GLENCORE COAL PTY LTD

Submission to the National Competition Council

Applicant's response to the draft recommendation not to declare the shipping channel service at the Port of Newcastle

2 October 2015

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Q&A

Q1: Section 4.2 of Glencore's submission dated 9 September 2015 (submission) notes that coal producers in the Hunter Valley are operating on minimal margins, and in some cases are loss making at the current time.

A: Glencore submits that the current and future price increases by Port of Newcastle Operations (PNO) will have a material impact on the coal industry generally in the Hunter Valley and not just 'high cost' mines. In support of this submission, Glencore provides figures based on its own factual assessment of the Hunter Valley coal export industry (at page 9).

Q2: (a) Could Glencore please specify more precisely what it means by 'cash margin' in this section of its submission?

(b) Specifically, does the term 'cash margin' refer to either operating profit margins or to operating cash-flow margins, or something else?

(c) In using the term 'cash margin', does this mean margins before or after payments of interest and tax?

A: The assessment is of the operating cash margin generated by each mine. i.e. Revenue less operating cash costs, including an allowance for sustaining capital. The analysis does not include interest or tax costs and non-cash items such as depreciation. It approximates an estimate of the EBITDA, less a deduction for sustaining capital.

Q3: What does Glencore mean by 'profit margin' in this section of the submission? Is this the same as the 'quasi-rents' that Glencore cites elsewhere in its submission (for example, on p. 2 of the submission)?

A: The statement relates to the ability of the infrastructure monopolist to impose a higher price for access to its services without fear of attracting competitors. This imposes a higher cost of access onto the user of the infrastructure, reducing the profit of the user and increasing the profit of the monopolist – i.e. there is an effective transfer of profit from the users to the infrastructure provider which arises as a result of the monopoly pricing power of the infrastructure provider. The infrastructure monopolist has not had to invest any capital in the business of the users, and has not been exposed to the risks that the user is exposed to in generating

its profits (such as commodity price risk), yet has managed to extract super-profits simply by virtue of its monopoly power. Such ability to extract additional profits from the users, particularly without the need to invest capital or be exposed to risk, is not only damaging to the viability of the existing users business, but also acts as a material disincentive to future investment. The reference to this extraction of profits is also what is meant by quasi-rents.

Glencore notes that the purchasers of PNO paid $1.75b for the lease which represented a multiple of 27 times historic earnings on 30 April 2014. By 31 December they appear to have revalued to $2.398b excluding assets associated with property leasing activities.