



MR. MATHEUS SHIKONGO

NamPower CHAIRMAN'S REVIEW

INTRODUCTION

It is with a sense of significant achievement and meaningful progress that I am delighted to report on the affairs of NamPower during the financial year 2003/2004. I am happy to accentuate that most of the strategic goals of NamPower have been realised and are currently being implemented. It is further worth mentioning that the implementation of these goals has been associated with vigorous commitment, dedication and courage of all the stakeholders in the electricity supply industry.

An increasingly complex operating environment, both locally and globally, required the successful management of some critical and far reaching decisions by the Board of Directors and the management of NamPower to ensure sustainable, secure supply of electricity to Namibia and the neighbouring countries.

ECONOMIC ENVIRONMENT

Global economic growth gathered momentum from the second half of 2003. Most transition economies in Africa experienced strong growth, hence the recorded average growth rate of some 4 per cent in 2003, which was the highest in four years. After a steady appreciation in the exchange rate of the Namibian Dollar since 2003, the currency depreciated moderately after August this year and appears to have

settled between N\$6,50 and N\$6,70 per US Dollar - approximately the same level as at the end of 2003. Even though the depreciating US Dollar has been favourable to the domestic economy, a negative impact could be felt by export companies as opposed to import companies.

Despite the consequential effects of our currency linkage to the South African Rand it is useful to note that the depreciating trend of the US Dollar against major currencies and the high commodity prices in international markets have been benefiting most emerging economies including Namibia.

The recorded steady increase in the GDP growth bears testimony of the sectoral recovery of economic activities in the Namibian economy.

The performance of the primary sector during the period under review was affected by various external influences such as the decline in livestock marketing as a result of the drought experienced in 2001 and 2002. Unfavourable climatic conditions severely affected the fishing sector and led to comparatively poorer performance in the hake and rock lobster species during 2003/2004. Despite this poor performance, it is worth stating that the introduction of aquaculture farming projects by the Ministry of Fisheries and Marine Resources seems to play a crucial role in the diversi-



fication of farming operations in Namibia. We took note of these developments and are gearing our operations to facilitate smooth operations in this emerging sub-sector.

The surfacing of new mining activities, particularly increased diamond production, had a significant impact on the performance of the mining sector.

The secondary sector continued to perform at expected levels. Despite the decrease in the processing of meat products, the value added by the sector is estimated to have increased during the period under review. This sector continues to play a very important role in the socio-economic well-being of Namibian citizens through employment creation.

The prevailing lower rate of inflation and low interest rate helped to moderate the demand for money. Bank loans and advances recorded an increase during most of 2003 and the first half of 2004. However, growth in mortgage advances, instalment sales and leasing finance was significantly higher, indicating buoyant activity in the fixed property and durable consumer goods markets.

Phenomenal growth characterised the tertiary sector in retailing. However, a decline in the postal services, rail and aviation sub-sectors could not be offset against the unexpected growth in the telecommunications sector. The decrease in tourism activities had

negatively affected the occupancy rate of accommodation facilities and by extension the performance of restaurants in Namibia.

The economy of Namibia, being a developing market, will continue to be affected by the turmoil in the global markets and the effects will be felt directly as compared to the mature markets.

FINANCIAL PERFORMANCE

Our financial and investment performance has been most encouraging during a period of major changes in the electricity supply industry, the awesome and unpredictable strength of the Namibian Dollar, the disbursement of substantial capital into maintenance of the aging network and very crucial new projects both locally and cross-border.

HIGHLIGHTS

The recently conducted Compliance Audit was a deliberate and proactive effort by NamPower to identify critical corporate governance areas and address them head-on.

In line with the effort to cut costs and realign the activities of the Company, the Board of Directors approved the recommendation by management to decrease the number of business units from ten to eight. This exercise was carried out diligently without resulting in any job losses.

The Board's approval of N\$12.5 million for rural electrification projects marked a considerable commitment by NamPower towards the upliftment of the previously disadvantaged and marginalised communities.

The announcement of the Black Economic Empowerment Policy was another bold step taken by NamPower. The latter is a necessary project in the history of the Company and Namibia in general as it aims to address the imbalances of the past by deliberately putting measures in place to bring the previously disadvantaged Namibians into the mainstream of the economy.

The following cross-border power supply projects have been approved and implementation is underway: the 132kV Omaere-Ghanzi, the 220kV Katima Mulilo-Victoria Falls, the 132kV Ruacana-Xangongo and Cahama in Angola.

The transformation of the former Ruacana Single Quarters into an upmarket commercial accommodation facility (Ruacana Eha Lodge) marked a significant endeavour in NamPower's business diversification strategy.

The signing of a Consortium Agreement between the lead partner TMP (Norway) and NamPower together with other shareholders in PowerCom (a potential 2nd GSM company) was another strategic


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investment decision taken by the Board of Directors.

Capacity development has been at the centre stage of the activities during the year under review. An amount of about N\$1 000 000 was spent on capacity building programmes and related activities.

The appointment of NamPower as the project leader of the Kudu Power Project has been welcomed by the Board of Directors. Agreements have been signed and the full feasibility study commenced at the beginning of the 2004/2005 financial year.

The rapidly evolving developments in the restructuring of the electricity supply industry and the consequent establishment of REDs has resulted in the gradual withdrawal of the seconded staff members from Premier Electric into NamPower. This however did not signal the end of NamPower's involvement in the distribution sector as we continue to participate as equity partners in the REDs.

Accreditation of the NamPower IT Training Centre by the Namibian Qualification Authority and the consequent certification by Microsoft made the NamPower IT Training Centre the first Microsoft Certified IT Academy in Namibia. This is indeed a significant development that will add value to the operations of NamPower through IT skills development.

THE FUTURE BECKONS...

The highlights of the financial year under review are indeed significant milestones shaping the future of NamPower and in particular the electricity supply industry in Namibia. The future holds attractive challenges and opportunities, and it is incumbent upon the leadership of NamPower to embrace the changes in order to make a significant impact. This calls for an increasing recognition, awareness and acceptance of our judiciary duties as Directors and management of NamPower.

As a responsible corporate citizen, NamPower has been continuing to take its social responsibilities seriously - both in the areas of its core business and beyond. The electrification of villages in all political regions as highlighted further in the report under "New Works" bears testimony of NamPower's role as a socio-economic development agent in Namibia. The year was additionally marked by a significant investment in socio-economic development programmes primarily in the areas of science education, sports and employee wellness. The latter is based on the premise that capacity development is the key to sustainable development of any nation.

APPRECIATION

During the past year, the staff of NamPower has risen magnificently to great challenges. I would first like to pay

tribute to all of them for their dedication, the enthusiasm, commitment and their passion for the business, and the pivotal role they played in supporting NamPower's vision to "become the leading energy company in Africa that excels in customer service, people development and technological innovation". Their contribution makes a significant difference not only to NamPower and Namibia, but to the region at large.

Secondly, to our management, a special word of thanks to Dr Leake Hangala and his team for bearing patiently with the Board during a turbulent year.

Thirdly, I would like to thank my fellow Board Members for showing an extraordinary level of commitment and trust in my leadership and judgement. At the same time, I acknowledge the contributions of Mr Petrus Damaseb and wish him all the best in his new position, I take this opportunity to welcome Mr Gerson Narib who recently joined us as a new director of NamPower.

A further word of thanks goes to the Electricity Control Board and the Ministry of Mines and Energy for their constant guidance and support during the past year. I was always excited by the commitment whenever and however I interacted with your staff at different levels.