PROJECT SUMMARY INFORMATION: TENKE FUNGURUME – TENKE FUNGURUME MINING Sarl PROJECT – Drawn from the Proposal from the Management Committee to the Board of Directors

1. **Private sector Operation**

2. **The Project**

The project involves the development of three consecutive open pit copper/cobalt ore mines, and construction and operation of an ore processing plant with a production capacity of 115,000 t/a of copper cathode and 8,000 t/a of cobalt metal. The Tenke Fungurume copper-cobalt deposits comprise one of the world's largest known copper-cobalt resources. The concessions contain extensive high-grade mineral resources that potentially exceed the present reserve estimate of 103 million metric tonnes. Average grades are of 2.1 percent copper and 0.3 percent cobalt. The deposits are located within two concessions totalling 1,437 square kilometres in the Katanga Province of the Democratic Republic of Congo (DRC).

3. **Financing Proposal**

- Borrower*.* Tenke Fungurume Mining SARL (TFM) a DRC incorporated company. TFM is owned by Phelps Dodge Corporation, USA (which recently was taken over by Freeport-McMoRan of USA) at 57.75% (FCX/PDC), Tenke Mining Corporation from Canada (TMC, which is expected to merge with Lundin Mining Corp. from Canada on the 18 June 2007) at 24.75% and Gécamines, from DRC at 17.5%.
- Amount: up to the USD equivalent of EUR 100 million
- Term: 14 years
- Terms and conditions: Senior Loan on Own Resources
- Interest rate: Fixed or Floating rate at EIB's standard rate for risk sharing operations outside EU.
- Security: Third party guarantee from counterparts acceptable to the Bank. The proposed loan will be realised under the risk-sharing scheme, implying that the guarantors will cover only the commercial risk of the operation.
- Commission opinion: Interservice approval received. Final Commission approval awaited
- Financing plan*:* The project cost, as estimated by the Bank, is USD 1.04 billion (EUR 779 m), to be financed with a combination of equity and debt.

4. **Value-added identification**

Contribution to Mandate objectives & priorities (Pillar 1): The project will contribute to alleviate poverty and improve the region's capacity for self-sustaining economic development, two of the central objectives of the Cotonou Convention. By valorising numerous indigenous natural resources (copper, cobalt, but also local generated power and labour) the project will support the direct employment of some 1100 people working for TFM, supporting, as a result, the livelihood of more than 5000 people. During construction the project is likely to employ around 1600 people, and at least two times as many indirect jobs. In addition, TFM is setting up different initiatives – amongst those a community development fund - to improve the local education and health infrastructure and other social benefits, including improving the local transport service, refurbishing fresh water wells and new/rehabilitated schools to the local population. It is estimated that this project will lead to a total direct economic impact on DRC's economy of around USD 2.2bn, of which USD 1.3bn in corporate taxes, USD 147m of salaries and other income for local residents, and USD 100m of royalty payments. The project will also add to DRC's export revenues of USD 5bn (depending on copper and cobalt prices) over the life of the project.

Quality and soundness of the investment (Pillar 2): Calculated on the basis of conservative copper and cobalt price assumptions, the project has a sound financial rate of return of around 16%. The project benefits from relatively low cash costs that puts it at the second quartile of the industry's cost curve. The overall technical approach of the project is modern and common in this industry, and all of its components are well proven in many similar operations. No major insurmountable environmental problems have been detected and the promoter has properly addressed the relevant environmental issues. Mitigating measures have been incorporated into the project design or are foreseen according to best industry practice.

EIB contribution (Pillar 3): Through its participation in the project alongside other development agencies, the Bank will play a catalytic role in mobilising funds from international investors in a country with large opportunities but scarce long-term financial resources, as the risks inherent to the political situation are still considered high. This would be the first Bank intervention in DRC under the Cotonou Agreement.

5. Key issues

Environment: An independent Environmental and Social Impact Assessment (ESIA), compliant with EU Directive 97/11 as amended by Directive 2003/35, has been carried out. It has been written in a format to demonstrate conformity with the Equator Principles and IFC Performance Standards for both social and environmental issues. It includes detailed attention to biodiversity conservation, evidence of extensive public consultation, a comprehensive resettlement action plan as well as the frameworks for Environmental and Social Action, Reclamation and Closure, Occupational Health & Safety, and Emergency Response plans. It remains to be finalised (incorporating answers to questions posed by lenders) and approved by the local competent authority. The project incorporates best industry practice and complies with the Bank's environmental statement and EU standards. An Independent Engineer has provided a comprehensive overview of the draft ESIA. The sponsors have employed experienced and competent professionals to handle physical environmental issues, biodiversity conservation and community outreach programmes. Work is being undertaken in accordance with prudent environmental management policies. Some details of the Action Plans will need to be fleshed out further as implementation proceeds but the existing frameworks provide competent bases for elaboration. A proposed grievance redressal mechanism remains to be put in place.

Procurement: The promoter is a private company operating in the mining sector, which is not covered by EU Directives on procurement. The procedures followed are in compliance with the Bank's Guide to Procurement.

6. Risks & Mitigants

Political Risk: Despite the support of the international community for the result of the elections recently held in the country, the political situation remains still unstable. The project is located in the Katanga region (in the South Eastern part of the country), which represents the country's most active economic area. The recent political events in the West and Kinshasa have had a limited impact in Katanga.

Regulatory risk: The new Government will carry out a revision of more than 60 contracts signed in the mining sector during the transition period, including the one of TFM; it is, however, unlikely that the process of reviewing the Mining Convention of TFM will have a major impact in the development of the project given the proven quality of the sponsors together with the significant economic impact of the project. Project Documentation will protect adequately the interest of the Bank in this respect.

Logistics and Transport**:** Extensive road and rail investigations have been conducted as part of the Feasibility Study to assess construction and operations transport logistics. The Feasibility Study is based on transport of materials predominantly coming up from, and copper and cobalt product down to, Richards Bay/Durban in South Africa. Other shorter routes may be viable. In cooperation with several other major mining developers in Katanga, TFM is contributing to the upgrading of the National road in the vicinity of Tenke Fungurume.

7. Previous relations with the borrower/promoter

The Bank has no previous relations with the borrower (TFM) or the major sponsors of the project. However, the Bank granted a loan on own resources to Gécamines in 1986
