

# United Coal Company

**UCC / Metinvest / Metallurgical Market Overview**



# UCC / Metinvest Overview

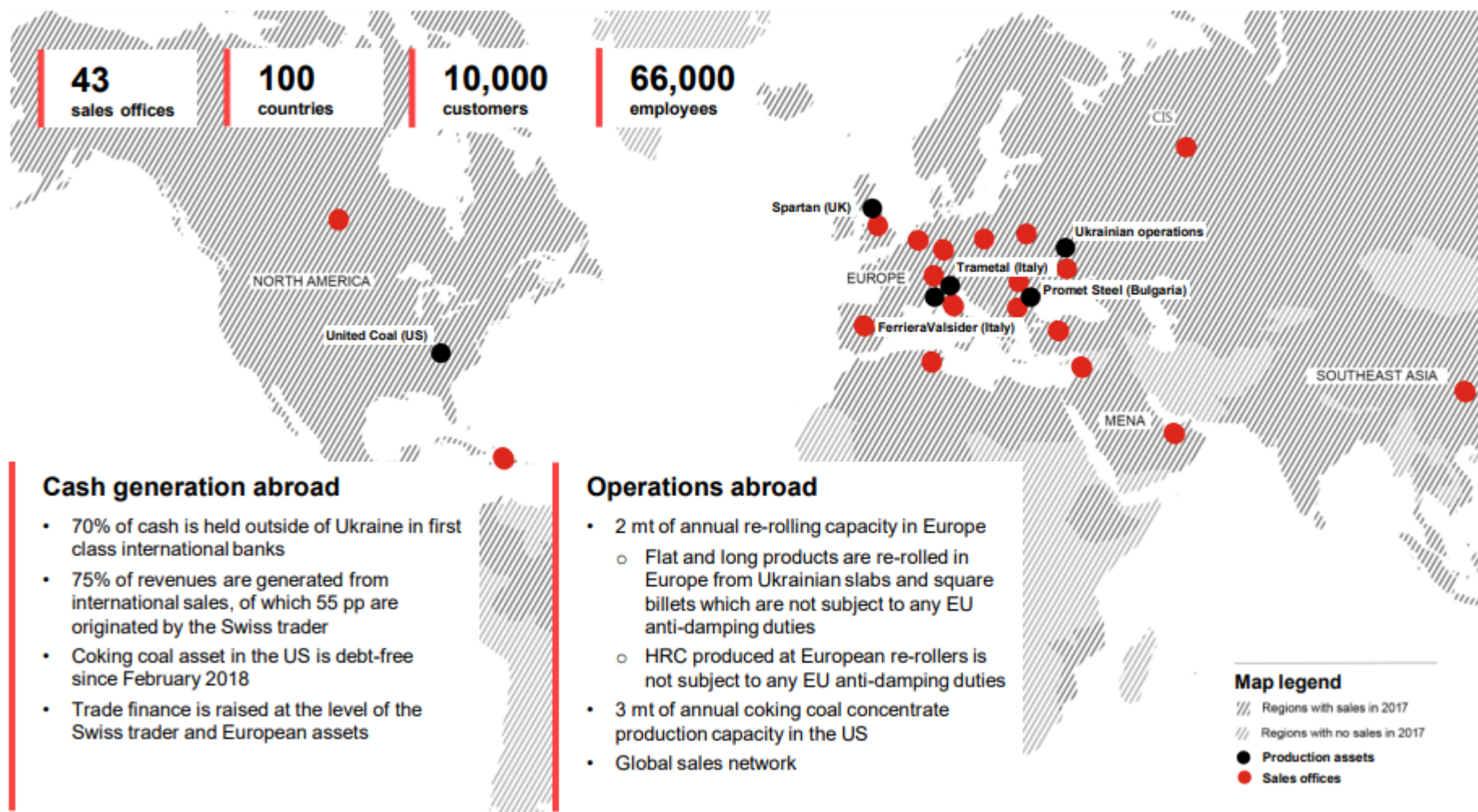
✿ Metinvest is a vertically integrated steel company that produces coal, coke, iron ore, and various steel products in Ukraine, Europe and U.S. with offices in many other countries

■ 2018 Metinvest Numbers

- 11.9 billion in revenues
- 27.3 million tons of iron ore concentrate mined
- 2.7 million tons of met coal mined
- 5.3 million tons of coke produced
- 8.2 million tons of hot metal
- 7.3 million tons of crude steel

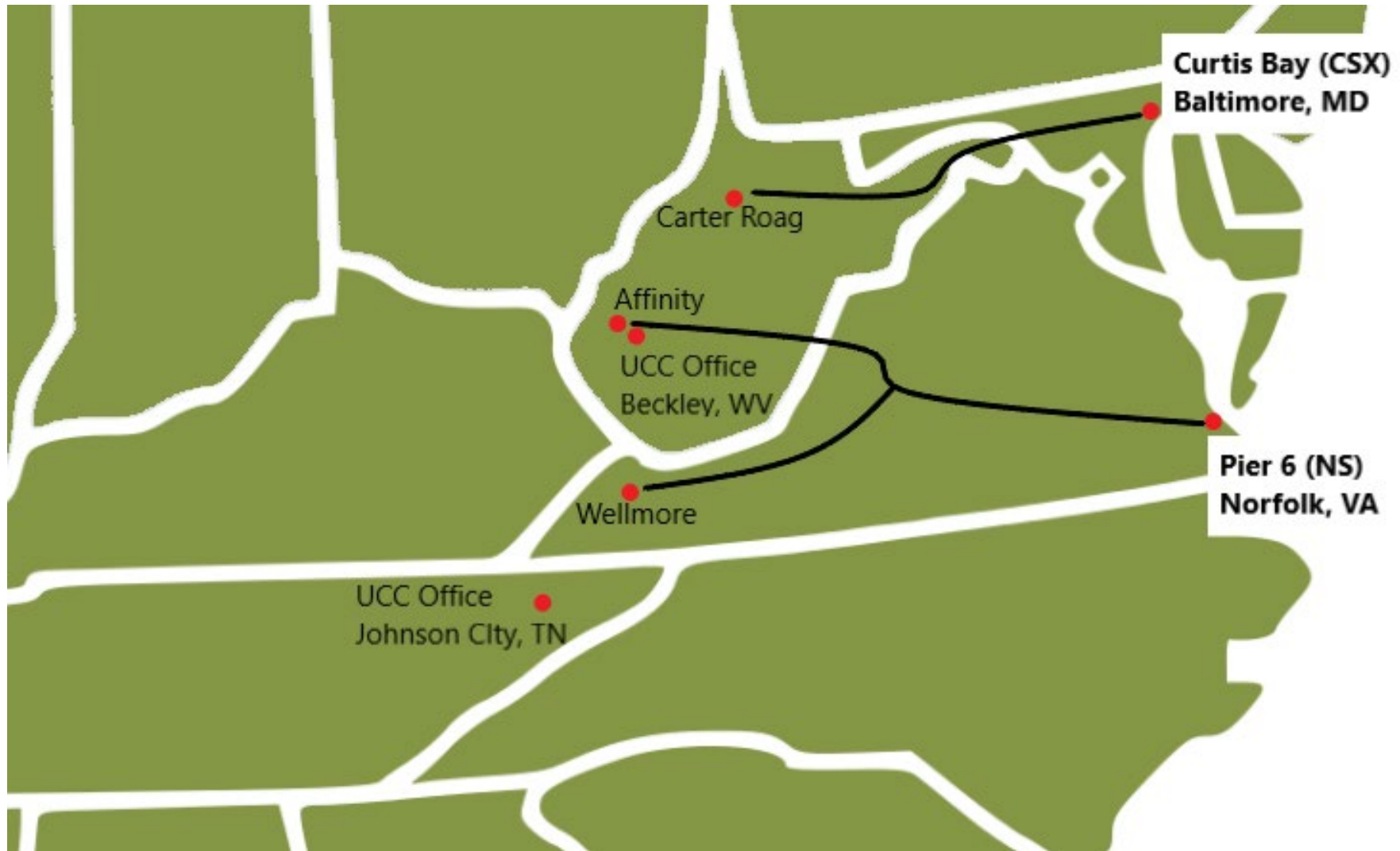


## Global operations



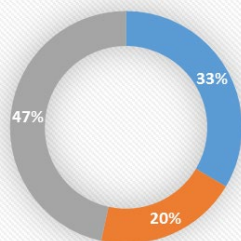
- ✿ Company: United Coal Company (“UCC”) is a privately-held company with coal-mining operations in the Central Appalachian basin. In April 2009, UCC was acquired by Metinvest, an international vertically-integrated metals and mining company with assets located in Ukraine and throughout Europe.
- ✿ Reserves: UCC had an estimated 157 mln clean tons of reserves. The majority of UCC reserves (over 90%) are metallurgical coal. In addition, UCC estimates that more than 100 mln tons of coal is located adjacent to its current reserves.
- ✿ Production: Current UCC production of met coal is expected to be 3.5 mln tons in 2019. The company produces high-quality metallurgical coals, ranging from low-vol to high-vol coals, from internationally-recognized coal seams (example: Pocahontas, Sewell, Splashdam, etc).
- ✿ Current/Future Expansion: In UCC’s long-term plan, production increases to 4.0 mln tons in 2021 due to planned increased production at current operations.
- ✿ Upgrades: UCC is currently going through an extensive rebuild/replacement program on all of the current mining equipment to insure steady coal production going forward. Preparation plant and load out upgrades are also being made in 2019 to increase loading times and make our plants more efficient.





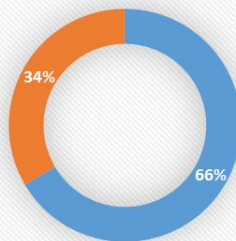
## UCC Metallurgical Coal - 2019

UCC Production



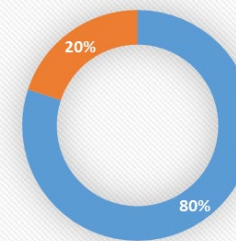
■ Affinity ■ Carter Roag ■ Wellmore

Coal Grades



■ High-Vol A ■ Low-Vol

USEC Port Loadings



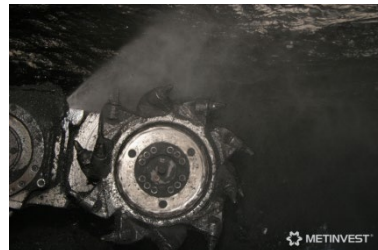
■ Norfolk Southern (Pier 6) ■ CSX (Curtis Bay - Baltimore)

Affinity	1,176,000
Carter Roag	700,000
Wellmore	<u>1,634,000</u>
Total:	3,510,000

High-Vol A	2,334,000
Low-Vol	<u>1,176,000</u>
Total:	3,510,000

Norfolk Southern (Pier 6)	2,810,000
CSX (Curtis Bay - Baltimore)	<u>700,000</u>
Total:	3,510,000

- ✿ Affinity is a Pocahontas seam Low Vol operation located near Beckley, WV. Affinity mine and is operating three CM supersections
  - 2019 annual tonnage: 1.2 million
  - Total clean coal reserve of 34,000,000 tons
  - Strong Low-Vol coal



### **Affinity Underground Mine**

2019 prod: 1.2 mln



### **Affinity Prep Plant**

Capacity: 550 raw  
tons per hour



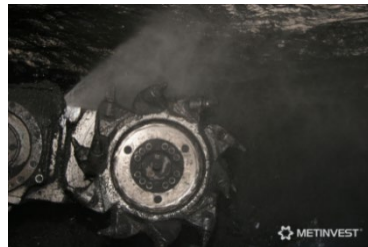
NS

Shipped Export  
Through Pier 6 –  
Norfolk, VA



✿ The company operates one deep mine, Morgan Camp and one contract mine, Beech Mnt. Carter Roag's coal preparation facility, the Star Bridge Plant near Helvetia, W.V.

- 2019 annual tonnage: 700,000
- Class A High-Vol



**Morgan Camp  
Underground Mine**

2019 prod: 0.5 mln

**Beech Mnt.  
Underground Mine**

2019 prod: 0.2 mln



**Star Bridge  
Prep Plant**

Capacity: 550 raw  
tons per hour



CSX

Shipped Export  
Through Curtis  
Bay Pier –  
Baltimore, MD



✿ Wellmore Coal Company has both company-owned and contract operations near Grundy, VA.

- 800 tph plant and 4 hr. fast load
- 2019 annual tonnage: 1.6 million
- Class A High Vol Coal
- Coal ships out of Pier 6



**Surface Minerals  
Surface Mine**



**Huffman  
High Wall Miner**



**Wellmore #8  
Prep Plant &  
Loadout**



**Tilly/Paw Paw 2  
Underground Mine**



**Hackney Creek  
Hagy  
Underground Mine**



**Contract Mines  
Underground Mines**

Norfolk Southern

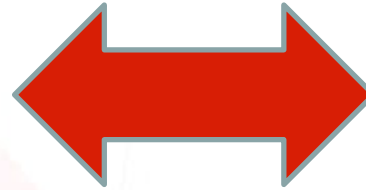
Shipped Export  
Through Pier 6 –  
Norfolk, VA



Wellmore High Vol



Affinity Low Vol



- ✿ Our Wellmore and Affinity coals can be blended at port to produce a high quality mid-vol blend
- ✿ Loaded at Lamberts Point in Norfolk, VA

# Metallurgical Market Overview

✿ **Metallurgical coal pricing has been strong due to tighter global supply and a solid demand due to steady growth/consumption in major markets (China, India, etc.)**

✿ **Positives for met market:**

- Supply chain tight; still exceedingly sensitive to weather and other potential supply chain events
- Reserve quality degrading; harder to find higher quality coking coals (supports price)
- Strong board and investor resistance to bringing on new greenfield mines (supports price)
- Environmental/Safety concerns in China could reduce their production
- Current contract structure / inability to hedge discourages capital deployment
- Global seaborne demand for metallurgical coal expected rise from 310 Mt in 2018 to 410 Mt by 2040 (most growth from India)

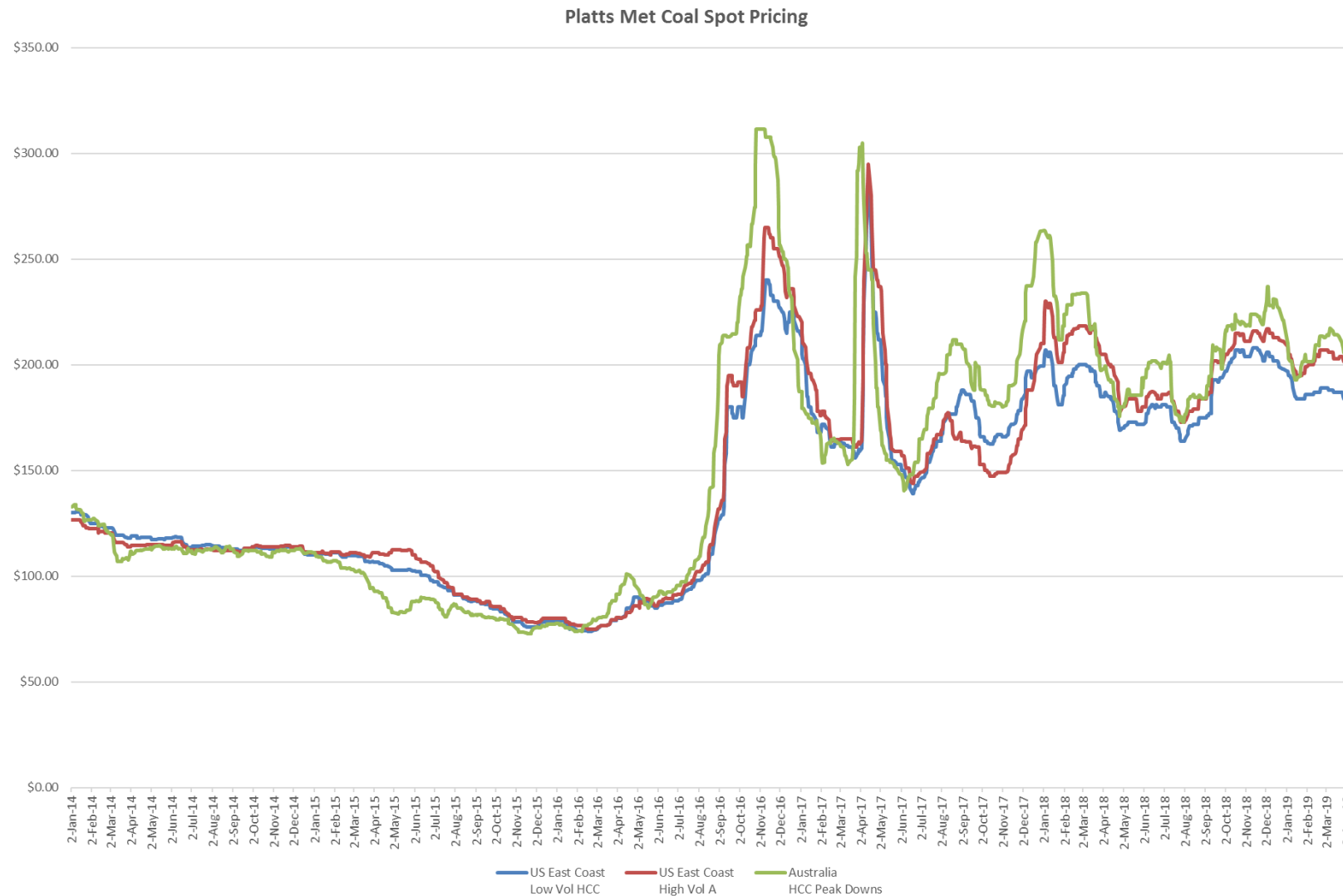
✿ **Negatives/Unknowns for met market:**

- 15-20MM tons of potential near-term new supply, mostly outside of US (Australia)
- Chinese governmental policy (uncertainties)
- Tariffs have slowed sales into some countries (China & Turkey)
- Global growth slowing; could lead to weaker steel margins and less appetite for higher-quality coking coals
- Currency fluctuations: the Aussie dollar

Source: DTC, WoodMac, Seaport Global



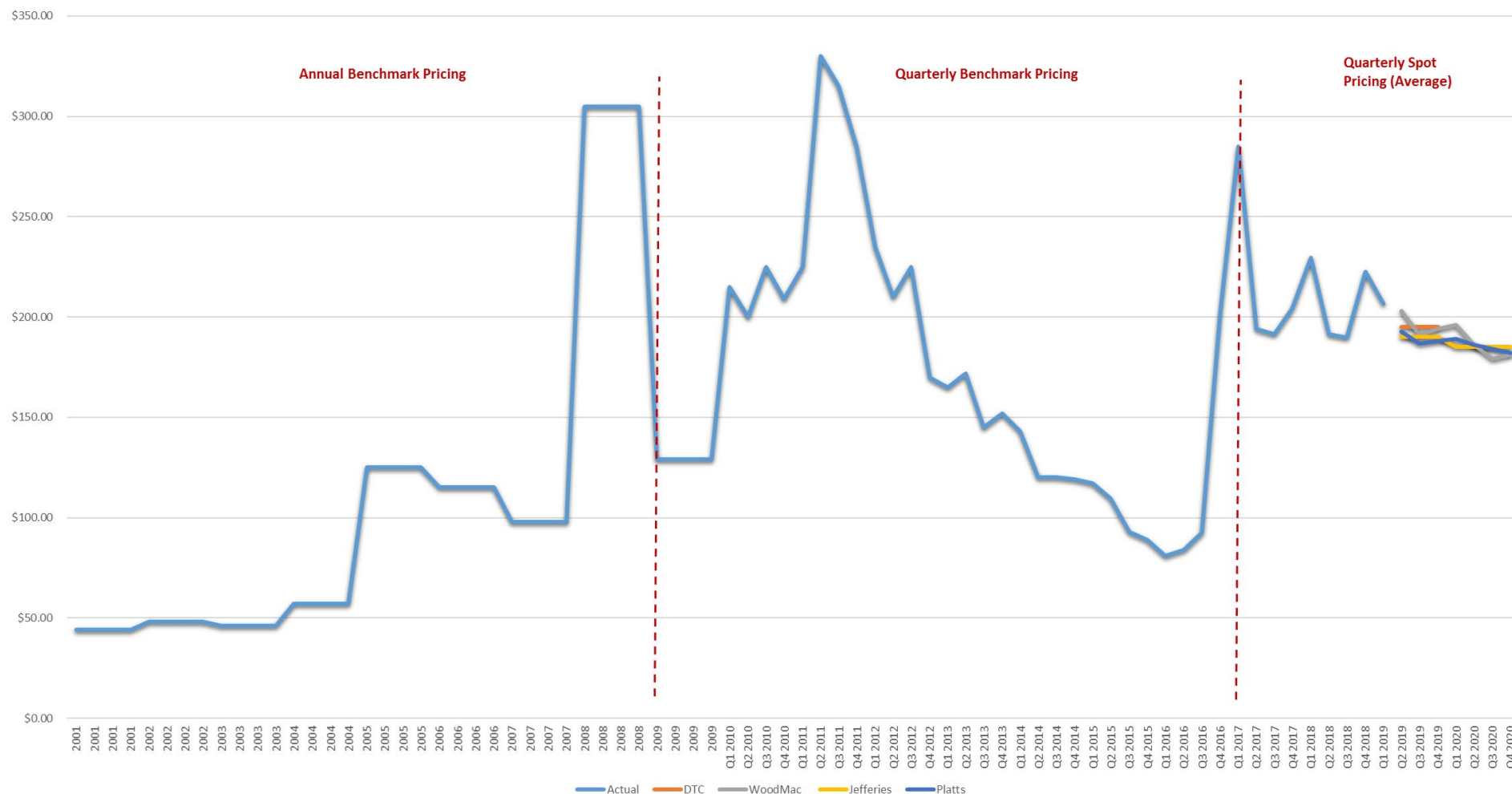
## ✿ Spot pricing has been strong staying above \$160 since Q4 2017



Source: Platts

## 🔥 Analysts projections have market staying strong through 2020

Benchmark and Spot Pricing - Historical and Projected

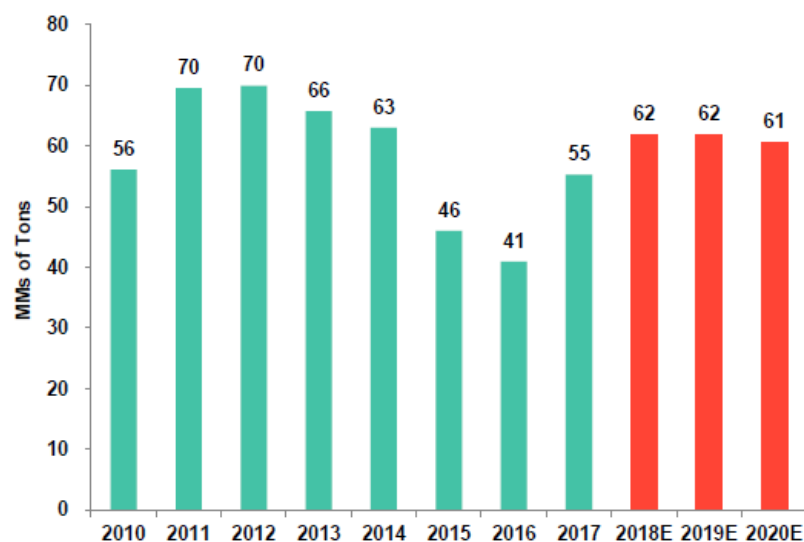


Source: WoodMac, , DTC, Jefferies, Platts

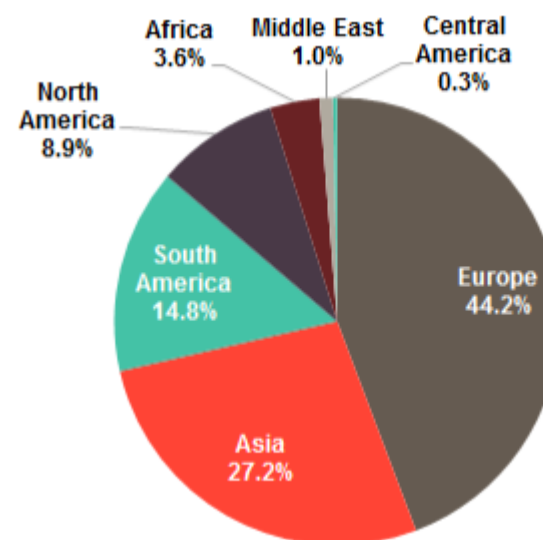
✿ U.S. exports expected to stay fairly flat though 2020

✿ Some tons may be shifted to other countries in near term due to tariffs

US Met Exports



US Export Met by Destination (2018)



Source: Seaport Global, DTC, Corsa

### 2017 Finished Steel Consumption per Capita (kg per person)



Source: Seaport Global

- ✿ In 2017, India consumed ~50MM tons of coking coal. Roughly 43% was from blast furnaces; the remainder was from a combination of electric arc and induction furnaces.
- ✿ The Indian government is targeting 300MM tons of steel production capacity by 2030, which is up from 126MM tons in 2017.
- ✿ At 200MM tons of steel production capacity, we estimate India's coking coal consumption would be ~100MM tons, roughly double its current level.
- ✿ At its 300MM ton targeted goal, coking coal consumption would be ~153MM tons, approximately triple its 2017 level.

## Conclusions

- Supply growth is limited
- Despite profitability, most companies have problems raising new capital
- Pricing expected to strong for the foreseeable future (\$175-\$215/mt)
- Strong growth in India and steady consumption in China will keep demand strong

Source: Seaport Global, DTC, Corsa



# Questions...