

The Singleton Argus

Glencore completes HVO deal

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One of the last pieces in the sale of Rio Tinto's Hunter Valley open cut coal mines has now been completed.

Rio Tinto sold its two remaining Hunter open cuts Mount Thorley Warkworth (MTW) and Hunter Valley Operations (HVO) to the Chinese miner Yancoal in September 2017.

But just before that deal was signed-off Glencore ,who had also made a bid for the two Rio Tinto assets, came to an agreement with Yancoal to acquire a 49 cent cent interest in HVO and the management of the mine.

Today that deal was completed following receipts of regulatory approvals.

The HVO Joint Venture with Yancoal which owns the 51 per cent stake in that minei s now established.

Glencore's Australian coal chief operating officer, Ian Cribb said "We look forward to successful partnership with Yancoal at the HVO joint venture and expect it will bring significant benefits for both companies and their shareholders."

When the deal was first announced in July 2017 Glencore was to pay cash consideration of US\$1,139 million plus a 27.9% share of US\$240m non- contingent royalties over five years and 49% of price contingent royalties payable by Yancoal to Rio Tinto on production from HVO in respect of the C&A acquisition.

Glencore also agreed to subscribe for US\$300m worth of shares in Yancoal's equity raising.

Joint venture:

The HVO JV will be jointly controlled by Glencore and Yancoal through a joint venture management committee comprising three representatives of both JV participants. An independent management team will run the operations on a day-to-day basis and will report to the committee.

In order to deliver maximum operational synergies, Glencore will nominate the candidates for HVO General Manager while Yancoal will nominate the candidates for HVO Financial Controller. Glencore will provide operational and support services to the HVO JV.

Marketing Agreements:

Glencore will be the exclusive marketing agent for HVO coal sales into Japan, South Korea and all other countries excluding China, Taiwan (with certain exclusions), Thailand and Malaysia.

Strategic rationale:

HVO is a large-scale, long-life and low-cost coal mine producing premium quality export thermal coal and semi-soft coking coal. HVO lies adjacent to a number of existing Glencore mines in the Hunter Valley.

The addition of 49 per cent of HVO to their existing portfolio in the Hunter Valley will unlock mining and operating synergies. Glencore's combined portfolio of mines in the Hunter Valley, including HVO, will have production capacity of 69 million tonnes per annum of high quality energy coal to meet increasing Asian demand.

