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MMG LIMITED

五礦資源有限公司

(Incorporated in Hong Kong with limited liability)

(STOCK CODE: 1208)

LAS BAMBAS TAX UPDATE

This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (Listing Rules) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

MMG Limited (Company or MMG and, together with its subsidiaries, the Group) notes that Minera Las Bambas S.A. (MLB) has now received an assessment notice in connection with an audit undertaken in respect of income tax determined by MLB for the 2017 tax year (2017 Income Tax Assessment) in the amount of approximately US\$960 million. The 2017 Income Tax Assessment was issued by the National Superintendence of Tax Administration of Peru (SUNAT) on the basis that all of the interest accrued under bank loans during the period of January 2017 to December 2017 was non-deductible (amongst other items of expenditure also determined by SUNAT to be non-deductible).

Further, SUNAT has not recognized US\$1.17 billion in previous years' tax losses, including 2014, 2015 and 2016 development costs (US\$710 million). These losses if ultimately recognised by the Tax Court would significantly reduce the cash amount to be paid pursuant to the 2017 Income Tax Assessment to US\$613 million for the 2017 tax year, even assuming the erroneous SUNAT conclusions around interest deductibility were correct. The Company is confident that these losses related to development costs will eventually be recognised, as the Company has received favourable Tax Court decisions in respect of the 2012 and 2013 development costs claimed. If the carried forward losses are not required to be utilised in the 2017 tax year they would be available to offset profits in later tax years.

The 2017 Income Tax Assessment is partly based upon the same asserted interpretation of the Peru Income Tax Law (PITL) by SUNAT as previous assessments in relation to withholding tax payable in respect of bank loans for the 2014 to 2017 tax years¹. This supposed interpretation is that MLB, MMG and MMG's ultimate controlling shareholder China Minmetals Corporation (CMC) are related to a consortium of Chinese lender banks (the Lenders) because of certain alleged

¹ See previous announcements dated 3 August 2020, 19 February 2021, 13 July 2021, 27 July 2022 and 1 February 2023.

links between (a) MLB, MMG and CMC and the Chinese State on the one hand and (b) the Lenders and the Chinese State on the other hand. In addition to using this asserted interpretation to impose a 30% withholding tax rate applicable to related party loans rather than the usual 4.99% withholding tax rate for offshore bank loans, SUNAT has relied upon this interpretation when applying thin capitalisation rules to deny all interest deductions on the loans from the Lenders on the basis that the alleged related party debt should be included in calculating MLB's related party debt to equity ratio. MLB disagrees with the assertion that all Chinese companies are related companies and this interpretation of the PITL by SUNAT.

In addition to denying the deductibility of interest pursuant to the thin capitalisation rules on the basis that MLB, MMG and CMC are related parties to the Lenders, SUNAT alleges interest payable upon a shareholder loan from a shareholder of MLB, MMG Swiss Finance A.G., is non-deductible due to the application of the "Causality Principle" – i.e., that the merger of three legal entities in 2014 and assumption of the loan by the merged entity (MLB) has no relevance to the income-producing activities of MLB.

Further, SUNAT also separately alleges that the accounting treatment of the merger should have resulted in a negative equity adjustment meaning MLB should be regarded as having no equity for the purposes of calculating its thin capitalisation allowance.

MLB is a significant and compliant taxpayer to the State of Peru. However, MLB strongly disagrees with these interpretations and is of the view that SUNAT has disregarded all available evidence and independent opinions on the accounting treatment, submitted by MLB for consideration during the 2016 and 2017 assessment process. There is a risk that these interpretations and this accounting treatment will also be applied for future income tax years.

MLB intends to appeal the 2017 Income Tax Assessment to SUNAT and, if unsuccessful, to the Tax Court. Under Peruvian law, tax is not due until resolution of the proceedings in the Tax Court. We note that appeals in the Peruvian tax administration and judicial systems can take many years to resolve.

MMG's subsidiaries, MMG Netherlands BV, MMG Peru S.A.C. and MLB have notified the Peru Government of a dispute pursuant to the Peru-Netherlands Bilateral Investment Treaty (Treaty) and are awaiting a response to the notification. The dispute relates to the application of withholding taxes and income taxes utilising these interpretations and this accounting treatment and the failure to provide effective protection and security to the MMG subsidiaries investments in Peru and the notification advises that, unless the matter can be resolved by negotiation, the MMG subsidiaries will seek damages from the Peru Government for a number of breaches of the Treaty including the failure to provide a fair, equitable and secure investment environment in Peru.

Considering MLB's proposed appeals and the advice of the Group's tax and legal advisers, the Company does not intend to recognise a liability in its consolidated financial statements for any assessed amount.

By order of the Board
MMG Limited
Li Liangang
Interim CEO and Executive Director

Hong Kong, 5 September 2023

As at the date of this announcement, the Board consists of six directors, of which one is an executive director, namely Mr Li Liangang; two are non-executive directors, namely Mr Zhang Shuqiang and Mr Xu Jiqing (Chairman); and three are independent non-executive directors, namely Dr Peter William Cassidy, Mr Leung Cheuk Yan and Mr Chan Ka Keung, Peter.