

June 9, 2016

Mr. Andrew Michelmore
Chief Executive Officer
MMG Limited
Level 23, 28 Freshwater Place
Southbank Victoria 3006
Australia

Dear Mr. Michelmore:

We would like to express our concerns and propose a number of recommendations regarding the ongoing dialogue process with communities affected by MMG's Las Bambas mine, located in the provinces of Cotabambas and Grau in the Apurimac Region of Peru.

For the most part, to date the Las Bambas project has managed to obtain a high level of social acceptance from communities neighboring the mine. Some problems have arisen, however, in the implementation of the project which must be addressed to ensure a harmonious and peaceful coexistence between the mining company and the population in the surrounding area. These include:

1. In 2004, Xstrata and the Peruvian government signed an agreement for 121 million dollars, of which 91 million were set aside for social projects. Fifty percent of that amount was delivered when the contract was signed. This amount went on to be managed by an administrative board, through a trust. The board should ensure the proper use of the resources and define their investment in priority projects. The fund became by law a social fund (FOSBAM). Unfortunately, the population has been excluded from administration of the funds and knows little about how those funds have been used. This has generated some unease and has led to protests and strikes.
2. Another important issue is related to compensation. Xstrata's treatment of rural communities when purchasing land varied. Huanquire community received USD 2.49 per square meter of land, while Pumamarca community received USD 0.46 per square meter. This differential treatment caused dissatisfaction. As a result, in April 2016 the communities in the area of direct influence traveled to Lima to ask the government to conduct a review of the contracts.

Also worrying is the expiration of community usufruct contracts or land leases for the construction of a highway. The local population has pointed out that these contracts have expired or are about to expire and they do not know what will happen moving forward.

3. Communities have raised concerns regarding inadequate consultation around significant changes to project design. The company has made five modifications to project design and the Environmental Impact Assessment (EIA) between 2013 and 2015. Changes included:

moving the molybdenum and filtering plants and the concentrates warehouse from Tintaya to Las Bambas; expanding the warehouse's capacity from 20,000 to 47,000 tons; and changing the means of transport from pipeline to highway, among others.

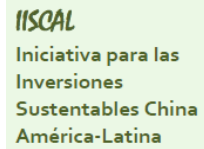
MMG attained government approval for three of the five project alterations through a rapid (15 day) approval procedure. This rapid procedure applies to changes in auxiliary components, expansions, and technological upgrades with no significant impacts, but should not have been applied for the significant alternations to project design described in the paragraph above. This procedure does not provide mechanisms for consultation or public participation or for technical review by other sectors. The other two of the five procedures did follow standard review procedures; however, affected communities question the quality of mechanisms for citizen participation applied.

The way in which the changes were made led to social unrest and the outbreak of conflict in September 2015. This situation left three people dead and many injured; more than 100 people were investigated or prosecuted, among them key community leaders; and dozens of families were affected. MMG has filed a complaint alleging illicit association among local leaders for delinquent purposes, i.e. membership in a gang to perform illegal acts.

4. Some community members have also expressed concern around alleged environmental impacts from the project. They have noted dust, noise, and vibration on the main road, a foul-smell that may be coming from the molybdenum plant, dust resulting from mining explosions that has reached nearby pasturelands, and the collapse of the wastewater clarifier. They have also expressed concerns about the environmental impacts of transporting the ore. An indirect impact of the project has been that the rapid growth in Chalhahuacho has resulted in a significant increase in wastewater which is dumped into the river, affecting downstream communities.

Given the concerns highlighted above, the population is requesting the **technical opinion of a third party on the alterations made to the project and the EIA**, which would include recommendations for improvement if they were found to be necessary or, failing this, the implementation of Annex K, clause 12 of the contract related to provisions for independent environmental monitoring. The population is also requesting **participatory monitoring; environmental bonds; the paving of the highway used by the trucks; the development of a framework agreement establishing the parties' obligations, including a social contribution from the company to the province of Cotabambas; transparency of social and environmental information; and ensuring that corporate social responsibility and development projects are coordinated and integrated with local, regional, and national development plans. They are also demanding humanitarian support for the families of those killed and wounded. Concerning those who are being investigated and prosecuted, the population has asked for fair trials and has requested that MMG abandon its complaint and cease legal action.**

After the outbreak of the conflict in September 2015, social leaders and government representatives agreed to establish a dialogue roundtable to address the concerns of the local population. The roundtable was installed five months after the outbreak of the conflict and it brought together three actors: communities, MMG, and government. **The roundtable has**



some notable weaknesses. It lacks a neutral facilitator and rapporteur, as well as established rules for dialogue, and there are huge asymmetries between the actors. However, **it provides an opportunity** to establish a new relationship between MMG and the surrounding populations. This would assume a willingness to address existing problems as thoughtfully and creatively as needed. To achieve this aim, MMG should employ local staff that are much more proactive and open to listening to the population of the mine's area of influence.

For these reasons we ask that MMG work hand in hand with the population to construct an exemplary process of dialogue and community relations to discuss the following issues:

- Increasing transparency and local participation in social fund (FOSBAM) management
- Land contracts
- Technical opinion on the amendments of the project and the EIA or, failing that, the implementation of Annex K clause 12 of the terms of reference of the tender and the contract
- Framework agreement with the population of the province of Cotabambas and the communities surrounding the mine
- Community development funding for Cotabambas
- Corporate social responsibility projects and their link to development plans
- Guidelines on community relations
- Humanitarian support for the families of those killed and wounded
- Withdrawal of the complaint and legal proceedings or investigations against leaders

We would like to see MMG strengthen efforts to ensure mutual respect and implement high social, environmental, and economic standards that can transform MMG into a leading company in Peru when it comes to corporate social responsibility. As a starting point to achieving this end, we propose a meeting between representatives of MMG, Oxfam, and Cooperaccion in Peru. Please confirm whether such a meeting will be possible.

Yours sincerely,

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