

Rapid Increase in the Importance of QCoal due to the decision to develop the Byerwen Project

Australia's independent coal supplier QCoal's (QCoal Pty Ltd) presence has grown significantly in recent days with the decision to develop a large scale coking coal project, the Byerwen project, in Queensland. Once the project commences production, QCoal's coking coal export capability and Queensland's share of the global coking coal market will be dramatically increased.

The Byerwen project involves the development of a new open cut mine in Queensland's Bowen Basin, and export of hard coking coal from Abbot Point Coal Terminal to the Asian market including Japan. Coal production from the project is expected to commence in 2012, and at its full scale level, 10Mt pa of coking coal will be produced.

As reported earlier, JFE Steel will participate as an investor in the Byerwen project. JFE Steel has agreed to acquire 20% of the project and enter into a 2Mt pa offtake agreement for high quality hard coking coal from the project for 10 years starting from 2012. JFE Steel will invest JPY50 billion in the project including acquisition of its 20% interest.

Currently QCoal is a small coal supplier in Queensland. Sonoma mine is the only operating mine that QCoal currently holds an interest in. In 2009 calendar year, Sonoma mine's coal sales were approximately 3.1Mt (thermal coal 70% and coking coal 30%). QCoal owns 45% in Sonoma mine and as a result the company's current coal sales volume is approximately 1.4Mt.

However, once the Byerwen project commences 10Mt of coking coal production QCoal will become one of the leading coking coal suppliers in Australia.

Key features of Byerwen project include 1) high quality coking coal equivalent to BMA's Peak Downs and Goonyella, 2) low operation cost due to open cut mining, and 3) export from APCT that is the only Australian coal export terminal with excess capacity. Even in Queensland, the largest coking coal export state in the world, projects with such features are extremely rare.

Furthermore, it is important to note that Byerwen project will be developed by QCoal, an independent coal company. As is well known, global production of coking coal is dominated by BMA and Canadian company Teck Resources Limited. If QCoal is able to develop the Byerwen project as currently planned, the current duopoly situation in global coking coal supply could be significantly eased.

In addition, as QCoal is not a listed company a hostile take-over bid by a larger mining company is not a concern.

In the current global market where supply of quality coking coal remains tight, major coking coal buyers keen to secure long term supplies are expected to be highly interested in following JFE Steel and participating in the Byerwen project.

As reported earlier, the Byerwen project will produce 10Mt pa of coking coal. JFE Steel will take 2Mt pa under long term contract so it is expected that many other buyers will compete with each other to secure access to the remaining 8Mt pa in the future.

End of Translation