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HD **Rio Tinto's $20b African iron ore dream closer**

BY Peter Ker
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Resources - Simandou partners sign

Rio Tinto and Chinalco will no longer have their ambitions for the $US20 billion ($21.6 billion) Simandou iron ore project held back by the Guinean government's inability to pay for its share, after the signing of an investment framework between the parties reduced the funding burden on the developing nation.

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In an important circuit-breaker for the stalled iron ore mine, port and rail project, Rio, Chinalco, Guinea and the World Bank's International Finance Corporation agreed to a set of ownership and development terms that will guide the path to development of Africa's biggest infrastructure project later this decade.

Guinea previously held a right to 51 per cent of the rail and port part of the project, but had been unable to stump up the billions required to fund its share of the construction costs. But under terms agreed on Monday night, the 650-kilometre railway and port will be owned, built and operated by a third-party group of "world-class international investors with the financial resources and technical skills to deliver this large and complex project".

Guinea will no longer have to fund 51 per cent of construction, but will take 100 per cent ownership of the rail and port after 30 years of operation. Both pieces of infrastructure will be multi-user, in a bid to stoke development of other industries in Guinea, such as agriculture.

Separation of the rail and port projects will also reduce Rio's capital requirements, with the company likely to be liable for between $US3 billion and $US4 billion to fund its stake in the mine project.

Guinea owns 7.5 per cent of the joint-venture company that will build the mine, and will not have to pay to raise that to 15 per cent. Rio and Chinalco will begin the process owning 46.57 per cent and 41.3 per cent of the joint-venture company respectively, with both now holding slightly less than previously expected. The IFC will own 4.6 per cent.

Guinea can raise its ownership stake to 35 per cent within 20 years but will have to pay "market rates" for the final 10 per cent it acquires.

The joint-venture company will pay a royalty of just 3.5 per cent on all iron ore exports - less than half the 7.5 per cent royalty Rio current pays on iron ore exports from its flagship Pilbara operations.

Given Simandou will not start production until the end of this decade, and will produce for about 35 years at least, the project has locked in a competitive royalty rate by international standards.

The deal did not explicitly state when production would start, but it is expected to be 2018 at the earliest.

CLSA analyst David Radclyffe said Rio's 2018 target for first ore was "pretty ambitious".

The investment framework received a mixed reception from the analyst community.

"I wouldn't see this as an immediate catalyst - there would be probably just as many people who would look at it as a negative option because it potentially pushes Rio even further into the **iron ore** business when there is some calling for increased diversification away from **iron ore**," Mr Radclyffe said.

Rio shares rose 26¢ to $61.21.

CO almcor : Aluminium Corporation of China Limited | rtz : Rio Tinto PLC | rtzcra : Rio Tinto Group | craaus : Rio Tinto Ltd

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