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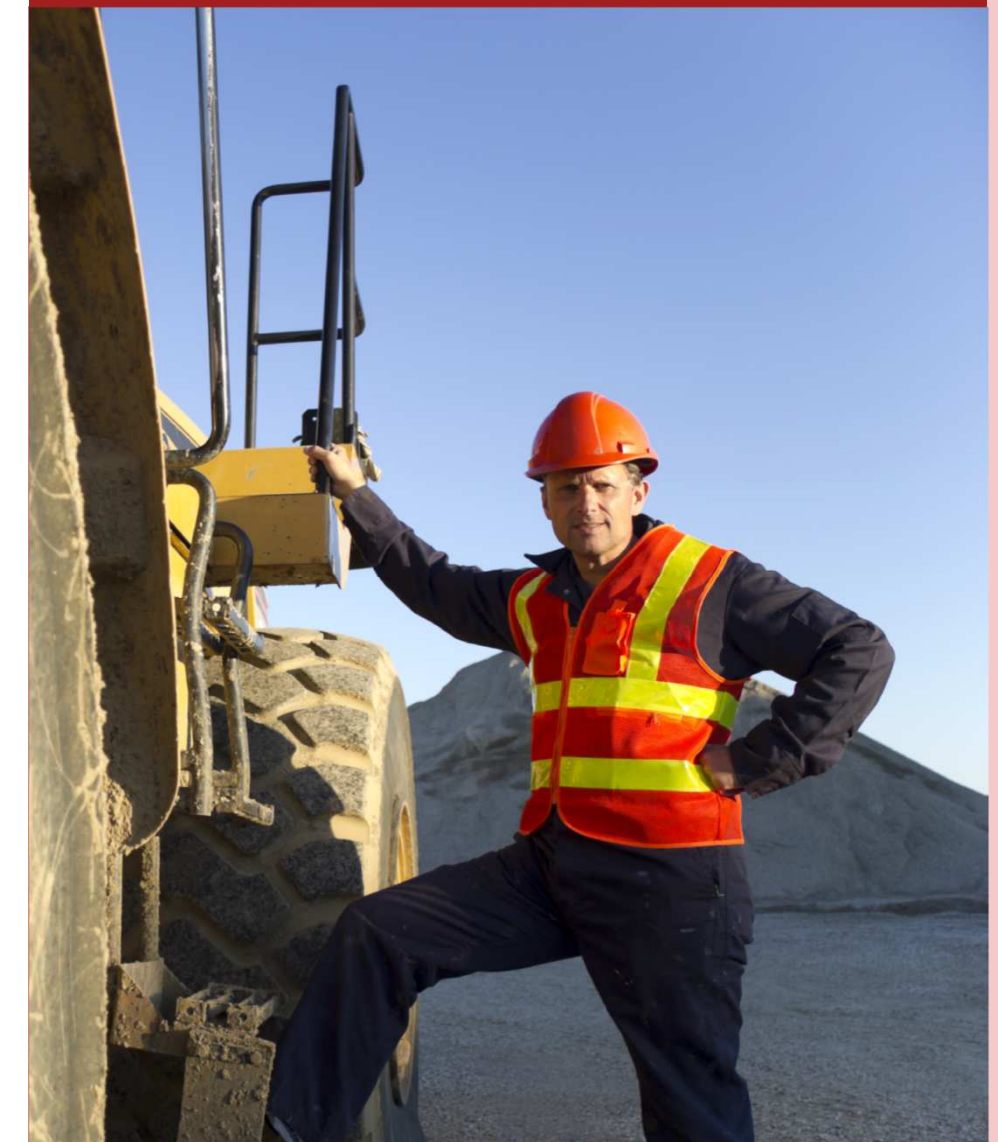
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Coal Snakes and Ladders

October 2014



Coal Snakes and Ladders

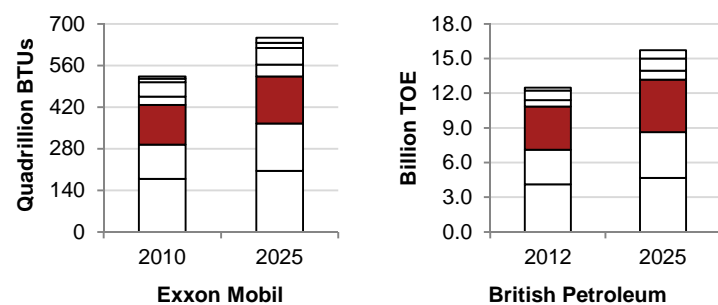
Australia's coal sector is under pressure due to low AUD prices, take-or-pay commitments and previous capital expenditure increasing supply. Developments have been postponed, mines closed and some operators have been forced to restructure to survive. But in the midst of the apparent gloom, there are players who can see past the snakes to the ladders of opportunity.

Here we explore some of the potential opportunities that we see in the current Australian coal landscape.

Thermal coal fundamentals

While thermal coal prices recently reached a six year low, forecasters predict that coal will continue to represent a significant portion of the world's energy fuel mix over the medium term due to its relatively low cost of production and ease of use.

Global Energy Mix Forecasts (Coal Highlighted)

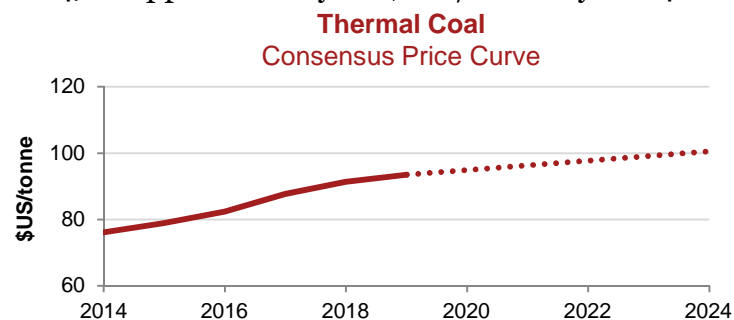


Source: Exxon Mobil Outlook for Energy; BP Energy Outlook 2035 (2014)

“...attractive long-term thermal coal market fundamentals remain in place based on economics and availability” – Tor Peterson, Glencore

Source: Glencore analyst presentation, 29 September 2014

Prices are forecast to increase from current levels of US\$65.50/tonne (NEWC Index, 27 October 2014) to approximately US\$100/tonne by 2024.



Source: Consensus Economics Inc.

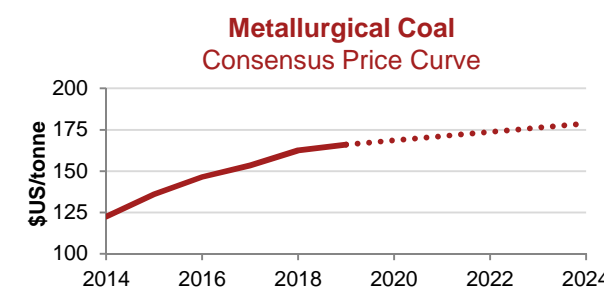
Opportunities exist...



Metallurgical coal fundamentals

Global steel demand has grown at over 2.5 per cent per annum and is forecast to continue growing steadily at a similar rate into the future largely driven by the continuing urbanisation of China and India.

Recent production cuts around the world are likely to add to the price tension in the short to medium term. This is expected to support a buoyant outlook for metallurgical coal prices over the next decade.



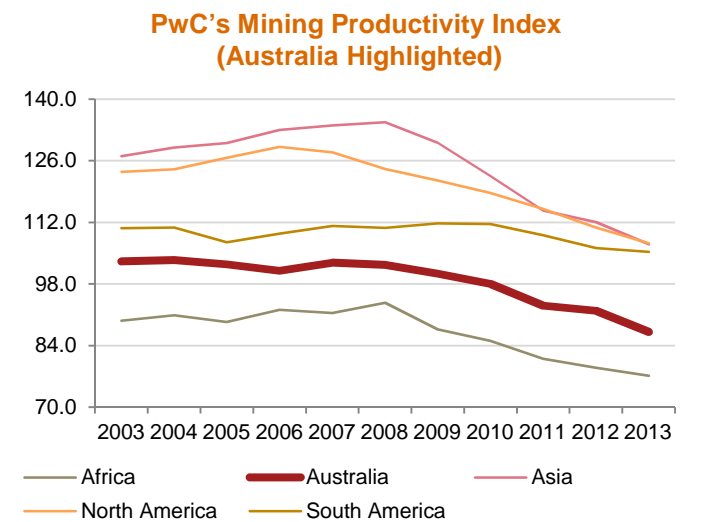
Source: Consensus Economics Inc.

“We continue to believe that the coking coal price has bottomed and is set for a sustained recovery over the next two years...” – Craig Parry, Tigers Realm Coal

Source: The Australian, 12 September 2014

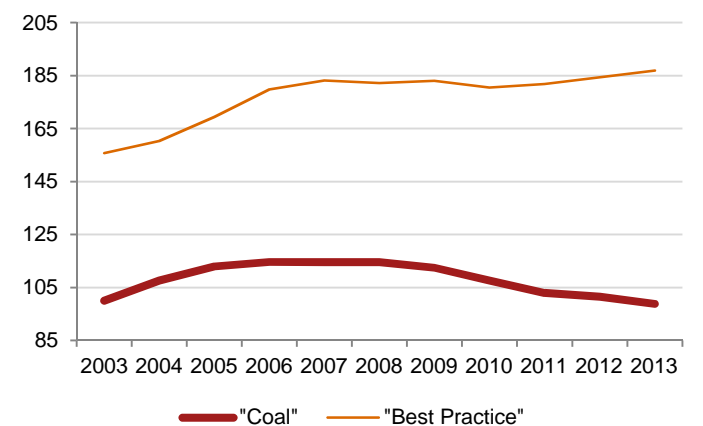
Production efficiency

Equipment productivity in the global mining industry has declined by more than 20% over the past seven years and Australia runs at lower annual outputs than most of its peers



Company wide equipment performance for many global miners sits in the second and third quartiles, and the differences between the best and worst performing mines are stark.

PwC's Mining Equipment Productivity Index Median vs Best Practice – Coal



Current productivity inefficiencies represent an opportunity for acquirers of underperforming mines to create significant additional value post-acquisition

Source: Mining for Efficiency (2014), PricewaterhouseCoopers