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Methodology and Specifications Guide
Metallurgical Coal

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The McGraw Hill Companies

PLATTS METHODOLOGY GUIDES

Platts publishes a methodology guide for each of the markets in which it produces price assessments. The guides are intended to provide market participants with general and specific criteria that underpin a Platts assessments.

Methodology guides are updated periodically to reflect changes in the market and in trading practice. Platts engages with market participants and values feedback on any aspect of its assessment methodology.

Platts recognizes that markets are constantly evolving and it seeks to ensure that its assessments keep in step with evolving market requirements. Changes to the methodology and/or specifications are typically advised in Subscriber Notes published on the Platts website www.platts.com and in its electronic and print publications.

Platts is completely impartial and independent in its role as a market observer, and welcomes dialogue with all sides of the market including sellers, buyers and any intermediaries.

For any questions or comments relating to Platts metallurgical coal assessment methodology please contact Francis Browne, the Global Managing Editor of Iron & Steel (Email: francis_browne@platts.com. Tel: +44 (0) 20 7176 6239), or James O'Connell, Managing Editor International Coal (Email: James_OConnell@platts.com.. Tel: +44 (0) 20 7176 6661).

ASSESSMENT PRINCIPLES

NVERGENCE WITH MARKET VALUE

Platts assessments reflect the transactable value of products and commodities traded in the open market. Platts objective is to publish assessment values that converge with market values for the product or commodity types reflected.

As a publisher owned by The McGraw-Hill Companies, independence and impartiality are at the heart of what Platts does. Platts has no financial interest in the price of the products or commodities on which it reports. Platts aim is to reflect where the actual market level is.

To ensure the assessments are as robust as possible, Platts editorial systems are backed by a strong corporate structure that includes managerial and compliance oversight.

TRANSACTION-BASED

Platts assessments are based on actual transactions, and/or on specific firm bids and offers in the market.

Platts aim is to determine the full circumstances surrounding each deal, including details of quality specifications, order sizes, dimensions, lead times, and any locational and loading/delivery information, and to use that objective information to determine a typical and repeatable market level for metallurgical coal of the published grade.

Platts bases its assessments on transparent deals, bids and offers in the market, and reflects the traded or tradeable value at the market close.

Platts monitors activity throughout the day and uses the information gathered in its assessments. It should be noted, however, that Platts assessments do not reflect an average of the deals reported over the day.

In general, volume-weighted averages can be distorted by the pattern of trading over the day, the parameters of individual deals submitted for assessment, and by statistical aberrations relating to sample size, for instance if there is a lack of disclosure of all deals done over a particular day.

NORMALIZATION / EFFECTIVE PRICING

Markets can be heterogenous in nature, and transactable values are determined by many factors including the quality and chemical specification of materials, the size of the order, timing and delivery terms, and options held by the seller or buyer relating to the deal parameters.

Platts where possible seeks to align its assessment processes with industry practice. Platts takes bid, offer and deal information and relates these to the base standard reflected in its assessments. These base standards are defined under each individual assessment (see below).

Platts actively seeks to align the disparate information provided on individual transactions to determine the true and accurate market value of a product and/or commodity type reflected, and will strip out any aberrations caused by unusual optionalities or restrictions.

For further details of how Platts normalizes prices for quality and dimensions, trade size, location and delivery terms, timing and other parameters, see the section in this guide on normalization.

TIME SENSITIVE ASSESSMENT

Platts recognizes that price is a function of time, and that prices change constantly. All Platts assessments are time-stamped, to provide a consistent price basis even at times of volatility in the market. Platts time-stamps its assessments to reflect market value at the close of business in each trading zone.

Platts considers in its assessments all the information provided to it over the day regarding deals, bids and offers in the market, but the value reflected in its assessment is the traded or tradeable value prevailing at the market close.

Platts does not reflect in its assessments one-off deals at off-market levels.

TRANSPARENCY

Platts applies the principles of market-on-close (MOC) price discovery to its assessment processes in oil, petrochemicals and certain key assessments in other markets including coking coal.

Whilst Platts recognizes the reality that some markets are opaque while other markets are more transparent, Platts bases its assessments on the information that is the most transparent and therefore most fully verifiable, in any given marketplace.

Typically, markets go through a three-stage evolution before full transparency is achieved.

Phase 1: First-tier counterparties (producers, traders, consumers) are active as market-makers and price assessment is achieved via phone survey of all active and credible market participants. Platts publishes daily assessments, time-stamped to the close of day, but initially it is likely that some intra-day or contractual verification information may be lacking in details.

Phase 2: Market making and price taking activity is more visible from first and second-tier counterparties, including new market entrants such as banks and independent trading houses, with trade facilitated by brokerages. Market activity is published in real time, and this encourages greater transparency of trade details. Platts confirms transactions, confirms the details of deals and examines the context in which a deal took place, including the time of day, and the market relationships that prevailed at that time.

Phase 3: Price assessment 'windows' are introduced. Market participants are named, and only firm bids and offers are published on the Platts electronic screens in real time, which are open to the market at large. Transactions are confirmed with full post-trade performance expectations. Price formation is achieved in real time, and a defined audit trail emerges allowing full verification of deals, as well as access to relevant deal documentation if required.

MARKET ON CLOSE

Platts has defined rigorous procedures for bidding and offering in a transparent manner in its Market on Close process.

These procedures define strict time cutoffs for entry of bids, offers and deals information. These are designed to ensure that bids and offers which are used in the assessments are executable, and that an orderly process is followed to establish that each market level is tested by the market at large, and that deals resulting from these bids and offers are repeatable.

RIFICATION OF DATA

Platts seeks to confirm all information on deals, bids and offers provided to it. Platts will check deal information with the seller, the buyer, any intermediary, and the market at large. Platts transparency standards require that all information submitted to Platts for assessment purposes be fully verifiable. Platts will also seek to verify as needed the performance of transactions used in the assessment process.

Platts bases its assessments on information from sources deemed reliable. Where Platts has doubts about the reliability of information provided by a market source, it may exclude that information from its assessment processes.

SPREADS

When Platts considers deal information, it seeks not only to confirm the details of a deal, but also examines the context in which a deal took place. Platts monitors spreads between the different specifications/grades of product reported and uses these in the alignment of its assessments.

DATA CODES

Each Platts assessment is identified using a unique 7-alphanumeric data code. Platts assessments are identified in this methodology guide using these data codes. These codes can be matched up with Platts published symbols directories to identify price history for specific assessments in Platts price databases.

GENERAL TERMS AND CONDITIONS

GT&CS

Platts assessments reflect trades in the metallurgical coal market concluded under normal contractual terms including widely accepted General Terms & Conditions and INCOTERMS. Where companies express bids or offers, these are understood to be on INCOTERMS unless otherwise stated. Platts use of terms such as FOB, CFR, CIF, EX-WORKS and so on are based around definitions provided by the International Chamber of Commerce which publishes the INCOTERMS.

Definitions of such terminology are available through the following web link:

http://www.iccwbo.org/incoterms/

Please note that the text of INCOTERMS in whole or in part is subject to ICC's copyright. Other related ICC publications, in printed or electronic form, are also subject to copyright.

TIME OF ASSESSMENT

Platts metallurgical coal assessments aim to reflect the latest range in which a standard repeatable transaction takes place or could take place at arms length. Platts monitors market activity through the day and deal, bid and offer information submitted to it through the day may be used in its assessments. Where there is evidence of intraday volatility, this is incorporated in the assessment which reflects the normalized value at the market close.

Platts metallurgical coal assessments reflects the transactable value prevailing at 18.30:00 Singapore time. The assessment methodology reflects values on a market-on-close basis. Trading activity, including bids/offers and transactions, is covered during the typical operating day with data cut off for inclusion in the assessment precisely at 18.30.00 Singapore time.

All market activity is viewed in light of its market relevance, repeatability and transparency. Transactions between related parties or transactions that do not meet Platts high standards for transparency, verifiability and repeatability may not be taken into account.

QUALITY

Platts aim is to reflect market values for the commodity types covered in its assessments. Standard quality parameters reflected are defined under the individual assessments, and are listed below.

No distinction in principle is made in terms of the origin of the material. Platts does however recognize that market practice distinguishes between different materials of similar specifications from different sources, and includes this in the normalization process.

Platts will monitor differentials in prices for similar grade material and may exclude from its assessments deals or offers from participants that are regarded by the market as offering non-prime material or service levels. But Platts aim is to reflect commodity value based on the fitness of a commodity in terms of the quality and delivery standards.

PRICE UNITS

All units for assessments are stated below for each individual data code, with a minimum fluctuation price of one unit. Metallurgical coal assessments are expressed in dollars and cents per dry metric ton, unless otehrwise stated.

CREDIT/PAYMENT TERMS

Payment terms are as per standard commercial practice.

All credit variations are normalized to 100% Letter of Credit, payable at sight. Wherever greater credit is given, this will be factored out of the price assessment process. Where a seller is prepared to discount the price for prompter payment, this will also be factored into the assessment.

Where transactions are reported with non-standard credit terms, Platts normalizes these based on prevailing commercial interest rates and typical credit payment terms in the industry at the time of the transaction.

QUANTITY / ORDER SIZE

Platts assessments reflect bids/offers and transactions typical in the marketplace. Platts defines a typical order size or shippable quantity for each of its assessments. Deals reported that differ from the standard may be normalized if market structures indicate there is a price differential with the standard or they may be excluded if they are unsual transactions.

Offers or bids on non-standard terms that Platts determines to be restrictive, in the sense of making a deal logistically difficult to execute, may be disregarded in the assessment process. Bids or offers that contain too wide optionalities for either the buyer or seller may likewise be disregarded.

TIMING

Assessments reflect typical loading and delivery schedules for each market/grade assessed. The standard loading and delivery windows are specified under the individual data codes.

Please note that Platts will not reflect in its assessments any loadings or deliveries that are deemed distressed in nature, that is, when a seller has left it too late to sell or a buyer has left it too late to buy within lead times that can typically be met in the normal course of business.

Platts assessments fully take into account any backwardation or contango in the marketplace. The assessments thus reflect the value after taking into consideration the difference in prices prevailing along the time curve assessed by Platts.

Typically, Platts assesses to the middle of the loading/delivery window specified for each market. Backwardation and contango is factored into all assessments. Where deals are done for loading or delivery outside the date ranges specified by Platts, the deal may be disregarded in the assessment process.

EMBEDDED OPTIONS

Platts overall objective is to reflect the transactable value of the commodity assessed. In cases where the apparent value of the commodity includes extra optionalities, the intrinsic value of the commodity may be masked.

In such cases, Platts may use its editorial judgement to factor out such extraneous elements from the value of the commodity, or it may decide not to use the bid, offer or transaction in its assessment process.

Optionalities that typically mask the value of the commodity include loading or delivery options held by the buyer or seller, volume option tolerances exercisable by the buyer or seller or quality specifications among others.

As an example, typical volume tolerance in an metallurgical coal transaction is plus or minus 5% of the stated order size. If a buyer or seller requests a wider optionality of say 10% or 20% of the stated order size, that would need to be factored into the assessment, depending on which party held the option.

In the above example, the price may be normalized down if the buyer held the larger-than-usual volume tolerance option and vice-versa if the seller held that option.

LOADING / DELIVERY LOCATION

Platts defines base locations in its price assessments but these act as a pricing basis point, and differentials may be assessed off these when deals or bids/offers are reported on a different delivery port basis.

FREIGHT DIFFERENTIALS

Platts may take into account prevailing sea freight and/or logistics rate levels in establishing CFR values. Where a market has become illiquid, Platts may determine the CFR value from FOB values.

NORMALIZATION PROCEDURES

QUALITY

Platts defines a base specification and normalizes these when deals or bids/offers are reported on terms that differ from the Platts base standard. Platts uses the same broad standards as the metallurgical coal industry in making adjustments for quality, based on penalties for impurities under value-in-use.

QUANTITY / ORDER SIZE

Assessments are based on typical shippable quantities or order sizes.

Platts assessments reflect the quantity specified under each data code and where discounts are available for larger volumes, these are stripped out of the price reflected in the assessment.

Similarly, where a buyer is ready to pay a higher price to secure a smaller volume, this will be factored into the assessment.

TIMING

Platts reflects typical transactions conducted in the open market between willing counterparties that is conducted at arms length. Platts will not reflect one-off or distressed trades where either the buyer or seller has left it too late to transact within lead times that can be typically met by suppliers in the normal course of business. Loading or delivery timings are specified for each commodity under their respective asssessment code.

Platts assessments seek to be inclusive of the various types and time frames of trade within markets. Any transactions that are negotiated within the framework of longer-term contractual arrangements (term deals) will be excluded from the assessments.

Platts assessments fully take into account any backwardation or contango in the marketplace. The assessments thus reflect the value after taking into consideration the difference in prices prevailing along the time curve assessed by Platts.

Platts assesses to the middle of the delivery window specified. Backwardation and contango is factored into all assessments.

METALLURGICAL COAL ASSESSMENTS

COKING COAL FOB AUSTRALIA

Platts launched on March 15, 2010 daily spot Hard Coking Coal (Metallurgical Coal) price assessments under the benchmark name Coking Coal FOB Australia (CCA).

Price Assessment: Platts publishes the transactable value for Hard Coking Coal (Metallurgical Coal), indicating the price at which a cargo could be traded on FOB Australia basis at the close of the assessment period on the day of publishing. These assessed values are based on confirmed spot transactions, firm bids / offers, or in the absence of liquidity, where spot transactions would have been concluded for the benchmark grade.

Spot price bids/offers or trades in key consumer markets basis CFR China, India or Japan/Korea/Taiwan may be netted back to FOB Australia basis using assessed spot freight rates for dry bulk carriers on the day of assessment, for comparison with spot prices basis FOB Australia. For netback calculations from CFR destinations, differing Capesize, Panamax and Handymax freight costs are taken into consideration. Platts publishes daily Panamax spot freight costs between Hay Point port in East Australia and Qingdao port in North China.

Platts assessments also take into account demand/supply fundamentals in Australia and key consumer markets. Assessments also take into consideration daily Asia-Pacific price movements in associated commodity markets: thermal coal (benchmark FOB Newcastle), iron ore (benchmark IODEX 62 Fe basis CFR Qingdao, China) and steel (FOB China and domestic China price assessments).

Availability: Coking Coal (Metallurgical Coal) FOB Australia spot price assessments are published on the Platts real-time service Platts Metals Alert (PMA), in Platts Steel Markets Daily (SMD), Platts Coal Trader International (CTI) and Platts International Coal Report (ICR).

Frequency: Price assessments FOB Australia are published daily and reflect market values prevailing at the close of Asian markets, typically at 6.30 pm Singapore time (1030 GMT). The assessment is published following editorial engagement with market participants such as producers, consumers, traders, shippers and other active spot market participants.

Basis and Location: Cargoes loaded free on board at the following ports in Queensland: Gladstone, Dalrymple Bay, Hay Point, Abbott Point and Brisbane; and in New South Wales: Newcastle and Port Kembla. Freight rates for coking coal from any of these ports are normalized to Hay Point port for assessment purposes.

Units: All prices are quoted in US dollars per metric ton ($/mt). Platts converts US dollar lump-sum and per day rates into $/mt equivalent assessments.

Timing: Platts assesses cargoes loading FOB Australia in the second month forward from the date of publication. For instance, on April 1, Platts assesses cargoes for loading at any time in June. Platts' benchmark assessment for Hard Coking reflects the mid-point of the traded month. Cargoes traded with more prompt or further forward laycans are normalized to the middle of the month for assessment purposes.

Quality: Price assessments reflect Hard Coking Coal (Metallurgical Coal) quality. Only hard coking coals meeting the following quality parameters are considered for assessment:

Coke Strength after Reduction (CSR): 50% min
Volatile Matter (VM): Min 17.5-34.0% max air dried
Crucible Swell Number (CSN): 5.5 min
Ash: 10.5% max air dried
Sulfur (S): 1.0% max air dried
Phosphorous (P): 0.08% max air dried
Total Moisture (TM): 10.5% max as received
Maceral Composition Vitrinite: 48-80%
Mean Max Vitrinite Reflectance (VR): Ro 0.90-1.65%

Quality Normalization to Benchmark Speciications for Platts Hard Coking Coal

Traded price differentials for cargoes of recognized premium hard and hard coking coals will be normalized by quality differentials to the following Hard Coking Coal (Metallurgical Coal) benchmark specifications for assessment:

Coke Strength after Reduction (CSR): 64%
Volatile Matter (VM): 25.5% air dried
Crucible Swell Number (CSN): 7.5
Ash: 9% air dried
Sulfur (S): 0.6%
Phosphorous (P): 0.05%
Total Moisture (TM): 9.5% as received
Maceral Composition Vitrinite: 62%
Mean Max Vitrinite Reflectance (VR): Ro 1.20%
Reflectance V-Steps (V10-V14): 90%
Sizing:50 mm

These specifications represent physical and chemical characteristics for the typical target box of blended coking coals sought by blast furnace operators, or in the case of impurities, the median value of all assessable hard coking coals from Australia.

PCI, semi-soft coking coal and thermal coal cargo prices will not be normalized to hard coking coal benchmark standards, but may be analyzed for pricing consistency.

Quality Normalization:

Platts applies price de-escalators to determine implied impurity penalties at the point of trade. These differentials are determined in line with typical industry practices for impurity penalties under contract invoicing.

Ash content: $1.50 per 1% above benchmark standard of 9% (price de-escalator effective March 2010)

Total Sulfur: $1.50 per 0.1% above benchmark standard of 0.6% (price de-escalator effective March 2010)

Moisture: $1.55 per 1% above benchmark standard of 9.5% (price de-escalator effective March 2010)

Price de-escalators will be re-assessed on a periodic basis for normalization purposes, given the absolute price level of coking coal traded in the spot market.

Platts applies selective price discounts for non-standard quality specifications lying outside the typical min/max quality parameters for Hard Coking Coal. This particularly applies to unusual ash chemistry (A/B ratio) or fluidity characteristics, or an unusual level of oven wall pressure (OWP).

Quality inspections are typically made at loading port. Differing quality results upon inspection at delivery port will not be taken into consideration.

Quantity: Typically traded coking coal parcels, normally in the range of 10,000-80,000 mt.

Payment terms: Letter of Credit, payable at sight.

Contacts: For comments or queries please contact cokingcoal@platts.com.

COKING COAL CFR CHINA

Price Assessment: Platts publishes the transactable value for Hard Coking Coal (Metallurgical Coal), indicating the price at which a cargo could be traded on a CFR China basis at the close of the assessment period on the day of publishing. These assessed values are based on confirmed spot transactions, firm bids / offers, or in the absence of liquidity, where spot transactions would have been concluded for the benchmark grade.

Platts assessments also take into account demand/supply fundamentals in Australia and key consumer markets. Assessments also take into consideration daily Asia-Pacific price movements in associated commodity markets: thermal coal (benchmark FOB Newcastle), iron ore (benchmark IODEX 62 Fe basis CFR Qingdao, China) and steel (FOB China and domestic China price assessments).

Availability: Coking Coal (Metallurgical Coal) CFR China spot price assessments are published on the Platts real-time service Platts Metals Alert (PMA), Platts Steel Markets Daily (SMD), in Platts Coal Trader International (CTI) and Platts International Coal Report (ICR).

Frequency: CFR China assessments are published daily and reflect market values prevailing at the close of Asian markets, typically at 6.30 pm Singapore time (1030 GMT). The assessment is published following editorial engagement with market participants such as producers, consumers, traders, shippers and other active spot market participants.

Basis and Location: Cargoes delivered to the following ports in North China: Qingdao, Dalian, Qinhuangdao, Caofeidian, Jintang. Hard Coking Coal (Metallurgical Coal) prices from any of ports in East China (Shanghai, Fujian) or South China (Guangzhou) are normalized to the northern port of Qingdao for assessment purposes.

Units: All prices are quoted in US dollars per metric ton ($/mt). Platts converts US dollar lump-sum and per day rates into $/mt equivalent assessments.

Timing: Platts assesses cargoes delivered CFR China between 30-75 days forward from date of publication. For instance, on April 1, Platts assesses cargoes for delivery between May 1 and June 15. Platts' benchmark assessment for Hard Coking reflects the mid-point of the delivery window. Cargoes traded with more prompt or further forward timings are normalized for assessment purposes.

Quality: Price assessments reflect Hard Coking Coal (Metallurgical Coal) quality. Only hard coking coals meeting the following quality parameters are considered for assessment:

Coke Strength after Reduction (CSR): 50% min
Volatile Matter (VM): Min 17.5-34.0% max air dried
Crucible Swell Number (CSN): 5.5 min
Ash: 10.5% max air dried
Sulfur (S): 1.0% max air dried
Phosphorous (P): 0.08% max air dried
Total Moisture (TM): 10.5% max as received
Maceral Composition Vitrinite: 48-80%
Mean Max Vitrinite Reflectance (VR): Ro 0.90-1.65%

Quality Normalization to Benchmark Specifications for Platts Hard Coking Coal

Traded price differentials for cargoes of recognized premium hard and hard coking coals will be normalized by quality differentials to the following Hard Coking Coal (Metallurgical Coal) benchmark specifications for assessment:

Coke Strength after Reduction (CSR): 64%
Volatile Matter (VM): 25.5% air dried
Crucible Swell Number (CSN): 7.5
Ash: 9% air dried

Sulfur (S): 0.6%
Phosphorous (P): 0.05%
Total Moisture (TM): 9.5% as received
Maceral Composition Vitrinite: 62%
Mean Max Vitrinite Reflectance (VR): Ro 1.20%
Reflectance V-Steps (V10-V14): 90%
Sizing:50 mm

These specifications represent physical and chemical characteristics for the typical target box of blended coking coals sought by blast furnace operators, or in the case of impurities, the median value of all assessable hard coking coals from Australia.

PCI, semi-soft coking coal and thermal coal cargo prices will not be normalized to hard coking coal benchmark standards, but may be analyzed for pricing consistency.

Quality Normalization:

Platts applies price de-escalators to determine implied impurity penalties at the point of trade. These differentials are determined in line with typical industry practices for impurity penalties under contract invoicing.

Ash content: $1.50 per 1% above benchmark standard of 9% (price de-escalator effective March 2010)

Total Sulfur: $1.50 per 0.1% above benchmark standard of 0.6% (price de-escalator effective March 2010)

Moisture: $1.55 per 1% above benchmark standard of 9.5% (price de-escalator effective March 2010)

Price de-escalators will be re-assessed on a periodic basis for normalization purposes, given the absolute price level of coking coal traded in the spot market.

Platts applies selective price discounts for non-standard quality specifications lying outside the typical min/max quality parameters for Hard Coking Coal. This particularly applies to unusual ash chemistry (A/B ratio) or fluidity characteristics, or an unusual level of oven wall pressure (OWP).

Quality inspections are typically made at loading port. Differing quality results upon inspection at delivery port will not be taken into consideration.

Quantity: Typically traded coking coal parcels, normally in the range of 10,000-80,000 mt.

Payment terms: Letter of Credit, payable at sight.

Contacts: For comments or queries please contact cokingcoal@platts.com.

DRY BULK FREIGHT ASSESSMENT METHODOLOGY

Platts assesses dry bulk freight assessments for coking coal shipped around the Asia-Pacific region. The following specifications apply for assessment of key shipping lanes:

Route: Australia-China

Port to Port: Hay Point port, Queensland to Qingdao port, North China.

Vessel Class: The assessment represents the cost of freight for cargo carried on a Panamax class vessel.

Vessel Quality: Well approved modern tonnage only will be assessed.

Timing: Platts assesses freight fixtures for vessels loading FOB Australia (bound for China) in the second month forward from the date of publication. For instance, on April 1, Platts assesses rates for loadings at any time in June. Fixtures for more prompt timings, from at least one month forward from date of assessment, are normalized for assessment purposes. Fixtures in advance of one month are not considered for assessment.