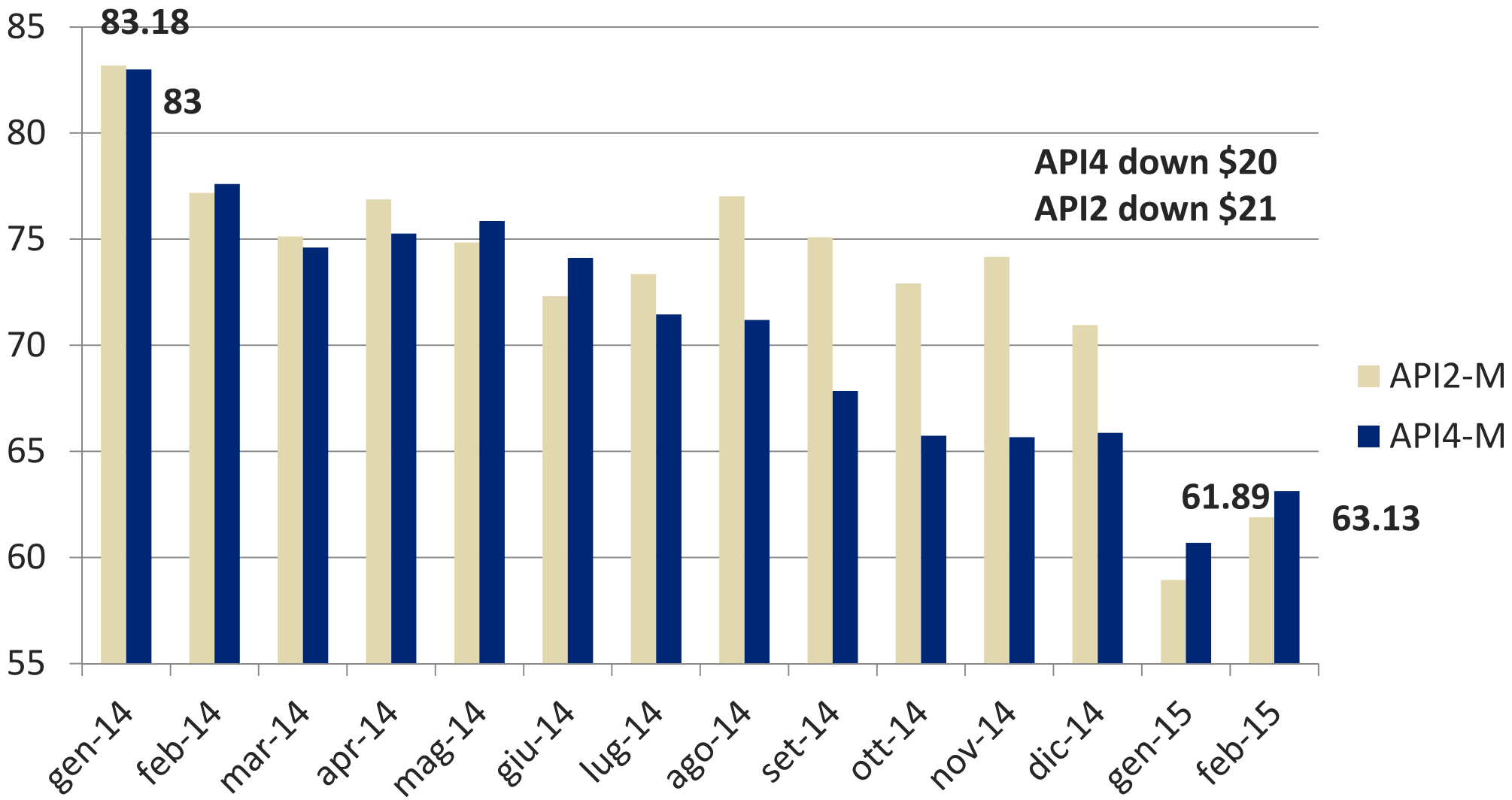
2014 EUROPEAN/MENA THERMAL COAL IMPORTS – NO GROWTH



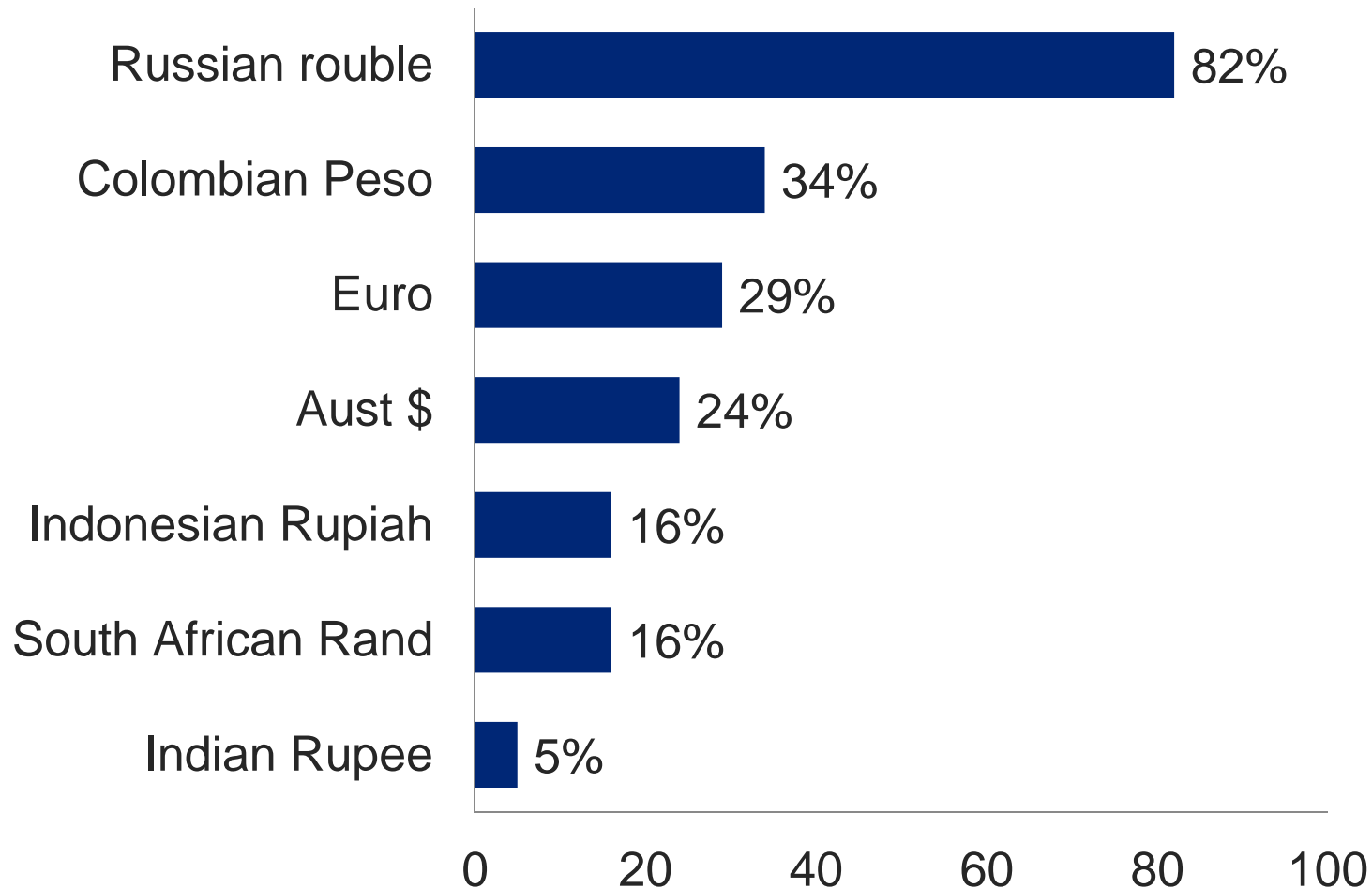
Source: IHS Energy/Steam Coal Forecaster

API2 AND API4 PRICE TRENDS SINCE JANUARY 2014

\$t



FOREIGN EXCHANGE RATES – DEVALUATION AGAINST THE USD BETWEEN 1 JULY 2014 AND MARCH 2015



API2 has declined from \$73.36 to \$60. In Colombia peso terms the price has gone up \$8

API4 has declined from \$71.46 to \$60. In Rand terms the price has gone down \$2

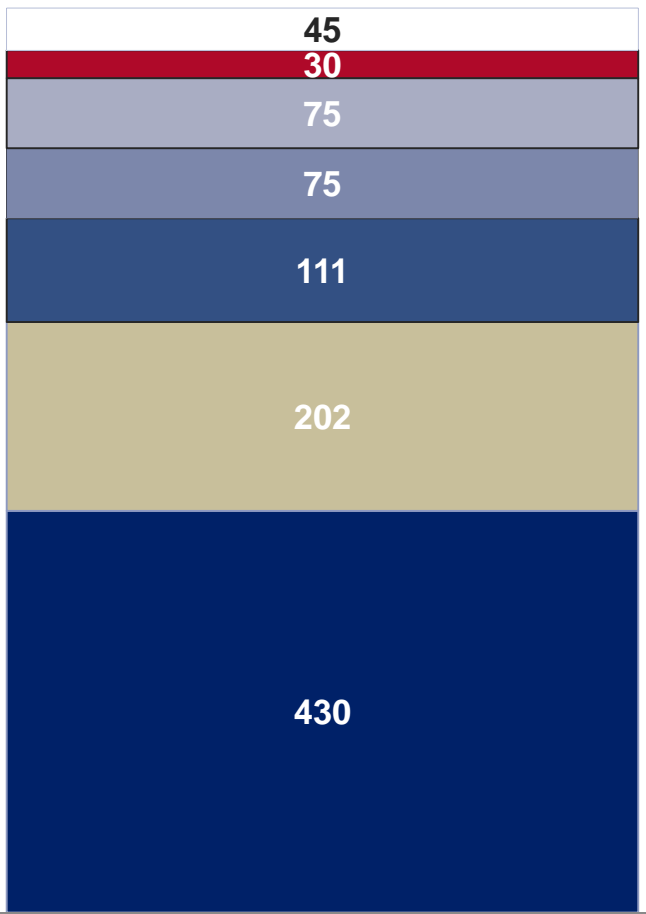
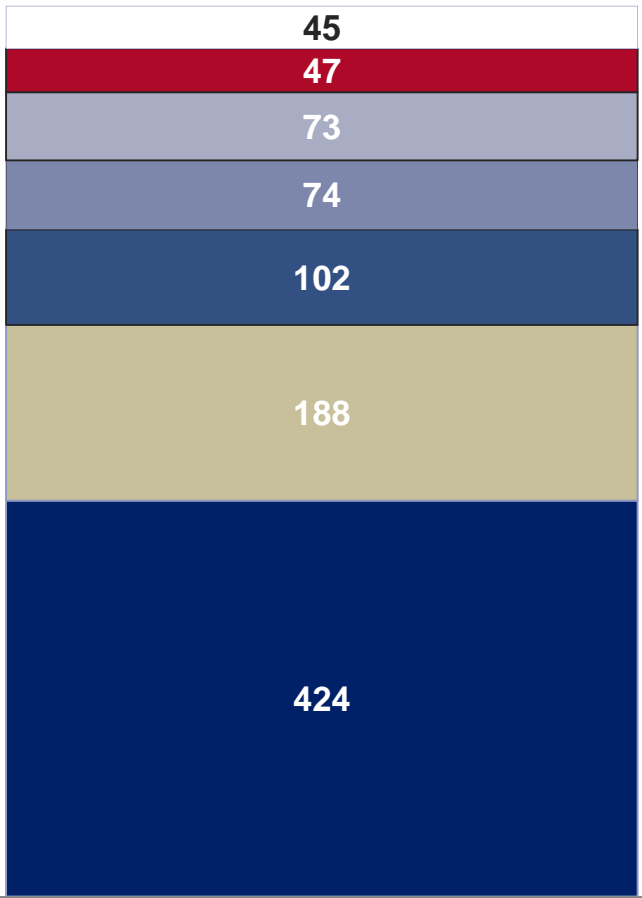
Newcastle has declined from \$68.85 to \$62. In Aust \$ terms the price has gone up \$5

INTERNATIONAL THERMAL COAL SUPPLY 2014

Mt

953

968



- Other
- USA
- South Africa
- Colombia
- Russia
- Australia
- Indonesia

2013

2014

US COAL EXPORTS/ IMPORTS

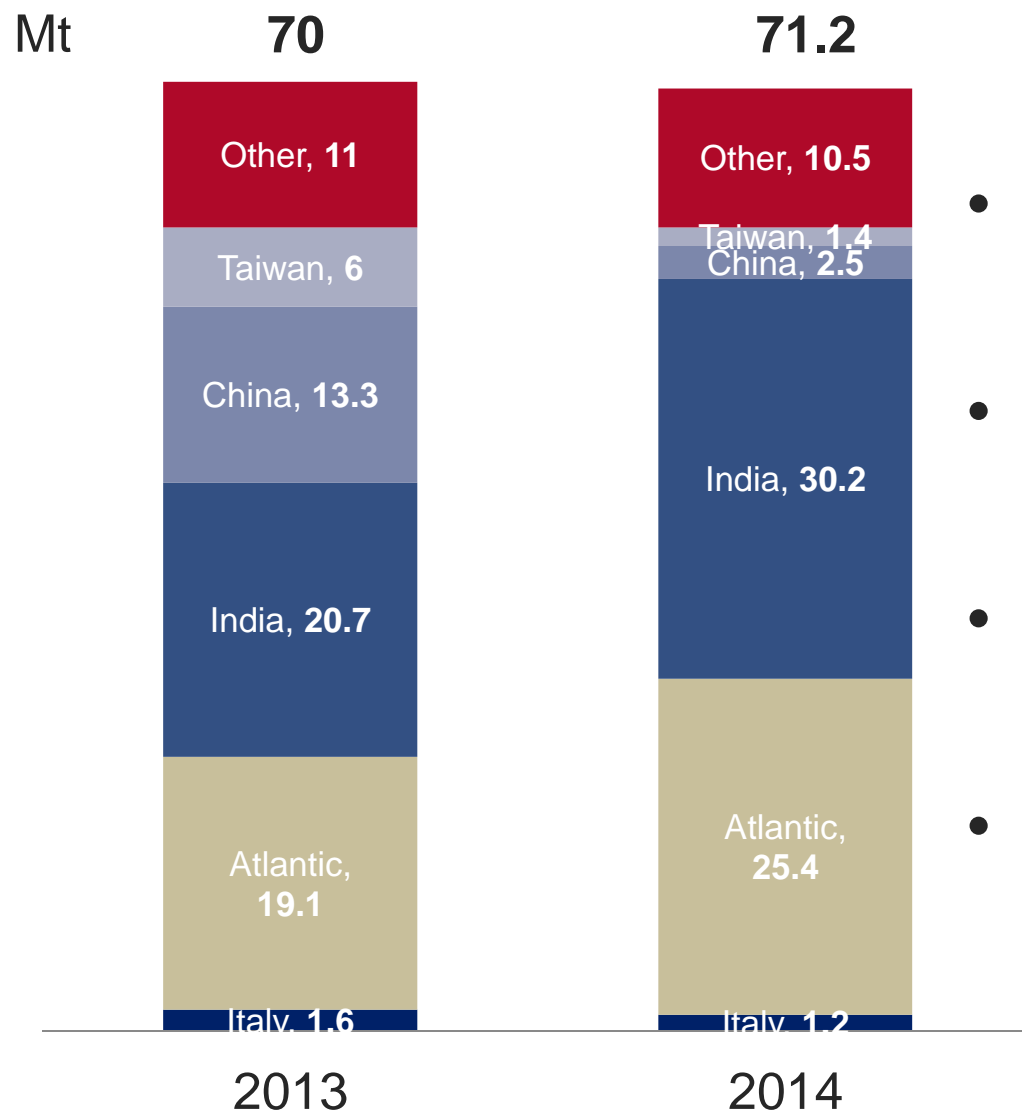
Mt

	2014	2013	2012	2011
Total Exports	88	107	114	97
Total Coking	57	60	64	63
Total Thermal	31	47	50	34
Total Imports	9	8	8	12

Source Doyle Trading Consultants

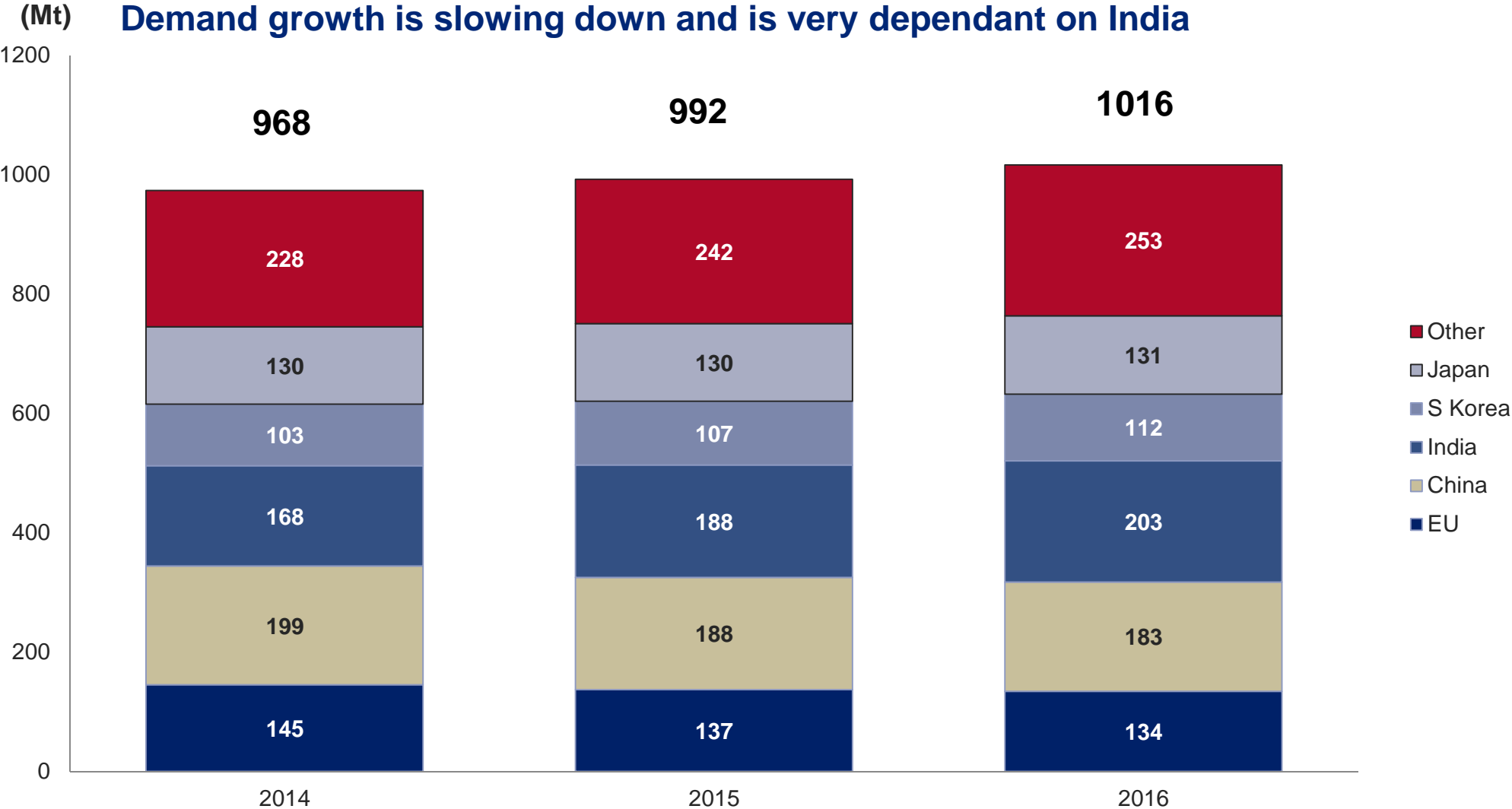
- US Coal industry under pressure in the domestic market because of shale gas
- Exports of thermal coal to Europe down by 12.2Mt to 15.3Mt
- Exports of thermal coal to Italy down by 0.8Mt to 3.8Mt

SOUTH AFRICAN RBCT COAL EXPORTS



- Almost a 50% increase in exports to India
- In 2009, 61% of RBCT exports went into the Atlantic market
- Shipments to Italy are still declining
- Turkey imported a record 3.7mt, UAE 2.3mt and Pakistan 3.2mt of South African coal

INTERNATIONAL THERMAL COAL DEMAND PROJECTIONS



Source: IHS Energy/Steam Coal Forecaster

CHINESE COAL IMPORTS – HAVE THEY PEAKED?

	2014	2013	2012	2011
Anthracite	31	40	34	36
Coking Coal	62	75	54	45
Thermal Coal	112	113	102	54
Thermal Sub Bit	23	39	46	48
Lignite	64	60	53	39
Mt	292	327	289	222

Source: Doyle Trading Consultants

Chinese coal imports declined for the first time this century but still the largest coal import market in the world

CHINESE COAL IMPORTS – INDEED THEY SEEM TO HAVE PEAKED

- Slow down in Chinese coal demand growth due to lower growth rates and more emphasis on pollution mitigation
- Massive over investment in domestic coal production
- Domestic coal over supply is having with a very negative impact on prices. Spot prices down to \$62 basis 5500 NAR FOB Qinhuangdao
- Authorities responding by closing small and illegal mines. Cutting back production at existing mines. Chinese Coal Industry Association claimed this week that 90% of all coal mines in China are making losses
- Introduced import tax on coal and trace element restrictions on coal imports. Reduced the export tax
- YTD imports suggest that import could be down by at least 50mt in 2015

So China after being an opportunity for the international coal market has now become a threat

INDIA – EXPECTED TO BECOME THE LARGEST IMPORTER THIS YEAR

- The country remains committed to utilising coal to meet future power generation growth.
- However, the country is keen to increase domestic coal production to meet the extra demand. Production target is set at 630 Mt this year and next year the target will be 700 Mt.
- Ambitious plans to achieve domestic production of 1 billion tonnes by 2020.
- Coal block auctions for captive users is expected to boost domestic production.
- Bid price for some of the blocks have been unexpectedly high.
- Transportation and infrastructure for the domestic coal has to be developed as well.
- One scenario is that coal imports could peak as increasing volumes of domestic coal enters the market

JAPAN/S. KOREA

- Lack of nuclear energy prompts return to coal
- All 48 of Japan's nuclear reactors are offline but 4 may restart up by the end of this year.
- 7 new coal fired power plant projects announced so far this year resulting in up to 7.26 GW of capacity by around 2025
- Liberalisation of Japan's power industry by 2020 is a further incentive to go the coal route.
- Imports of thermal coal into the S Korean power sector to grow by 40Mt by the end of the decade.

Source: Tex Report

COAL POWER PLANTS ARE STILL THRIVING IN THE DEVELOPING WORLD

Egypt

- Until 2013 heavily subsidised natural gas and HFO used in cement kilns but in 2014 the switch to coal started.
- 0.5mt imported in 2014 and with 64 mtonnes of clinker capacity coal imports could increase to 6mtpa by next year
- Egyptian government has signed a MOU with Kawait's Tharwa Investment to build the world's largest single site 6GW Coal fired power plant

Pakistan

- A number of new Chinese sponsored power projects under discussion

Dubai

- Hassyan Clean Coal Power Plant Project will be importing 2.5 mtpa from 2020 .

Malaysia

- TNB increasing coal burn for 24mtpa to 40mtpa by 2020

Vietnam

- Major new coal fired power plant construction programme with imports growing from 3 mt in 2016 to 35 mt in 2020 and 80 mt by 2025

Venezuela

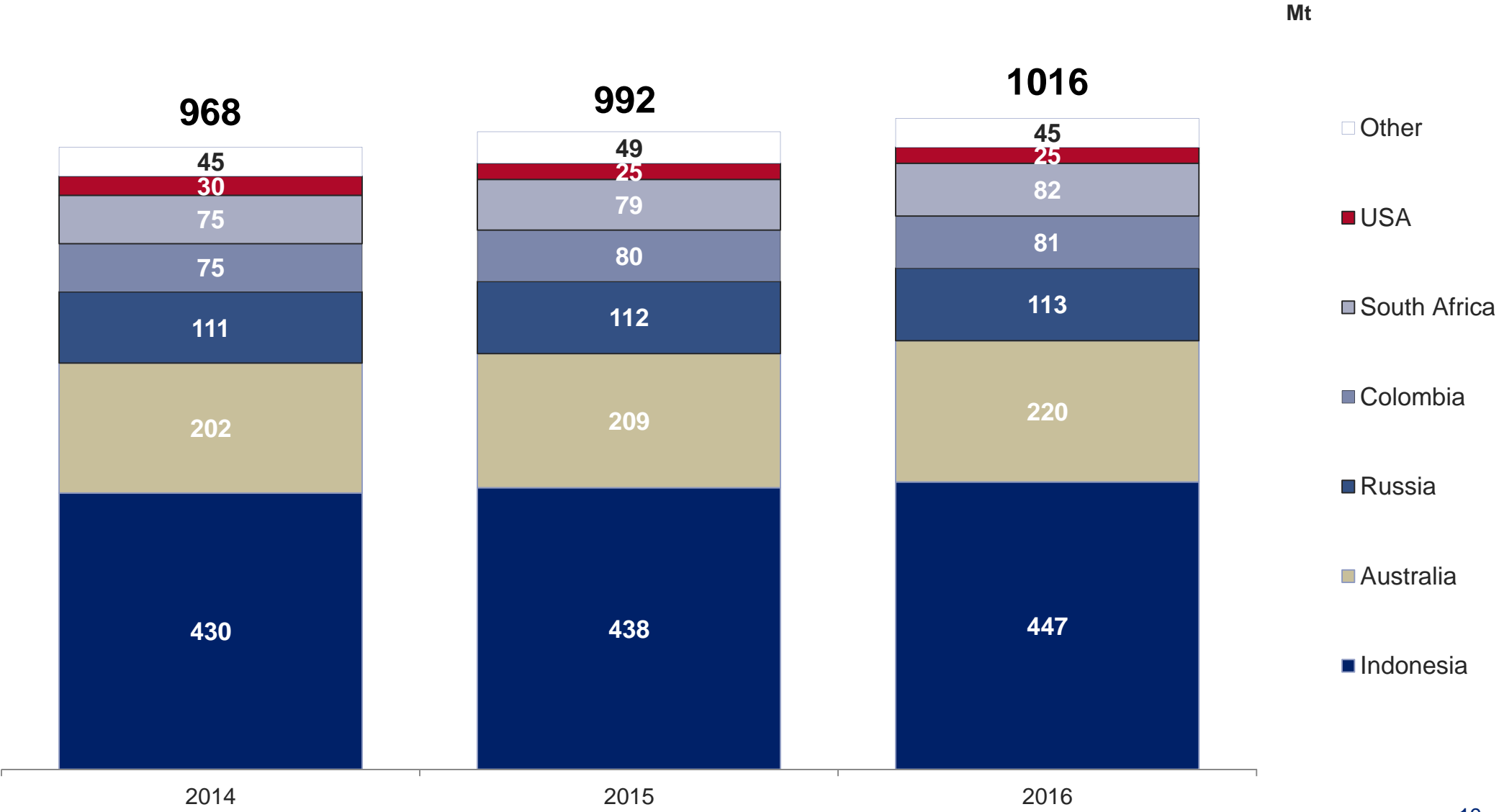
- Chinese state owned company, Sinohydro, is expected to be awarded a 1000 MW coal power plant construction project in Zulia state

Turkey

- Three power plants recently received environmental clearance in the Iskenderun area with 7 mtpa coal requirement by 2019.

Source: Lafarge/TNB Presentations/IHS Energy Newswire

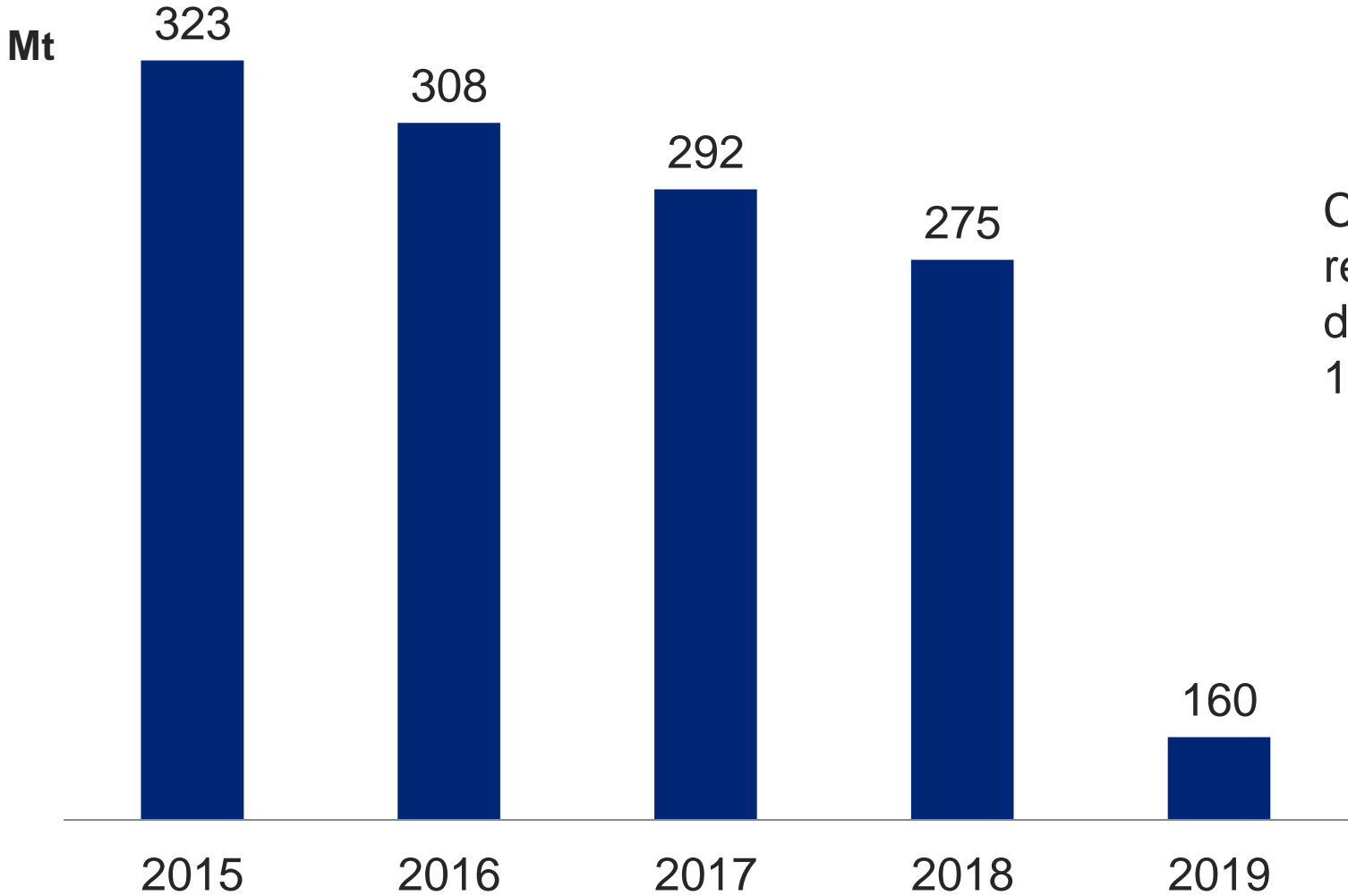
GLOBAL THERMAL COAL SUPPLY PROJECTIONS



Source: IHS Energy/Steam Coal Forecaster

INDONESIAN COAL EXPORT PROJECTIONS

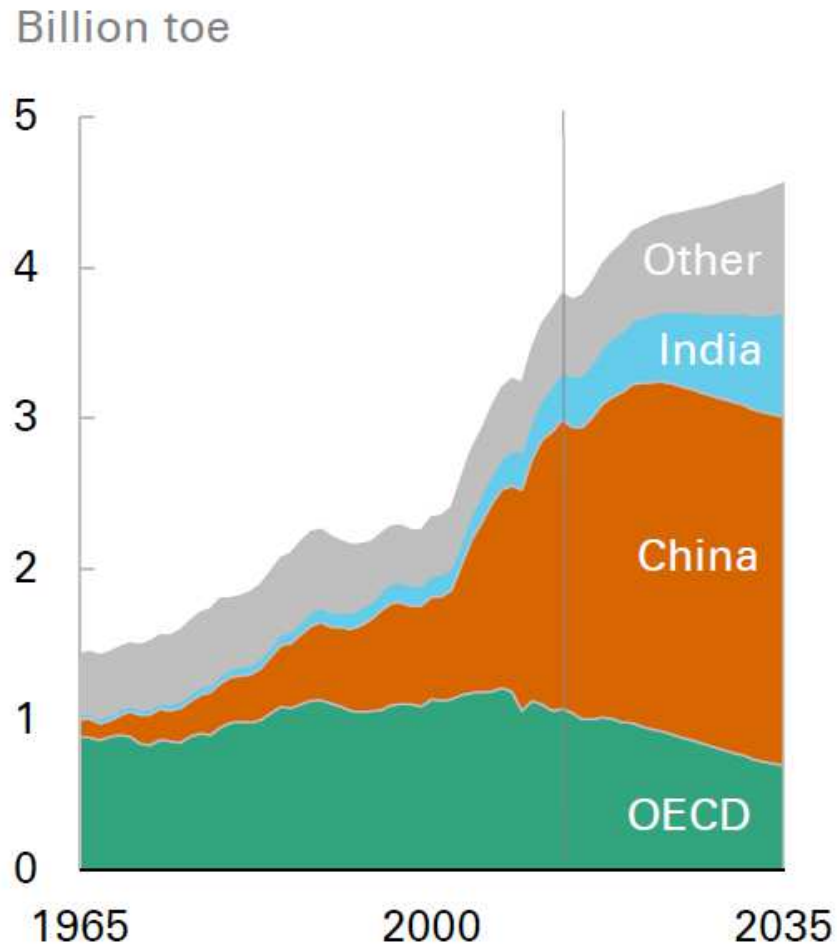
Director General of Minerals and Coal Dept published the following projections:



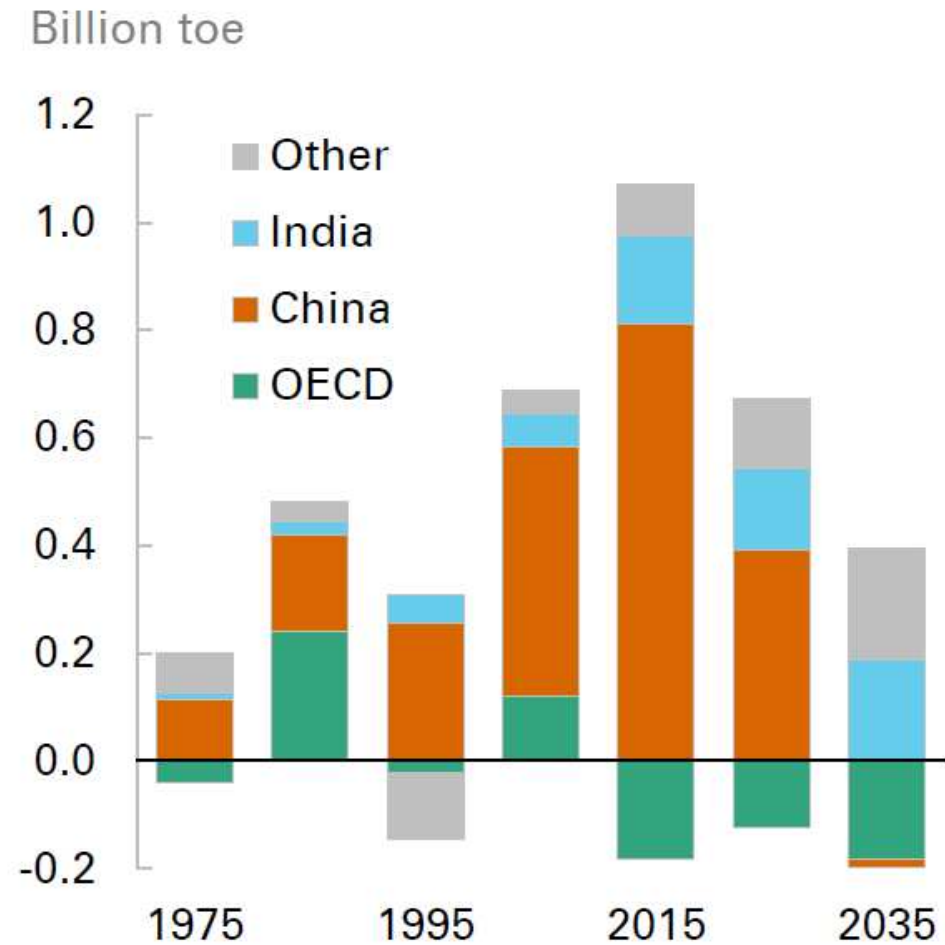
Coal exports declining as a result of domestic coal demand increasing from 120mt to 240mt in 2019

GROWTH IN COAL CONSUMPTION SLOWS IN THE NON-OECD....

Consumption by region



Ten year increments by region



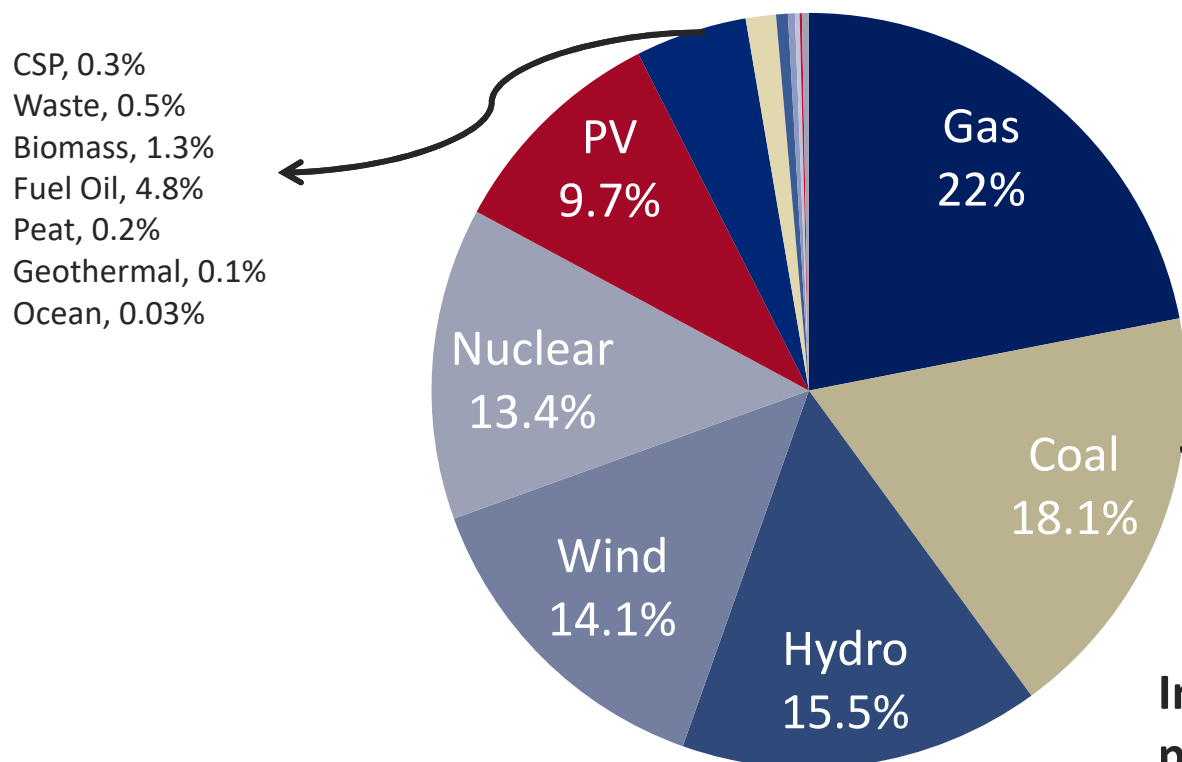
INTER FUEL ECONOMICS



RENEWABLE POWER CONTINUES TO INCREASE ITS SHARE OF THE GENERATION MARKET IN THE EU

In 2014, 21.3 GW of renewable power capacity was installed. Of which 11.8GW was wind and 8GW was solar.

EU Power Mix



Thomson Reuters Point Carbon reported that in 2014 plants covered by ETS, carbon emissions dropped by 3.7% to 1.838blnt

Since 2000 coal fired power generations has declined by 25GW to 164GW

In Germany, government is expected to pass legislation to introduce fines for excessive CO² emissions with a limit of 7 Mt of CO² per GW of capacity

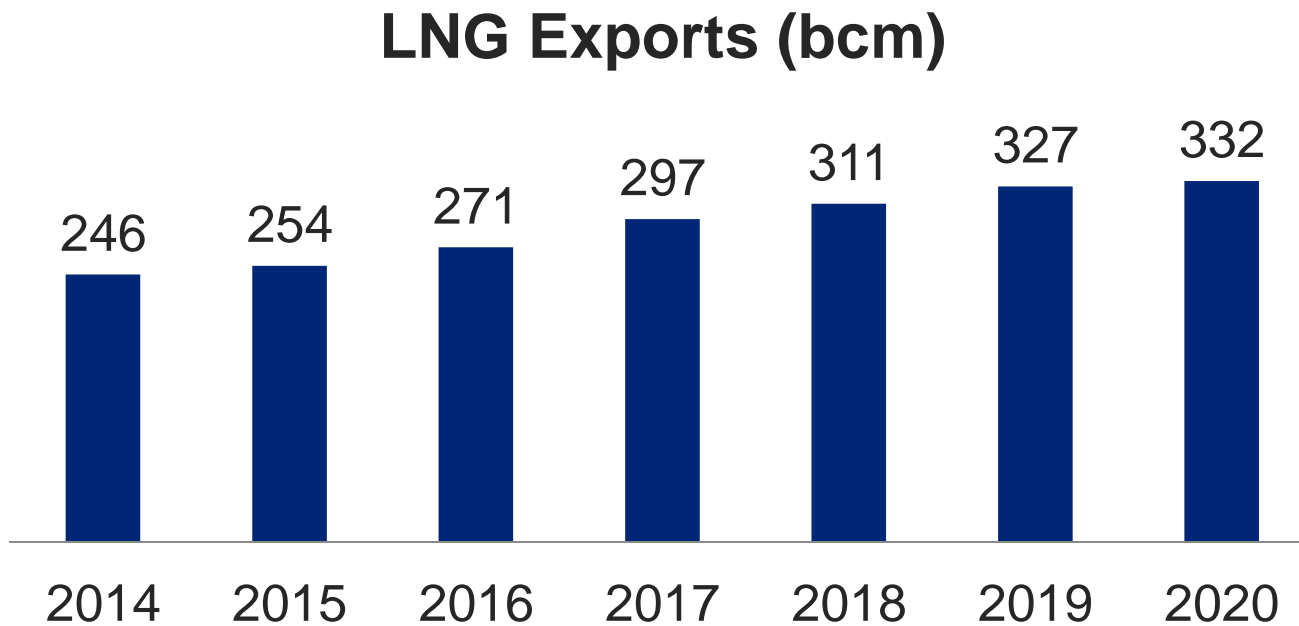
Source: European Wind Energy Association

COAL CONTINUES TO BE FAR MORE COMPETITIVE THAN NATURAL GAS FOR POWER GENERATION IN EUROPE FOR NOW

	2014	2015
UK Power £ /MWh	43.17	41.31
Gas Clean Spark £/MWh	-0.96	0.69
Coal Clean Dark £ /MWh	15.48	11.43
Differential Spread £ /MWh	16.44	10.74
UK Carbon £/t	12.35	14.55
Gas (p/t)		49.90
Gas \$/mm BTU		7.30

	2014	2015
German Power €/MWh	23.47	29.28
Gas Clean Spark €/MWh	-26.67	-19.70
Coal Clean Dark €/MWh	-4.02	0.63
Differential Spread €/MWh	22.65	20.30
Carbon EUA €/t	6.43	6.88
Gas €/MWh		22.68
Gas \$/mm BTU		6.65

LNG – MOVING BACK FROM THE FAR EAST TO THE ATLANTIC



Supply Growth coming from:

Australia + 50 bcm
US + 38 bcm

Projected Demand Growth
China 20 to 39 bcm
OECD Europe 33 to 71 bcm

In order to absorb the oversupply Europe (especially the UK) will become the price setting market and gas will have to be priced to displace coal especially during the summer months. The US price will be linked to the US domestic Henry Hub price.

Source: Goldman Sachs Report March 5, 2015 'Time for LNG to grow up and face off against coal'

SCENARIO FOR SUMMER 2015 – NOT LOOKING GOOD FOR UK COAL BURN

	2015
UK Power £ /MWh	41.31
Gas Clean Spark £/MWh	1.25
Coal Clean Dark £ /MWh	3.39
Differential Spread £ /MWh	2.14
UK Carbon £/t	23.30
Gas (p/t)	44.00
Gas \$/mm BTU	6.50

	2015
German Power €/MWh	31.30
Gas Clean Spark €/MWh	-10.70
Coal Clean Dark €/MWh	2.00
Differential Spread €/MWh	12.70
Carbon EUA €/t	6.88
Gas €/MWh	21.00
Gas \$/mm BTU	6.20

CONCLUSIONS

- Market will have to cope with the disruptive impact of the decline in Chinese demand for imported coal
- Growing India demand for imported coal will provide some relief
- Coal prices had come off before the collapse of oil prices but just as well
- New coal prices retain competitiveness with natural gas/LNG
- Producers focusing on cost control and improving operating efficiencies at the mines
- Investment being cut back and more consolidation is likely
- Domestic market opportunities becoming more attractive for coal producers
- Start of another commodity price cycle

**THANK
YOU**