



# INTRODUCTION

Namibia Power Corporation (Proprietary) Limited  
Annual Report 2006 / Chairman's Review (cont.)

## INTRODUCTION

The era of surplus electricity in southern Africa, including Namibia, has ended. Notwithstanding many positive developments that are being planned by the industry, energy customers need to discipline themselves to use this scarce commodity sparingly.

In the financial year ending 30 June 2006, energy utilities in southern Africa were focused on meeting increasing power demand arising from growing economic activity in the region. Despite Namibia's superior track record in reliable power supply, NamPower was not excluded from this challenge.

The region's utilities need to intensify their efforts in this regard by concentrating on critical generation and transmission projects that will yield the desired megawatts. Recognising the urgent requirement to acquire additional capacity despite limited regional resources, national utility operators hosted a Regional Electricity Investment Conference (REIC) in Windhoek in September 2005.

The conference showcased the region's most strategic generation and transmission projects, while also providing a platform to source funding and investment from regional and international financiers. Following the conference, negotiations took place between the Southern African Power Pool, the Regional Electricity Regulators' Association and interested investors regarding funding for viable electricity projects. These constructive discussions were a direct result of keen interest generated at REIC.

## ECONOMIC ENVIRONMENT

Global economic growth improved moderately in the calendar year of 2006 to 5.1 percent from 4.8 percent in 2005. The effect of rising oil prices was partially offset by lower interest rates in many parts of the world. A particular feature of the year under review was the significant demand out of China and the United States, which continued to drive global growth.

Namibia's economy slowed significantly during 2005, with gross domestic product of 3.2 percent compared to more healthy growth of 5.9 percent in 2004. The weaker performance in 2005 was attributed to a decline in the value added by primary industries - in particular the mining and fishing sectors, which performed poorly during the calendar year - and a slight deceleration in value-added growth experienced by tertiary industries.

On a more positive note, inflation reached its lowest level since independence in 1990, coming in at 2.3 percent for the year compared to nearly double that rate of 4.2 percent in 2004. Interest rates were kept on a tight rein, with commercial banks maintaining short-term nominal interest rates at 11 percent in line with the Bank of Namibia's monetary policy, which left the bank rate at 7 percent after a 50 basis point rise in April 2006. The cost of borrowing remained constant, with the prime lending rate held at 11.75 percent after one 50 basis point increase, also in April 2006.

The economy's performance improved in the calendar year 2006, with growth of 3.5 percent expected, supported by better delivery in the primary sector on the back of increased mining production, and in the secondary sector from zinc and copper refining activities.

## HIGHLIGHTS

Powercom, a consortium of Telecommunications Management Professionals (TMP) (Pty) Ltd (a Norwegian company), NamPower Old Mutual Life Assurance Company (Namibia) Limited and Nam-Mic Holdings (the commercial arm of the Mineworkers Union of Namibia) has been granted a license to operate the second cellular network in Namibia. We are excited to be part of this venture, which we believe offers meaningful potential.

At the end of 2005, Namibia was assigned a favourable credit rating by Fitch Ratings, one of the largest international ratings agencies. Namibia is only the third country in sub-Saharan Africa to receive an international investment grade rating by Fitch. An international investment credit rating is essential for Namibia to demonstrate its creditworthiness and raise investor confidence. It augurs well for the Namibian economy in terms of bond and equity market development, and for promoting increased foreign direct investment (FDI).

# 2006 APPRECIATION &

## HIGHLIGHTS (cont.)

NamPower also secured a favourable rating from Fitch Ratings. This is particularly important considering the significant funding requirements for the company's generation and transmission projects. NamPower is placed in the same band as Government in terms of creditworthiness, which will allow the utility to raise long-term debt on favourable terms without a Government guarantee. This will release Government resources for other national development projects.

## PROSPECTS

Given the power supply challenges facing the country and the region as a whole, NamPower continues to pursue various power generation options. These are:

*Caprivi Link:* This project will connect the Caprivi Region from Zambezi Station to the national grid at Gerus, situated between Otjiwarongo and Outjo. The line from Livingstone to Zambezi Station on the Zambian side was completed after the end of the financial year, and the subsequent extension to Gerus will provide Namibia with an alternative to South African power. Construction on the Caprivi Link is scheduled to start during middle 2007.

## HIGHLIGHTS

*The Kudu Gas-to-Power and the Baynes Hydro Power:* Discussions on Kudu continue and significant progress has already been achieved. However, the time schedule for this project has been adversely affected by, among other issues, delays in finalising the Gas Supply Agreement with Tullow Oil. Financial Close was initially scheduled for the end of 2005 but has now been postponed to mid-2007. Regarding Baynes, the Permanent Joint Technical Commission (PJTC) between Namibia and Angola will meet in 2007 to discuss and agree on the way forward.

## APPRECIATION AND CONCLUSION

The year under review saw a transition in NamPower's leadership. I would like to take this opportunity to express the Board's gratitude and appreciation for the dedication and commitment of former Managing Director, Dr Leake Hangala. We commend him for his great leadership role and significant contribution to the electricity sector in Namibia and the region. Dr Hangala's term of office expired at the end of March 2006 after he had served ten years at the helm.

The Board welcomes the new Managing Director, Mr Paulinus Shilamba, who joined NamPower at the beginning of May 2006. Mr Shilamba is not new to the energy sector, having been employed by the Ministry of Mines and Energy, and the Electricity Control Board for 16 years. The Board, management and staff offer their wholehearted support during his tenure to help him take NamPower to greater heights.

Management and staff are to be commended for their hard work and dedication through these challenging times. It is my wish that we all remain focused for the future, which promises to be challenging in terms of ensuring reliable power supply to our customers.

In conclusion, I would particularly like to thank our shareholder, the Government of the Republic of Namibia, for its continued support and loyalty.

## CONCLUSION