



Ok Tedi Mining Limited  
PO Box 1, Tabubil, Western Province, PNG

13 April, 2007

The Leaders  
CMCA Core Group and  
All CMCA Community Delegates  
C/- Ok Tedi Mining Limited  
PO Box 1  
**TABUBIL**  
Western Province

Dear Leaders and CMCA Delegates

I would like to thank the Core Group for their letter of 8 March, 2007 in response to the revised offer from OTML, which I presented to the core group meeting 6-8 March, 2007.

I am pleased that the Core Group has decided to recommend this offer to the CMCA Working Group. The purpose of this letter is to respond to the request for changes to that offer raised in the letter from the Core Group, and to re-state the final offer from OTML. I understand that the PNGSDPL and the Minister for Mines will respond separately to the letters you sent to them in respect of their offers.

1. The Core Group has asked that the guaranteed CMCA funds to 2013 be paid up front.

At the Core Group meeting, I explained that it was not possible to pay all funds up front mainly because OTML cannot pay for years that have not yet occurred. In addition, the forward sale arrangement which OTML put in place to underwrite our last offer of four times the current CMCA payments only provides funds each year, not a single up-front amount.

The CMCA payments have been made in the last quarter of each year. OTML is prepared in future to change that arrangement and make payments twice in each year (half of the total in June and half in November) or some other agreed schedule, and as a one off pay, the full 2007 amount as soon as we have agreement to the current offer. The current schedule of payments for the remaining years of mine life, and the new schedule arising from this agreement are shown in Attachment 2 to this letter.

2. The Core Group asked that OTML commits and makes meaningful efforts to assist landowner companies participate in business spin-offs.

OTML under its Principal Agreement with the PNG Government has an obligation to "promote, support and encourage the establishment of local businesses" and "where practicable give first preference to those from the Kiunga and Telefomin sub-provinces". OTML is willing to extend that obligation to the CMCA communities further down the river system.

You will be aware that over many years OTML has made an effort to meet that obligation and involved local groups in business spin-offs and contracting opportunities. Some have been successful and others not so successful. In recent years we have had more success by starting with a written commitment to certain principles of business that govern the relationship between OTML and the business group, and then building the relationship on that commitment. The growth of Star Mountains Investment Holdings over the past three years is evidence of how this process can work. OTML is prepared to enter into similar arrangements with other business groups. That does not guarantee business spin-offs, but does establish clearly how the relationship will work and gives a much improved chance of success.

3. The Core Group asked that OTML add 0.5% of cash flow annually to the CMCA for exceedence of environmental impacts.

As I explained at the Core Group meeting, the offer from OTML is the final offer, and a further increase of 0.5% is not possible. That said, OTML's legal obligation under the CMCA's remains, which is that if there is a further exceedence of the environmental predictions, the parties shall meet to discuss a revision of payments, and if agreement cannot be reached on revision of payments, the company may reconsider its decision to continue to operate the mine.

Finally, I would like to re-state OTML's final offer to the CMCA communities, which is that OTML will increase the sum paid to each CMCA region, with the exception of the Mine Villages, such that the total will be four times what would have been paid under the current arrangements. The split between cash payments to families and payments to project funds and investment funds, have yet to be agreed.

I have attached a record of the process of revision of the CMCA payments (Attachment 1) along with the new payment schedule (Attachment 2).

Yours sincerely



**KEITH E FAULKNER**  
**Managing Director**

cc: Minister for Mining  
Secretary, Department of Mining

## **ATTACHMENT 1**

### **MINING (OK TEDI MINE CONTINUATION (NINTH SUPPLEMENTAL) AGREEMENT) ACT 2001**

#### **REVISION OF COMPENSATION PAYMENTS UNDER MINE CONTINUATION AGREEMENTS**

1. In each of the Community Mine Continuation Agreements, Ok Tedi Mining Limited undertook to continue to monitor the environmental effects of the continuing operation of the mine in accordance with its obligations to the State, and share the results with the communities.
2. To the extent that the environmental effects of the continuing operation of the mine exceed the Environmental Predictions in the CMCA's, it was agreed the parties to the CMCA's would meet to discuss revision of the payments under the CMCA's, taking into account the environmental effects in excess of those contemplated in the Environmental Predictions.
3. In accordance with this agreement, the parties were advised of a technical exceedence of the dieback figure due to an error, through consultation patrols over May – December 2005. A letter was signed by the parties between December 2005 and February 2006, accepting a 10% increase in the CMCA funds.
4. Subsequently, the parties have had further meetings and consultations through a 14-month CMCA Review process to discuss a further revision of payments and to conduct a review of the operation of the agreement.
5. To conduct the review, OTML engaged independent facilitators, observers and funds administrators to ensure the review process was fair and independent. Meetings were held in villages throughout the impact area to select Village Representatives. These were followed by Regional Meetings of Village Representatives to select three delegates from each CMCA region to participate in the CMCA Review Working Group. The working group met six times over 2006 and 2007. Further village and regional meetings were conducted between working group meetings to keep communities informed of progress and bring their issues to the working group table, and a final round of regional and village meetings was conducted during April-May 2007 to inform communities of the Working Group's decisions.
6. As a result of the meetings and consultations described in paragraphs 4 and 5, the parties have agreed that the compensation payments to non-mine area CMCA's will be increased to not less than four times the total amount that would have been paid to each CMCA region from the years 2007 to mid-2013 under the original agreement. These increased payments will continue until completion of mining of

the current mine pit which is anticipated to be mid 2013. The details of these payments are provided in Attachment 2.

7. Payments of development and future generation funds will be made into CMCA trust accounts and any cash payments will be made directly into family bank accounts.
8. In the event that the Lower Ok Tedi villages of Komokpin and Kawok decide to sign a CMCA, the amount of the total CMCA package shall be increased so that payments to CMCA regions do not change from those provided in Attachment Two.
9. The parties also agree that the meetings and consultations described in paragraph 5 constitute a review of the operation of the agreement, as referred to in each CMCA.

**ATTACHMENT 2**

**Schedule of payments to CMCA regions – current at December 2006**

Region	2007	2008	2009	2010	2011	2012	2013	Total
North Ok Tedi	1,090,231	1,090,231	1,090,231	1,090,231	1,090,231	1,090,231	545,116	7,086,502
Highway Communities	1,533,000	1,533,000	1,533,000	1,513,000	1,513,000	1,513,000	756,500	9,894,500
Lower Ok Tedi	2,361,112	2,361,112	2,361,112	2,361,112	2,361,112	2,361,112	1,180,556	15,347,228
logi Village	131,945	131,945	131,945	131,945	131,945	131,945	65,973	857,643
Middle Fly Communities	3,576,000	3,576,000	3,176,000	3,076,000	3,076,000	3,076,000	1,538,000	21,094,000
Dudi Devlpt Trust - S.Bank	933,889	933,889	933,889	933,889	933,889	933,889	466,945	6,070,279
Kiwaba Devlpt Trust - Kiwai	965,000	965,000	965,000	965,000	965,000	965,000	482,500	6,272,500
Suki Fly Gogo Devlpt Foundation	958,636	958,636	958,636	958,636	958,636	958,636	479,318	6,231,134
Manawete Devlpt Foundation	965,000	965,000	965,000	965,000	965,000	965,000	482,500	6,272,500
<b>South Fly Total</b>	<b>3,822,525</b>	<b>3,822,525</b>	<b>3,822,525</b>	<b>3,822,525</b>	<b>3,822,525</b>	<b>3,822,525</b>	<b>1,911,263</b>	<b>24,846,413</b>
<b>Total</b>	<b>12,514,813</b>	<b>12,514,813</b>	<b>12,114,813</b>	<b>11,994,813</b>	<b>11,994,813</b>	<b>11,994,813</b>	<b>5,997,407</b>	<b>79,126,285</b>

### Revised CMCA Schedule of payments

Region	2007	2008	2009	2010	2011	2012	2013	Total
North Ok Tedi	4,360,924	4,360,924	4,482,300	4,527,142	4,527,142	4,527,142	2,251,392	29,036,967
Highway Communities	6,132,000	6,132,000	6,302,670	6,282,674	6,282,674	6,282,674	3,124,435	40,539,127
Lower Ok Tedi	9,444,448	9,444,448	9,707,312	9,804,427	9,804,427	9,804,427	4,875,836	62,885,325
logi Village	527,780	527,780	542,470	547,897	547,897	547,897	272,474	3,514,193
Middle Fly Communities	14,304,000	14,304,000	13,057,586	12,772,972	12,772,972	12,772,972	6,352,122	86,336,623
Dudi Devlpt Trust - S.Bank	3,735,556	3,735,556	3,839,526	3,877,938	3,877,938	3,877,938	1,928,536	24,872,989
Kiwaba Devlpt Trust - Kiwai	3,860,000	3,860,000	3,967,434	4,007,125	4,007,125	4,007,125	1,992,782	25,701,592
Suki Fly Gogo Devlpt Foundation	3,834,544	3,834,544	3,941,269	3,980,699	3,980,699	3,980,699	1,979,640	25,532,095
Manawete Devlpt Foundation	3,860,000	3,860,000	3,967,434	4,007,125	4,007,125	4,007,125	1,992,782	25,701,592
<b>South Fly Total</b>	<b>15,290,100</b>	<b>15,290,100</b>	<b>15,715,664</b>	<b>15,872,888</b>	<b>15,872,888</b>	<b>15,872,888</b>	<b>7,893,741</b>	<b>101,808,269</b>
	<b>50,059,252</b>	<b>50,059,252</b>	<b>49,808,000</b>	<b>49,808,000</b>	<b>49,808,000</b>	<b>49,808,000</b>	<b>24,770,000</b>	<b>324,120,504</b>