

Green Evaluation

Minera Los Pelambres' Proposed US\$875 Million Green Loan Due 2026

Transaction Overview

Los Pelambres has proposed a US\$875 million loan to fund part of its \$1.3 billion expansion project to reach 190 KTA (kilotons per annum) of copper production at its mine, an increase of 55 KTA from current output capacity. About \$530 million of the US\$875 million is labeled as a green financing since proceeds will be deployed at the new water desalination plant and the associated pipeline. The plant will provide water for the production needs of the expansion of Los Pelambres mine, thus avoiding the use of potable water. We are evaluating only the portion of the transaction that is funding the desalination plant. The transaction will start amortizing in 2021 with a tenor of five years. Los Pelambres is majority owned by Antofagasta Minerals S.A., which is the fourth-largest copper producer in Chile and 10th-largest global producer, with revenues of \$4.7 billion in 2018.

Entity: Minera Los Pelambres
Subsector: Mining
Location (HQ): Chile
Financing value: US\$875 million
Amount evaluated: 61%
Evaluation date: Feb. 11, 2019
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Green Evaluation Overview

Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

82

Transaction's Governance

- Management of proceeds
- Impact assessment structure

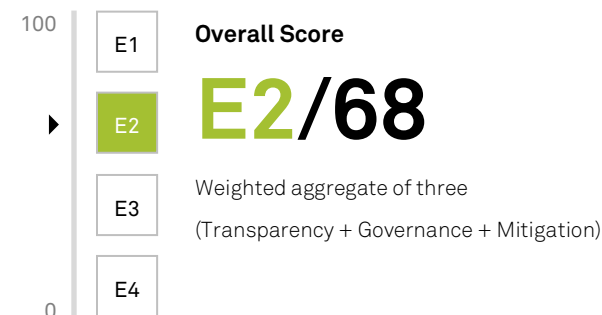
73

Mitigation

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Water	Sea water desalination	Water	68

Adaptation

NA



Project Description

Los Pelambres will use the proceeds of the loan to fund the 55 KTA expansion of its open-pit copper mine to reach an output capacity of 190 KTA per year. Mining is a water-intensive industry, and the desalination plant will bring seawater to the operation, instead of competing for fresh water in neighboring municipalities. The plant is located in the desert area of Choapa Valley, in Chile, where water resources are scarce and expensive. Construction is expected to start in the first quarter of 2019 and conclude by 2021, ramping up to about 70% of capacity in the fourth quarter of 2021.

Total copper volume output of the mine will increase by about 30% after the expansion. The water desalination project will ensure water supply in a region that has serious hydrological restrictions during droughts, allowing more predictable output that will not depend on weather conditions in a desert region. This is important in a region where human consumption of water is increasing and would compete for industrial water usage. The plant will produce up to 400 liters of desalinated water for industrial use, and the brine will be returned to the sea 1,000 meters from the coast at a depth of 26 meters. A monitoring unit for marine ecosystems will be implemented to ensure the operation will not affect these ecosystems. According to its sustainability report, 45% of total water usage from Antofagasta already comes from the sea in other mines, and 85% of Los Pelambres water use is already recycled.

Scoring Summary

This transaction achieves an overall Green Evaluation score of 68 of 100, which is equivalent to a score of E2 on our scale of E1 (strongest) to E4 (lowest). The final score is capped by its mitigation score of 68 (high end of E2) despite having stronger scores for Governance and Transparency assessment, at 73 and 82, respectively. Although the project will not reduce freshwater availability in a stressed region, our water hierarchy limits a higher environmental impact score for this green project because the desalination plant and disposal of waste saline solution are associated with significant negative environmental impact.

Rationale

- The use of seawater will reduce consumption of fresh water in a region where such resources are scarce. The water savings leads us to evaluate the desalination plant and the dedicated pipeline investment as a green project.
- Mizuho Bank, working as the administrative agent, will have a separate account where the proceeds of the green labeled funding will be allocated, with reports of the use of proceeds, preventing the commingling of these funds with others.
- The technologies used and the environmental impact of the construction of the desalination plant limit the mitigation score at 68.
- The company achieves strong Governance and Transparency scores based on its comprehensive green financing framework that includes a defined selection of environmental objectives, third-party verification of environmental impacts achieved, and comprehensive annual reporting.

Key Strengths And Weaknesses

- The strong Governance score is supported by the disclosure of detailed information related to the use of proceeds in specific green projects with a separate account managed by third parties. A third party will provide annual progress of the amount allocated to the desalination plant, and details will be reported in the audited sustainability report.
- The excellent Transparency score is based on company's awareness of water needs and willingness to meet high standards for environmentally friendly initiatives. The proper maintenance of separate accounts for the desalination plant will avoid commingling of funds for other purposes. This is despite not having specific key performance indicators (KPIs) or a methodology to calculate the environmental impact.
- The solid net benefit ranking of 80 reflects the high water stress in the desert region of Choapa Valley.
- The mitigation score of 68 limits the overall score. Although freshwater in the municipality of Los Pelambres is saved because less will be taken for industrial production, there is also a negative environmental impact related to the construction of the project and increased mining output. The byproduct of the desalination product is the disposal of waste saline production back to the sea.

Sector level scores

Sector	Location	Technology	Use of Proceeds (US\$ Mil.)	Use of Proceeds Treatment	Net Benefit Ranking
Water	Chile	Desalination plant	530	Estimated	80

Water

Green Evaluation Process

82

Transparency

73

Governance


68

Mitigation

Weighted aggregate of three
(Transparency + Governance + Mitigation)

E2/68

Overall Score

Technology	Baseline Water Stress	Net Benefit Ranking	Water Stress and Hierarchy Adjustment	Environmental Impact Score	Proceeds (US\$ mil.)
	High  Low Chile				
Recycling wastewater for water (agricultural uses)					
Recycling wastewater for water (other uses)					
Wastewater treatment with no energy recovery					
Wastewater treatment with energy recovery					
Unspecified					
Reducing water losses in water distribution network					
Unspecified					
Water desalination to supply municipal water		80			
Conservation measure in residential buildings					
Conservation measure in commercial buildings					
Conservation measure in industrial buildings					
Smart metering in residential buildings					
Unspecified					
			Increasing freshwater availability through system enhancements		
			Improving delivery of existing freshwater supplies		
			Increasing freshwater availability with significant negative environmental impact		530
			Reducing demand on potable water supplies		

Increasing Water Sustainability

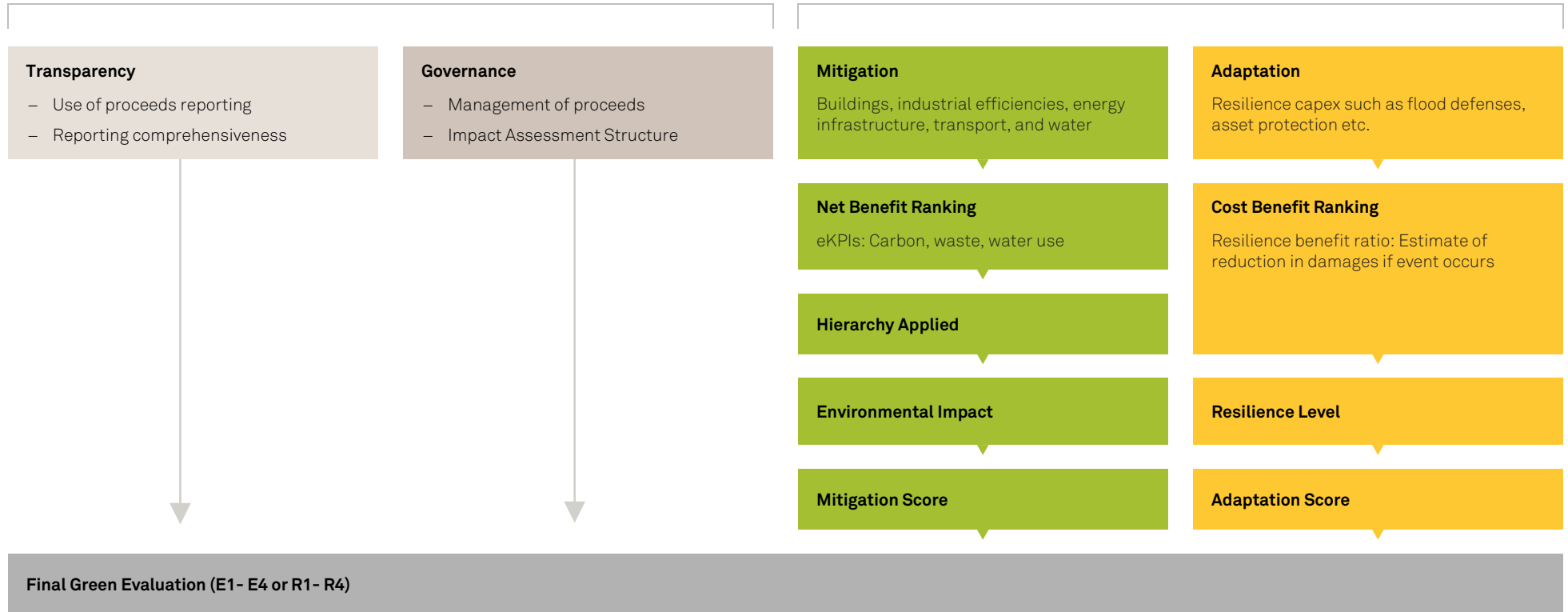
Our Green Evaluation Approach

Weighted aggregate of three:



Common approach used amongst opinion providers

Unique to S&P Global Ratings



eKPI – Environmental key performance indicator.

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