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The Blenheim Report

CONFIDENTIAL INTELLIGENCE REPORT

COAL PRODUCERS

MAY 2013



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INTRODUCTION

Coal production overview

Australia is the 4th largest coal producer in the world producing 414 million tonnes per annum in 2011. The top five hard coal producers are China, the USA, India, Australia and South Africa. 97% of coal is sourced from New South Wales and Queensland – these two states have 42% and 53% respectively of Australia's black coal resources. There are brown coal deposits in all Australian states, although Victoria accounts for 96% of identified brown coal resources. Western Australia also has a few producing mines. Overall there are more than 100 coal mines in Australia.

Australia is the world's largest net exporter of metallurgical (coking) coal and steaming coal. The majority of Australia's metallurgical coal is produced in Queensland, while production in New South Wales is largely classed as thermal (steaming) coal. Around three-quarters of this output is sourced from open cut mines.

Australia has \$26.5 billion in advanced coal mining projects and associated infrastructure, involving more than 74 million additional tonnes of coal production by 2014. 'Less advanced' coal mine and coal infrastructure projects have a potential capital expenditure of \$46.6 billion, if all projects were to proceed (Source: Australian Coal Association).

PEABODY ENERGY AUSTRALIA (PEA)

Revenue: unknown | **Employees:** unknown | **Operations:** Australia | **Head office:** Brisbane | **Parent company:** Peabody Energy Corporation (NYSE: BTU)

Peabody Energy Australia is a subsidiary of Peabody Energy, the world’s largest private-sector coal company and a Fortune 500 company. Peabody’s operations in Australia service export and domestic markets with a diverse product range of coal through multiple coal ports. In 2012, Peabody’s Australian operations achieved total sales of 33 million tonnes primarily to steel producers in Japan, Europe, Taiwan, India and South America, as well as to electricity generators in Australia and Asia.

Peabody ships over 25 million tonnes of coal annually with major expansion projects underway to increase production to over 36 million tonnes by 2014-15. Peabody also has the second largest interest in the Newcastle Coal Infrastructure Group (NCIG) export terminal in NSW and is participating in the second stage expansion to add another 36 million tonnes of capacity at a time when Australia is setting export records. The Company is also active in coal trading in all major Australian coal regions through Peabody Coaltrade.

Peabody’s Australian platform is expanding to meet rising Asia market demand. The company is targeting Australian volumes of 33 to 36 million tonnes in 2013, including 15 to 16 million tonnes of met, 11 to 12 million tonnes of seaborne thermal, and 7 to 8 million tonnes of domestic thermal production. Peabody has a 65.7% stake in Macarthur Coal which was acquired in October 2011. With the inclusion of Macarthur, Peabody projects pro forma production of 45 to 50 million tonnes by 2014 to 2015. If these pro forma volumes were in place today, Peabody said it would be the second-largest metallurgical coal producer in Australia.

MINING OPERATIONS

Mine	Owner	Operator	Type (OC/UG)	Production (Mtpa) FY12	Coal type	Location	State
Metropolitan	PEA (100%)	PEA	UG	2.1	Met coal	Helensburgh	NSW
Wambo	PEA (75%)	PEA	OC & UG	6.5	Met coal/Thermal	Hunter Valley	NSW
Wilpinjong	PEA (100%)	PEA	OC	12.5	Thermal	Near Mudgee	NSW
Burton	PEA (95%)	Thiess Pty Ltd	OC	1.0	Met coal/Thermal	Bowen Basin	QLD
Coppabella	PEA (73%)	PEA	OC	2.6	PCI	Bowen Basin	QLD
Eaglefield	PEA (100%)	Macmahon	OC	1.0	Met coal	Bowen Basin	QLD
Middlemount*	PEA (50%)	NRW Holdings Ltd	OC	1.0	Met coal/PCI	Bowen Basin	QLD
Millenium	PEA (100%)	PEA	OC	3.0	Met coal/PCI	Bowen Basin	QLD
Moorvale	PEA (73%)	Leighton Contractors	OC	1.9	Met coal/Thermal	Bowen Basin	QLD
North Goonyella	PEA (100%)	PEA	UG	2.6	Met coal	Bowen Basin	QLD
Wilkie Creek	PEA (100%)	PEA	OC	1.3	Thermal	West of Brisbane	QLD

*PEA (50%) / Gloucester Coal (50%)

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EXECUTIVE LEADERSHIP TEAM				
Name	Title	Background	Location	Comments
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OTHER KEY EXECUTIVES				
Name	Title	Background	Location	Comments
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BOARD MEMBERS				
Name	Title	Background	Location	Comments
		Please contact Blenheim Partners for information.		

STRATEGY

Peabody Energy considers Australia to be a premier location for coal mine development and investment. Peabody Australia in its current structure was formed in December 2011 when Peabody acquired Macarthur Coal. All mines are fully operational.

Peabody has mining operations across Queensland and New South Wales, as well as active coal trading in all major Australian coal regions through Peabody COALTRADE. It is currently operating three mines in NSW and seven in Queensland.

Peabody's operations in Australia service export and domestic markets with a diverse product range of coal through multiple coal ports. In 2012, Peabody's Australian operations achieved total sales of 33 million tons primarily to steel producers in Japan, Europe, Taiwan, India and South America, as well as to electricity generators in Australia and Asia.

Peabody's Australia platform is expanding to meet rising Asia market demand. The company is targeting Australian volumes of 33 million to 36 million tons in 2013, including 15 to 16 million tons of met, 11 million to 12 million tons of seaborne thermal and 7 million to 8 million tons of domestic thermal production.

Peabody Australia has been negatively impacted by the downturn in the commodity cycle in the past 18 months, and the strategic focus for the company is on enhancing operational efficiencies, reducing costs and ensuring ongoing improvements in overall productivity. The company has cut 620 jobs across its operations since 2013 and has returned two of its mines, Millenium in Queensland and Wilpinjong in NSW, to an owner-operated status in April 2013,

Peabody also said in a statement in July 2013 that it had scrapped the hiring of 230 people in Australia, and explained these decisions as a response to ongoing cost management reviews in order to secure the long-term competitiveness of its operations. The Company now has around 2700 employees in Australia.

MARKET INTELLIGENCE

11 September 2013

The Financial Review

Glencore shelves \$7bn Wandoan coal project

Anglo-Swiss mining giant Glencore Xstrata has officially shelved the \$7 billion Wandoan thermal coal project in Queensland, in keeping with an industry-wide trend towards reducing capital spending and seeking to improve shareholder returns. Wandoan, in Queensland's Surat Basin, was included on a list of "projects on hold" in a presentation given by Glencore Xstrata coal president Peter Freyberg at the newly merged company's first investor day in London on Tuesday. In light of declining coal prices and comments by Glencore Xstrata chief executive Ivan Glasenberg that he was averse to developing greenfields projects, the writing had been on the wall for Wandoan for some time.

Article: http://www.afr.com/p/business/companies/glencore_shelves_bn_wandoan_coal_t4S7mBuaAtCXZYONsYX66M

18 April 2013

Sydney Morning Herald

BHP Billiton announces new management team

In February, when Andrew Mackenzie was anointed to take over from Marius Kloppers as chief executive of the world's largest mining company, he promised a "laser-like focus" on boosting BHP Billiton's profitability as commodity prices settled and the windfall profits the resources boom delivered at its peak disappeared. Mackenzie has flattened and simplified BHP's management at the top. The top management committee has been expanded from eight members to 11 but the heads of BHP's big operating divisions including iron ore boss Jimmy Wilson, coal boss Dean Dalla Vale and copper division boss Peter Beaven are now included, and will report directly to him, as will the leaders of key corporate functions including finance, legal and human resources. They are all potential successors to Mackenzie and, as part of the change, two executives who were considered to be in the race to replace Kloppers before Mackenzie got the nod fall out the equation.

Article: <http://www.smh.com.au/business/sweeping-changes-at-bhp-20130418-2i232.html#ixzz2S5RhnJx4>

11 April 2013

The Australian

Leighton loses out as BMA finds cheaper alternative

THE Leighton group yesterday felt the impact of moves by miners to slash cost bases amid falling commodity prices when BHP Billiton Mitsubishi Alliance (BMA) prematurely terminated a contract worth up to \$260 million for a cheaper alternative. BHP decided to move the pre-strip contract with Leighton Contractors at the Peak Downs coalmine in Queensland to the smaller Perth-based HSE Mining, prompting the cancellation of the contract for the Leighton Holdings subsidiary that was scheduled to run until 2015.

Article: <http://www.theaustralian.com.au/business/mining-energy/leighton-loses-out-as-bma-finds-cheaper-alternative/story-e6frg9df-1226617748889>

MARKET INTELLIGENCE

4 April 2013

Sydney Morning Herald

Rio Tinto hires Deutsche Bank to sell coal assets

Rio Tinto has hired Deutsche Bank to help sell Australian coal assets worth billions of dollars, the Wall Street Journal said on Wednesday, as the company seeks to slash costs and exit non-core and under-performing businesses. The move comes less than three months after the Anglo-Australian mining goliath's new chief executive, Sam Walsh, vowed to pursue an "unrelenting focus on pursuing greater value for shareholders" via aggressive cost reductions and divestment of non-core businesses. Slower industrial growth in China that has put pressure on commodities prices and cut profits for mining companies has led to a major re-think by Rio Tinto's board over how the company's money is spent.

Article: <http://www.smh.com.au/business/rio-tinto-hires-deutsche-bank-to-sell-coal-assets-20130404-2h81m.html#ixzz2S65XTjGM>

1 May 2013

Sydney Morning Herald

Mine rejection will cost jobs, Rio Tinto warns

Rio Tinto has applied to the NSW Supreme Court to speed up its bid to reverse a court decision blocking the extension of its Warkworth coal project in the Hunter Valley, claiming failure to do so would lead to "many hundreds of job losses". Rio has already cut 40 jobs after its permission to expand the Mount Thorley mine was overturned in the NSW Land and Environment Court in April after residents from the tiny town of Bulga succeeded in a battle against the project. Rio appealed the decision last week, and on Monday applied to expedite the appeals process. In an affidavit filed with the original appeal, it said the immediate effect of not being able to proceed with the extension was that an area known as Saddleback Ridge could not be mined, and that coal production would drop from 12 million tonnes a year to 10 million tonnes. "Significant job losses are expected if economic conditions remain the same unless the mine can maintain its volume of product coal produced," it said. "Not being able to maintain the production level at 12 million tonnes for 2014 is likely to result in many hundreds of job losses." Rio said the mine had an existing workforce of 1300, and the extension would create an additional 150 jobs over its life.

Article: <http://www.smh.com.au/business/mine-rejection-will-cost-jobs-rio-tinto-warns-20130430-2ir1q.html#ixzz2S6K2jo00>

28 Feb 2013

Sydney Morning Herald

Vale sees red over Australian coal

Brazilian mining giant Vale has written down its Australian coal assets by \$US1.03 billion (\$1 billion), part of \$US5.7 billion in impairments which dragged the company's net earnings down by 76 per cent in 2012 and led it to report a bottom-line loss in the December quarter. After reporting record profitability in 2011, Vale's revenues fell 23 per cent and underlying earnings more than halved due to lower commodity prices in 2012. Net earnings including impairments slumped 76 per cent to \$US5.5 billion. Vale described 2012 as a "challenging year for the world economy" which led to a "generalised decline in minerals and metals prices, with the exception of gold". Vale's coal division is headquartered in Brisbane and it has interests in three coal mines in Australia: in Queensland it operates the Carborough Downs Mine and part-owns the Isaac Plains Mine in the northern Bowen Basin; in New South Wales, it operates the Integra mine in the Hunter Valley.

Article: <http://www.smh.com.au/business/mining-and-resources/vale-sees-red-over-australian-coal-20130228-2f7b7.html#ixzz2S5soB78y>

MARKET INTELLIGENCE

3 April 2013

The Australian

WHITEHAVEN Coal continues to suffer from speculation over the financial stability of its largest shareholder, Nathan Tinkler, with the latest share price hit coming after he announced the sale of his horse-racing empire.

The slump in the coalminer's shares yesterday was also on the back of the continued negative market sentiment on resources stocks, which saw a list of strong-performing companies take a dive on the Australian market. Whitehaven's shares fell 4.25 per cent to \$2.03, reaching a four-year low, after Mr Tinkler announced he would sell Patinack Farm, which includes more than 1000 racehorses, broodmares and stallions and his Sandy Hollow training facility in NSW's Hunter Valley. Speculation over Mr Tinkler's significant debts, which are said to be leveraged to his 19.4 per cent stake, has compounded the market issues weighing on the miner, including low coal prices and the high Australian dollar. "Nathan Tinkler is another excuse why a manager might not need to go near the stock," one experienced coal analyst said. "We are getting towards June 30 and people are trying to lock in performance elsewhere and why would a manager make a call on such a volatile situation as Nathan Tinkler and want to ruin their reputation on something that could blow up in their face."

He added that the "root cause" of Whitehaven's problems was its failure to make money, adding that the firm was not alone. "Even companies that are making money are as weak, if not weaker in some cases. We're struggling to get traction with large investors, even in the high-quality names above Whitehaven." The industry observer said the firm needed to develop its prized asset, Maules Creek, as soon as possible, warning that if real cashflow did not start in about a year, the miner's lenders could get nervous and trigger the divestment of some assets.

Article: <http://www.theaustralian.com.au/business/mining-energy/tinklers-financial-situation-take-toll-on-whitehaven-coal/story-e6frg9df-1226611210262>

30 April 2013

Australian Financial Review

Whitehaven flags further cost-cutting

Whitehaven Coal has committed to further cost-cutting amid weaker coal prices and unused port and rail capacity, which are adding to its operating expenses. The NSW-based coal miner confirmed it had shed costs at its Tarrawonga and Rocglen mines as part of stage one of its operational review. Mine plans have been changed to deliver lower stripping ratios, which has decreased the number of necessary haul trucks. Approximately 30 permanent positions and 10 contractor roles were made redundant due to the changes. Stage two of the review will involve an ongoing focus on reducing operating costs at other mines. These initiatives come amid downward pressure on coal prices, a strong Australian dollar and higher costs elsewhere in the business.

Article: http://www.afr.com/p/business/companies/whitehaven_flags_further_cost_cutting_stRuINo2IY9QHfsJx49aIM

MARKET INTELLIGENCE

19 Mar 2013

Australian Financial Review

Structural and management changes at Xstrata Coal

As part of continuing reviews being undertaken across its business, Xstrata Coal will consolidate its two operating units in Australia. This will see its New South Wales and Queensland divisions combined under a single Xstrata Coal Australia operating division and management structure. The new Australia-wide operations will leverage off the structure and systems in place in NSW, and will be headed up Chief Operating Officer, Ian Cribb, effective 19 March. As a result of this decision, Xstrata Coal's divisional head office in Brisbane will close. In parallel to this, Xstrata Coal is taking the opportunity to review corporate services delivered to the divisions out of its Sydney office. These initiatives will lead to a reduction of Xstrata Coal's office-based roles in Australia. As a result Xstrata will cut about 600 jobs.

13 February 2013

Australian Mining

Coal remains number one export: NSW Minerals Council

New figures released by NSW Minerals Council show coal is NSW's number one export commodity at 35% of total merchandise exports. The council's latest industry report "NSW Mining 2012: A Snapshot" revealed telling statistics about NSW's coal industry and the countries it exports to. Japan remained the largest overall market for NSW coal, receiving 46.5% of coal exports in 2011-12. China received 17.5% of NSW coal exports, Korea 15.3% and Taiwan 10.4%. The report values the export of NSW coal in 2011-12 at \$16.8 billion.

NSW Minerals Council CEO, Stephen Galilee said the figures were encouraging despite the tough conditions faced by many coal miners in recent months. "Many of our members in NSW have experienced difficult trading conditions due to global economic conditions, rising costs, and a fall in coal prices over the second half of last year," Galilee said. "It's important to note that China's is the world's largest coal producer and its domestic coal production vastly eclipses imports of coal from NSW, producing 3,471 million tonnes per annum. However, the ongoing strong demand for NSW coal in China is good news for our national and state economies and also for the economic strength of NSW coal mining communities." "NSW is well placed to meet many of the minerals needs of major economies around the world. We have a strong history of supply to developed economies like Japan and the Republic of Korea, while at the same time we are developing excellent trading relationships with major emerging markets like China and India," he said.

Galilee also noted the importance of the industry on jobs in the state. "Coal mining alone provides a direct income for over 22,000 employees and their families in NSW; workers in communities like Singleton, Muswellbrook, Wollongong, Gunnedah, Tamworth, and Boggabri. It's estimated that coal mining also generates around 77,000 additional jobs across the state."

Article: <http://www.miningaustralia.com.au/news/coal-remains-number-one-export-nsw-minerals-council>

MOVEMENTS

There have been a number of movements in the Coal sector this year, some include:

- **Andrew MacKenzie** – Appointed Chief Executive Officer, BHP Billiton Ltd, May 2013
- **Christopher Lynch** – Appointed Chief Financial Officer, Rio Tinto Plc, Apr 2013
- **Dean Dalla Valle** – Appointed President, Coal, BHP Billiton (Coal), May 2013
- **Debra Valentine** – Appointed Group Executive, Legal External and Regulatory Affairs, Rio Tinto Plc, Feb 2013
- **Graham Cleggett** – Appointed General Manager, Operations, Griffin Coal Mining Company Pty Ltd, Mar 2013
- **Jamie Frankcombe** – Appointed Executive General Manager, Operations, Whitehaven Coal Ltd, Feb 2013
- **Jason Economidis** – Appointed Director, Australian Operations, Vale Australia Pty Ltd, Feb 2013
- **Lloyd Hain** – Appointed Mine Manager, Tarrawonga/Rocglen, Whitehaven Coal Ltd, Jan 2013
- **Mike Fraser** – Appointed President, Human Resources, Group, BHP Billiton Ltd, Jul 2013
- **Paul Flynn** – Appointed Chief Executive Officer, Whitehaven Coal Ltd, Mar 2013
- **Reinhold Schmidt** – Appointed Chief Executive Officer, Yancoal Australia Ltd, Aug 2013
- **Sam Walsh** – Appointed Chief Executive Officer, Rio Tinto Plc, Jan 2013
- **Vince Bicoletti** – Appointed Vice President Strategy, Business Development (Energy Coal CSG) and Colombia Coal, BHP Billiton Ltd, Feb 2013

CONCLUSION: THEMES

“The industry is challenged; the costs are for higher than many other places in the world. The landscape of the governments and their certainty has not helped. We anticipate things remaining tough and for many mining operations under water for 12-18 months.”

Chief Executive Officer, Coal Mining Company

“Coal prices are cyclical, and are currently depressed. They are also seasonal. China has high stockpiles, steel production has slowed, and the price has fallen. The coal assets or rather the mines, need to increase efficiency, whilst I realise many are worried I believe we needed a shake-up. For some time the industry has had poor and easy practices for too long.”

Chief Executive Officer , Coal Mining Company

“The mining companies have not examined with rigour their internal structuring for some time. It is now with deflated prices and expectations of deflated prices that they now have undertaken restructure. For too long they have been lazy and are not aware of their optimal work force structure and measurement of productivity. There needs to be greater application of effort to productivity.”

Senior Executive, Coal Mining Company

“The internal structures are overly complex and drastically need to be simplified. The industry has made money in spite of their poor internal structures, productivity has declined enormously in Australian mining”

Senior Human Resources Executive, Coal Mining Company

“We are examining our model and need to consider our diversification. Relationships have been crucial but we have entered a different market. Our market, and margins have tightened.”

Senior Executive, Mining Services Company

“We acknowledge good people are being moved on, and they are difficult discussions. If there was a mining company setting up now they could certainly appoint some good talent. There is, however, opportunity, assets are being recalculated and acquisition in the industry is being considered. No doubt, some are doing it very tough with operations having being placed in care and maintenance, driving greater efficiency programs. There is opportunity, we have to work smarter.”

Senior Human Resources Executive, Coal Mining Company

“To put it simply, our industry has been fat, dumb and lazy. It has completely blown out its cost; it has been swallowed in red tape and has not been on top of its game. There are other industries to examine our inefficient practices would surprise them immensely”.

Chief Executive, Coal Mining Division



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