

HD **UPDATE 3-Australia's Rinehart seals funding for \$10 bln iron ore project**

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* Roy Hill aims to start exporting in late 2015

* Will add to forecast iron ore supply glut

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* Supply key to South Korean steel giant POSCO's strategy (Adds advisers, banker comment)

By Sonali Paul

MELBOURNE, March 21 (Reuters) - Australian billionaire Gina Rinehart has secured \$7.2 billion in debt for her Roy Hill iron ore mining project, completing all the funding for a giant mine in Western Australia due to start exporting in late 2015.

The 55-million-tonnes a year mine will make Roy Hill Australia's fourth largest iron ore producer, adding to a looming supply glut built up by bigger rivals Rio Tinto, BHP Billiton and Fortescue Metals Group.

"We look forward to becoming a major iron ore producer on an international scale," Rinehart, chairman of Roy Hill and Asia's richest woman, said in a statement.

The \$10 billion project is already 30 percent built, the company said, including dredging for two deepwater port berths, an airport with a runway big enough for a Boeing 737 plane and villages to house 3,600 construction workers and 2,000 operational staff on site and at Port Hedland.

The debt financing, the biggest ever provided for a mining project, is made up of loans and guarantees from five Export Credit Agencies from Japan, South Korea and the United States and 19 commercial banks from Australia, Japan, Europe, China, Korea and Singapore.

Rinehart's Hancock Prospecting Pty Ltd owns 70 percent of the project, with Japanese trading house Marubeni Corp holding 15 percent, South Korean steel giant POSCO 12.5 percent and Taiwan's China Steel Corp 2.5 percent.

The funding was precedent-setting not only in size, but also in that the owners did not have to provide a completion guarantee to the lenders, and the Japanese trading house Marubeni was willing to put up equity for the project ahead of debt being lined up, a banker familiar with the deal said.

The impending iron ore oversupply is unlikely to deter Rinehart and her partners from going ahead with the project, despite major banks forecasting iron ore prices will fall to around \$80-\$90 a tonne, about 23 percent below current prices.

The mine is expected to be cash flow positive even if prices fall that low, the banker said. He declined to be named as the terms of the deal were confidential.

In contrast to the objectives of a major miner, the Roy Hill mine was designed to help meet POSCO's strategy of locking in raw materials supplies for its steel mills to hedge against price shocks, said UBS commodities analyst Tom Price.

"It would have been a good strategy five to seven years ago, when we did go through big price shocks and supply uncertainty," Price said. "But now there's so much **ore** coming on to the market, I'm just wondering if it's necessary to push ahead with these sorts of projects."

UBS expects Roy Hill to produce 15 mln tonnes of **iron ore** in 2016, contributing to a hefty surplus of around 270 **million** tonnes in a forecast seaborne **iron ore** supply of 1.6 **billion** tonnes that year.

The mine is expected to reach full capacity by the end of 2017 or early 2018, when a contract with Downer EDI, which has been lined up to operate the mine for the first few years, is due to expire.

The project has long been a dream of Rinehart, who inherited valuable **mining** tenements from her father but has never actually built a mine.

Given the lack of experience, the project took longer than expected to fund, while a family court row over Rinehart's inheritance two years ago also drew attention away from the development.

Roy Hill was advised by National Australia Bank and BNP Paribas, while POSCO, Marubeni and **China** Steel Corp were advised by Rothschild. (Editing by Andrew Roche and Richard Pullin)

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