

World coal market: brief overview

Fundamental factors in the European thermal coal market remain unchanged: low prices for natural gas and abundant coal stocks at ARA put pressure on the indices. An increase of wind generation in Germany and mild daily temperatures in Europe cut down coal consumption.

South African coal supply is limited due to halt of some of the mines caused by flooding in Mpumalanga and Limpopo provinces.

The Asian market was flat. On the one hand, safety inspections in Chinese mines were causing disruption to near-term supply and Chinese buyers switched from domestic material to cheaper import. On the other hand, Chinese utilities have already procured enough cargoes for delivery prior to the Lunar New Year holidays.

A lull at the metallurgical coal market is caused by slowdown in business activity in China on the New Year eve, and availability of both imported material on quotas and domestic coal.

Auction set for bankrupt Zarechnaya and Aleksievskaya mines

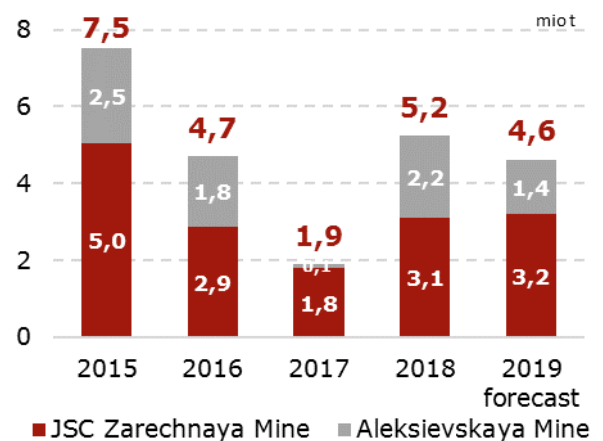
An auction was set for the bankrupt JSC Zarechnaya Mine, which was put up for sale as a single lot (Zarechnaya mine and Oktyabrsky mine-site). The auction took place in the Kemerovo region, where a buyer has to be determined until December 23, 2019. The initial cost of the lot is 12.4 billion RUR.

Also, in early December 2019, the Arbitration Court of the Kemerovo region approved the procedure for the sale of the property of Aleksievskaya Mine. The initial sale price is 3.4 billion RUR. The auction is scheduled for

February 03, 2020. Applications for participating in the auction are accepted from December 18, 2019 to January 29, 2020.

All the assets were previously part of LLC Zarechnaya Coal Company, which was declared bankrupt in 2017. Since the summer of 2018, LLC Coal Company Polysaevskaya has been managing the company's assets in accordance with the bankruptcy proceedings.

Coal production of JSC Zarechnaya Mine and Aleksievskaya Mine in 2015-2019



Tata Power to develop Krutogorovsky deposit (Kamchatka) in 2023

Tata Power (India) will commence development of the Krutogorovsky deposit (Kamchatka) in November 2023, the regional government said. Besides export shipments, Tata Power expects to invest up to 600 mio USD in the Krutogorovsky coal mining project.

The development of the Krutogorovsky deposit will create more than 800 jobs, taking into account other companies involved in the project. Tata Power also plans to allocate 0.2 mio t of coal annually for the needs of the

region.

The Krutogorovsky coal deposit is located in the Sobolevsky district of the Kamchatka Krai, 70 km east of the Sea of Okhotsk. The coal field was discovered in 1934. Exploration and calculation of coal reserves were conducted in 1951-1954, when 11 coal seams suitable for industrial development were discovered. The Krutogorovsky deposit coal reserves are estimated at 300 mio t.

Russian coal to be delivered to Ukraine through Belorussian NT Marine company

NT Marine AS, a Belorussian company registered in Estonia, obtained permission to supply more than 600 thousand t of coking and steam coal from Russia to Ukraine in December 2019.

Until December 2019, the quotas for coal and coke supplies to Ukraine were distributed between Russian coal producers such as Kuzbassrazrezugol (KRU), Evraz, Novolipetsk Metallurgical Plant (NLMK) and Magnitogorsk Metallurgical Plant (MMK).

According to the list of quotas for December 2019, NT Marine obtained the right to deliver coking coal, produced by KRU, Evraz, Taltek, and Severstal to the Avdeevsky Coke and Chemical Plant (part of Rinat Akhmetov's Metinvest), as well as anthracite, produced by coal mining companies of the Rostov region.

From June 01, 2019, the Russian exports of coal and oil products to Ukraine is carried out on the basis of quotas, issued by the Ministry of Economic Development of the Russian Federation. These are retaliatory sanctions against the Ukraine's decision to restrict imports of Russian cargos.

According to the Ukrainian State Statistics Service, in 2018 Ukraine imported from Russia 15 mio t of coal (total cost 1.8 billion USD). Russia, which is the largest coal supplier to Ukraine, provided 70% of its imports in 2018.

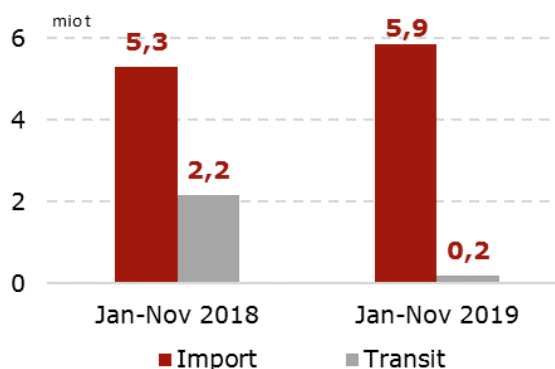
According to the National Statistics Committee of Belarus (Belstat), shipments of Russian coal from Belarus to Ukraine started at the end of 2018 and totaled 588.5 thousand t by the end of the year. In January-September 2019, Belarus re-exported 2.2 mio t of Russian coal to Ukraine.

Ukraine ports cut Russian coal transit amid imports increase

Transit of Russian coal to Ukrainian ports dropped by more than 90%: from 2.2 mio t in Jan-Nov 2018 to 0.2 mio t in Jan-Nov 2019. Izmail Sea Port remains the only terminal, which provides transit of Russian material.

Meanwhile imports rose by 10% from 5.3 to 5.9 mio t. Import volumes include coal from the US, Australia, Canada and Colombia. Imported material is handled in Yuzhny, Ilyichevsk, Mariupol and Nikolaev seaports.

Coal import and Russian coal transit in Ukrainian ports in Jan-Nov 2018/2019



SUEK acquires Krasnoyarsk GRES-2 for 10 billion RUR

OGK-2, a power generating company (part of Gazprom Energoholding), and SUEK (controlled by Andrey Melnichenko) agreed on the terms of the sale of the Krasnoyarsk GRES-2 (State District Power Station-2). The cost of transaction will amount to 10 billion RUR. The deal will be closed by the end of 2019.

Krasnoyarsk GRES-2 (1.26 GW) is the only Gazprom Energoholding's asset in the second electricity price zone (Siberia). It accounts for up to 2.14% of electricity production in the power grid of Siberia and 2.43% of its total capacity.

The purchase of Krasnoyarsk GRES-2 is another step of SUEK to increase its stake in power generation business. In 2018 SUEK consolidated Andrey Melnichenko's assets, integrated in Siberian Generation Company (SGC). SUEK also purchased 78% shares of SIBEKO (controlled by Mikhail Abyzov's RU-COM). In 2019 SUEK added to its portfolio for about 21 billion RUR the biggest state district coal power station in Russia - Reftinskaya GRES (3,8 GW, located in Ural), which previously belonged to Enel Russia. Currently SUEK on barter basis acquires Primorskaya GRES (1.46 GW, located in the Far East of Russia), previously owned by RusHydro. Besides SUEK is involved in the program of old power stations renovation.

The purchase of Krasnoyarsk GRES-2 will increase SUEK stake in Siberia by 2.43 percentage points up to 23.44%. In terms of total generation volume, the

company will outperform T Plus company and take the sixth position with the portfolio of 17.42 GW (7.2% of the installed capacity of Siberia power system).

SUEK continues to accumulate coal assets in Russia, creating a vertically integrated holding with the possibility of a significant increase in the profitability of acquired assets through the modernization of old thermal power plants.

Russian coal exporters may face negative scenario in Asia

Trying to redirect supplies from the European to the Asian market, leading coal exporters face a slowdown in demand in India, Japan and South Korea, which leads to a price downturn in the world's hottest coal markets.

In May, the difference in export prices for

premium coal in the Baltic region and the Russian Far East exceeded 30 USD/t, but in November it fell below 15 USD/t.

The reason was the reduction of coal consumption in Europe, which forced the world's leading exporters to redirect supplies to Asia. From January to November 2018, seaborne coal imports in Europe decreased by 6.4% in annual terms, while over the same period in 2019, it fell by 13.7%. As a result, the exporters started increasing supplies to Asia more rapidly: in the first 11 months of 2018, exports grew by 4.3%, and for the same period in 2019 - by another 6.2%.

However, the increase in supply came across a slowdown in demand in the four largest Asian markets - in Japan, South Korea, India and China, whose combined share in the world coal imports last year exceeded the European market more than three times.

From January to November, Japan and South Korea cumulatively reduced seaborne coal imports by 1.8% y-o-y. India reduced seaborne coal imports even more intensively in recent months: having increased imports by 12.2% and 17.8% in the first and second quarters, respectively, in the third quarter the country reduced it by 5.4%, and in October and November - by 8.5%. The reason was the decline in the Indian manufacturing sector. The growth of seaborne coal imports in China slowed down from 20.9% and 27.9% in the second and third quarters to 12.1% in October and November.

Due to competition with gas, the role of coal is also declining in Europe, where from January to November, LNG imports increased by 75%. As a result, in the first 11 months of the year, coal prices in the Baltic region fell by 37%, dropping below 50 USD/t for the first time since 2016.

That is why Russian coal companies may face a further reduction in the Asian premium coal market. The coal market globalization results in a frontal drop in profitability, which is already declining due to growing competition

from gas and renewables. Apparently, this is a new market trend, which Russian coal suppliers cannot ignore.

Mikhail Gutseriev questioned on illegal oil supplies

Gutseriev's offices are searched on suspicion of smuggling oil products to Ukraine via Turkey.

This week, as part of a smuggling criminal investigation, searches were under way in the structures of businessman Mikhail Gutseriev and his son Said Gutseriev. The criminal proceedings were initiated by the Transport Police under information, received from the Federal Security Service (FSB) that oil and oil products worth 2 billion RUR could reach

Ukraine via Turkey bypassing customs payments. Deliveries were allegedly made in the interests of the oil holding JSC ForteInvest, led by Said Gutseriev.

Mikhail Gutseriev is the major shareholder of the SAFMAR Group, a large Russian industrial and financial diversified conglomerate.

Its structure includes companies in the oil-producing, oil-refining, coal, potash industries, financial assets, retail chains, construction and development holdings, commercial real estate management companies, logistics centers, hotels, and media resources: radio stations and television channels.

The SAMFAR Group assets in Russia include such coal producing companies as Russian Coal and Kuzbass Fuel Company (KTK). This year the Group considers the merger of these coal producers to create a coal company with annual production of 30 mio t.

The representatives of the Group denied the information on investigative actions. Mikhail Gutseriev said the media reports were a provocation.

Rail shipments of coal for export in Jan-Nov 2018/2019, '000 t

Destinations	Jan-Nov 2019	Jan-Nov 2018	"+"/"-"	
			'000 t	%
Eastwards	90 564,3	82 648,5	7 915,8	9,6%
Far-Eastern Ports	79 807,4	73 637,4	6 170,0	8,4%
Vostochny	31 582,9	30 059,3	1 523,6	5,1%
Vanino	23 549,2	21 613,7	1 935,4	9,0%
Nakhodka	15 204,9	14 172,0	1 032,9	7,3%
Posyet	5 595,1	5 127,9	467,2	9,1%
Vladivostok	2 207,7	2 579,5	-371,8	-14,4%
Vera	1 552,7	9,3	1 543,4	16595,9%
Sovetskaya Gavan	114,8	75,6	39,2	51,8%
Border Crossing East	10 756,9	9 011,1	1 745,8	19,4%
China	9 703,5	8 229,0	1 474,5	17,9%
Others	1 053,4	782,1	271,3	34,7%
Westwards	108 784,4	112 750,6	-3 966,1	-3,5%
Barents Sea and Baltic Sea Ports	54 038,9	52 485,1	1 553,8	3,0%
Ust-Luga	30 389,7	26 345,7	4 044,0	15,3%
Murmansk	14 122,0	14 889,7	-767,6	-5,2%
Vysotsk	5 966,7	7 080,7	-1 114,0	-15,7%
Kandalaksha	2 309,2	2 017,7	291,5	14,4%
Vyborg	562,8	1 094,9	-532,0	-48,6%
Kaliningrad	508,8	869,8	-361,0	-41,5%
Arkhangelsk	179,6	186,7	-7,1	-3,8%
Azov Sea and Black Sea Ports	13 316,7	9 785,8	3 530,9	36,1%
Tuapse	3 236,4	2 424,3	812,1	33,5%
Rostov	1 860,9	1 559,7	301,1	19,3%
Novorossiysk	1 740,2	1 446,7	293,5	20,3%
Azov	1 529,6	1 069,5	460,1	43,0%
Taman	1 629,6	16,0	1 613,6	10066,0%
Yeysk	1 083,9	1 157,1	-73,2	-6,3%
Kavkaz	919,1	331,2	587,9	177,5%
Temryuk	857,1	961,9	-104,8	-10,9%
Taganrog	459,9	586,5	-126,5	-21,6%
Ust-Donetsk		233,0	-233,0	-100,0%
Border Crossing West	41 428,9	50 479,7	-9 050,8	-17,9%
TOTAL	199 348,7	195 399,1	3 949,7	2,0%

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