

## NEWS RELEASE

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### **Ncondezi Agrees Non-Binding Offer with General Electric and China Machinery Engineering Corporation**

20 October 2017: Ncondezi Energy Limited ("Ncondezi" or the "Company") (AIM: NCCL) is pleased to announce that it has agreed in principle the terms of a Non-Binding Offer ("NBO") with China Machinery Engineering Corporation ("CMEC") and General Electric South Africa (PTY) Limited ("GE") (together the "Consortium") to enter into exclusive negotiations to develop, construct and operate the integrated Ncondezi 300MW coal fired power project (the "Power Project") and open pit coal mine in Tete, Mozambique (the "Mine Project") (together the "Integrated Project").

#### **Highlights:**

- CMEC and GE are world leaders in the energy sector with significant experience in Africa and Mozambique
- Ncondezi agrees NBO with CMEC and GE to acquire a minimum 60% equity stake in the Integrated Project
- NBO grants exclusivity until 30 April 2018 to conclude a binding Joint Development Agreement ("JDA")
- JDA will set out the commercial terms on which the parties will complete the acquisition and jointly develop and fund the Integrated Project up to and including Financial Close ("FC")
- CMEC and GE to lead project debt financing in conjunction with Ncondezi for both the Power Project and Mine Project at FC
- CMEC and GE will be responsible for the engineering, procurement and construction ("EPC") and operations and maintenance ("O&M") for the Integrated Project on a build own operate basis
- Power project boiler technology will return to Circulating Fluidized-Bed ("CFB") from Pulverized Coal ("PC"), where technical work is more advanced
- Offer subject to CMEC and GE successfully completing their due diligence and agreeing the commercial terms of the JDA
- FC targeted for completion end Q4 2018
- Formal signing ceremony for the NBO planned in Beijing, China in early November 2017

Ncondezi Non-Executive Chairman, Michael Haworth, commented: *"The Company is pleased to announce agreeing to enter into exclusive negotiations with CMEC and GE, following an intensive process to identify a new partner to take a leadership role in delivering the 300MW coal fired power project and integrated mine. The CMEC and GE NBO has the potential to materially de risk the development, financing, construction and operation of the Power and Mine Projects. CMEC and GE's collective experience in both the energy and mining sectors and specific experience and reputations operating in Mozambique, gives them distinct advantages as a potential partner with Ncondezi. The NBO proposes to develop the power plant and mine projects as an integrated project, which has the potential to greatly simplify the development, commercial and financing aspects of the process to FC and is welcomed by Ncondezi. The Board believes that a return to CFB technology, where technical work is more advanced, will also facilitate a shorter, more cost effective route to FC.*

*Today's announcement further highlights the advanced development stage of the Power Project and its attractiveness to international developer and operators. All efforts will now be focused on delivering the JDA."*

## **Enquiries**

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## **Note:**

**The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation ("MAR"). Upon the publication of this announcement via Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain. If you have any queries on this, then please contact Hanno Pengilly, Chief Development Officer of the Company (responsible for arranging release of this announcement) on +27 (0) 71 362 3566.**

**Ncondezi** owns 100% of the Ncondezi Project which is strategically located in the power generating hub of the country, the Tete Province in northern Mozambique. The Company is developing an integrated thermal coal mine and power plant in phases of 300MW up to 1,800MW. The first 300MW phase is targeting domestic consumption in Mozambique using reinforced existing transmission capacity to meet current demand.

## **Background**

This announcement follows the launch of a new partner search in June 2017, which focused on identifying a partner capable of providing a leadership role in the financing, construction and operation of the Power Project, with a credible track record in both the global and African power sectors.

CMEC is a large Chinese integrated company with international reach and engineering contracting as its core business. CMEC's project experience, technical ability, and financing capacity, has allowed it to undertake projects in more than 150 countries in the fields of international contracting and general international trade. CMEC's contracting business involves a broad range of areas such as electric power & energy, transportation, electronic communication, water supply & treatment, housing & architecture, manufacturing and processing plant, environmental protection, mining and resource prospecting. As a world-renowned engineering contractor, CMEC has been ranked among China's top 10 contractors by business turnover from overseas contracted projects by the Chinese Ministry of Commerce for many consecutive years.

GE is a world energy leader that provides technology, solutions and services across the entire energy value chain from the point of generation to consumption. GE's Power business is transforming the electricity industry by uniting all the resources and scale of the world's first Digital Industrial Company. GE's customers operate in more than 150 countries, and together power more than a third of the world to illuminate cities, build economies and connect the world.

CMEC and GE have jointly worked on numerous projects across the world and successfully completed a number of power projects in the sub Saharan African region. Most relevant to Ncondezi, the two parties are currently working together on the Thar Block II Power Plant project in Pakistan, which is a 660MW integrated coal fired power plant and mine which utilises two 330MW CFB boilers and due to be commissioned in 2019.

## **Experience in Mozambique**

Both CMEC and GE have successful track records operating in Mozambique.

CMEC has been involved in supplying and installing transmission infrastructure to Mozambique's state power utility Electricidade de Moçambique ("EDM"), improving access to electricity for Mozambicans and new industry development. In 2015, CMEC completed a 110kV transmission line project in Nacala City in northern Mozambique, and in 2017, CMEC signed an EPC contract for a 400kV transmission line project in the same location. CMEC is also an EPC contractor for the Moatize to Macuse railway and port project designed to provide a new coal transport corridor from the Tete region.

GE has been present in Mozambique for over 4 years with offices in Maputo and over 44 employees. GE is active in multiple sectors including the transport, health care, oil and gas and energy sectors. To date, GE has supplied over 120 locomotives, installed 10 4.4MW power units for the Kuaninga gas IPP project and is to provide technology solutions and services to ENI's US\$7 billion Coral South LNG project in the Rovuma Basin. In addition, GE is working on initiatives to improve access and quality of basic and diagnostic services of rural healthcare and reduce infant mortality rates. This work is run in parallel to GE's local skills development programs which include scholarships, funding of educational facilities and the provision of local courses.

## **Non-Binding Offer**

The NBO sets out the terms, work program and timetable by which the parties will work together to executing a legally binding JDA by 30 April 2018 or such later date agreed between the parties.

The terms of the NBO have been agreed and initialled by all parties and a formal signing ceremony is planned in Beijing, China, in early November 2017. However, the work program to finalise and execute the JDA will start immediately.

The key terms of the NBO will include:

- CMEC and GE to acquire a minimum 60% stake in both the Power Project and Mine Project holding companies which currently hold 100% of each project respectively.
- JDA will set out the commercial terms on which the parties will complete the acquisition and jointly develop and fund the Integrated Project up to and including FC.
- The Power Project and the Mine Project will be developed as an integrated project, with CMEC and GE taking full responsibility for EPC and O&M contracting.
- CMEC and GE will take full responsibility for managing the EPC process for the Transmission Line, which will be constructed on a Build Transfer model, subject to EDM approval.
- CMEC and GE to lead project debt financing in conjunction with Ncondezi for both the Power Project and Mine Project at FC.
- Funding ratios to be adjusted should CMEC and GE take an equity stake larger than 60%.

In addition, the power plant generation technology will return to CFB boiler technology from PC boiler technology. This provides a number of advantages to the project including the technical feasibility work being more advanced on a CFB solution, reduced time required to reach FC and lower coal costs as CFB fuel requirements are more suitable for Mozambican coal qualities.

### **Conditions**

The terms of the NBO will be subject to a number of conditions including:

- CMEC and GE completing satisfactory due diligence on the project including development status, permits, project economics and security package.
- CMEC and GE completing satisfactory audit of the historic development costs.
- CMEC and GE having exclusivity on the EPC and O&M for the Integrated Project, and submitting binding offers that support the agreed tariff envelope.
- Confirmation of the process to award the Power Concession Agreement and Power Purchase Agreement from Mozambican Government and EDM respectively.
- Execution of a binding JDA
- Compliance with relevant CMEC and GE compliance rules and guidelines.
- Compliance with Mozambique and relevant governmental regulations and approvals.

### **Exclusivity**

CMEC and GE will have exclusivity until 30 April 2018 to negotiate and enter into the JDA with Ncondezi and tender on the EPC and O&M contracts for the Integrated Project.

### **Termination**

This NBO will be terminated in case any of the following events occurs:

- CMEC and GE are not satisfied with the result of their due diligence.
- Submission of Binding Offer for EPC and O&M not being received by NEL before 31 December 2017 on terms that are acceptable to NEL, or such later date as agreed between the parties.
- The Parties do not extend the term of this NBO by written agreement on or before 30 April 2018.

**Next Steps**

The parties will commence the JDA due diligence process immediately in order to meet the NBO conditions highlighted above. This will likely involve site visits in Tete, Mozambique as well as potential meetings with the Mozambican Government and EDM at the appropriate time.

In parallel to this, CMEC and GE are preparing the submission of binding bids for the EPC and O&M of the Integrated Project before the end of December 2017.

The Company will make a further update to shareholders following the formal signing of the NBO.

There is no certainty that the transactions contemplated by this announcement will occur.