

THE WALL STREET JOURNAL.

WEDNESDAY, JULY 22, 2009

© 2009 Dow Jones & Company, Inc. All Rights Reserved.

Deal Journal

An up-to-the-minute take on deals and deal makers.

How One Mine Got a \$1.05 Billion Loan Amid the Global Financial Crisis

By **STEPHEN GROGER**

The past year has seen the global economy go into a free fall, the credit markets seize up, the price of commodities tumble and governments around the world pump hundreds of billions of dollars into their nations' financial systems.

Not exactly the best time to go out into the market in search of financing.

That didn't stop Antofagasta from obtaining a \$1.05 billion loan from a consortium of banks and lenders to help finance the development of Minera Esperanza, a copper-mining joint venture between a Chilean mining concern and Japan's Marubeni. Last year, Marubeni acquired the stake in the Esperanza project from Antofagasta for \$1.3 billion. The consortium lenders include: government-run export credit agencies Japan Bank for International Cooperation, Export Development Canada and Germany's KfW IPEX-Bank GmbH and commercial banks Mizuho Financial Group, Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking Corp., Calyon, ING Capital, Santander and Natixis.

For insight into how this deal got done, Deal Journal chatted with Sergio Galvis, a partner with Sullivan & Cromwell who heads the law firm's Latin American Group and coordinates its practice in Spain. Sullivan & Cromwell advised on the deal.

* * *

Deal Journal: In October when you began negotiating the financing, the credit markets were frozen, the global financial crisis was in full swing and each week seem to bring a new bank rescue. So how did you get this deal done?

Sergio Galvis: The sponsors developed a very good strategy. First, Antofagasta brought in Marubeni, and then together they developed a financing plan with two types of lenders. This really gets to the question of how this got done in this environment. There were government lenders, basically export credit agencies, which were working from a view point that copper is a strategic resource and they wanted to make sure the customers have access to this strategic resource. Therefore, they were committed to lending in order to build capacity even in the midst of the economic crisis, because they knew this

capacity would be there for the next 20-30 years. At the same time, commercial banks were brought in to lend side-by-side with the government lenders, so that this is very much a commercial-terms driven financing instead of a public-sector driven financing.

DJ: How important was it to the commercial lenders to have governments also willing to lend here?

Galvis: It's important in couple of ways. First, there is the management of political risk, especially in emerging markets. If you are lending side-by-side with governments, you take comfort as a commercial lender that the government where the project is located is less likely to take action that will hurt other governments. Second, in this environment, the export credit agencies added substantially to the overall availability of credit in the market.

DJ: Given the economic climate and slide in the price of copper, did the commercial lenders ever get skittish?

Galvis: What the lenders did was traditional, on-balance-sheet commercial lending. They focused on the fact that it is an asset that they are lending against, not a securitized mortgage, but a real asset. They focused on traditional criteria like debt-service coverage ratios, debt-equity ratios, and life of loan and life-of-mine coverage ratios.

DJ: How was the deal structured so that the drop in copper prices did not become an issue?

Galvis: The financing was shaped in a way so that there was a lot of tolerance for movement in copper prices. The reason is because it is a 12-year loan, and over the course of that period there can be a lot of movement in prices. Even though copper prices fell dramatically and quickly back in October, there was still enough flexibility for the financing to go forward.

The real point is that both the export credit agencies and the commercial lenders were acting as the long-term lenders, not as short term guys that were creating financial instruments that they would distribute to the market. It could not be more different than subprime mortgage lending—a strong asset, focused on the long term demand for the product, and with long term off-takers for the product.

DJ: When did the project line up big customers, or off-takers, and did doing so create a certain level of comfort for the lenders?

Galvis: Securing long-term off-takers for the product was one of the strategies the project settled on early on. So the lenders knew there was a market there for the next 10-12 years. They knew as long as the project was built—and Antofagasta has the reputation for being able to build mines—the copper was going to ship and there was going to be an off taker at the other end.

DJ: How did you keep all the different lenders on the same page?

Galvis: One of the reasons this deal got done was that the decision was made very early on that, rather than being reactive, the legal and financial teams would work closely with the sponsors to develop a financing plan that would be acceptable to market. We actually drafted the papers in advance. It's quite extraordinary. We drafted a 60-plus page detailed term sheet, which was sent out in order to select prospective lenders. The project was then able to say to the lenders, 'We think we fit the market right on these terms, are you willing to participate under these terms?' This was very important because it allowed us to get the financing done on a reasonable basis and with a disparate group of lenders and keep everyone on the same page with common terms and conditions. If each of the lenders had been supplying their own terms, that would have been very difficult. The selection of the lenders was based on their reaction to our proposal.

DJ: With so many banks running into trouble, was there concern that one of the lenders might need to drop out?

Galvis: To manage the risk through the banking crisis, the sponsors focused on creating overcapacity of lending capability, just in case they lost a lender. In the end, all the lenders were there to fund. The other step the sponsors took to mitigate risk was to secure the off-take arrangements. They moved very quickly to get the customers lined up. This is very interesting: There was no way the customers wouldn't be there. I think this is why you are seeing so much activity in the mining sector: The customers are focused on securing long-term supplies.