Investor Newsletter

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Coal Market Update — November 2013

Britain and UN weigh in on coal debate in Warsaw

This Coal Market Update summarizes general developments in the last two months that raise the risk of investing in the global coal industry. This is not investment advice. Greenpeace International tracks coal market developments worldwide through specialists located in the 28 national and regional offices, including the United States, China, India, Australia, South Africa and Indonesia. This update is prepared in collaboration with BankTrack. All prices are in USD unless noted.

Key points:

- UN climate chief tells industry that "coal must change rapidly and dramatically for everyone's sake", while the UK joins US to curb public financing for overseas coal plants.
- The Pacific seaborne market faces a relatively slow end to 2013 with both Chinese and Indian buyers reluctant to move in the market.
- The International Energy Agency's new World Energy Outlook is downbeat on the world's two largest coal markets: China and the US.
- Another winter-time 'airpocalypse' episode struck north-eastern China in October.
- Shanghai announced a suite of new air pollution measures, following the lead of other Chinese cities and regions.
- Shenhua's profit fell 22% in September quarter.
- Coal India missed its October production target, and is behind on its annual production target.
- A Greenpeace complaint to SEBI has called out Coal India on its reserves estimates.
- BHP Billiton has shelved a proposed coal export terminal at Abbot Point.
- Both GVK Hancock's Alpha and Kevin's Corner coal mines face legal challenges on environmental concerns.
- Adani has been found to have breached environmental guidelines at Abbot Point.
- Several fund managers have pushed back on Adani's recent bond issue, while several members of a loan syndicate also pulled out of servicing its refinancing package.
- Peabody faces objections to Indiana mine expansion, while a new report also finds that the company would have difficulty making money from coal exports.
- Cloud Peak announced it will cut production at the Cordero Rojo mine in the Powder River Basin by 10 million tonnes from 2015.
- Financial close for the 2000 MW Central Java Power Project at Batang in Indonesia has been delayed another year due to land acquisition issues.
- The Indonesian Government is considering a limit on the number of coal loading terminals, as it counts losses from illegal coal exports.

Companies mentioned include:
China Shenhua Energy Co. (HKG: 1088)
Coal India Limited (CIL) (BSE: 533278, NSE: COALINDIA)
BHP Billiton (BHP: ASX)
GVK Group (GVK Power & Infrastructure Ltd; BSE: 532708, NSE: GVKPIL)
Hancock Coal (unlisted)
Adani Enterprises Ltd (BSE: 512599, NSE: ADANIENT)
Glencore Xstrata (LSE: GLEN)
Peabody Energy Corp (NYSE: BTU)
Cloud Peak Energy Inc. (NYSE: CLD)

Global

Update from Warsaw: UN climate chief tells industry that "coal must change rapidly and dramatically for everyone's sake", while the UK joins US to curb public financing for overseas coal plants
Britain has announced that it will join the United States in agreeing to end support for public financing of new coal-fired power plants overseas except in rare circumstances,and that the two governments will work together to secure the support of other countries and Multilateral Development Banks to adopt similar policies. UK Energy and Climate Change Secretary Edward Davey, making the announcement at the UN climate talks in Warsaw, said that: "It is completely illogical for countries like the UK and the US to be decarbonising our own energy sectors while paying for coal-fired power plants to be built in other countries."

Earlier this week, speaking at the controversial World Coal Association's International Coal and Climate summit concurrently held in Warsaw, UN climate chief Christiana Figueres urged coal executives for radical changes to the industry in order to help prevent the disastrous impacts of climate change, to which it is a major contributor. According to Figueres, some of the transformative changes required include:

- Closing all existing subcritical plants (which, in effect, is approximately three-quarters of total existing coal-fired capacity);
- Implementing safe carbon capture and storage on all new plants, even the most efficient; and
- Leaving most existing reserves in the ground.

Figueres also encouraged coal companies to diversify beyond coal into other energy sources to minimise the risk of stranded assets, as well as to "honestly assess the financial risks of business as usual; anticipate increasing regulation, growing finance restrictions and diminishing public acceptance; and leverage technology to reduce emissions across the entire coal value chain."

Pacific trade stalls on weaker China and India demand
The Pacific seaborne market is facing a relatively slow end to 2013 with both Chinese and Indian buyers reluctant to move into the market. China's lower-priced and abundant domestic production has put the squeeze on imports in 2013, and local sources have noted the situation is unlikely to improve in 2014. Indian buyers have also gone quiet. The volatility of the Indian rupee as well as rising freight rates over the past few months have caused coal importers to demand further price cuts from coal exporters, according to Platts.

IEA downbeat on outlook for coal
The International Energy Agency's new World Energy Outlook report presents a sobering picture of the future of coal, projecting a decline in the world's two largest coal markets: China and the US. In China, a slowdown in the rate of economic growth is leading to a marked deceleration both for growth in energy demand and growth in coal demand. Coal use in industry, which makes up nearly one-quarter of the country's total coal demand, increased by 4.5% in 2012, compared with 7.5% on average in the last decade. Demand in the power sector, which accounts for over half of China's coal demand, rose marginally, compared with double-digit growth rates in prior years.

In the United States, coal demand,declined by 11% in 2012, after falling by 2.5% per year over 2005-2011. As a result, global coal demand rose by less than 1% in 2012, compared with average growth of almost 5% per year over the past decade. Renewables and gas are expected to gradually displace coal for electricity generation as US environmental restrictions on coal burning become more stringent.

China

'Airpocalyse' strikes north-eastern China
A winter-time 'airpocalypse' enveloped the city of Harbin in October with particle readings for PM2.5 reaching 1,000 micrograms per cubic meter, 40 times higher than deemed safe by the World Health Organisation. City officials blamed the pollution in part on the start-up of the city's coal-fired central heating system. Public protests over widespread air pollution earlier this year have prompted both central and provincial governments to announce measures to cut coal consumption.

Shanghai announces new air pollution measures
Following the lead of other Chinese cities and regions, Shanghai announced its 2013-2017 air pollution reduction plan in late October, with the aim of cutting PM2.5 pollution by 20% by 2017. The Shanghai Environmental Protection Bureau has announced that over 2,500 boilers and 300 industrial furnaces using coal will be closed down or converted to gas by 2015 and coal-firing banned in 2017. However, unlike the absolute reduction targets Beijing,

Tianjin, Hebei and Shandong regions have committed to over the next five years, Shanghai's plan does not commit to a numeric reduction target. It does promise, however, to develop an implementation plan for reducing total coal consumption.

Shenhua profit fall
China Shenhua Energy Company, the largest coal producer in China, has announced a 22% fall in profit for the September quarter. In the first nine months of the year coal prices fell by approximately 16% due to sluggish demand.

India

Coal India misses October production target; behind on annual production target
Coal India (CIL) produced 35.03 million tonnes (MT) of coal in October, missing its target of 40.82 MT for the month. Against its output target of 247.45 million tonnes for the first seven months of the current financial year, CIL produced 235.51 million tonnes of coal. CIL has missed its annual production target in each of the past four years.

SEBI complaint calls out Coal India on its reserves estimates
Greenpeace has lodged a complaint with the Securities and Exchange Board of India arguing that in its 2010 prospectus Coal India overstated its coal reserves by 16%. The complaint urges the board to penalise Coal India for not informing investors of its most recent and lower estimate. “We didn't consider it to be a significant development to be reported to the stock exchange," Coal India Chairman S. Narsing Rao said.

Australia

BHP Billiton shelves proposed coal export terminal at Abbot Point
BHP Billiton has officially abandoned plans to develop a new $5 billion coal terminal at Queensland's Abbot Point in response to the “persistent weakness in global coal markets”, as current expansion of the Hay Point coal terminal would already meet demand. Utilisation rates at Queensland ports are only 65%, well below the 85% industry average, according to a recent study by the Centre for Policy Development, and new capacity is forecast not to be needed until 2020 at the earliest. The company has also withdrawn the proposed Red Hill and Saraji East metallurgical coal projects from Queensland’s environmental assessment process.

GVK Hancock’s Alpha coal mine faces legal challenges on environmental concerns
Six parties consisting of land-holders and environmental organisations have taken GVK Hancock to court, objecting to the Alpha project’s impacts on climate change, water and ecology. Water demand from the coal mine could use up to 175 billion litres of groundwater over the next 30 years. A decision from the Queensland Land Court is expected before the end of the year.

Kevin’s Corner coal mine approval subject to more than 70 conditions
Far from a green light, the Federal environment minister's approval of GVK Hancock's Kevin’s Corner mine is subject to more than 70 conditions. The conditions range from provisions designed to protect threatened species to developing an adequate water monitoring and management plan. The adjoining ‘sister’ mine Alpha is already locked into a legal battle over water supply and other environmental concerns. Kevin's Corner may attract similar attention from civil society groups. One objection was lodged just three days after the environment minister's approval.

Adani in breach of environmental guidelines at Abbot Point
The Australian Financial Review found Adani's contractors broke environmental rules nine times and were only 'partially compliant' another 20 times when building a storm-water return dam at Abbot Point. Breaches included failures to follow approved procedures for water monitoring and vegetation removal at the site. This news comes as Adani seeks approval to expand its Abbot Point terminal. Another Adani Group company, Adani Mundra Ports and SEZ, is currently facing claims and possible penalty from India’s Ministry of Environment and Forestry for a list of environmental breaches in the state of Gujarat.

Adani bond issue not as rosy as it looks
Several fund managers have pushed back on Adani's recent A$500m bond issue, with some reportedly concerned over its low BBB- credit rating, and also the fact it is a private company without name recognition. The issue fell short of its target of raising A$750m as part of a package to refinance its A$1.25 billion debtfrom buying the Abbot Point coal terminal. Also, five members of a syndicate (Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, NAB, OCBC Bank and Standard Chartered) which were to contribute to the remainder of the debt package pulled out, increasing the

exposure of existing lenders (Commonwealth Bank of Australia and Westpac), who had to stump up the remaining $750m between them.

United States

Peabody faces objections to Indiana mine expansion
Sierra Club and Hoosier Environmental Council have asked the U.S. Army Corps of Engineers to reject a permit Peabody Energy Corp. needs to expand one of its Indiana coal mines, arguing that the company hasn't fully assessed the project's environmental impacts, especially the impact on local waterways. Peabody hasapplied for a permit to dredge or fill more than 84,000 feet of streams, and more than 25 acres of open waters and wetlands in and around Gibson County, Indiana, in order to expand operations at its Somerville coal mine complex.

New Sightline report finds that Peabody would lose money on coal exports
A new report by Sightline has found that at today's prices, Peabody Energy would lose $10 per tonne selling coal through the Gateway Pacific terminal. The report estimates the costs for Peabody to ship its coal from the Powder River Basin to Asia— including the cash costs of mining coal, rail shipping fees, handling fees at coal terminals, shipping costs on ocean-going vessels, and adjustments for the low energy content of Peabody's Powder River Basin coal.

Cloud Peak will cut production in Powder River Basin
Cloud Peak Energy announced with the release of its third quarter results that it is looking to cut production at its Cordero Rojo mine from 2015 onwards by 10 million tonnes (or roughly 10% of the company's overall production in the Powder River Basin). CEO Colin Marshall noted that the plan would not change unless prices rebound significantly. "We're going down until things change enough to make it worthwhile going up", he said.

Indonesia

Additional delays for Central Java Power Project
Securing funding for the controversial 2000 MW Central Java Power Project at Batang in Indonesia has beendelayed by another year due to landowners refusing to sell their land to the Indonesian-Japanese consortium. Construction was originally planned to start in October 2012, but delays have forced the consortium to push back the anticipated financial close until October 2014. A recent report by OilChange International revealed that the World Bank had indirectly supported the project. The project would be Indonesia's first independent power project and is part of Japanese Prime Minister Shinzo Abe's strategy to increase exports of Japanese coal technology.

Indonesia losing out on illegal coal exports
With an estimated 56 million tonnes of coal exported illegally, the government is considering plans to strictly regulate loading terminals. The Indonesian Coal Mining Association, an industry lobby group, estimates that potential losses to the state from illegal exports could be as much as $493 million.