

Financing of the Conga mining project in Peru

A research paper prepared for FairFin

22 June 2013

Jan Willem van Gelder
Barbara Kuepper



Naritaweg 10
1043 BX Amsterdam
The Netherlands
Tel: +31 20 8208320
E-mail: profundo@profundo.nl
Website: www.profundo.nl

Contents

Summaryi

Introduction.....1

Chapter 1 Brief project overview2

Chapter 2 Newmont Mining.....3

 2.1 Shareholders3

 2.2 Bondholders3

 2.3 Share and bond issuances4

 2.4 Loans5

Chapter 3 Compania de Minas Buenaventura6

 3.1 Shareholders6

Appendix 1 References7

Summary

This short research project aims to provide an insight into the financiers of large-scale precious metal mining project under planning, Minas Conga in Peru. The Conga Project is carried out by Minera Yanacocha S.R.L (“MYSRL”). The owners of MYSRL are: Compañía de Minas Buenaventura (“CMB”, Peru, 43,65%); Newmont Mining Corporation (“Newmont”, USA, 51,35%); and the International Finance Corporation (“IFC”, part of the World Bank Group, 5%). The aim of the research is to allow Catapa and its allies a more targeted campaigning on the Minas Conga project.

Financial institutions, including their domestic and international subsidiaries, can be involved in financing these companies by:

- Underwriting share or bond issues. All relevant issues since June 2011 are researched;
- Owning or managing shares or bonds. Key share- and bondholdings at the most recent filing date are researched;
- Committing corporate loans or project finance. All relevant facilities since June 2011 are researched.

Key financial stakeholders linked to Newmont Mining are mostly North American and some European financial institutions. While a large number of different banks and investors were found to be participating in loan and bond issues and holding shares, a leading role is taken by JP Morgan. It holds 3.1% of Newmont’s shares and acted as bookrunner in a bond issue in 2012 as well as for a loan obtained by Newmont in 2011 and expanded in 2012. As there is now detailed information on the use of the proceeds it cannot be said with certainty whether they are destined for the Conga project.

CMB is for 27.27% owned by the Peruvian Benavides family. The remainder is owned or managed by Peruvian and foreign institutional investors. Remarkable is the large involvement of BlackRock (United States) with 24% and the dominance of pension funds among the larger Peruvian shareholders. BlackRock is also a key shareholder in Newmont mining, holding more than 8%. No information on recent loans or share or bond issues of CMB could be found.

The financial advisor for the Conga project is HSBC Holdings (United Kingdom).

Introduction

In follow-up to a research on the involvement of three specific banks in the financing of Newmont Mining's activities in Peru, this short research project aims to provide a broader insight into the financing of a Newmont Mining project under planning, Minas Conga in Peru. The Conga Project is carried out by Minera Yanacocha S.R.L ("MYSRL"). The owners of MYSRL are: Compañía de Minas Buenaventura ("CMB", Peru, 43,65%); Newmont Mining Corporation ("Newmont", USA, 51,35%); and the International Finance Corporation ("IFC", part of the World Bank Group, 5%). The aim of the research is to allow Catapa and its allies a more targeted campaigning on the Minas Conga project.

As the project was approved in July 2011, only deals as of June 2011 have been considered. Financial institutions, including their domestic and international subsidiaries, can be involved in financing these companies by:

- Underwriting share or bond issues. All relevant issues since June 2011 are researched;
- Owning or managing shares or bonds. Key share- and bondholdings at the most recent filing date are researched;
- Committing corporate loans or project finance. All relevant facilities since June 2011 are researched.

Chapter 1 provides a brief company profile of the mining project. Chapter 2 provides an overview of Newmont's financiers, Chapter 3 looks at the financiers of CMB.

A summary of the findings of this report can be found on the first pages of this report.

Chapter 1 Brief project overview

Both Yanacocha and the close-by Conga gold and copper mining project under construction in Peru are a joint venture between Newmont Mining (51.35%), the Peruvian Compañía de Minas Buenaventura (BMP) (43.65%) and the International Finance Corporation (IFC, part of the World Bank) (5%).¹ Funding for the Conga project had been approved by Newmont Mining's Board of Directors in July 2011. Capital expenditure for the project, primarily for engineering, construction, equipment and off-site infrastructure, reached US\$ 739.0 million (€ 570.6 million) in 2011.² Conga represents the largest mining project ever developed in Peru.³

Newmont Mining is one of the world's largest gold producers with significant assets in the United States, Australia, Peru, Indonesia, Ghana, Canada, New Zealand and Mexico. The company was founded in the United States in 1921 and has been publicly traded since 1925. In the financial year ending December 2011, Newmont Mining realized total revenues of US\$ 10.3 billion (€ 7.9 billion), resulting in a net income of US\$ 366 million (€ 282.6 million). Total assets of the company were worth US\$ 27.5 billion (€ 21.2 billion).⁴

CMB is Peru's largest publically traded precious metals company and one of the main gold and silver producers globally. It is listed on the Lima stock exchange and with ADRs at the New York stock exchange.⁵ CMB realized total revenues of US\$ 1.6 billion (€ 1.2 billion) in financial year 2011, resulting in a net income of US\$ 861.4 million (€ 665.2 million). Total assets of the company were worth US\$ 3.9 billion (€ 3.0 billion).⁶

Newmont claims to be leading in safety, environmental stewardship and social responsibility. However, in the past years there have been ongoing protests by local population in Peru, living close to the operational Yanacocha gold mine, the largest gold mine in Latin America.

Local residents have protested in the past against water pollution and destruction of their livelihoods caused by the operation of the gold mine, leading to repeated clashes between local population and the police.⁷ In November 2011, construction activities on the Conga project were suspended for the time being, at the request of Peru's central government following growing protests by local activists. Work stayed suspended during a review of the environmental impact assessment (EIA).⁸

Total project costs for the planned Conga gold and copper mine are estimated at US\$ 4.5 - 5.0 billion (€ 3.5 - 4.0 billion). During the EIA review phase, Newmont Mining stated that it may increase spending on projects in Nevada, Australia, Ghana and Indonesia if it is unable to continue developing the Peruvian mine.⁹

After the publication of the EIA review in May 2012, the company announced that it will take a slower development approach. Newmont Mining's CEO was quoted in August 2012 that construction will only go ahead after water supplies are ensured, with the building of reservoirs on high-mountain lake areas likely ongoing into 2013. Construction of the mine could possibly start in 2014, with further setbacks at this stage being costly.¹⁰ Development capital for 2012/13 was reduced to US\$ 440 million (€ 343.4 million), from an initially planned US\$ 1.5 billion (€ 1.2 billion).¹¹ HSBC Holdings are the financial advisors for this project, concrete financing information on the project is not available at this stage.¹²

Chapter 2 Newmont Mining

2.1 Shareholders

Table 1 provides an overview of the key shareholders of Newmont Mining at the most recent filing date. The table lists investors which hold at least 1.0% of the company shares. Together these shareholders own or manage 43.6% of the total outstanding shares with a total value of € 7,709.3 million.

Table 1 Key shareholders Newmont Mining

Investor	Country	% of all shares	Value (€ million)	Filing date
Blackrock	United States	8.34	1,581.2	31-Mar until 30-Jun-2012
Capital Group	United States	7.43	1,407.8	30-Jun-2012
State Street Global Advisors	United States	4.45	841.5	30-Jun-2012
Van Eck Associates Corporation	United States	4.36	825.7	30-Jun-2012
Vanguard Group.	United States	4.29	813.2	30-Jun-2012
J.P. Morgan Chase	United States	3.16	587.7	30-Jun-2012
Fidelity Management & Research Company	United States	3.05	578.4	30-Jun-2012
Deutsche Bank	Germany	2.15	407.0	30-Jun-2012
M & G Investment Management	England	1.41	268.0	30-Jun-2012
Carmignac Gestion	France	1.36	257.1	30-Jun-2012
Northern Trust Corporation	United States	1.32	251.9	30-Jun-2012
First Eagle Investment Management, part of Arnold and S. Bleichroeder Advisers	United States	1.25	236.3	30-Jun-2012
Norges Bank Investment Management (NBIM)	Norway	1.06	241.2	31-Dec-2011
Total		43.63	7,709.3	

Source: Thomson One Database, viewed in September 2012.

2.2 Bondholders

Table 2 lists the key institutional bondholders holding more than 1.0% of Newmont Mining bonds at the time of writing.

Table 2 Key bondholders Newmont Mining

Investor	Country	% of all outstanding bonds	Value (€ million)	Filing date
Calamos Asset Management	United States	3.49	170.5	30 Jun 2012
Northwestern Mutual Life Insurance	United States	2.08	101.5	30 Jun 2012
Zazove Associates	United States	2.07	101.4	30 Jun 2012

Investor	Country	% of all outstanding bonds	Value (€ million)	Filing date
Allianz Life Insurance North America, part of Allianz SE	Germany	1.96	95.9	30 Jun 2012
Teachers Insurance & Annuity Association	United States	1.93	94.3	30 Jun 2012
American General Life Insurance, part of American International Group	United States	1.61	78.7	30 Jun 2012
Vanguard Group	United States	1.39	68.0	30 Jun 2012
Blackrock Fund Advisors	United States	1.29	63.0	31 Aug 2012
Lord Abbett & Co	United States	1.21	59.4	30 Jun 2012
Total		17.03	832.7	

Source: Bloomberg Financial Database, viewed in September 2012.

Most of bondholders that could be identified holding more than 1% of Newmont Mining bonds are based in the United States. Together these companies held 17.03% of outstanding bonds with a total value of € 832.7 at the latest filing date.

2.3 Share and bond issuances

The following bond issuances of Newmont Mining could be found:

- In March 2012, Newmont mining issued fixed-rate notes for a total of US\$ 2.5 billion (€ 1.9 billion). Proceeds were destined to reduce debt and for general corporate purposes.. The notes were issued in two tranches:
 - One tranche of US\$ 1.5 billion (€ 1.1 billion) of 3.500% notes maturing in 2022.
 - One tranche of US\$ 1.0 billion (€ 757.5 million) of 4.875% notes maturing in 2042.¹³

The following banks participated as bookrunners:

- **Citi** United States € 449.0 million
- **JP Morgan** United States € 449.0 million
- **Deutsche Bank Securities Corp** Germany € 72.4 million
- **HSBC Holdings** United Kingdom € 72.4 million
- **Royal Bank of Scotland** United Kingdom € 72.4 million

Other participants were:

- BMO Capital Markets, part of **Harris Financial Corporation** United States € 72.4 million
- **BNP Paribas** France € 72.4 million
- Scotia Capital, part of **Bank of Nova Scotia** Canada € 72.4 million
- SMBC Nikko Capital Markets, part of **Sumitomo Mitsui Banking Corporation** Japan € 72.4 million
- **UBS Investment Bank** Switzerland € 72.4 million
- **Australia & New Zealand Banking Group** Australia € 46.5 million
- CIBC World Markets, part of **Canadian Imperial Bank of Commerce** Canada € 46.5 million
- **Credit Suisse** Switzerland € 46.5 million

• Bank of America Merrill Lynch	United States	€ 46.5 million
• Mitsubishi UFJ	Japan	€ 46.5 million
• Mizuho Securities	Japan	€ 46.5 million
• RBC Capital Markets, part of Royal Bank of Canada	Canada	€ 46.5 million
• SG Americas Securities, part of Societe Generale	France	€ 46.5 million
• US Bancorp	United States	€ 46.5 million

2.4 Loans

The following loan for Newmont Mining could be found in the relevant period from June 2011:

- In May 2011, Newmont Mining secured a US\$ 2.5 billion (€ 1.8 billion) five-year revolving credit facility from a syndicate of 13 banks. The proceeds were intended for refinancing.¹⁴ In May 2012, Newmont Mining amended the existing credit agreement from May 2011, increasing the amount the company can borrow from US\$ 2.5 billion to US\$ 3.0 billion (€ 2.3 billion). At the same time the maturity date was extended by one year to 2017.¹⁵ **JP Morgan Securities** acted as bookrunner.

The following other banks participated:

• Australia & New Zealand Banking Group	Australia
• Banco Bilbao Vizcaya Argentaria	Spain
• Bank of America	
• Bank of Tokyo Mitsubishi UFJ	Japan
• Bank of Montreal	Canada
• Bank of Nova Scotia	Canada
• BNP Paribas	France
• Canadian Imperial Bank of Commerce	Canada
• Citibank	United States
• Commonwealth Bank of Australia	Australia
• Credit Suisse	Switzerland
• Deutsche Bank	Germany
• HSBC Bank	United Kingdom
• Mizuho Corporate Bank	Japan
• Royal Bank of Canada	Canada
• Royal Bank of Scotland	United Kingdom
• Société Generale	France
• Sumitomo Mitsui Banking Corporation	Japan
• UBS	Switzerland
• Westpac Banking Corporation	Australia
• Woori Investment Bank, part of Woori Finance Holdings	South Korea

Chapter 3 Compañia de Minas Buenaventura

No information on recent share or bond issues could be obtained. Also no information on recently obtained loans which could be connected to the financing of the Conga project was found.

3.1 Shareholders

As of December 2011, the Peruvian Benavides family owned 27.27% of the shares.¹⁶ The remainder is owned or managed by Peruvian and foreign institutional investors.¹⁷ Table 3 provides an overview of the key shareholders of CMB at the most recent filing date. The table lists investors which hold at least 1.0% of the company shares.

Table 3 Key shareholders Compañia de Minas Buenaventura

Investor	Country	% of all shares*	Value (€ million)	Filing date
BlackRock	United States	24.54	2,039.8	31-Dec-2011 until 30-Jun-2012
Compañía Minera Condesa, part of CMB	Peru	7.70	616.0	31-Dec-2011
Fidelity Investments	United States	6.25	546.5	30-Apr until 31-Jul-2012
Prima AFP	Peru	3.98	302.5	30-Apr-2011
AFP Integra	Peru	3.79	288.0	30-Apr-2011
Van Eck Associates Corporation	United States	3.53	292.8	30-Jun-2012
AFP Horizonte	Peru	2.86	217.7	30-Apr-2011
ProFuturo AFP	Peru	2.74	208.6	30-Apr-2011
Vontobel Asset Management, part of Vontobel Holding	Switzerland	2.34	194.1	30-Jun-2012
Vanguard Group	United States	1.74	144.6	30-Jun-2012
Templeton Asset Management, part of Franklin Resources	United States	1.61	130.9	30-Jun-2012
State Street Global Advisors	United States	1.54	127.9	30-Jun-2012
Bank of Nova Scotia	Canada	1.49	123.9	30-Jun-2012
Wells Fargo	United States	1.09	90.8	30-Jun-2012
	Total	65.20	5,324.1	

* Ordinary shares and ADRs

Source: Thomson One Database, viewed in September 2012.

Together these shareholders own or manage 65.2% of the total outstanding shares with a total value of € 5,324 million. Remarkable is the large involvement of BlackRock (United States) and the dominance of pension funds (AFPs) among the larger Peruvian shareholders.

Appendix 1 References

- 1 Yanacocha, "Quiénes somos", *Website Yanacocha* (www.yanacocha.com.pe/la-compania/quienes-somos/), viewed in July 2012.
- 2 Newmont Mining, "Annual Report 2011", *Newmont Mining*, 2012; Newmont Mining, "South American Operations", *Website Newmont Mining Corporation* (www.newmont.com/south-america), viewed in July 2012.
- 3 Compania de Minas Buenaventura, "Annual Report 2011", *Compania de Minas Buenaventura*, February 2012.
- 4 Newmont Mining, "Annual Report 2011", *Newmont Mining*, 2012.
- 5 Oxford Business Group, "Compania de Minas Buenaventura: Mining", *Website Oxford Business Group*, 2012 (www.oxfordbusinessgroup.com/news/compañi-de-minas-buenaventura-mining), viewed in September 2012; Compania de Minas Buenaventura, "Investor Services", *Website Compania de Minas Buenaventura* (www.buenaventura.com/ir/), viewed in September 2012.
- 6 Compania de Minas Buenaventura, "Buenaventura Announces Fourth Quarter 2011 Results", *Compania de Minas Buenaventura*, 28 February 2012.
- 7 BBC News, "Aid case study: Peru's Yanacocha goldmine", *BBC News*, 15 March 2002 (news.bbc.co.uk/2/hi/business/1874369.stm), viewed in July 2012; The New York Times, "Tangled Strands in Fight Over Peru Gold Mine", *The New York Times*, 14 June 2010 (www.nytimes.com/2005/10/25/international/americas/25GOLD.html?pagewanted=all), viewed in July 2012.
- 8 Newmont Mining, "Annual Report 2011", *Newmont Mining*, 2012.
- 9 Project Finance International, "Newmont expects Conga review", *Project Finance International*, 4 April 2012.
- 10 Kozak, R., "Newmont CEO: Conditions not there for Peru's Minas Conga project", *Dow Jones Newswire*, 17 August 2012.
- 11 Newmont Mining Corporation, "Conga Project Update – Factsheet Revised Development Plan", *Newmont Mining Corporation*, 2012; Agência Latina Press, "Conga Projekt in Peru: Newmont kürzt Budget", *Agência Latina Press*, 24 May 2012 (latina-press.com/news/126013-conga-projekt-in-peru-newmont-kuerzt-budget/), viewed in July 2012.
- 12 Thomson One Database, "Project Finance Gold & Copper Mine Project", *Thomson One Database*, 24 August 2011.
- 13 Thomson One Database, "Tearsheet 2393903001", *Thomson One Database*, 5 March 2012; Reuters, "Newmont Mining Corporation raises \$2.5 billion upon closing of senior notes offering", *Reuters*, 8 March 2012; Newmont Mining Corporation, "Newmont announces pricing of senior notes offering", *Press release Newmont Mining Corporation*, 5 March 2012 (newmont.q4web.com/Press-Releases/News-Release/2012/Newmont-Announces-Pricing-of-Senior-Notes-Offering1128530/default.aspx), viewed in July 2012.
- 14 Thomson One Database, "Tearsheet 2736596115", *Thomson One Database*, 20 May 2011.
- 15 Newmont Mining Corporation, "Form 8-K", *Filing with the Securities and Exchange Commission*, 15 May 2012.
- 16 Securities and Exchange Commission, "Form 20-F", *Compania de Minas Buenaventura*, 2012.
- 17 Thomson One Database, "Share Ownership", *Thomson One Database*, viewed in September 2012.