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HD **Yancoal reveals pain of $61.5m 'take or pay' coal freight deals**

BY Peter Ker

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Another Australian coalminer has revealed it is suffering under its "take or pay" rail and port contracts, with Yancoal Australia the latest to concede that it took on far more rail capacity in the boom times than it needs today.

Yancoal's admission comes after recent revelations by Fairfax Media that numerous Australian coalmines are operating at a loss because fixed-rail and port contracts would impose much greater losses on the owners if the mines were closed.

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The industry-wide trend is exacerbating the malaise in the coal sector, which is struggling under high costs and depressed prices for both thermal coal and coking coal.

According to ASX-listed Yancoal's freshly published annual report, the Chinese-controlled coalminer had a $61.5 million liability for its take-or-pay contracts at December 31, 2013.

The loss-making miner was formed between 2009 and 2012 through the consolidation of Felix Resources, Gloucester Coal and Donaldson Coal, and indicated that it was tied to take-or-pay contracts at both port and rail levels in both NSW and Queensland.

"Yancoal and its predecessor businesses made significant contractual commitments to ensure long-term strategic access to the coal chain," the company said. "Yancoal has substantial port and rail capacity contracted from 2014 to 2018, well in excess of the planned production profile."

Anglo American has also publicly bemoaned the impact of take-or-pay deals on the coal industry in recent times, and warned it could be more than a year before some of those contracts expired. Most Australian coalminers are believed to have at least some take-or-pay commitments on their books, and Yancoal hinted that the problem was common in the industry.

"There is both a short-term and a long-term focus in reducing Yancoal's port and rail excess. However, with most coal suppliers holding contracts in excess to requirements, potential for avoidance of take-or-pay is very limited," the company said.Expansion to use up capacity

BHP Billitoncoal president Dean Dalla Valle said recently that his company was comfortable with its take-or-pay exposure. "We have a whole range of contracts across our business, but we are very comfortable where we are at the moment and we are managing all our contracts to our capacities quite well," he said.

Yancoal spokesman Greg Foulis said the planned expansion of a thermal coalmine in NSW within the next one or two years would help offset the problem. "Part of our long-term strategy at Yancoal is to grow production at the Moolarben mine, which will, in turn, take up some of that unused take-or-pay capacity," he said.

The Moolarben expansion could be granted final approval as early as 2015 if all approvals are obtained.

A sizeable proportion of Yancoal's take-or-pay liability dates back to the 2012 **acquisition** of ASX-listed Gloucester **Coal**, which was completed when thermal **coal** prices were about 25 per cent higher and coking **coal** prices were close to double today's price.

Yancoal made an $832 **million** loss in the year to December 31, and Yancoal shares were steady at 40¢ on Monday.

Yancoal's major shareholder, Yanzhou **Coal** of **China**, recently sought to take the **company** private in a bid to stem its losses, but was thwarted by fellow shareholder Noble Group.

CO cenim : Gloucester Coal Ltd | mkthra : Felix Resources Ltd | yaptyl : Yancoal Australia Limited | yankua : Yankuang (Group) Corp | ynzmn : Yanzhou Coal Mining Co Ltd

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