

## The International Coal Market Outlook

8th Annual Coal Trading Conference New York City, 8th December 2009

November 2009



Mark Walters, Global Head of Coal Sales & Origination

A Passion to Perform.



## Agenda

- Supply / Demand balance 2009 – 10
- Some issues affecting the market:
  - China
  - Indonesia
  - Freight
  - Risk management and trade ideas



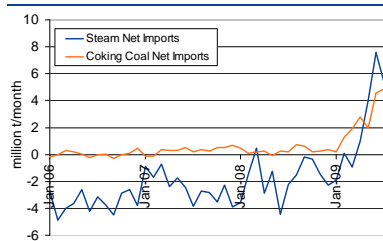
## Supply / Demand Balance — 2009

Weak fundamentals but not as weak as expected a year ago

### Demand

- Asian demand up 18 MT 2009 / 2008 to 388 MT
- Indian and Chinese demand have kept the market alive
- Chinese imports likely to be 50 MT steam coal and 30 MT anthracite by year end
- Indian imports up to 50 MT
- Europe / US depressed with high stocks, largely because of cheap gas

China Net Coal Imports



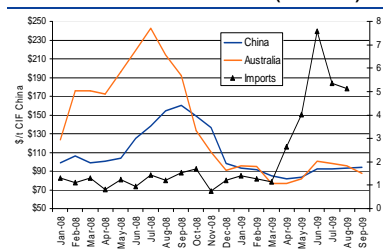
Source:

## Supply / Demand Balance — 2009 (Cont'd)

### Supply

- Low prices, decrease in planned production and some weather problems early in the year in Indonesia (down 13 MT to May) but dramatically improved in second half
- Australia started strongly, helped mid-year by Chinese demand but 25% stronger currency since April has hurt netbacks in the second half
- Chinese exports significantly reduced (down to 19 – 20 MT in 2009 compared with 35 MT in 2008)
- South African exports increasingly focussing on Asia, benefiting from strong Indian growth

China Domestic vs. Australia Price (CIF China)



Source:

## Supply / Demand Balance — Outlook for 2010

### Supply Side Changes 2010 vs. 2009

Australia	+5 MT
Indonesia could be more	+7 MT
Colombia	+3 MT
South Africa Subject to Rail	+2 MT
China	Flat
Russia	Flat
USA	-3 MT
<b>Total</b>	<b>+14 MT</b>

### Demand Side Changes 2010 vs. 2009

Asia Pacific	+33 MT
Europe	-12 MT
E Med / N Africa	+3 MT
Americas	+2 MT
<b>Total</b>	<b>+26 MT</b>

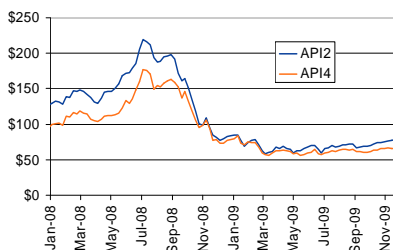
## Supply / Demand Balance — Outlook for 2010 (Cont'd)

### Demand Side Changes 2010 vs. 2009

China	+10 MT — price driven, could be much more or less
India	+13 MT — growth seems to be significant and sustainable
Korea	+4 MT
Taiwan	+2 MT
Malaysia	+2 MT
UK	-6 MT — massive inventory, cheap gas
Spain	-3 MT — could be down more; domestic coal support, hydro, cheap gas
Turkey	+2 MT
USA	-3 MT — huge inventory, cheap gas, domestic coal
Mexico	+2 MT
Chile	+2 MT
<b>Total</b>	<b>+26 MT</b>

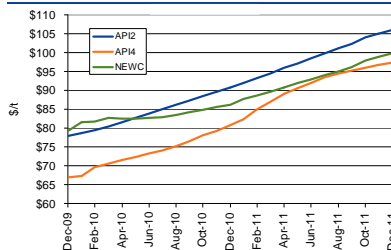
## Market Development

Coal Price History: Argus-McCloskeys



Source:

Coal Forward Curve



Source:

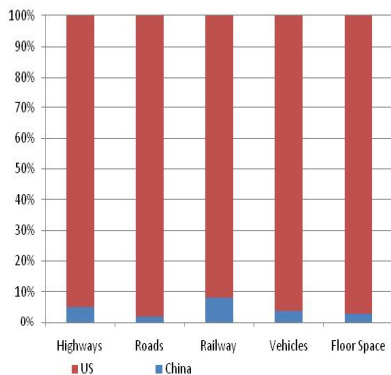
- Steam coal price is a good reflection of global economic activity
- With marginal cost of production between \$30 – \$60/t the price has been detached from fundamentals for several years
- Average Kuzbass production costs Rbl750/mt
- Russian FOB costs estimated at \$60 – \$80/mt depending on FX and which port
- There has been a higher correlation with oil prices as the market has sought direction

## Issues Affecting The Market

- China — very hard to predict but there are signs of rationalisation in domestic mining simultaneously with the demands of the stimulus package. Most domestic pricing is annual so not dynamic
- Indonesia — domestic vs export demand — rumours of limiting exports to 150 MT
- Indonesia — weather has a dramatic impact on annualised production and export rates
- Indonesia (and elsewhere on a lesser scale) — quality declining
- Port and rail infrastructure developments in Australia continue and should effectively double capacity within 8 years. NCIG Phase 1 due in early 2010. But global coking coal tightness will mean limited additional capacity for steam coal
- Port and rail to Eastern Russia is at capacity and may not be fully utilised because of railcar constraints
- Freight Rates — 60 MT dwt new builds arriving 2010, requiring 350 – 400 MT additional cargo demand

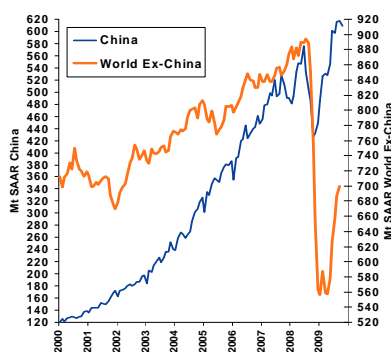
## China — Growth Engine of the World

China vs. US — Key Indicators Per Capita Suggest There is Still Massive Growth Ahead



Source: Macquarie Research

Monthly Steel Production



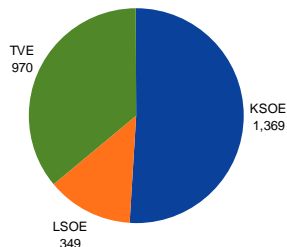
Source:

## China — Impact of Domestic Reorganisation?

- Officially 13,000 TVE units but could be as many as 30,000 (350 to 750 kt pa)
- Annually 4,000 deaths in Chinese coal mines = 1 per 685kt or 11 per day
- Production costs (Free on Transport):-
  - small mines RMB 161/mt (<300kt pa)
  - large mines RMB 226/mt
- Closure programme targeting mines with high methane levels
- Mines have until mid 2010 to implement costly improvements
- This may lead to amalgamation or closure of price-taking mines
- This could cause average cost to increase — higher import levels?
- 500 – 600 MT domestic coal shipped North to South so infrastructure in place to take additional imports
- Very quick to respond to market price reductions in Australia and Indonesia
- Currency — any systemic change likely to help imports
- Increase in import duties to protect domestic coal?

Source: Wood Mackenzie, DB analysis from market sources

Coal Production China (Mt)



KSOE: Key State-owned Enterprise  
 LSOE: Local State-owned Enterprise  
 TVE: Town and Village Enterprise

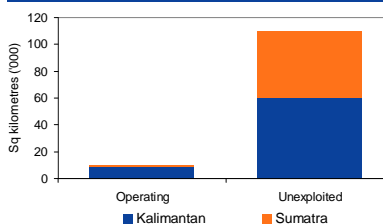
## Indonesia — Coal Supply Issues

- The impact of a wet rainy season and a good dry season can be up to 60 MT pa variance
  - May / June 2009 caused a +30 MT pa increase in year to date production
- Government giving consideration to limiting exports to 150 MT pa (unlikely)
- New Mining Law — intended to extract maximum value from natural resources for the nation
  - reduces area and term of mining permits
  - foreign ownership to divest after 5 years production
  - no protection against future tax changes (national or regional)
- Domestic Market Obligation to take effect in 2010
  - obliges mining companies to fulfil a minimum %age of domestic coal sales
  - big increase in low rank coal (LRC) production to serve domestic market
  - domestic price to refer to Coal Price Reference, to be set by govt.
- Likely impact:- more govt. involvement in export prices, reduction in illegal supply
- Coal Pricing Policy
  - refers to average coal prices based on international indices (Indo & Oz)
  - govt. sanctions for any company selling below CPR
- Likely impact:- confusion, increased prices, shorter tenure of fixed price deals

## Indonesia — Increased Output but Lower Quality

- Large unexploited Indonesian resource
- 65% of those in Kalimantan sub-bituminous (4200 – 5400 kcal/kg GAR)
- Low rank and sub-bituminous coals are among the lowest cost production in the world and will therefore be high volume, low margin producers
- Low Rank Coal GAR < 4200kcal/kg increasing each year as domestic market grows

Indonesian Concession Area



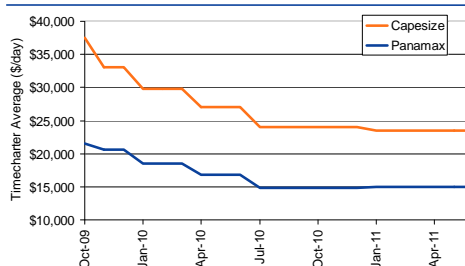
Indonesian Coal (MT)	2008	2009	2010
Production	255	268	Max 293
Domestic	54	55	64 – 73
Available for Export	201	213	220 – 229

Source: Dept of Energy & Mineral Resources Stats and Banpu Public Company Ltd

## Freight

- June 09: 95 capes (10% of fleet) waiting off Chinese ore ports
- 12 MT dwt waiting off Australian East Coast, (20% of 2010 new builds)
- 60 MT dwt new builds in 2010 requires 350 – 400 MT additional cargo to carry
- 150 – 200 capes
- 140 panamaxs
- 210 handymaxes
- 140 handysize or smaller
- Shipyard capacity is now available and will continue to be used
- 550 – 600 container ships currently not employed

Timecharter Freight Forward Curve



Source:

## Summary and Conclusions

### Longer term sustainable growth, especially in developing world

- IMF forecasts developing and emerging economies will have 6.4% GDP growth 2011-2014
- Forward curves show confidence in coal price, reflecting perceived tightness

### Short to medium term dependent on speed of recovery

- European and US markets slower to recover and sitting on record high inventories, cheap gas

### Freight

- Commitment to new builds should lead to lower freight rates, even accounting for inefficiencies causing queues
- Forward curves reflect anticipated over-supply, but there may be volatility

### China and India continue to provide the best short term growth prospects

- Principle of “you can’t get the toothpaste back in the tube”, as industrialisation takes hold

### Exchange rates will impact pricing and netbacks

- Strong A\$, ZAR & Rbl will increase costs for those producers
- Strong Euro reduces cost of coal imports compared with local power prices

### Metcoal vs. steam coal in port and rail capacity constrained world

- Coking coal likely to deliver higher netbacks so may reduce steam coal availability

### Expect the unexpected

- Volatility caused by short term or unexpected disruptions
- Market takes its lead from oil when there are no clear pricing signals

THANK YOU

## Deutsche Bank Structured Deals in Coal

### Structured Long Term Purchase

- Structure long term fixed or index price off-takes to facilitate funding or development
- Prepayment of future production, financing

### Structured Long Term Sale

- Deliver fuel needs for consumers, generators, with fuel flexibility

### Marketing Agreements

- Undertake agency or marketing agreements for a fee, or structure purchase/sale agreements that allow for sharing of trading upside

### Customer Flow

- Transaction types include swaps, options, physical / financial spreads
- In USD, or in other major currencies

### Inventory / Working Capital

- Sale buybacks or Procurement Facilities

### Coal Exchangeable Bond

- Exchange of potential coal price upside with investors instead of converting debt into equity

### Tolling Deal

- Physical or financial dark spread trades

### Multi-Commodity Structures

- Oil hedge with physical coal as collateral

### Coal Call Granting Programme

- Granting short dated Call Options to enhance revenue, allows significant price participation, and can be concluded within existing credit lines

## Commodities Awards & Achievements 2008 / 2009

### 15th Anniversary Awards



- Top Woman in Energy — Louise Kitchen
- Trading Pioneer — David Silbert

### IFR Awards 2008



- Commodities Derivatives House of the Year

### Energy Risk Asia Awards 2008



- Energy Risk Manager of the Year — Asia

### Energy Risk Awards 2009



- House of the Year — Natural Gas US
- House of the Year — Base Metals

### Environmental Risk Rankings 2008



- No.1: CERs — primary
- No.1: CERs — secondary
- No.1: UK — Renewable Obligations Certificates

### Asia Risk Commodity Survey 2008



- No. 2 Overall

### Energy Risk Rankings 2009



- No. 2 Overall
- No. 1 US Products — Gasoline
- No. 1 UK / Europe — Crude: Brent
- No. 1 Singapore — Fuel Oil
- No. 1 Eastern US — Natural Gas — Options

### Global Pensions Award 2008



- Commodity Manager of the Year

### Energy Risk Rankings 2008



- No. 1 Research in Weather
- No. 1 Research in Emissions

### Energy Risk House of the Year Awards 2008



- House of the Year: Precious Metals

### Energy Business Awards 2008



- Excellence in Emission Markets

### Energy Risk Deals of the Year 2009



- Accelerate Energy Deal of the Year

### Euro Fund Award 2008



- Commodity Funds: DB Platinum Comm EUR Fund

### Asia Risk End User Survey 2008



- No. 1 Overall Derivatives Dealer

## Disclaimer

This communication has been prepared by and is the sole responsibility of the issuer that is the subject of this communication. It has not been reviewed, approved or endorsed by any lead manager, bookrunner or underwriter retained by such issuer. This communication is provided for information purposes only. Any offering of any security or other financial instrument that may be related to the subject matter of this communication (a "financial instrument") will be made pursuant to separate and distinct documentation (an "offering circular") and in such case the information contained herein will be superseded in its entirety by any such offering circular in its final form. In addition, because this communication is a summary only, it may not contain all material terms and this communication in and of itself should not form the basis for any investment decision. To the extent that one has been prepared, the recipient should consult the offering circular, a copy of which may be available from a lead manager, bookrunner or underwriter, for more complete information about any proposed offer of any financial instrument.

The information and opinions herein is believed to be reliable and has been obtained from sources believed to be reliable, but no representation or warranty, express or implied, is made with respect to the fairness, correctness, accuracy reasonableness or completeness of the information and opinions. There is no obligation to update, modify or amend this communication or to otherwise notify the recipient if information, opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

The recipient is strongly advised to seek their own independent advice in relation to any investment, financial, legal, tax, accounting or regulatory issues discussed herein. Analyses and opinions contained herein may be based on assumptions that if altered can change the analyses or opinions expressed. Nothing contained herein shall constitute any representation or warranty as to future performance of any financial instrument, credit, currency, rate or other market or economic measure. Furthermore, past performance is not necessarily indicative of future results. The issuer disclaims liability for any loss arising out of or in connection with a recipient's use of, or reliance on, this communication.

Financial instruments that may be discussed herein may not be suitable for all investors and potential investors must make an independent assessment of the appropriateness of any transaction in light of their own objectives and circumstances, including the possible risks and benefits of purchasing any such financial instruments. By accepting receipt of this communication the recipient will be deemed to represent that they possess, either individually or through their advisers, sufficient investment expertise to understand the risks involved in any purchase or sale of any financial instrument discussed herein. If a financial instrument is denominated in a currency other than an investor's currency, a change in exchange rates may adversely affect the price or value of, or the income derived from, the financial instrument, and any investor in that financial instrument effectively assumes currency risk. Prices and availability of any financial instruments described in this communication are subject to change without notice.

This communication and the information contained herein is confidential and may not be reproduced or distributed in whole or in part without the prior written consent of the company that prepared this communication. The distribution of this document and availability of these products and services in certain jurisdictions may be restricted by law.