

# Gas insurers could hold the key to Burrup's \$2.5b float

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The future of Indian tycoon Pankaj Oswal's \$2.5 billion float of Burrup Holdings remained under a cloud yesterday as management sought clarification over whether the company's insurers would cover losses caused by the State's gas crisis.

Sources close to the company told WestBusiness that Burrup's insurance cover would form the basis of any supplementary prospectus issued to explain the impact of the gas shortage on its 2008-09 profit forecast.

It is understood the Pilbara ammonia manufacturer has insurance cover of \$US2.1 billion (\$2.2 billion) — including \$US1.1 billion for loss of profits — but is unsure if its insurers will offset the production loss caused by last week's explosion on Varanus Island and US energy giant Apache's declaration of force majeure on its gas supply contracts.

Burrup had planned to stage an institutional book-build next week to raise up to \$502 million, but this is expected to be delayed pending changes to its profit forecast and the issue of a supplementary prospectus.

"There are two ways those forecasts will be derived, one of them is either the gas is turned back on and you can get back into the business of making ammonia ... or shareholders can receive revenues from the insurer making good on the insurance policy they have over the plant," said a broking source, who requested anonymity.

"Until directors have certainty over both of those two issues, they can't be in a position to write a supplementary prospectus."

Burrup's initial prospectus forecast production of more than 800,000 tonnes and a net profit of \$170 million in the 2008-09 financial year.

However, the gas crisis has forced the company to close its ammonia plant and accelerate a \$30 million, 20-day planned maintenance shutdown.

If Apache takes two to three months to reinstate partial gas supply, Burrup could see an earnings shortfall of around 20 per cent on an annualised basis and face further losses if it is unable to resume operations on the reduced gas supply.

The prospectus says that, although it maintains insurance it considers consistent with industry standards, "some force majeure risk is uninsurable" and may have "adverse effects on Burrup Holdings' business and profitability".

But company sources said management was confident Burrup had comprehensive cover for "loss of production, regardless of whether it was force majeure or otherwise".

Burrup has a 25-year contract to buy its gas from the Harriet joint venture partners — Apache, Tap Oil and Kufpec Australia. Harriet accounts for 120 terajoules of about 365tj pumped onshore every day from Varanus.

The ammonia plant needs nearly 80tj/day to run at full capacity but is understood to be operational with a minimum of about 66tj/day.

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