

PROJECT SUMMARY INFORMATION: MUNALI NICKEL MINE (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 medium scale underground nickel sulphide mine, the construction and operation of a conventional ore processing plant (crushing, grinding, and flotation) and the related infrastructure. It foresees a production of some 8 500 t/a of nickel in concentrate for a period of 7.5 years from reserves of 6.7 Mt grading 1.2 % Ni. Additional inferred resources and favourable geology provide for the possibility of a considerable lifetime extension.

The Munali nickel deposit and project site are located approximately 60 km south of the Zambian capital Lusaka, in the Southern province. The project area is particularly well served by road, rail, and power infrastructure and has ample water resources.

3. Financing Proposal

Borrower: Albidon Zambia Limited, an ultimate subsidiary of Albidon Limited (“Albidon”), listed on the Alternative Investment Market (AIM) Board of the London Stock Exchange and on the Australian Stock Exchange

Amount: EUR equivalent of USD 40m (approximately EUR 32m at current rates)

Term: 7 years

Terms and conditions: Senior loan on own resources

Interest rates: Fixed-rate or fixed-spread floating-rate interest rate in force at the time of signature or disbursement.

Commission Opinion: Awaited

Financing Plan: The project cost, as estimated by the Bank, is USD 122m (EUR 96m), to be financed as follows: senior loans of USD 60m (49%) from respectively EIB USD 40m (33%) and Barclays Bank USD 20m (16%), a subordinated loan from the off-taker of USD 20m (16%), and equity from the promoter of USD 42m (35%).

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 set out in the Cotonou Agreement and with the mandate given to the Bank. The project represents an important Foreign Direct Investment which will contribute directly to three pillars of Zambia’s National Development Plan: (i) the diversification of the mining sector, which depends heavily on copper, (ii) private sector development, and (iii) export development. Based on an annual production of 8 500 tonnes of nickel in concentrate, the project is expected to contribute USD 30 to 40 M p.a. to Zambia’s GDP. Direct income will flow to Zambia from corporate income tax and mineral royalties (some USD 4M p.a.), and the mine will offer 430 employment posts (of which 20 expatriate) when operational. Indirectly, the project will promote the business of local suppliers, contractors and the service industries in Mazabuka, Kafue, Lusaka and the Copperbelt.

Quality and soundness of the investment (Pillar 2)

The estimates for the mining project indicate a robust profitability for a mine lifetime of at least 7.5 years on the basis of conservative price assumptions. The relevant environmental and social (including gender) issues have been properly addressed by the promoter and mitigating measures have been incorporated into the project design or are foreseen according to best industry practice.

The promoter is well prepared and is currently increasing its personnel capacity to deliver on those plans.

EIB contribution (Pillar 3)

Albidon is a junior mining company whose relatively small size and track record only in exploration make it difficult to raise large amounts of long-term capital. The Bank has developed a certain expertise in recent years in selectively providing assistance to mining companies at this stage of development (eg: Kenmare/Moma in Mozambique, FQM/Kansanshi in Zambia/DRC, Equinox/Lumwana in Zambia), not only by making available the term financing required – in co-financing with other institutions – but also by providing guidance on strategic direction and technical/environmental best practice.

5. Key Issues

Environment

If located within the EU, this project would fall under Annex II of Directive 97/11 as amended by Directive 2003/35. An EIA has been prepared by an independent consultant and has been submitted to, and approved by, the Environmental Council of Zambia (ECZ). It includes in extenso the relevant social aspects, public consultation, a preliminary rehabilitation plan and an environmental management plan. This EIA has been complemented with a separate Resettlement Action Plan (RAP), both conforming to EU and World Bank (WB) standards.

Mine and plant are designed according to international best practice and national laws. The main environmental issues of the project relate to tailings storage, the waste rock dump, ground water disturbance and surface water run-off. For all these issues, mitigating measures have been proposed in the Environmental management Plan (EMP). They are satisfactory to the Bank and they have been incorporated into the ECZ approval as conditions. All this is acceptable for the promoter.

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. The contract for establishing the underground access has been awarded following international negotiations. The main EPCM contract for the construction of the processing plant and the infrastructure will also be awarded following international negotiations. The same applies for the other contracts. These procurement procedures are efficient in terms of timing and overall cost. They are deemed to be in the interest of the project and are acceptable to the Bank.

6. Previous Relations with the Borrower/Promoter

This would be the Bank's first direct loan to the borrower.
