PROJECT SUMMARY INFORMATION: LUMWANA COPPER PROJECT (ZAMBIA)
- drawn from the Proposal from the Management Committee to the Board of Directors

1. Private sector Operation

2. The Project

The project concerns the development of a new, large-scale copper mine with two open pits, the construction and operation of a copper ore processing plant and the related infrastructure near Lumwana in the North-Western Province of Zambia. It foresees a production of some 140 000 t/a of copper in the form of concentrate for a period of 14 years from proven and probable reserves of 280mt of copper ore with an average copper grade of 0.75%. Additional inferred resources could provide for a considerable lifetime extension.

3. Financing Proposal

Borrower: Lumwana Mining Company Ltd., Zambia
Promoter: Equinox Minerals Ltd., listed on the Australian and Toronto Stock Exchanges
Final beneficiary: Lumwana Mining Company Ltd., Zambia
Amount: up to EUR equivalent of USD 90m,.
Term: up to 10 years (senior loans)
Up to 12 years (subordinated loan)

Terms and conditions:

a) USD 20m - Senior loan from Investment Facility (IF) resources
b) USD 50m – Subordinated loan from IF resources
c) USD 20m - Senior loan from Own Resources under the risk sharing scheme[1]

Interest rates:

a) Ops B reference rate plus credit risk spread
b) Either:
   (i) Fixed rate: OPS B reference rate plus credit risk spread, or
   (ii) Revisable rate: linked to movement of copper prices on the London Metal Exchange,
c) Ops B lending rate for risk-sharing loans with first-class commercial risk guarantors.

IF Committee opinion: [The Investment Facility Committee gave a favourable opinion on the project by written procedure in September 2006.]
Commission Opinion: Awaited (tranche C only)
Financing Plan:

	USDm	EURm	% of total invest.
Loans from the EIB[3]	90	71	10
Other external loans (incl. from AfDB, DEG, FMO, commercial banks and export credit agencies)	380	300	41
Leasing finance	126	100	14
Own funds of the promoter (excluding EIB's subordinated loan)	330	260	36
Total	**925**	**731**	**100**

4. Value-added identification

Consistency with the priority objectives of the EU (Pillar 1)
The project is fully consistent with EU development policy objectives as specified in the Cotonou Agreement and with the mandate given to the Bank under the Investment Facility. It would contribute to development of the mining sector in Zambia with the direct participation of the private sector, and

[1]Loan with commercial guarantee from KfW (Germany) with political risk carved out and risk-sharing between the Bank and the Member States.

fits well with Zambia’s Poverty Reduction Strategy. In addition, the Government of Zambia is keen to develop the remote North-Western area and is assisting with infrastructure, i.e. road rehabilitation and electric power supply, to even out economic and social disparities between the regions. The project is expected to create some 1 150 direct jobs, with only a small number being expatriates, and three times as many indirect jobs. Through the training of local employees, the project will further contribute to the development of the local skills base. The project will bring value to an indigenous natural resource, increase Zambia’s export revenues, and generate fiscal income for the country through mining royalties and corporate taxes.

Quality and soundness of the investment (Pillar 2)
Calculated on the basis of conservative copper price assumptions, the project has a rate of return of around 15%. The overall technical approach of the project is modern, but common in this industry, and all its components are well proven in many similar operations. No major insurmountable environmental problems have been detected; the relevant environmental issues have been properly addressed by the promoter and mitigating measures been incorporated into the project design or are foreseen according to best industry practice.

Financial value-added (Pillar 3)
The key element is the Bank’s flexibility in offering three different loan instruments. This fits the borrower’s and co-lenders’ needs and spreads the risk for the Bank. The 10-year term and the significant loan size represent advantages for the project, as the local market can only offer much lower volumes and shorter maturities.

5. Key Issues

Environment: An independent EIA, compliant with EU Directive 97/11, has been carried out with public consultation. It includes social aspects, a preliminary rehabilitation plan and an environmental management plan. It has been approved by the local competent authority. The project incorporates best industry practice and complies with the Bank’s environmental statement and EU standards.

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 the best interest of the project and in line with Bank rules.

6. Previous Relations with the Borrower/Promoter

The Bank has very good existing relations with Equinox, starting with the financing of the EUR 14m feasibility study for the present project. The Finance Contract for EUR 7m for this was signed in 2001 under the Lomé IVb Convention. Equinox’s performance in commissioning and monitoring the work in the feasibility study was timely, orderly and comprehensive. Debt servicing to the Bank has always been regular and punctual.
