

Pilbara project a shining light in mining slump

REUBEN ADAMS

IN mid 1992, Hancock Prospecting made its first exploration field trip to Roy Hill, about 115km north of Newman on the flat plains at the eastern end of the Chichester Range in WA.

Now, more than 20 years later, the colossal \$10 billion Roy Hill project is taking steps toward a possible 2015 first production date, as intricate and multifaceted financing deals involving banks and government export credit agencies edge towards completion.

Roy Hill Holdings is looking to lock in these finance arrangements by the end of the year. Hancock is the majority owner (70 per cent) of Roy Hill Holdings, with the remaining 30 per cent held through a consortium comprising POSCO (12.5 per cent), Marubeni Corporation (15 per cent) and China Steel Corporation (2.5 per cent).

With expected annual output valued at more than \$US6.8 billion, the 55 million-tonnes-per-annum Roy Hill project looks set to be the Pilbara's next iron ore mining, rail and port project.

The low cost, high return venture has a defined resource of more than 2.4 billion tonnes grading about 55 per cent iron: enough to sustain a mine life of more than 20 years.

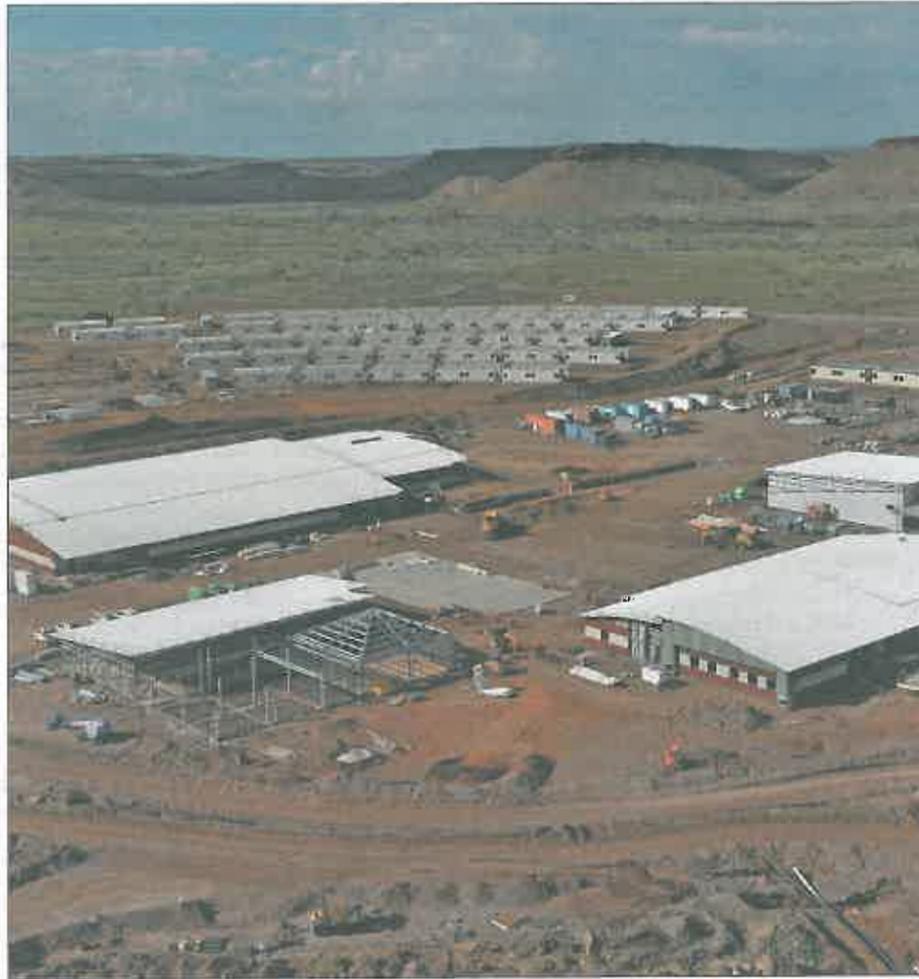
Roy Hill Holdings reported that the project would utilise conventional open pit drill and blast, truck and excavator bulk mining methods, with the on-site processing plant expected to be the largest single feed processing plant in the region.

A 344km single line, heavy haul railway – independently owned and operated by Roy Hill – would transport processed ore from the mine to a port stockyard facility south of Port Hedland.

Five ore trains, consisting of three locomotives hauling 232 ore cars, would operate each day, transporting a total payload of about 31,450t of ore.

The purpose-built port facility at Port Hedland, constructed to allow for future expansion, would receive, stockpile, screen and export the 55mtpa wet DSO as lump and fines.

The wharf, designed for an average vessel size of 206,000t, would be capable of handling larger 320,000t cape size



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vessels if required.

According to the company, a Perth-based integrated corporate headquarters and remote operations centre (ROC) would "provide end to end integration of operations through the adoption of state-of-the-art automation." Roy Hill Holdings would also adopt automation as a strategic objective, "with the view of 'industrialising' the mining and logistics operations as much as possible", the company stated.

"By taking advantage of the Greenfield nature of the project and embedding automation technology within the operational design from day one, Roy Hill will avoid the change management and retrofitting issues encountered by other organisations when introducing automation technology," the company reported.

The road to production

In March, Samsung C&T won the coveted \$5.5 billion contract to develop project infrastructure for Roy Hill, including engineering procurement and construction of the mining process plant, rail from the Roy Hill mine to Port Hedland, and the port facility.

Samsung C&T reported that the proposed plant would have an annual processing capacity of 55 million tonnes, while port facilities would feature two berths and container yards.

Samsung hit the ground running, awarding contracts to local companies that provided crucial injections into the local economy.

In April, Decmil was awarded contracts for the design, civil engineering and construction of rail

and port facilities for Roy Hill, as well as associated infrastructure.

Mining contractor NRW Holdings scored a \$67 million contract to complete earthworks and piping at Roy Hill, with the works expected to take about seven months to complete utilising a peak workforce of 160.

Additionally, Brookfield Multiplex's Engineering and Infrastructure (E+I) division was awarded a \$70 million contract to develop non-processing infrastructure to service the mine, in addition to its existing \$190 million contract to build the mine's 2000-person accommodation camp.

Although Hancock and its minority partners had invested about \$1.3 billion in preliminary lead time works including a sealed runaway at the remote mine site, dredging at the chosen wharf site in Port Hedland, and a purpose-built Perth-based control room, they had yet to secure the crucial \$7 billion funding package for Roy Hill.

On 12 July, a Roy Hill spokesperson said the company remained confident it would secure the funding in time to meet its end of year deadline.

The company was looking to lock in \$4 billion in funding from export credit agencies, as well as an additional \$3 billion from commercial banks.

"It is fair to say that there is a high level of interest in the project and the feedback continues to be positive," Roy Hill general manager external affairs Darryl Hockey told the *Australian Financial Review*.

On 18 July, Forbes reported that Ex-Im Bank (the Export-Import Bank of the US) was one of five government export credit agencies looking to provide support for the project.

Just two days later, Japan's Marubeni boosted its project stake to 15 per cent from 12.5 per cent through its buy out of STX Group's 2.5 per cent stake.

The Weekend Australian reported that the financially troubled South Korean conglomerate paid \$300 million to buy into the project last year to secure work on the project's main construction contract, but was prompted to sell out after the tender was awarded to Samsung.

On 24 July, Qantas signed a three-year air services agreement with Roy Hill Holdings, with charter



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SPECIAL PROFILE Roy Hill Iron Ore



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operations to the Pilbara mine site starting from 13 August.

The Qantas fly in, fly out subsidiary Network Aviation would initially fly to the site three times a week, with services expected to expand as the project's workforce increased to a predicted peak of about 3600.

Mr Hockey said the initial flights would transport employees involved in preliminary works such as earthworks for the ore processing plant.

"Then we move into what we call foundation works but we don't actually start construction proper until we've got our debt finance in place," Mr Hockey said.

Mr Hockey said about 8500 positions could be offered over the project construction period between 2014 and

the end of 2015.

"Once production begins in 2015, safe and dependable air services will be critical to the ongoing efficiency and productivity of the Roy Hill operations," he said.

On 26 July, Gina Rinehart's partners in Roy Hill backed the project with a further \$372 million injection for early project work by Samsung C&T.

On the same day, it was confirmed that ANZ Banking Group had provided up to \$US1 billion (\$1.09 billion) in bridging finance for Roy Hill.

Mr Hockey said Hancock's equity partners "continued to provide sufficient funds to allow us to progress the project".

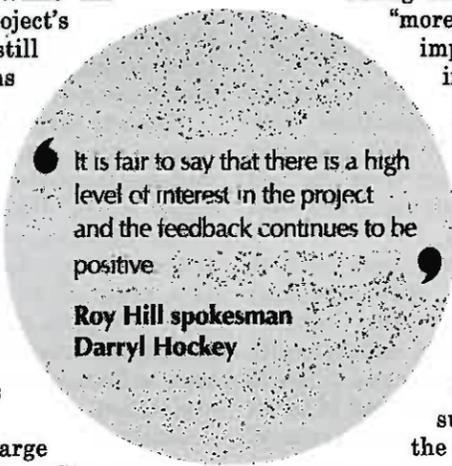
As miners continue to curtail developments in response to the

resources downturn, Roy Hill has bucked the trend. While the majority of the project's funding package is still required, negotiations and early project development have progressed rapidly.

According to a report from Ernst and Young released in July, there would be winners and losers in the mining services sector's looming shake-out.

Despite the large number of forecast profit downgrades from mining

services businesses in 2013, Ernst and Young stated there would be "more pain to come as the impact of the slowdown in mining investment reverberates through the sector".



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Roy Hill spokesman Darryl Hockey

Roy Hill has provided a welcome boost to WA's flagging mining services sector, emerging as a shining light for the large number of contractors and suppliers hit hard by the mining slowdown.



Brookfield Multiplex won the \$190 million contract to build Roy Hill's 2000-person accommodation camp