



## INTRODUCTION

Since the South West Africa Water and Electricity Corporation (as NamPower was known until 1996) was established in December 1974, we have blazed a trail as a catalyst for Namibia's development.

We have kept lights burning and machines working at home and in our neighbouring countries. In doing so, we have made a significant contribution to a broad range of economic activities, creating high expectations and earning respect from all stakeholders.

NamPower believes that the electricity supply industry, a key input to all economic activities, is critical to help all industries and customers meet production targets, reach desired efficiencies, and improve quality of life.

Reflecting on the three decades that have passed since the utility was established provides NamPower with the confidence and renewed determination to deliver even further successes in the future.

Our commitment is, in part, an answer to a challenge enshrined in National Development Plan 2; namely; **"...to ensure that reliable and competitively priced energy continues to power the growth of the economy by means of making the necessary investments in the infrastructure to meet the growing demand for energy services and to improve on energy use efficiency ...."**

### THE PAST 10 YEARS

July 1996 marked the date in our illustrious history that the utility rebranded as NamPower and expanded its vision to meet the challenges of a new era in the electricity supply industry. NamPower has expanded its range of activities, venturing into the property and telecommunication industries.

We have made a meaningful difference to the quality of life of many Namibians living in rural areas by providing electricity. The utility has also made a significant contribution to the Southern African Development Community's regional electricity reform process under the auspices of the Southern African Power Pool (SAPP). As a result, NamPower has become a household name in the electricity supply industry, locally and regionally.

The introduction of the Electricity Act (2000) required NamPower to position itself to meet the challenges of a new competitive environment. An era of change has dawned on NamPower. In response, the company is taking a massive leap into the competitive arena, with a strategic focus on becoming Africa's leading energy company, providing excellent customer service, human resources development and technological innovation.

The year under review presented NamPower with numerous challenges in all aspects of its business.

### SIGNIFICANT HIGHLIGHTS OF THE FINANCIAL YEAR ENDING 30 JUNE 2006

- During the period under review, the Namibian President, His Excellency Hifikepunye Pohamba and his Botswanan counterpart, His Excellency Festus Mogae, officially commissioned the Omaere-Ghanzi 132kV Transmission Line. The transmission line is a N\$50 million joint-construction between NamPower and Botswana Power Corporation, providing power to Otjombinde, De Hoek and Talismanus in the Omaheke region on the Namibian side, and to Ghanzi, its surrounding areas and D'kar Village in western Botswana.
- NamPower completed and commissioned a 63km transmission line in the Namib Desert in December 2005, allowing the Langer Heinrich Uranium Mine in the Namib-Naukluft National Park to start construction.

## PERFORMANCE

### FINANCIAL PERFORMANCE

Group revenues and other operating income surged beyond the N\$1 billion mark, up 13 percent from the 2005 financial year. This increase was mainly due to a 12 percent increase in electricity sales and a 7 percent increase in investment income. The growth in sales is driven by the growth in demand of electricity and an Electricity Control Board-approved increase in tariffs.

NamPower managed to contain the increase in total expenditure to three percent, despite supply constraints that contributed largely to the 42 percent increase in variable operating expenses. Total operating expenditure for 2006 includes research and development costs related to the Kudu Gas project of N\$32,5 million (2005:N\$34,5 million). Favourable market movements up to 30 June 2006 resulted in an IAS 39 derivative gain of N\$67,7 million against a N\$7,4 million loss in the previous year.

# INTRODUCTION

## FINANCIAL PERFORMANCE (cont.)

Group and company profit before tax both increased substantially, by 142 percent and 154 percent respectively. Pre-tax profit for the company is the highest in the seven-year period starting in 2000, and the highest for the Group since 2001. The total cost-to-income ratio dropped from 91.9 percent to 82.9 percent in 2006. Despite a revaluation of mainly core assets, the depreciation charge remained constant due to a revision in the 'longer useful life' of the assets. Overall, the year's performance underpins the company's strong earnings potential.

Cost containment and control remain key strategic focus areas in an effort to derive more value out of every electricity unit sold. This is a vital ingredient for the current and future success of NamPower.

## FINANCIAL POSITION

Total Group assets increased to N\$9,4 billion from N\$6,6 billion. The 43 percent increase was, in main, the result of the revaluation of major categories of property plant and equipment. The Group's revaluation reserve, net of deferred tax, increased by N\$1.46 billion during the period under review.

Total cash and investments came to N\$1,77 billion, up 16 percent from the previous year, and 53 percent higher than the 2003-2004 financial year. The higher number is directly credited to increased customer collections and reduced expenditure as the company prepares itself for future capital expansion. A further N\$191 million was transferred from operations to cash investments after Group spending of N\$182 million on extending and replacing property plant and equipment. During the previous year, a record surplus in cash of N\$394 million was invested after company spending N\$158 million on extending and replacing property plant and equipment.

Company trade debtors, net of maturing investments, is down nine percent from 2005, with inventories down 12 percent, and trade and other payables up 32 percent. Effective working capital management contributed significantly to a sustained increase in cash reserves, despite electricity tariffs that did not reflect costs.

Total Group debt increased 41 percent during the 2006 year, mainly due to a 70 percent increase in the deferred tax balance, as a result of the substantial increase in fixed asset values due to the revaluation. Group interest-bearing long-term liabilities account for 32 percent of total debt and have remained fairly constant despite an additional debt sourced by the subsidiary during the 2006 financial year.

Total Group shareholder's equity as at 30 June 2006 stood at N\$5,7 billion, a rise of N\$1,7 billion on the preceding financial year. The increase in equity includes retained profit of N\$146 million.

As the custodians of some of our nation's most valuable assets, the NamPower board and management endeavour to create additional value for our shareholder, the Government of the Republic of Namibia, using prudent financial management and stewardship. We strive to grow at a sustainable rate while maintaining a standard of performance that exceeds stakeholder expectations.

## TECHNICAL PERFORMANCE GENERATION

Late rains in southern Angola adversely affected the Kunene River's flow and consequently affected Ruacana Hydropower Station's energy output in the last quarter of 2005. NamPower's supply capacity was also unexpectedly burdened due to regional transmission and generation constraints.

Notwithstanding the afore-mentioned issues, the Generation Business Unit continued to run the Van Eck Power Station and Paratus Power Station efficiently (despite uncompetitive generation costs) and thus ensured a reliable supply of power to Namibia.

While NamPower was able to institute a contingency plan to deal with the supply issue, it nonetheless warranted intensified efforts to consider alternative generation projects for the short-, medium- and long-term.

- The Kudu Gas-to-Power project has progressed well with some commercial gas-related issues still to be finalised. Kudu will ensure a secure electricity supply to Namibia allowing the country to become a net exporter of energy.
- The development of a mid-merit/peaking hydro power plant in the Baynes Mountains along the Kunene River bordering Angola is being investigated.
- The company Western Corridor Power Company (Westcor) was formed with Societe Nationale d'Electricite (SNEL-Democratic Republic of Congo), Empresa Nacional de Electricidade (ENE-Angola), NamPower, Botswana Power Corporation (BPC) and Eskom having equal shares. The vision is to develop Inga Three hydro-electric plant at the Congo River to transmit 3500MW to the other countries

TO POWER  
THE GROWTH OF  
THE ECONOMY

# PERFORMANCE

# FINANCIAL POSITION

## TRANSMISSION

The Transmission Business Unit successfully maintained its tradition of technical excellence, meeting and surpassing most technical indicators and focussing on the needs of customers. Scheduled and unscheduled system minutes lost during this period came to 309 and 423 respectively. Twenty-nine percent of the 423 unscheduled system minutes lost were in March 2006, and were linked to regional transmission issues. We are extremely pleased to report that there were no major interruptions in the system despite pressure on our capacity following a shortfall in supply from South Africa.

### Southern African Power Pool (SAPP)

Diminishing capacity in generation surplus, coupled with new congestion points experienced by utilities as they reach transmission transfer limits, remains a critical feature on the SAPP agenda. Power demand in the Southern African Development Community (SADC) region has increased on average three percent annually over the past ten years. Unfortunately, this has not been matched by a corresponding increment in power generation investment.

As a result, generation surplus capacity has diminished steadily. This continuing trend will have a negative effect on regional economies, and may cause potential investors some concern.

The growth in regional demand for power is principally due to:

- Population increases in most SADC member states;
- Economic expansion in most member states, requiring additional power for new industries;
- Non-economic tariffs that are not reinvested in power generation, but encourage large energy-intensive users to set up operations in SADC; and
- No significant capital injection into generation projects from the private or the public sector. Substantial investment in both generation and transmission infrastructure is needed to meet the projected increase in SADC's demand for power.

The Regional Electricity Investment Conference in Namibia in September 2005 identified as its theme emerging investment opportunities for sustainable development in the southern African power sector. The conference yielded the desired outcome, as major electricity generation and transmission projects are now key agenda items for many international financial institutions.

SADC continues to market and attract investment into generation and transmission infrastructure. It needs to embrace tariffs that reflect costs and adopt regulatory principles in each country to enhance those tariffs. SAPP members are responding well to the challenge posed, diminishing generation surplus capacity by accelerating short, medium and long-term generation and transmission projects.

## ENERGY TRADING AND NEW WORKS

The favourable ten-year power supply agreement between Eskom and NamPower, signed in 1996, expired in the year under review. The Energy Trading Business Unit played a crucial role in renegotiating a new agreement with Eskom. Negotiations on other power purchase agreements with Zambian utility ZESCO and Zimbabwean utility ZESA have started.

Energy trading experienced severe pressure during the year under review due to the shortfall in supply from South Africa. However, excellent negotiating skills and planning helped this Business Unit overcome the situation without any major interruptions.

## DISTRIBUTION

One of the most prominent electricity supply reforms in the SADC region is the current restructuring of the distribution sector. In Namibia this led to the creation of five asset-based Regional Electricity Distributor (RED) companies, in accordance with the Government restructuring report directive.

Three of the new companies are already operating while Central RED and Southern Electricity Distribution (SORED) will become operational soon.

NamPower ensured the smooth transfer of a substantial portion of its distribution assets to the new entities. This entailed extensive verification of customer data; the formulation of power purchase agreements between NamPower and the REDs; and signing of an interim Service Level Agreement for billing, networks maintenance and other services.

By virtue of its shareholding in the REDs (giving NamPower an average of 28 percent in the total distribution sector), NamPower's expertise in commercial rural electrification and its generation/supplier role in the electricity supply value chain will ensure that the utility continues to play a vital role in the distribution sector.

TECHNICAL  
PERFORMANCE  
FINANCIAL

## SPECIAL PROJECTS

### Short-term

#### **Open Cycle Gas Turbine (OCGT)**

Tenders were invited for the construction of a 25MW peaking power station at the Paratus Power Station in Walvis Bay.

### Medium term

#### **Kudu Gas-to-Power Project**

##### **a) Update on the Gas Sales Agreement**

Despite delays in finalising the commercial negotiations on the Gas Sales Agreement (GSA), considerable efforts have been made to resolve the remaining key issues to finalise the agreement between NamPower and Tullow Oil, and the latter's local partner, National Petroleum Corporation of Namibia (NamCor) (Pty) Ltd.

Eskom, which has agreed to purchase the balance of the off-take, remains committed to the project, having concluded and signed a Heads of Terms of the Power Purchase Agreement during the financial year.

NamPower and Eskom have reached advanced negotiations to form an operating and maintenance joint-venture on the Kudu Gas-to-Power Station.

##### **b) Funding for the construction of the Kudu Gas-to-Power Station**

Various regional and international financial institutions, particularly in Europe and Asia, have expressed interest in this project. This is once again evidence of global financial appetite for Namibian projects, buoyed by the robust domestic investment climate.

Once the GSA is concluded, a Mandated Lead Arranger will be appointed to source funding on behalf of NamPower for the Kudu Gas-to-Power project.

##### **c) Carbon Credits**

NamPower appointed a consultant for the Clean Development Mechanism (CDM) project. Under the CDM project, NamPower plans to apply to CDM's executive board to trade in carbon credits, which if approved will generate additional revenue for Kudu Gas-to-Power. The Namibian Government is establishing the Designated National Authority (DNA) to oversee the processing of applications of projects for carbon credits.

#### **Caprivi HVDC Transmission Link**

NamPower is implementing the Caprivi Link Interconnector to provide a link between the Namibian and Zambian/Zimbabwean electricity networks. The Interconnector comprises a 970km High Voltage Direct Current (HVDC) line to connect the new converter stations at the Zambezi Substation near Katima Mulilo with the Gerus Substation, which lies between Otjiwarongo and Outjo. The Caprivi Link project will be implemented in two phases. The first phase, which has an initial transfer capacity of 300MW, will start in mid-2007 and should be completed by June 2009. The second phase, comprising an additional 300MW transfer capacity, will be initiated when the need arises.

### Long-term

#### **Lower Kunene Hydro Power Project**

At the Permanent Joint Technical Commission's (PJTC) meeting in August 2005, the Namibian and Angolan parties considered future developments in the Lower Kunene River and resolved to explore the Baynes site further for power generation opportunities.

The decision to select Baynes was based on:

- good prospects for securing support from the global environmental community based on fewer environmental consequences than for the Epupa Site;
- the site's attributes potentially enhancing the search for project funding;
- substantial opportunities for the socio-economic development of the region;
- the reinstatement of Gove Dam as part of the project plan, which will also benefit the Ruacana Power Station.

# INVESTMENTS

NAMPOWER

## SPECIAL PROJECTS (cont.)

### Western Corridor Power Project

The Western Power Corridor (Westcor) company was registered in Botswana and the project management structure confirmed. A full feasibility study will begin soon. NamPower continues to support all facets of this project.

## NAMPOWER INVESTMENTS

In line with a NamPower management decision to streamline operations and focus on the Cuando Cubango and Cunene provinces, NamPower's Angolan office in Lubango was closed with a view to relocate to Ondjiva.

In the interim, the Angolan operations will be run from NamPower's head office in Windhoek until the relocation is completed.

NamPower Investments' effort finally paid off when the Namibia Communication Commission granted the long-awaited second GSM licence to PowerCom, a consortium of TMP (Norway), NamPower, Old Mutual and Nam-Mic (the commercial arm of the Mineworkers Union of Namibia). Preparations are at an advanced stage to commence operations as soon as possible.

Extensive negotiations have been concluded between NamPower and Telecom Namibia on how Telecom Namibia can use NamPower's fibre optic assets in a mutually beneficial manner. The parties reached an agreement and the logistics are being finalised. NamPower Investments continues to explore avenues to realise value from its fibre optic assets.

NamPower Investments has also completed the refurbishment of its property on Erf 1799, Luther Street, for office space and tenants have been secured for most of the units.

## HUMAN RESOURCES

NamPower recognises the role played by all its employees in establishing its competitive advantage. Changes in the electricity supply industry, combined with the need to ensure adequate energy supply for Namibia in the face of growing demand and dwindling supply, require specific skills sets and a change in mindset. A change of leadership has contributed to the focus on improved organisational efficiency and effectiveness while preparing NamPower for significant growth in its asset base and operations.

### Staff Profile

NamPower continues to employ an average of 850 employees, with approximately 60 on fixed-term contracts.

### Affirmative Action

The company's Affirmative Action profile is:

Senior Management (91%), Middle Management (73%), and specialist/supervisory positions (41%).

HUMAN  
RESOURCES

# LONG TERM

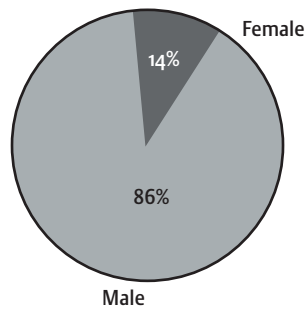
MEDIUM TERM  
20 SHORT TERM

## HUMAN RESOURCES (cont.)

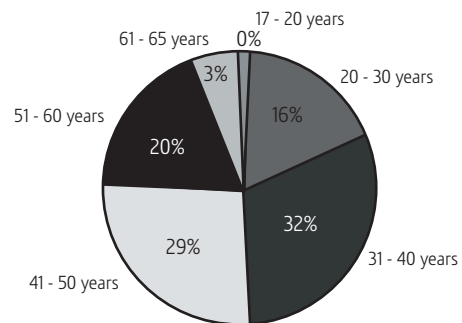
NamPower Employee Profiles  
June 2006

	2005	2006
Number of Employees	857	854

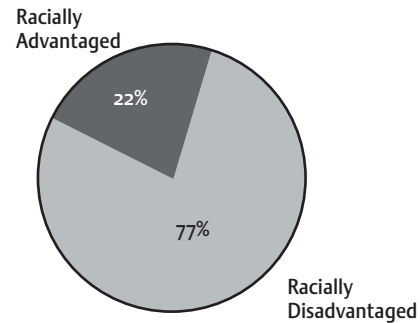
### Gender



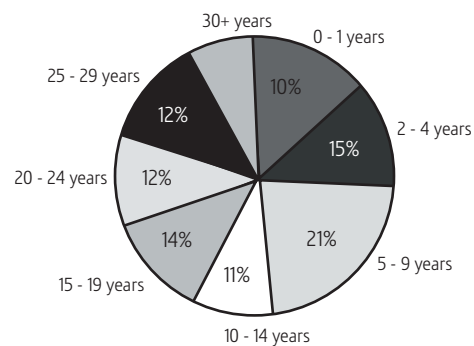
Employee average age is 43 years



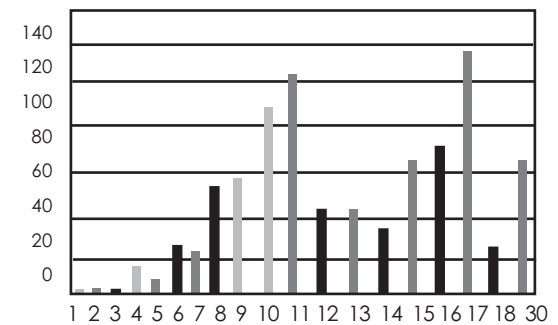
### Diversity



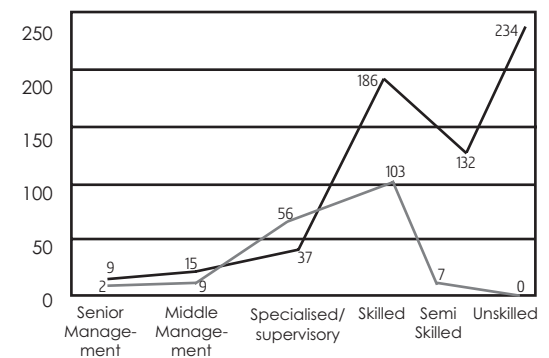
Average years of employment with NamPower is 13 years



### Grade categories



No. of employees per grade categories



## HUMAN RESOURCES (cont.)

### Human Resources Development

A total of N\$5 million was spent on training and development, with emphasis on management, supervisory and technical training. In addition, about 83 employees currently have interest-free study loans to help them upgrade their skills for career advancement.

### Remuneration

NamPower continues to benchmark its remuneration levels and practices, and this has confirmed that employees receive competitive salaries and benefits. A total-package remuneration approach for employees in Grades 1 – 10 (i.e. outside the Bargaining Unit) was introduced. The company and the Mineworkers Union of Namibia have agreed to implement a total-package approach for the Bargaining Unit from March 2007.

The new remuneration approach forms part of NamPower's medium to long-term strategy for containing employment costs while giving employees greater flexibility.

### HIV/AIDS

NamPower continues to provide all its employees and their families with access to anti-retroviral treatment via its 100% employer medical aid contribution. This is one of the comprehensive benefits offered by the company.

### Safety, Health and Environment

Some 109 employees were trained in areas like general health, safety and basic fire fighting. In addition, 52 employees were trained as First Aid practitioners. On the environmental side, 139 employees underwent basic environmental awareness training.

Between 1 July 2005 and 30 June 2006, 36 employees were injured on duty, with 91 vehicle accidents reported in the same period.

NamPower's two Occupational Health Clinics at Ruacana and Van Eck power stations also offer primary health care. These clinics are registered with the Namibian Association of Medical Aid Funds (NAMAF) and the Ministry of Health and Social Services. NamPower's own occupational health nurses have treated 1789 employees at both clinics, while the company-contracted medical practitioner consulted with 196 employees.

### Implementation of Environmental Management Systems

NamPower started implementing Environmental Management Systems at the Ruacana Power Station in line with ISO14001 standards. The Safety, Health and Environment policy states that the company will certify its core business units. A pre-certification audit will be done by an accredited certification body and a full assessment for ISO14001 certification was conducted at the end of 2006.

Environmental impact assessments (EIA) were done on the Auas-Rehoboth 132kV line. The Ministry of Environment and Tourism approved the EIA and the Environmental Management Plan. An EIA is currently underway on the 350kV HVDC line from the Zambezi Substation to the Gerus Substation.

## INFORMATION TECHNOLOGY

The main objective of NamPower Information Services is to connect people, processes, and content using reliable information, computing, networking and telecommunication services effectively. This supports NamPower's business objectives and helps provide efficient and effective services to Namibia's citizens.

As part of the information technology (IT) initiatives launched four years ago and as a catalyst for introducing and maintaining current IT in NamPower, the following projects were completed:

- To become more proactive, iServ implemented a product called LSM that monitors the IT infrastructure workload and warns administrators of possible problems.
- ISDN services were implemented in smaller towns in Namibia, linking district offices to head office and enabling them to work on SAP R/3 and other required systems remotely.
- To keep the R/3 system current in terms of functionality, eliminating systems issues, and keeping system errors to a minimum, NamPower successfully implemented the latest support packages on all SAP R/3 instances in March and April 2006.

NamPower is required to comply with International Financial Reporting Standards (IFRS) by the end of the 2006 financial year. Major impact areas  
**INFORMATION TECHNOLOGY (cont.)**

- are: strategic stock, property, plant and equipment and related parties. iServ has been a key member of the IFRS project team in analysing the requirements and determining the best system approach.
- The IT Business Unit revamped the Intranet and Internet in line with NamPower's new image. The SAP R/3 system has become increasingly popular since it went live three years ago. At the beginning of 2007 iServ also started consulting with the SAP R/3 Super User Group and other business representatives to introduce the SAP upgrade concept; thus sensitising users to the impending upgrade and identification of the business user needs and requirements.

Significant investment was made into certifying three staff members in finance and costing; human capital management; ABAP/4; and materials and workflow management. This was done in accordance with NamPower's objective of building internal capacity to support NamPower's SAP R/3 infrastructure.

## LEGAL AND CORPORATE SERVICES

Corporate Services, in conjunction with NamPower Investment, was extremely instrumental in the joint inauguration in April 2006 of the Omaere/Ghanzi 132kV line, about 45km east of Gobabis. Around 800 people attended the event, which coincided with the state visit of His Excellency, the President of the Republic of Botswana, Festus Mogae.

NamPower launched a nationwide 'Energy Savings Campaign' to minimise the impact of the imminent power shortage in Namibia. The campaign's first phase, carried out in the print media, started in June 2006. It included providing useful electricity savings tips, as well as an SMS (Short Message Service) competition for the public.

The objective was to create a general awareness on energy saving measures. The overwhelming response of consumers from all over Namibia was encouraging, with 14 000 people entering the 'Energy Saving Campaign' competition.

NamPower believes that teaching consumers about energy saving is an ongoing process.

## SOCIAL RESPONSIBILITY

The Rural Electrification Programme, launched in 1992, is critical for national development. NamPower has demonstrated its unwavering commitment to this initiative since its inception, having piloted investments valued at more than N\$300 million to date. A rollout plan is in place to ensure these investments continue.

The company's annual N\$12,5 million contribution to the Rural Electrification Programme forms part of our Corporate Social Responsibility activities supporting the improvement in living standards of people in remote areas. NamPower's continued support will help Government achieve its objective of providing electricity to 25 percent of rural households by 2010.

Alongside rural electrification, education is a critical focus for NamPower's Corporate Social Responsibility strategy. The company continues to make significant investments in developing the skills of young Namibians via donations to schools and tertiary education.

NamPower has developed a comprehensive bursary programme to help learners pursue tertiary qualifications. This year alone, NamPower provided bursaries to 14 students of engineering, education and accounting, which accounted for part of the total 2006 education budget of N\$5 million. To date NamPower has provided financial assistance to 137 young students pursuing studies in various fields at tertiary institutions in the SADC region.

NamPower made a significant contribution to the first-ever African Regional Fair for Science and Technology as the main sponsor of the Namibia Mathematics and Science Teachers Association (NAMSTA), through which Namibia was selected to host the event.

DIVERSITY  
HUMAN  
RESOURCES  
GENDER EMPLOYMENT  
AVERAGE

## SOCIAL RESPONSIBILITY (cont.)

NamPower has also donated teaching and learning aids valued at more than N\$500 000 to previously disadvantaged schools.

Our commitment to investing in Namibia's youth is making an invaluable contribution to narrowing the skills gap that threatens national development.

## ACKNOWLEDGEMENT

NamPower has always benefited from strong leadership in the energy sector and Government through the responsible Ministry, as represented by Honourable Minister Erkki Nghimtina, Honourable Deputy Minister Henock Ya Kasita and Permanent Secretary Mr Joseph Iita, and the ministerial staff who all made significant contributions to our success in the 2006 financial year.

Government's contribution of an equity injection of N\$750 million over a three-year period is further appreciated. A portion of the first tranche of the funds has been transferred already, with the second tranche due towards the end of the 2007 financial year.

Our regulator, the Electricity Control Board, has been an extremely important stakeholder in this process. We thank the contribution made by the Electricity Control Board chairman Mr Jason Nandago, the CEO Mr Siseho Simasiku, and the entire Electricity Control Board staff.

The restructuring of the electricity supply industry introduced new players and stakeholders in the industry. The presence of the Regional Electricity Distribution companies (REDs) has given the industry a different, but very important meaning, especially with regard to electricity distribution to customers. Equally, the local authorities, municipalities, and the mining and manufacturing sectors have contributed to our improved bottom-line. NamPower acknowledges the contributions made by their associated institutions and individuals. We shall continue to rely on this support in the future.

As incoming Managing Director I had the opportunity of working with most of these companies and individuals, and appreciate the support given to me since May 2006.

The electricity supply industry would not be complete without the NamPower Board of Directors, management and staff. All their contributions have pulled us through during the 2006 financial year. Their sacrifices and dedication cannot be measured in words, yet it would be unappreciative not to say a big thank you.