第4回石炭投資促進セミナー

Coal Business Investment in Queensland, Australia

12 November 2014

JOGMEC Seminar




1.	Introduction
2.	Queensland’s Coal Industry
3.	Coal Policy Trends in Australia
4.	Investment Considerations
5.	Conclusion

… outcomes through connecting knowledge and relationships.

My background

balance advisory

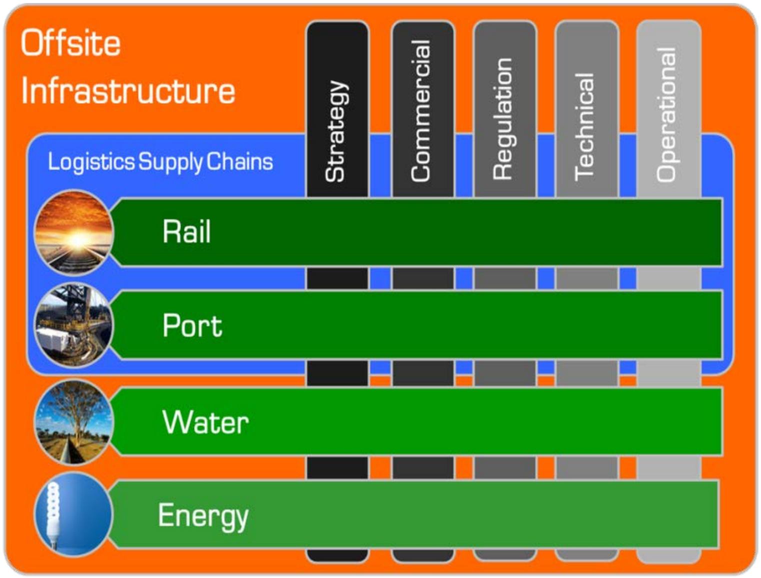
Legal	Queensland Government	Mining	Strategic & Commercial Advisory
7 years in Qld 3 years with Anderson Mori & Tomotsune - Tokyo	15 years - Trade & Investment Commissioner Japan, London and Executive Director Head Office	General Manager – Infrastructure with Macarthur Coal and Peabody Energy	Managing Director with Balance Advisory

… outcomes through connecting knowledge and relationships.

Balance Advisory

Balance Advisory is a professional advisory firm providing specialist advice on inbound and outbound investment and alliance opportunities, and assistance with the development of business opportunities in Australian resources, infrastructure, property and construction.

Balance has a unique blend of commercial, regulatory, and technical capabilities, as well as an unrivalled network of contacts and relationships, particularly in the infrastructure and resources industries.



... outcomes through connecting knowledge and relationships.

… outcomes through connecting knowledge and relationships.

Queensland's Coal Network and Coal Production

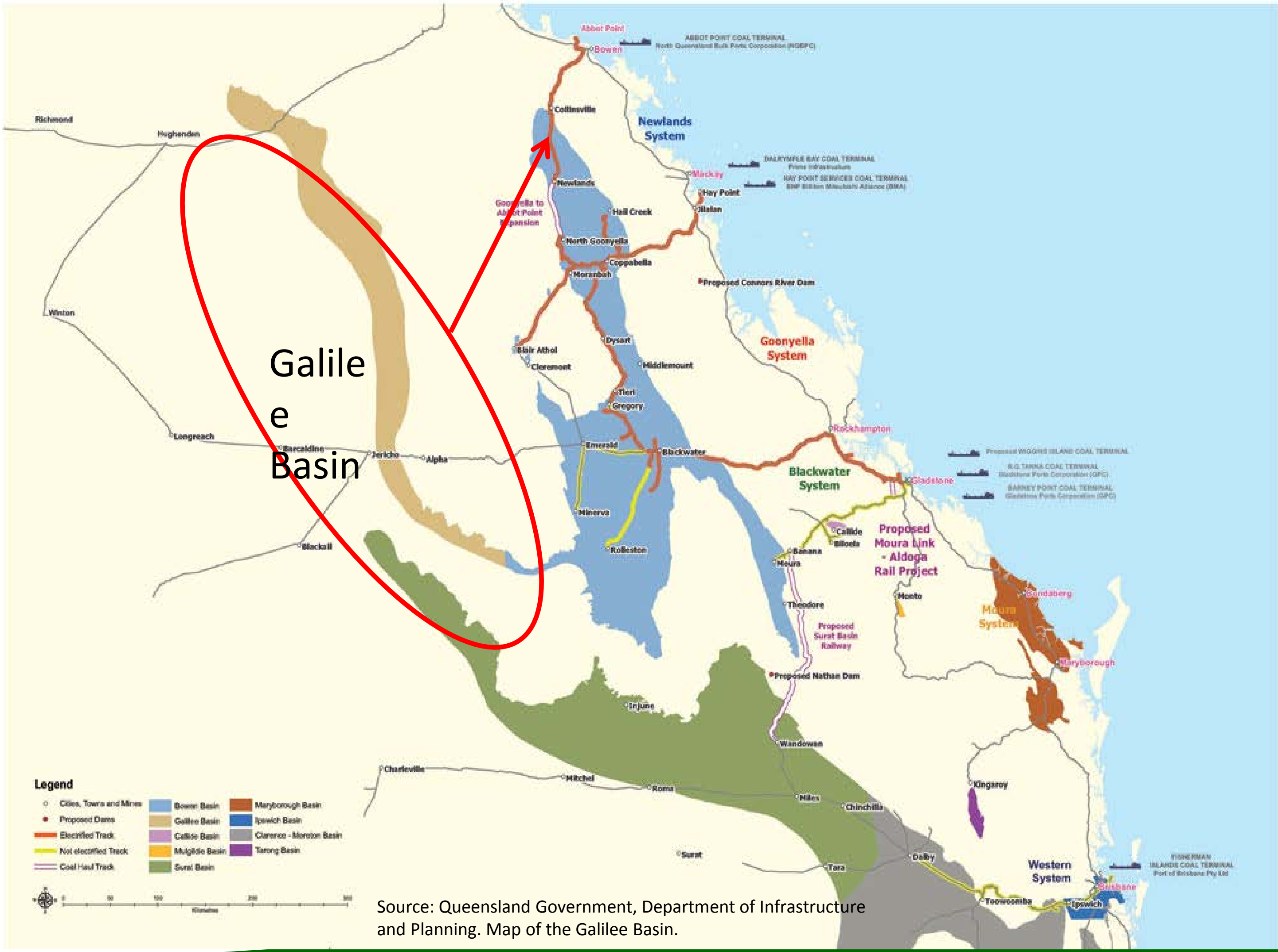
- High quality thermal and metallurgical coal resources.
- Advanced network of rail and port infrastructure.
- Available port capacity at Abbot Point (Bowen) and potentially at WICET (Gladstone) for new users.
- Saleable coal production 2012-2013 – 206 million tonnes (Mt).
- Japan was Queensland's most significant export destination 2012-2013 – 46.1 Mt, comprising 29.2 Mt metallurgical and 16.9 Mt thermal.
- As at 30 June 2014 – 980 Exploration Permits for Coal (EPC).
- Potential for further expansions in Bowen, Galilee, and Surat Basins.

Source: Queensland Government, Department of Infrastructure and Planning. Coal Plan 2030, Laying the foundations of a future.

Queensland's Coal Network – Galilee Basin

The Galilee Basin contains a very large inferred resource of mostly high-volatile, low-sulphur thermal coal.

Large mines planned for Galilee by a number of companies including Adani , Waratah, Macmines and GVK (huge capital requirement for new rail line and other infrastructure costs).



Source: Queensland Government, Department of Infrastructure and Planning. Map of the Galilee Basin.

Queensland's Coal Industry – General Market Conditions

- Coal prices weak as market over supplied
- Capital investment cycle peaked 2013
- Impact of high Australian dollar in recent years
- Boom-driven surge in labour and construction costs

- In Australia, the response has been:
  - ✓ a strong drive to reduce costs across the supply chain
  - ✓ Improved productivity and improvements on global cost curves
  - ✓ Higher production to counter low coal prices and fixed costs
  - ✓ Closure of less competitive mines
  - ✓ Strong efforts by Government to create favourable investment climate and reduce unnecessary administration.

Queensland saleable coal production in 2012-13 (206.0 Mt), comprised 128.6 Mt metallurgical coal, and 77.4 Mt of thermal coal.

Queensland's Coal Industry – Medium Term Outlook

balance advisory

In the medium to long term it seems the coal industry will expand in line with strong demand

Queensland has large reserves of high-quality coal resources, with more than 34 billion tonnes (Bt) (*raw in-situ*) identified. Coking coal and pulverised coal injection (PCI) accounts for approximately 8.7 Bt, of which about 4 Bt are considered suitable for open-cut mining.

Australia has built up intellectual property in relation to proposed infrastructure solutions, and is working hard to uncover new technology for good environmental outcomes.

Despite the current market, there remains significant global interest in Australia's coal assets (existing operations and exploration projects) and associated rail and port infrastructure. Potential asset privatisations by the Queensland Government (such as Gladstone Ports Corporation) are attracting strong interest from the private sector.

Coal History in Australia- Infrastructure Impact

2003/04

- Demand for coal starts to increase dramatically.
  - Industry unprepared for significant expansions.

2004 - 2007

- Continued strong demand and price increases. Infrastructure outcome:
  - Some incremental expansions
  - Host of new explorers/developers emerge
  - Initial planning for larger multi-user infrastructure projects (e.g. NCIG formed)

2007/08

- First "boom" Infrastructure outcome:
  - Major new port & rail developments both planned and committed to (e.g. Wiggins Island Coal Export Terminal (WICET) formed; Abbot Point and Expansion projects; NCIG - Newcastle)
  - No government $$, so alternate funding structures begin to be investigated

Coal History in Australia- Infrastructure Impact

October 2008 – March 2009

- GFC – everything stops for 6 months

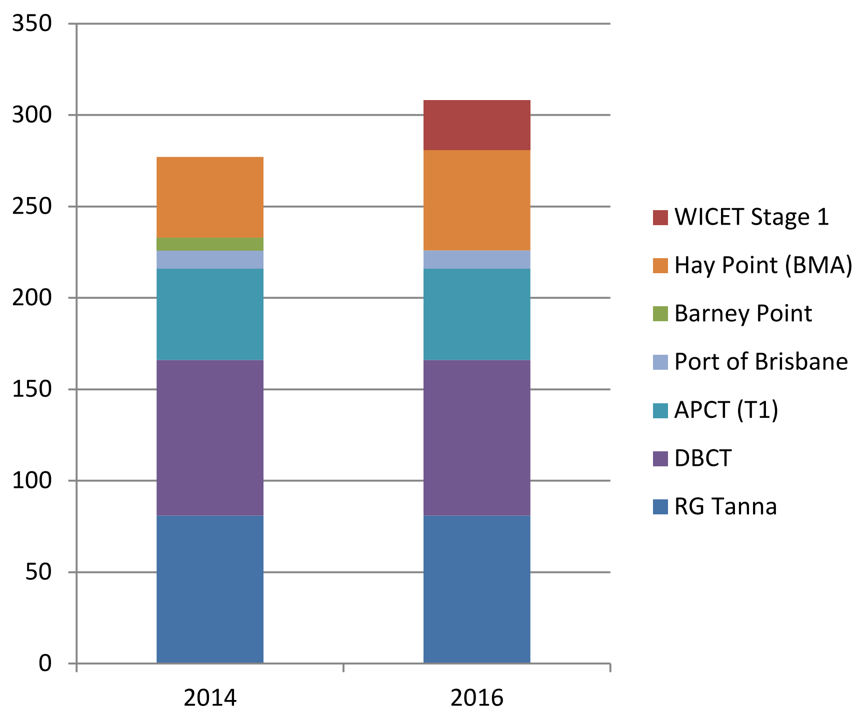
April 2009 – October 2012

- Second "boom". Infrastructure outcome:
  - Massive new port & rail developments planned
  - WICET financial close and construction – 27 Mtpa terminal at Gladstone (A$2.9 billion project)
  - Investigation of supply chain inefficiencies

October 2012 to Present

- Recent infrastructure outcome:
  - With the exception of the Galilee, cancellation or deferral of infrastructure developments
  - Drilling holes seen to provide better value than developing future infrastructure solutions
  - Lack of money to investigate new options and not seen as necessary (yet)

Queensland Port Capacity: 2014 - 2016



As at 2014, we estimate current port capacity (nameplate) at 277mtpa.

From 2016 it will increase to around 308mtpa.

A number of port expansions have been investigated in recent years. These developments included expansions at WICET, Abbot Point and Dudgeon Point (near DBCT) totalling almost 390Mtpa of new capacity.

In the current market, new port developments are unlikely to be committed to.

... outcomes through connecting knowledge and relationships.

Port Availability - Queensland

1. Some capacity is still available – particularly WICET (Gladstone) and Abbot Point.
2. No new ports likely to be built for some time.
3. Gladstone: RG Tanna – expansion possibilities.
4. Active secondary market (capacity trading).
5. Existing Port and Rail capacity likely to become more valuable as time progresses as any new infrastructure will be expensive (per WICET example). Mine closures may see some existing capacity released to the market for other companies to buy/use.

balance advisory

1.	Introduction
2.	Queensland's Coal Industry
3.	Coal Policy Trends in Australia a. JAEPA b. Australian Governments c. Environment Approvals d. Taxation
4.	Investment Considerations
5.	Conclusion

a) Japan-Australia Economic Partnership Agreement (JAEPA)

Japan is a highly valued, strategic trading partner for Australia.

Benefits of JAEPA:

1. Eliminates tariffs on virtually all of Australia's current mineral exports once fully implemented.
2. Over 10 years, tariffs will be eliminated for resource products that do not already enter Japan duty free. This will include immediate tariff elimination for coking coal.
3. Promotes Japanese investment in Australia by raising the screening threshold at which private Japanese investment in non-sensitive sectors is considered by the Foreign Investment Review Board (FIRB) from A$248 million to A$1.078 billion

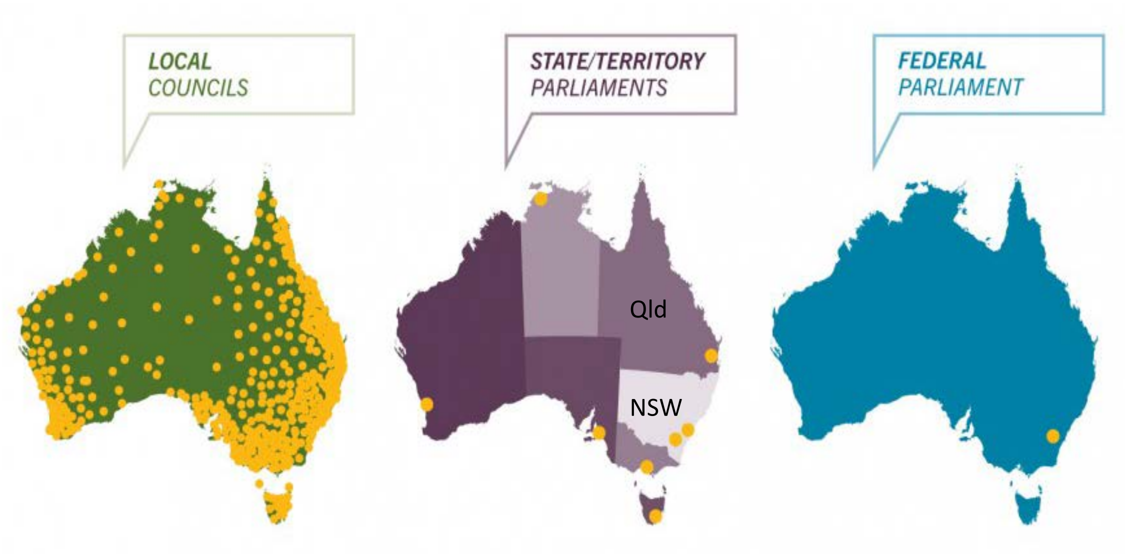
Signed on 8 July 2014. Australia and Japan aiming to have treaty processes completed this year. JAEPA then to enter into force 30 days after exchange of Diplomatic Notes.

b) Australian Governments

The Coalition (LNP) party is currently in power at both the Federal (Australia) and State (Queensland) levels.

The next Queensland State Election will be held on or before 20 June 2015. The next Federal Government election must be held on or before 14 January 2017.

The Australian and Queensland governments have a strong working relationship and are supportive of business and the resource industry, and also foreign investment.



3 levels of Australian Government

... outcomes through connecting knowledge and relationships.

Government Reform Agendas

Commonwealth Government

- ✓ Repeal of carbon pricing regime
- ✓ Repeal of Minerals Resource Rent Tax (MRRT)
- ✓ ‘One-stop-shop’ environmental approvals – being implemented

Queensland Government

- ✓ Cultural Change – focus on business outcomes but maintain environmental outcomes
- ✓ Improvements to: Environmental Impact Statement process, appeal processes, offsets, and overlapping coal tenure issues.
- ✓ New mechanisms – Resource Cabinet Committee

c) Environmental Approvals

What is the One-Stop Shop?

Streamlining of environmental assessment and approval processes by removing duplication between Governments, whilst still maintaining high environmental standards.

It will be implemented through approval bilateral agreements under the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act).

Approval bilateral agreements will allow a state to conduct a single environmental assessment and approval process that satisfies both state and Australian requirements.

Draft amendments to the Queensland Bilateral Agreement relating to Environmental assessment are open for public consultation until 21 November 2014.

d) Taxation

balance advisory

Company Tax Rate

- Will be reduced from 30% to 28.5% from 1 July 2015.
- This reduction is largely offset by a Paid Paternal Leave Levy of 1.5% only for those companies with taxable income greater than $5 million

Minerals Resource Rent Tax (MRRT)

- Announced by the former Labor Government on 2 July 2010 and came into effect on 1 July 2012.
- It was a tax on rent (the excess profits earned from having access to mineral resources).
- The MRRT replaced the Labor Government's proposed Resource Super Profits Tax (RSPT).
- Senate passed legislation to repeal the MRRT – received Royal Assent on 5 September 2014.

Exploration Development Incentive

- 2014 Federal Government initiative to encourage investment in junior mineral exploration companies
- Now in force.
- Allows investors in early stage exploration entities to receive a credit for exploration expenditure. Dollar for dollar basis.
- The incentive will be capped at A$100 million over the next 3 financial years.

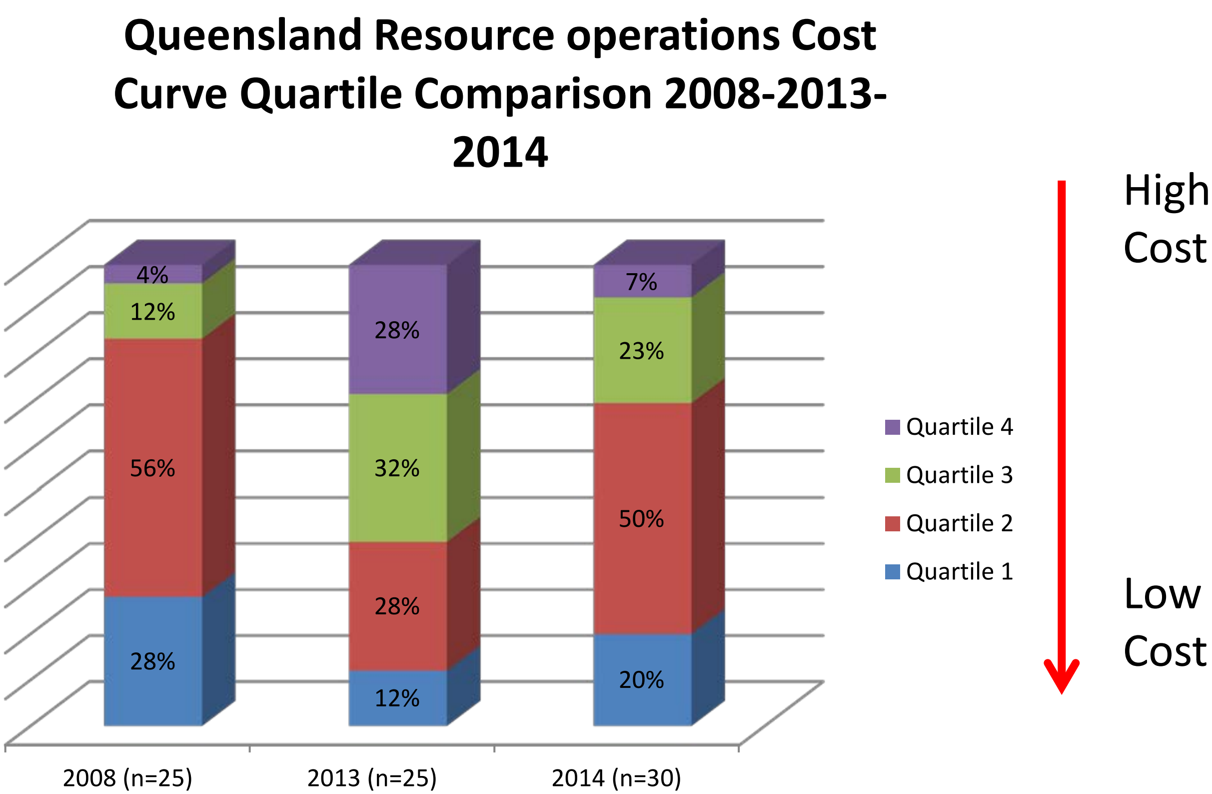
1.	Introduction
2.	Queensland's Coal Industry
3.	Coal Policy Trends in Australia
4.	Investment Considerations a. Cost fundamentals b. Labour Considerations c. Take-or-Pay Clauses d. Reducing Emissions e. Commercial structuring
5.	Conclusion

a) Cost Fundamentals

Removal of unnecessary regulations reduces cost to investors

A$ was very strong ($1.05 to US $), but recently much lower ($.87 to US$).

Project costs have also reduced considerably since peak of mining boom



Source: QRC Survey of CEOs, "Turning the Corner in Coal" Presentation 25 July 2014

b) Labour Considerations

Cost

- Labour cost increases experienced during mining boom
- There is a post-boom reduction to wages and conditions underway as companies seek to cut costs and lift productivity
- Aurizon, Australia's largest rail freight operator, is applying to terminate 14 of its existing workplace agreements in Queensland

Productivity

- Australia represents a comparatively low-risk country for labour unrest in the form of strikes. A recent strike by Bechtel workers in relation to a Curtis Island LNG project was resolved in August 2014 (issue centred around conditions such as rostering - 4/1 FIFO changed to 3/1)

VISA

- Flexibility to employ labour in short supply from overseas subject to VISA conditions

c) 'Take or Pay' Clauses

- Rail and port infrastructure are a vital link in getting coal to the market
- This infrastructure is highly capital intensive (high % of fixed costs)
- Infrastructure owners seek to minimise their exposure to volume risk by incorporating 'take or pay' clauses in their agreements
- Essentially, the coal producer pays a % of the infrastructure owner's costs regardless of whether the capacity is used
- Typically in Australia, 'take or pay' is paid for rail haulage capacity (trains), rail infrastructure capacity (tracks) and port capacity
- Variable costs are charged only as the capacity is used (e.g. Handling charges at some ports, and fuel costs on above rail haulage)

‘Take or Pay’ Clauses

Port Operator

- User Agreement
- Terminal Infrastructure Charge
- Majority Take or Pay
- Pricing is regulated at some ports e.g. DBCT

Above Rail Operator

- Haulage Agreement
- Capacity Charge
- Take or Pay is typically 70 – 80% of total charge

Rail Infrastructure Provider

- Access Agreement
- Access Charge
- Take or Pay is around 70 - 90% of total charge
- Return is capped by rail regulator (QCA)

‘Take or Pay’ Clauses

- Infrastructure providers are undertaking cost cutting exercises to remain competitive
- Some parts of the supply chain are becoming more flexible – rail operators provide peaking (buffer) capacity, on tiered service levels, to meet variable demand profiles
- There is a market for secondary capacity trading which allows companies to sell excess port and rail capacity to new entrants or miners increasing production.

d) Reducing Emissions: Japan – Australia Partnership

Queensland needs to work closely with Japan on use of advanced supercritical, ultra-supercritical and advanced ultra-supercritical power generation technologies, reducing energy input and also greenhouse gas emissions.

Callide Oxyfuel Project (Queensland)

- A world-leading demonstration of how carbon capture technology can be applied to an existing coal-fired power station to generate electricity with low emissions
- A joint venture between J-POWER, Mitsui & Co., Ltd and IHI Corporation, CS Energy, ACA Low Emissions Technologies, Glencore and Schlumberger Carbon Services
- The project was awarded A$63million from the Australian Government under the Low Emissions Technology Demonstration Fund
- The project has also received support from the Japanese and Queensland Governments and technical support from JCOAL

Global Carbon Capture and Storage Institute (Melbourne)

- Involved in carbon capture and storage to tackle climate change and provide energy security – regional office in Tokyo.
- Established in 2009 with initial funding from Australian Government

e) Commercial Structuring: Investment Types

There are many investment opportunities in Queensland, especially while prices are low.

1. Exploration projects (Early and advanced stage developments)
2. Existing operating mines
3. Proposed asset privatisations by Government (e.g. Gladstone Port Corporation)
4. Recent activity;

Wealth Mining (China)	• Takeover of Carabella Resources (PCI) in Qld
Baosteel/ Aurizon	• Takeover of Aquila (Iron Ore in WA and Hard Coking Coal in Qld)

e) Commercial Structuring: Farm-In Structure

Farm-In structure utilised in Queensland and by JOGMEC

Farmor:
#Holds tenement
#Seeking development of the project
#Allows Farmee to conduct exploration
#Transfers interest in tenement to Farmee in exchange for exploration activities and other payments

+

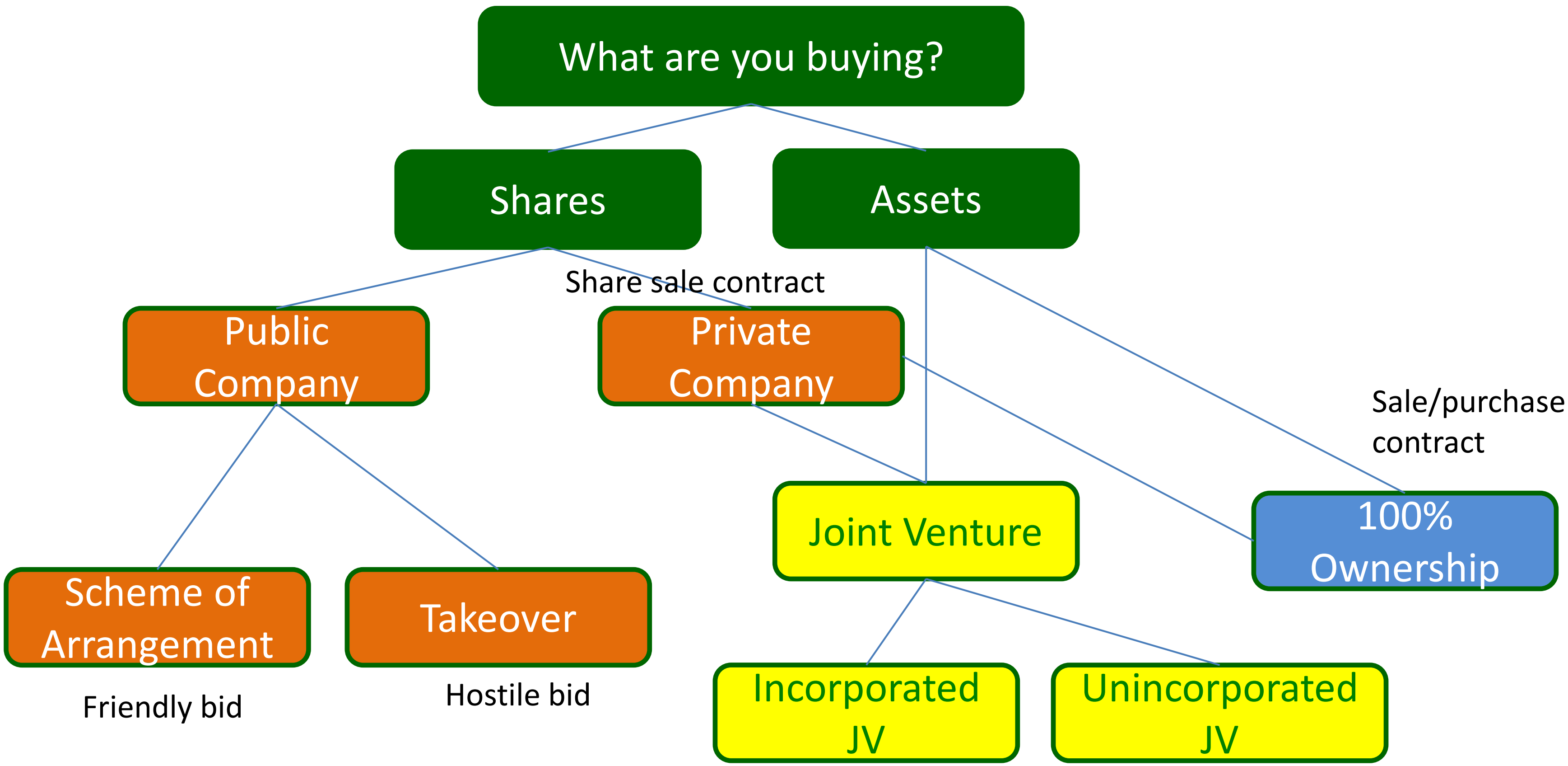
Farmee:
#Earns interest in tenement by undertaking exploration

=

Benefits:
#No net tax on the transfer of the tenement
#Farmee obtains tax deductions for exploration spend
#Farmor only taxed on any cash payments received

e) Commercial Structuring: Buying a Mining Asset

The deal structure will be influenced by how the assets are held



… outcomes through connecting knowledge and relationships.

Conclusion

- Coal market appears to be at or near the bottom of the cycle which brings opportunities for investors.
- Queensland and Australia has a vast amount of high-quality coal assets, well developed infrastructure and low sovereign risk.
- Queensland and Federal Governments actively encouraging overseas investment and working to make investment conditions more favourable.
- Australia and Japan have enjoyed a wonderful mutually beneficial trading history and we look forward to building on this relationship.

Queensland Government Trade and Investment Office in Tokyo –
Commissioner Mr Tak Adachi.

Phone: +81 3 6841 0595

Fax: +81 3 6841 0597

E-mail: tokyo@tiq.qld.gov.au

Thank you

Ross Buchanan

Managing Director – Investment Advisory

Phone: +61 7 3222 3400

Mobile: +61 4 2235 7086

Email: rbuchanan@balanceadvisory.com

Web: www.balanceadvisory.com

Disclaimer

The information contained herein has been prepared by Balance Advisory solely for the use of the recipient. It is confidential and for information and discussion purposes only. The information does not constitute, in any jurisdiction, a recommendation, invitation, offer, or solicitation or inducement to buy or sell any financial instrument or product, or to engage in or refrain from engaging in any transaction. It is not the intention of Balance Advisory to create legal relations on the basis of the information contained herein. This information does not purport to contain all relevant information. Nothing in this document should be construed as legal, tax, accounting or investment advice. This document has been prepared without taking into account the objectives, financial situation or needs of any recipient. Neither Balance Advisory nor any of its respective affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein.

The information may include estimates and projections and involves elements of subjective judgment and analysis. Past performance is not indicative of future results. The information contained herein is of a general nature intended to provide a broad overview of the relevant market and is not illustrative of the proposed transaction. Balance Advisory believes this information to be accurate, including the certain parts of this information which have been prepared from third party sources, but Balance Advisory does not give any warranty of accuracy or completeness of the information.

The information on which the statements are based has been gleaned from public sources or provided to us on a non-confidential basis. To the extent permitted by law, Balance Advisory, its related bodies corporate, their officers, employees, agents and members (a) disclaim any and all liability relating to this information, including, without limitation, any express or implied representation for statements and conclusions contained in and omissions from this information; and (b) accept no liability (whether in negligence or otherwise) for any loss, damage, costs or expenses of any nature which may be suffered or incurred by any person relying on any information or statement contained herein or otherwise arising in connection with such information or statement. No part of this document may be reproduced without the prior permission of Balance Advisory. All material presented in this document, unless specifically indicated otherwise, is under copyright to Balance Advisory.

The information contained herein may contain “forward-looking statements”. These forward-looking statements may be based upon certain assumptions. Actual events may differ from those assumed. All forward-looking statements included are based on information available on the date hereof and neither Balance Advisory nor its respective affiliates assume any duty to update any forward-looking statement. Accordingly, there can be no assurance that any forward-looking statements will materialise or will not be materially lower than those presented. If you are in any doubt about any of the contents in this document, you should obtain independent professional advice.