

International Coal Markets Outlook

“The end of the boom”

December 2008
Coal Trading Conference
NYC



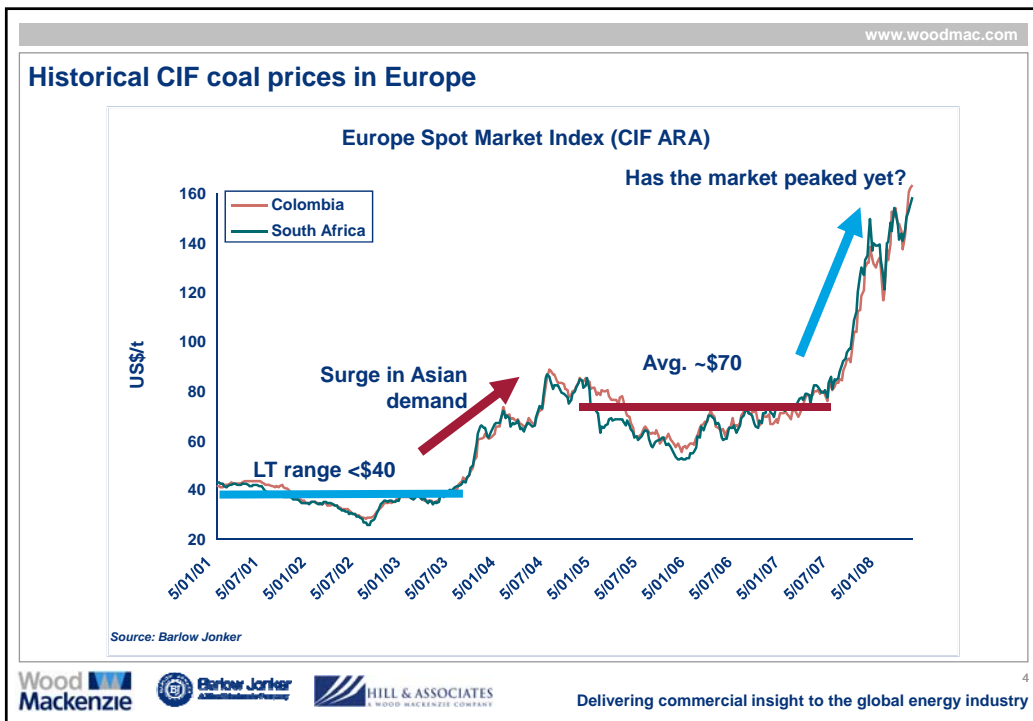
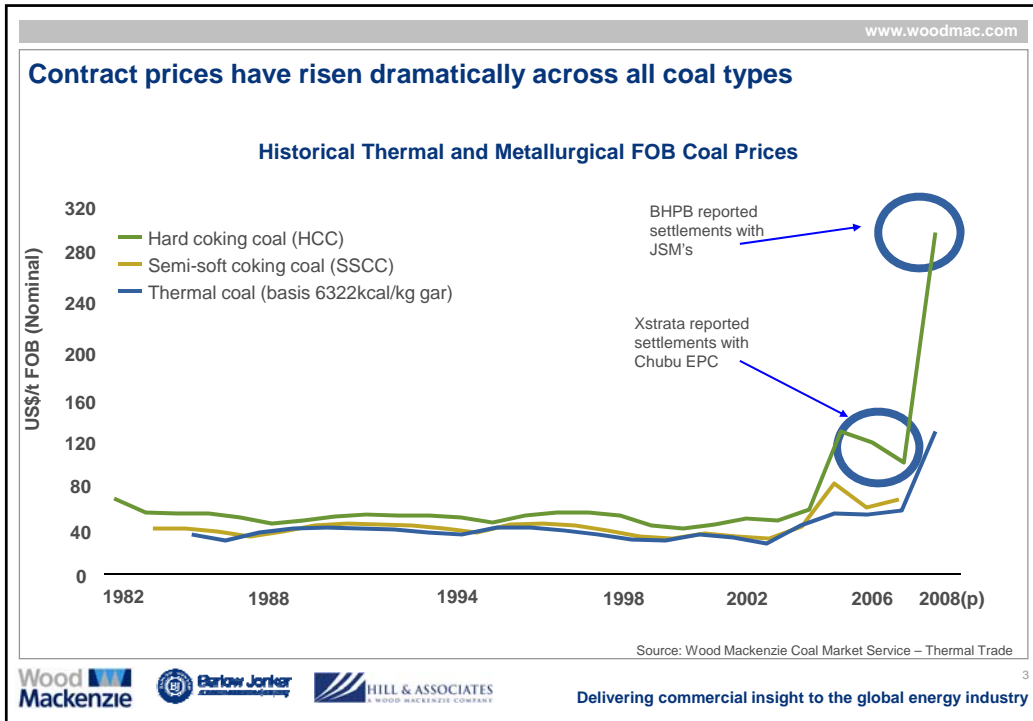
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Agenda

- 1 Historic pricing
- 2 Price drivers for thermal and metallurgical coal
- 3 Supply demand outlook
- 4 Outlook for prices

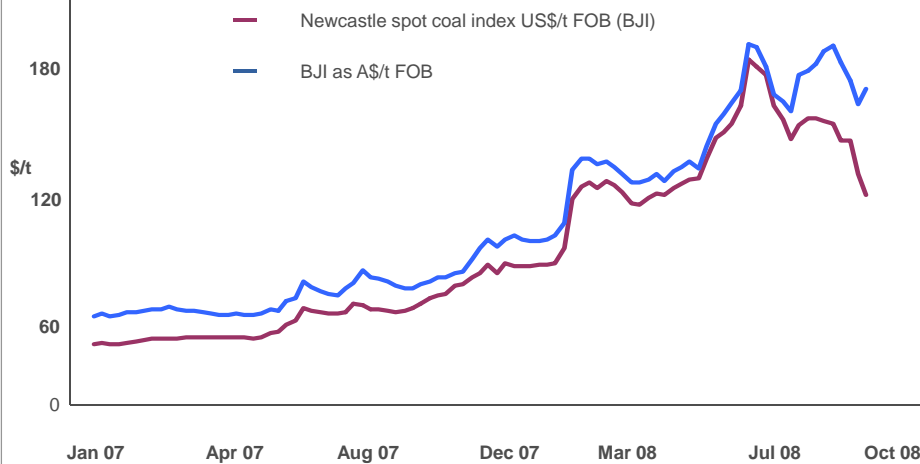


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Thermal coal spot prices have risen sharply in 2008 with supply constraints...

Recent Australian Export Thermal Coal Spot Prices (FOB 6,322 kcal/kg)



Source: Wood Mackenzie Coal Market Service – Thermal Trade

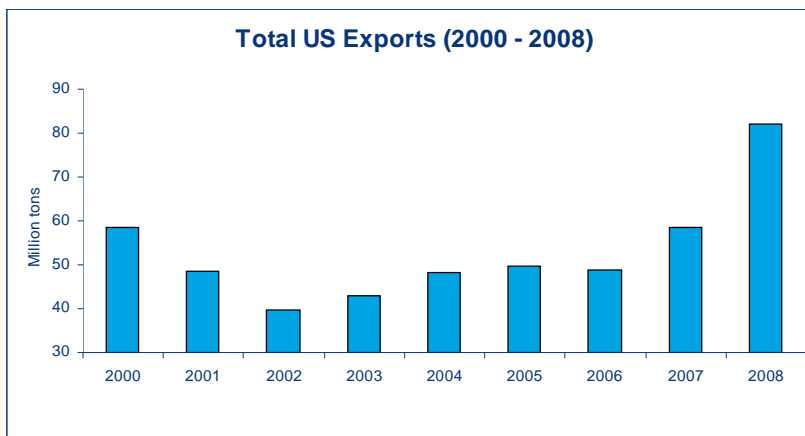


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US coal exports increased significantly in 2008 resulting in record high prices for domestic consumers

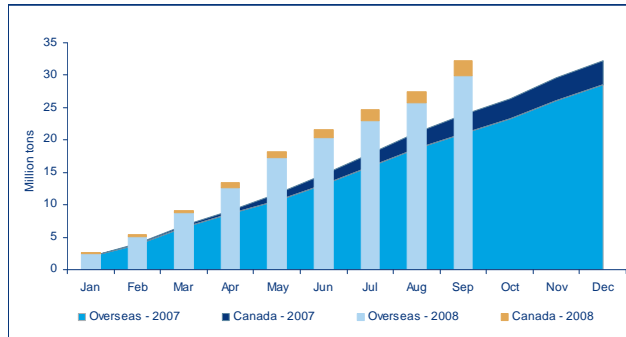
Total US Exports (2000 - 2008)



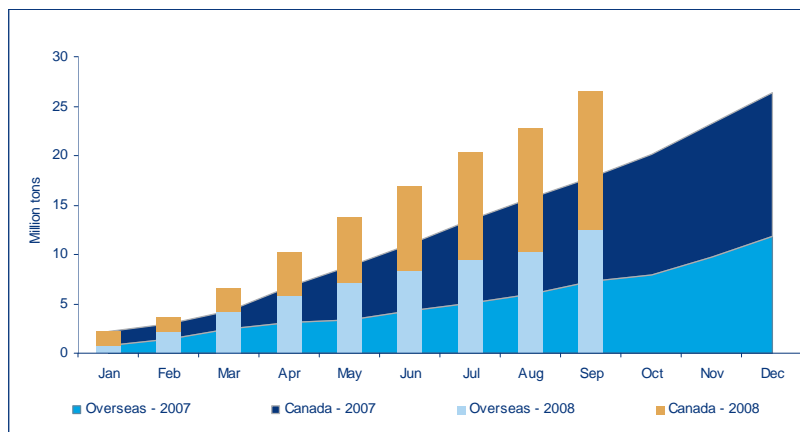
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Coking coal exports to the seaborne market forecast to increase by 12 million tons in 2008



A similar story applies to steam coal export levels – up 9 million tons over 2007 levels



A host of factors are driving coal market dynamics

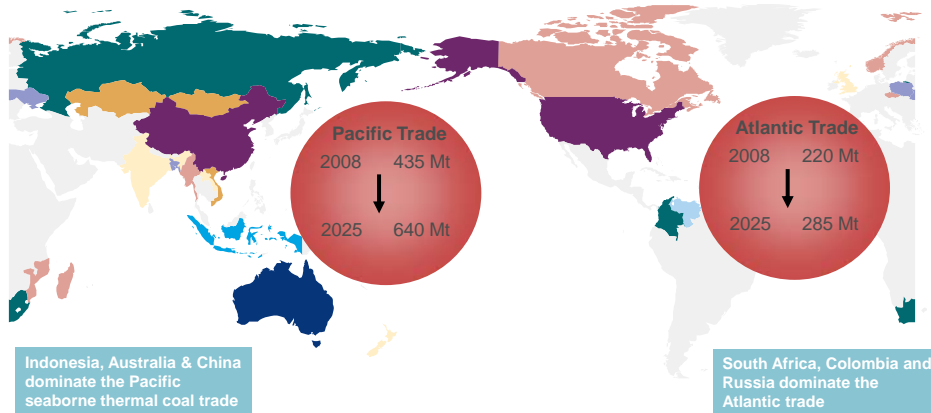


Source: Wood Mackenzie Coal Market Service – Thermal Trade



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Global Thermal Coal Trade Flows (2008 - 2025)



Aggregate Supply 2008-2025

>4Bt	500M-1000Mt	50-100Mt
2-4Bt	200-500Mt	10-50Mt
1-2Bt	100-200Mt	<10Mt

Source: Wood Mackenzie



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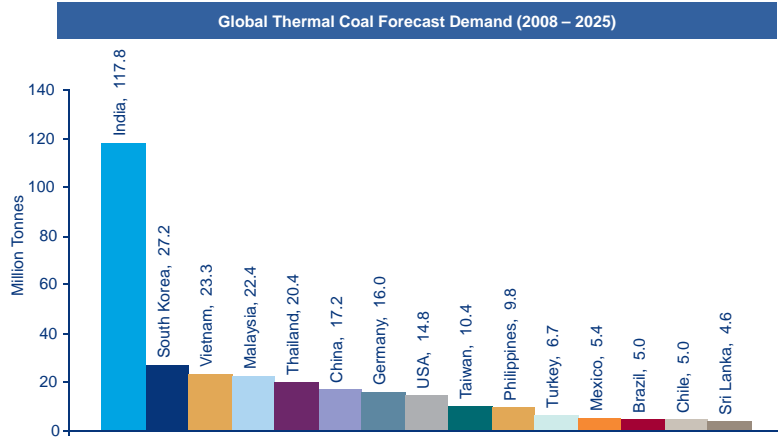
Chinese & Indian Economic Growth

- › The China and India growth story remains intact.
- › The Coal Market Service – International Trade has always factored in occasional short downturns in the overall growth story. Our long term forecasts remain intact despite the current recession.

Asia drives global growth

- › Growth in coal demand to 2025 is driven by burgeoning power-sector demand in Asia with increasing power generation capacity and higher utilisation rates. The position of thermal coal in the global fuel mix will decline slightly overall but coal is expected to remain an important fuel well beyond the forecast period.
- › Import Coal demand is expected to increase from 700Mt in 2007 to 921Mt in 2020 and 1,002 Mt in 2025. A total of 16.5Bt of thermal coal (14.9Bt Seaborne, 1.60Bt Landborne) is expected to be imported globally between 2008 and 2025.
- › Sustained demand for thermal coal in Europe is forecast despite the tighter emissions legislation, carbon trading and competition from gas.
- › Prices for thermal coals are forecast to remain at higher levels than the long term historical average, supported by continued strong demand, higher production costs and in the short term to 2012, infrastructure capacity constraints in key supply countries.

Asia and the EU are the leading importers of thermal coal, but Asia's demand is expected to rise significantly out to 2025.



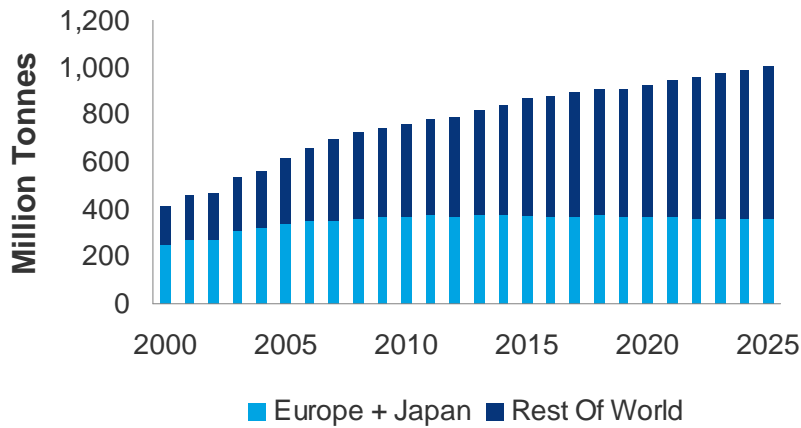
Source: Wood Mackenzie



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International Thermal Coal Markets - Demand

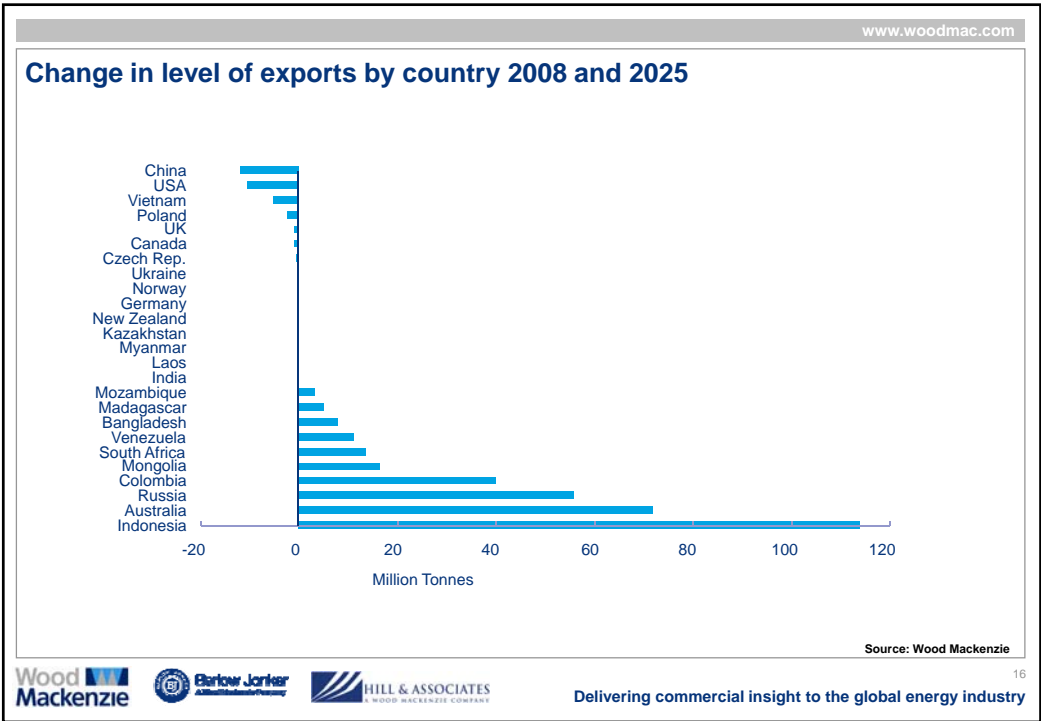
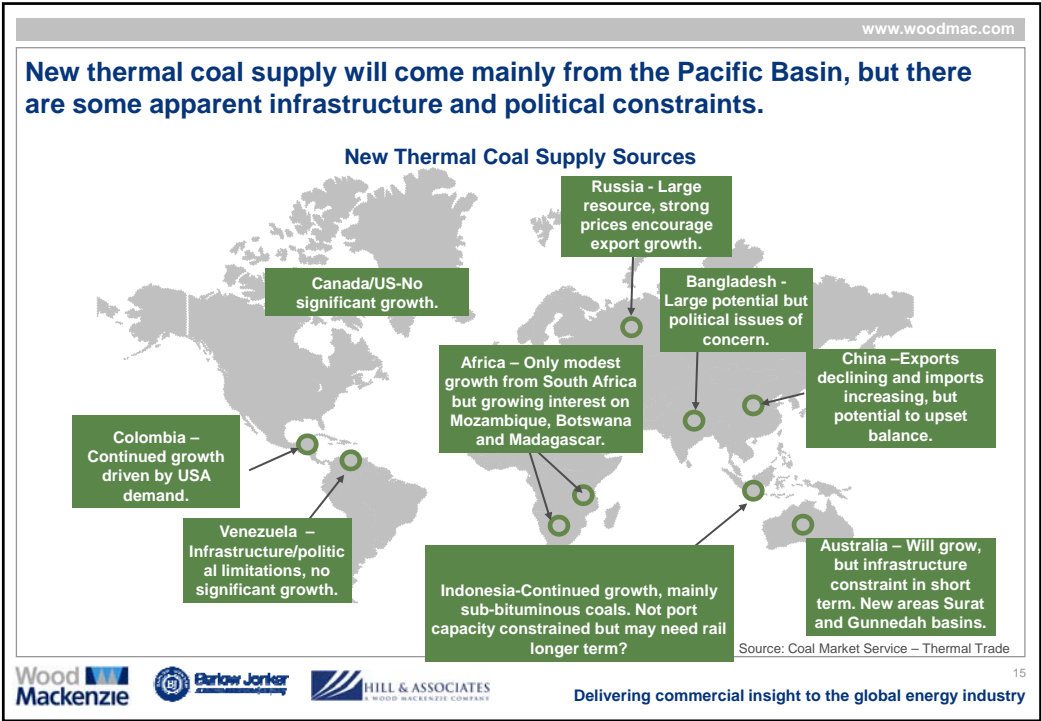
Seaborne Thermal Coal Demand



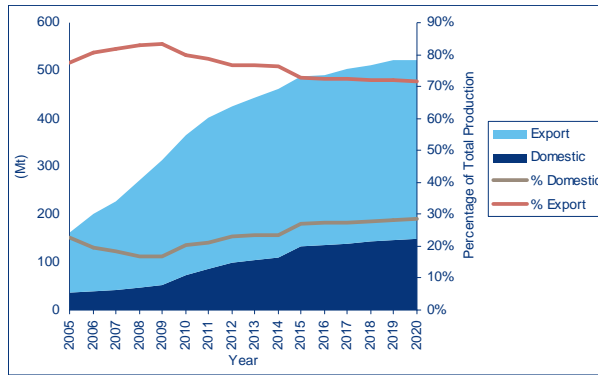
Source: Wood Mackenzie Coal Market Service – Thermal Trade



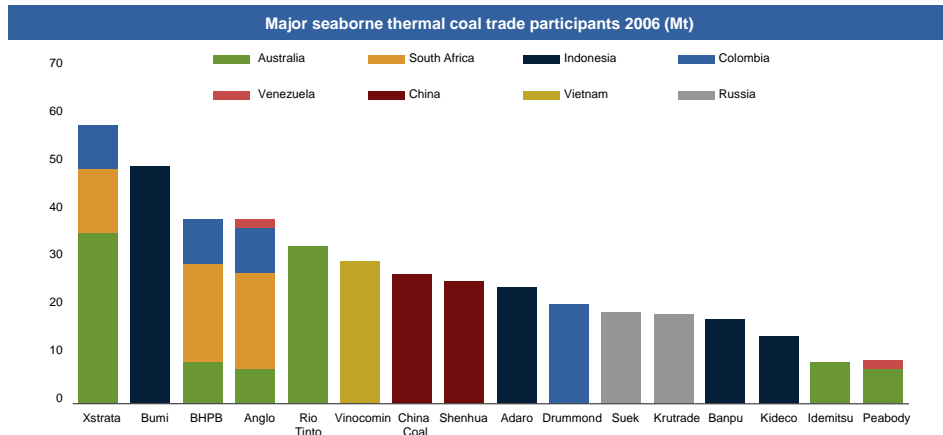
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High Indonesian Growth Potential



The seaborne thermal coal market is highly concentrated.



These participants accounted for approximately 75% of the seaborne thermal coal trade in 2006

Lower coking coal demand will shift marginal met coal back to the steam market

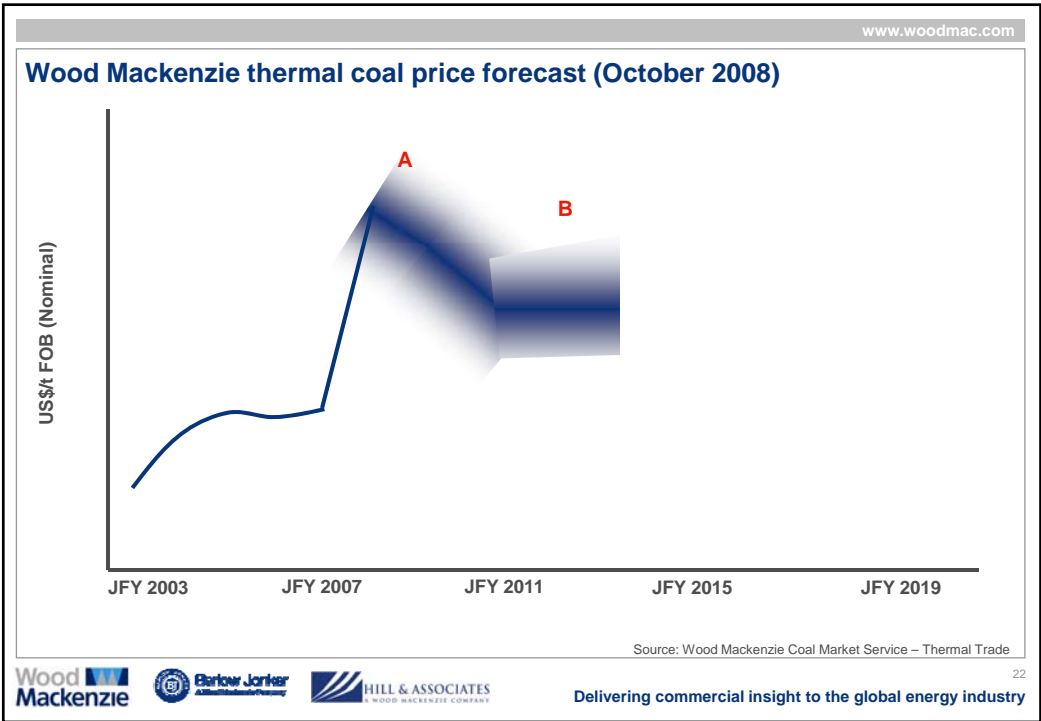
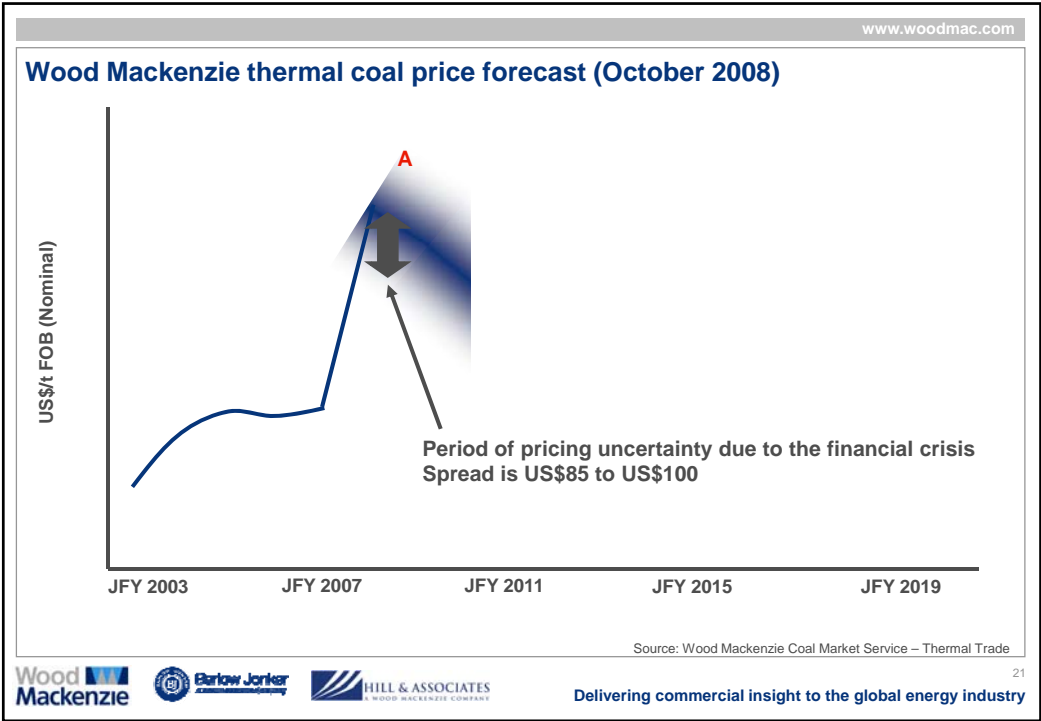
Source: Coal Americas

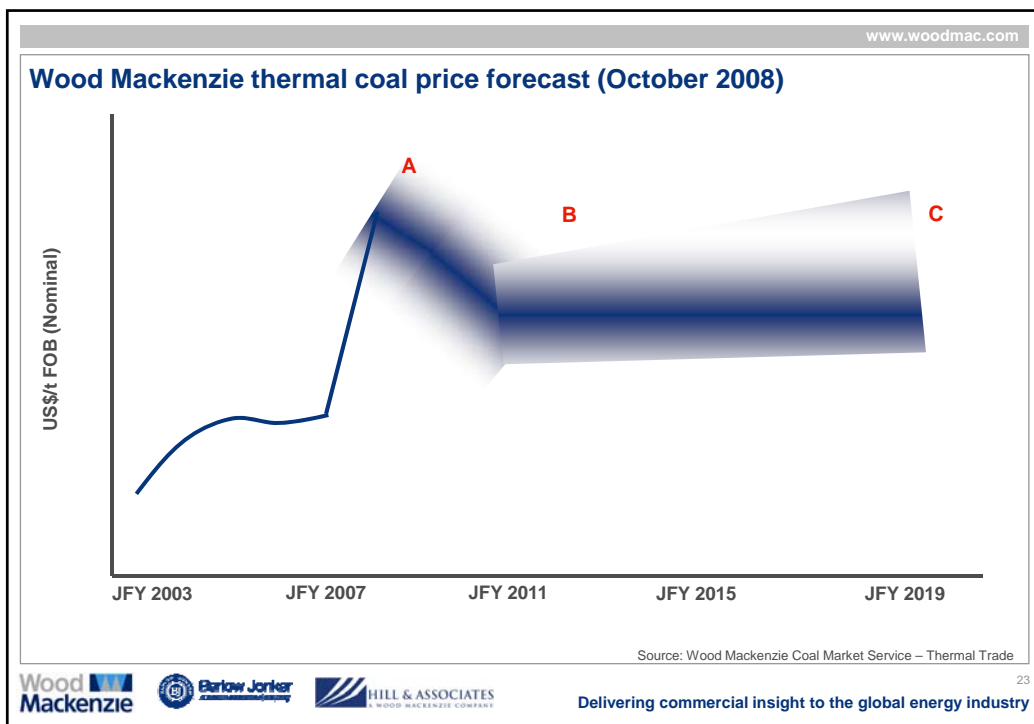
ANNOUNCED REDUCTIONS IN CRUDE STEEL OUTPUT		
Company	Reduction in Output	Details
Arcelor Mittal	35 percent	Scaling back output at at least one blast furnace/mill
Corus	30 percent	Earlier announced 20 percent production cut
Japanese steel mills	5 to 15 percent	Could delay investment projects
Brazilian steel mills	10 to 25 percent	
TKS	-----	Reducing third party slab purchases
Severstal	30 percent	Reducing 25% in Russia, 30 percent in North America
Evrz	25 percent	Reductions in Russia and Ukraine
Essar Steel	30 percent	Cited big decline in Indian demand for steel
Largest Chinese producers	30 percent	Includes Baosteel, Shougang, Hebei, Shandong

China will be back

“This is a bump in the road for China. Wait for the second act. It will be impressive.”







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