

Electric-Corporate
Namibia
Credit Analysis

Namibia Power Corporation (Proprietary) Limited

Ratings

Security Class	Current Ratings
Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
National	
Long-Term	A- (zaf)
Short-Term	F2 (zaf)

Outlooks

Foreign Long-Term IDR	Stable
National Long-Term	Stable

Financial Data

Namibia Power Corporation (Proprietary) Limited		
	30 Jun 08	30 Jun 07
Revenues (NADm)	1,261.5	1,150
Operating EBITDAR (NADm)	387.6	407.7
Funds from operations (NADm)	635.8	544.4
Net free cash flow (NADm)	117.5	341.3
Total adjusted debt (NADm)	1,522.3	944.1
Cash and equivalents (NADm)	210.6	660.4
Total adjusted debt/op. EBITDAR (x)	3.9	2.3
FFO/gross interest expense (x)	9.5	8.5

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Related Research

- *Parent and Subsidiary Rating Linkage - Fitch's Approach to Rating Entities Within a Corporate Group Structure (June 2007)*
- *Eskom Holdings Limited (January 2009)*

Rating Rationale

- Namibia Power Corporation (Proprietary) Limited (NamPower) is strategically important as Namibia's monopoly state-owned electricity company.
- The rating is aligned with that of the sovereign, based on strong legal, operational and strategic links, as per Fitch Ratings' "Parent and Subsidiary Rating Linkage" criteria report of 19 June 2007 (available on www.fitchratings.com).
- At end-June 2008, NamPower's leverage (gross debt/EBITDA) was 3.9x, from 2.3x in the prior year. This increase in leverage, among other aspects, is the result of higher capex and reduced operational profitability, due to the more frequent utilisation of costly thermal generation sources in the tight supply scenario that has emerged in the Southern African Development Community (SADC) countries. However, NamPower remains in a net cash position when including short-term investments (mainly bank deposits) in cash & equivalents.
- A combination of expected tariff growth, fuel grants and equity injections should partially offset further ratio weakening on the back of the group's NAD13.9bn capex programme which runs until 2013.

Key Rating Drivers

- Ratings will come under pressure if the financials weaken beyond the scope of the group's financial projections. Among other ratios, the gross debt service cover ratio (DSCR) is expected to remain above 1.5x.
- NamPower's ratings are likely to continue to move in parallel with the sovereign rating in the absence of signs of a weakening in tangible and intangible support.
- It is important for management to successfully deal with Namibia's tight supply situation, and to reduce its reliance on imports. Although the global markets turmoil is also affecting segments of the Namibian economy, Fitch expects that the relief that this causes for the electricity system will only be temporary.

Recent Events

Construction of the first 300 megawatt (MW) phase of the Caprivi Link Interconnector started in February 2008, and is scheduled for completion in January 2010. Construction of the fourth turbine of the Ruacana hydro plant was recently approved for completion in 2012, among other generation and transmission projects.

Liquidity and Debt Structure

In December 2008, NamPower negotiated development agency funding for the Caprivi project, for a total of NAD1.3bn. In July 2007, NamPower issued a NAD500m dual-listed bond (in Namibia and South Africa) maturing in 2020. It expects to tap additional capital markets debt of some NAD1.5bn, part of which will be under the ZAR3bn debt issuance programme, and development agency funding of NAD1.3bn. Funds for the remainder of the capex programme will be derived from a combination of cash and short-term investments, cash flow from operations (CFO), equity injections (NAD1bn received to date; NAD250m outstanding in support of a new generation unit), and non-recourse project finance. NamPower has a strong liquidity profile, with cash and short-term investments of close to NAD2.7bn at end-June 2008, and limited near-term debt maturities.

Business Profile

NamPower is currently the sole generator, energy trader and transmitter of electrical power in Namibia. The country's power is mainly generated by the utility's Ruacana hydro-electric scheme (249MW), situated on the Kunene River running along the Namibia/Angola border. Power is also sourced from the Van Eck (120MW) coal-fired plant in Windhoek and the 24MW diesel generator Paratus at Walvis Bay. Total generating capacity is 63% hydro and 37% thermal. Namibia has no natural supplies of coal, which it imports from South Africa.

The Van Eck station's inland location means that it only operates during periods of peak demand, due to its high running costs. Paratus only runs on a standby basis, subject to an agreement with South Africa's Eskom Holdings Limited (Eskom, Local Currency IDR 'A'/Negative). Capacity at the Ruacana plant is constrained by the vagaries of seasonal rainfall, though it does have a small storage dam and has never been shut down due to lack of available water. Namibia's total installed generation capacity is 393MW, while peak demand in 2008 was recorded at 450MW (533MW including Skorpion – see below).

NamPower also imports significant quantities of electricity from the Southern African Power Pool (SAPP) members, and has transmission network connection with South Africa, and further distribution connections with Angola and Botswana. Imports are on average slightly above 50% per annum (for cost and availability reasons), and domestic demand is growing at 3.6% (in 2008) per annum. Power arrangements currently exist with Eskom and also with the Zimbabwe Electricity Supply Authority (ZESA), both of which have continued to be honoured despite the recent South African power crisis and the political and economic situation in Zimbabwe. Additional power will be imported from the Zambian Electricity Supply Company (ZESCO) and from Société Nationale d'Electricité (SNEL) in the Democratic Republic of Congo (DRC) which should increase and become firm once the Caprivi Link Inter-connector becomes fully operational (see below), as well as small amounts from Electricidade De Mozambique (EDM).

As will be seen later in this report, there are several options available to NamPower to increase its power generation. The successful development of some of these projects is seen as essential to improve the security of supply in Namibia.

Ownership and Support

NamPower's IDR is aligned with that of the sovereign rating for Namibia, in accordance with the guidelines set out in Fitch's criteria report *Parent and Subsidiary Rating linkage*.

Fitch considers that NamPower has strong links with the sovereign for the following reasons:

- 100% ownership by the government of the Republic of Namibia; no privatisation appears to be planned for the foreseeable future
- Key operational entity for the achievement of Namibia's economic growth plans
- NamPower's investment programme forms an integral part of the state budget
- Tangible financial support has been provided by the government in the form of equity contributions to support new capex, the foregoing of dividends, and the provision of government grants
- The government guarantees a large proportion of NamPower's debt, and the Ministry of Mines and Energy is openly supportive of the company's current and future capex plans
- Board members of NamPower are appointed by the government, although the government does not get involved in day-to-day operational decisions

Board and Management

The board comprises five directors and the managing director (MD). Board members are appointed by the government, and were all re-elected after their first term. There do not appear to be any plans to have independent board members, which may reflect negatively upon corporate governance but also highlights the close relationship with government. NamPower is in compliance with the corporate governance code in Namibia, despite being state-owned, and its commitment to transparency is underpinned by the establishment of a number of committees, such as a Risk Management and an Audit Committee.

NamPower is currently rolling out a performance management system, implementation of which should be completed during 2009. Fitch expects that successful implementation of this programme will support efficiency and capex rollout. The management team has remained largely stable over the past 12 months, albeit that it is currently looking to fill the position of General Manager Finance.

Strategy

NamPower's strategy focuses on the implementation of a capex programme that is, among other factors, designed to help fast-track a reduction in supply bottlenecks and Namibia's dependence on imported electricity.

Namibia's Energy White Paper states that at least 100% of peak demand should be met, and that at least 75% of total electricity requirements should be derived from internal sources in 2010 (extended to 2012 in the latest National Development Plan (NDP3)). It also states that 10% of supply should be sourced from internal renewable energy sources. Given the long lead times of generation capacity installation and approval, it is also prioritising a number of shorter-term solutions to address immediate supply issues. For example, this was underlined in 2007-2009 when it negotiated PPAs with ZESA (150MW for five years) and SNEL (50MW for five years renewable, starting in 2009), enabling some diversification away from South African supplies. It is also close to signing a power supply agreement with ZESCO for 50MW for ten years.

These agreements came on top of a supplemental agreement with Eskom to minimise power interruptions and load shedding, delivery of 150MW by October 2008 from Hwange Power Station in Zimbabwe (see *Key Generation Projects*), and the signing of a 30MW agreement with the National Utility of Mozambique.

Market Structure; Demand and Supply Dynamics

The electricity surplus that the Southern African Development Community (SADC) countries have enjoyed in the past has rapidly declined, and countries need to take swift action to address issues of power shortages. This action will require substantial investment in generation capacity, grid networks and interconnections. Capacity in the region at end-June 2008 was around 54,742MW, of which 46,391MW was actually available – which translates into a sub-optimal reserve margin of less than 10%.

In 2008, NamPower saw electricity demand growth of 3.6% to 2,682 gigawatt hours (GWh) – or by 4.1% to 3,392GWh including the Skorpion Zinc mining operations and exports to Angola, Botswana and Eskom. Peak demand growth was marginally down to 533MW, from 539MW (excluding Skorpion, it reached 449MW, from 446MW in the prior year). Most electricity (2,682GWh, or 3,345GWh including the Skorpion mine) was sold domestically, with exports remaining low at 47GWh. Domestic figures are often stated excluding the Skorpion Zinc mine, as power to this mine is supplied by Eskom through a back-to-back agreement with NamPower.

Of the 3,719 gigawatt hours (GWh) that entered into the system in financial year 2008 (FY08), 1,572GWh was produced by NamPower, similar to that in the prior year (1,576GWh). The Ruacana hydropower plant supplied 88% of locally generated

electricity, with the remainder from the expensive thermal plants. Ruacana's output was 17% below that in the prior year. The remainder was imported from Eskom (1,961GWh), STEM (the SAPP's short-term energy market; 22GWh), ZESA (85GWh), EDM (52GWh), and ZESCO (27GWh).

The slowdown in the global economy has started to affect Namibia's electricity demand dynamics, albeit so far in a fairly moderate manner. The main effect has been on the mining sector, where a drop in commodity prices has caused a number of closures. This has taken some strain off the electricity system and has limited the risk of load-shedding, but management acknowledges that this effect may be temporary – and it therefore needs to be ready to accommodate the system for a return to solid growth, which may actually be accelerated as new uranium mines on the West Coast come on line.

Market Restructuring

Market restructuring is ongoing, and involves the creation of five regional electricity distributor companies (REDs), three of which are already in operation. Fitch's view is that the creation of these REDs is positive for NamPower because it will dramatically reduce the number of counterparties with which NamPower has to deal, making it easier to collect revenue. This has already resulted in a reduction in collection days. Furthermore, the REDs are in a better position to coordinate distribution activities than the smaller municipalities (previously NamPower's largest customers), which have at times suffered from insufficient financial means to contract appropriate levels of maintenance.

The REDs sell electricity to end-consumers who just receive one bill. The regulator anticipates that harmonisation of tariffs between the REDs will be achieved within the next two-to-three years. In the near term, NamPower will maintain a stake in each RED in order to provide appropriate levels of support and guidance for these new entities.

NamPower remains active in rural electrification, particularly in the central and southern parts of the country where it continues to hold the distribution licences. While NamPower is not compensated for electrification-related capex, it does ensure that opex is covered to limit the impact of electrification on its accounts. With the new REDs, Fitch notes that the main financial impact of electrification opex will now be for the account of these entities.

Status of Key Transmission Projects

Caprivi Link Interconnector

This interconnection project links the Namibian, Zambian and Zimbabwean transmission networks. Construction started in February 2008, and more than 60% of the work has been completed by March 2009. The contractual completion date for the converter station is scheduled for 16 January 2010, and Fitch expects the remaining execution risk to be relatively low due to efficiency resource management. When fully operational, the link will provide an additional transmission/trading route that could circumvent bottlenecks on an existing connection with South Africa (via Botswana and Zimbabwe). It will also provide NamPower with possible access to further electricity capacity in the region, that is currently not optimised as a result of transmission constraints. In times of normal operation, the maximum power transfer is 300MW.

NamPower secured NAD1.3bn of related DFI funding in December 2008. Other entities (including the World Bank) are investing in related generation and transmission projects which assume construction of the inter-connector. A decision on the Caprivi link phase II, which would add a further 300MW, has not yet been taken, and will be judged purely on economic merit.

West Coast Development

The opening of new mines (particularly uranium) on the West Coast has triggered a need for expansion and strengthening of the transmission network in that region. The development is divided in three phases:

- Phase 1: supply of power to the UraMin/Trekkopje uranium mine; this includes a desalination plant
- Phase 2: power supply to the Valencia mine
- Phase 3: power supply to the Goanikontes mine, and increase of power supply to the existing Langer Heinrich Mine

NamPower's policy to require advance payments for transmission requests from industrial customers limits related risks.

Future Transmission Projects

A number of additional transmission projects are still at the conception stage. These include the ZIZABONA interconnection, designed to provide a short-term solution (5-10 years until generation capacity comes on line) to Namibia's power shortage as well as an alternative north-south corridor to South Africa. The project was initiated by NamPower, ZESCO of Zambia, ZESA of Zimbabwe and BPC of Botswana. If this project is implemented, it will enable various hydro projects to be developed in the region.

Status of Key Generation Projects

Hwange

- This project involves a NAD225m (USD40m) loan by NamPower to ZESA for the refurbishment of four units of the Hwange coal-fired power station. Hwange is a low-cost producer.
- Repayment of the loan is in the form of power delivery of up to 150MW at reduced tariffs to NamPower over a five-year period. For this purpose, a five-year PPA has been signed – under which the first 40MW was received in January 2008, and a 150MW flow commenced in October 2008 and has been sustained to date.
- The PPA period will be extended from its standard life if insufficient power is supplied, such that full repayment of the loan occurs. Investors should note that the PPA counterparty is ZESA and not the power station. This means that if for some reason the power station cannot meet supply requirements, ZESA still has to provide NamPower with electricity from other sources. There are currently some wheeling constraints at the times when Eskom's Koeberg generators in the Western Cape are not available, but this issue should be addressed upon completion of the Caprivi Link and commissioning of a connection from the Eastern to the Western Cape.
- The risk that Zimbabwe does not honour the agreement appears limited, as spare parts and equipment need to be paid for in foreign currency – which it does not have. There is also the issue of 75% of available power being intended for domestic use in Zimbabwe, in order to try and address ongoing shortages in the country.
- The repayment schedule “in kind” means that the project is not subject to foreign exchange risk or exchange control restrictions. Funds to be drawn for the project have been put in an escrow account in Botswana, and payments take place directly to suppliers of equipment and services on certification of project invoices by an independent consultant. This mitigates the risk of any appropriation of project funds.

Ruacana 4th Turbine

The installation of a fourth unit, which can use water that has been spilled during high-flow season, has become feasible. The additional unit should increase capacity by around 92MW. Commercial operation is expected in March 2012, and the tender for supply and installation of the unit closed in August 2008.

Future Generation Projects

In addition to the abovementioned generation projects, NamPower is conducting feasibility studies for a number of other options that should help it to address security of supply issues. Fitch expects that a final decision on these options (or combination of options) will be taken shortly. Here follows a short description of some options at hand:

- **Kudu:** Progress with Kudu, which involves a gas-to-power project in Namibia, remains slow due to ongoing disagreement on key commercial terms between the fuel supply developer and operator (Tullow), the owner and off-takers. The main issue under discussion relates to price and forex risk (mismatch between foreign currency-denominated gas and local currency electricity sales), which no parties to the agreement are currently willing to take. Management is hopeful that a solution may be created, with some international institutions and/or mining companies being willing to share this risk. Options such as indexing part of the off-take to dollars (given that mining company earnings tend to be in that currency as well) are under consideration, as well as the possible establishment of a liquidity fund to deal with forex volatility. The project had initially relied heavily on the bulk balance of off-takers, as not all of the envisaged 800MW would be needed for Namibia during the first years of operation. However, as Namibian consumption is increasing, the requirement for a bulk off-taker has become less evident. Fitch anticipates that the government will have to get involved for the project to materialise (this involvement may be through legislation and/or financial). Its willingness to do so appears quite high, also given the sheer potential of this project to address power supply issues through the use of domestic resources and to form a stepping-stone towards the creation of a hydrocarbon sector in Namibia. Construction of the project is estimated at four years, with commercial operations targeted for 2013.
- **Walvis Bay Short-Term Emergency Generation:** construction of a diesel generator plant is scheduled to start in 2009, and is expected to be finalised in 2010. A consultative process with the mines and other key stakeholders is still underway. Ownership of the plant would be through an SPV, with NamPower as one of the shareholders. The government has indicated that it will make available the capital required for this stake. Related investments are limited to NAD250m.
- **Walvis Bay Power Station:** the implementation of this 200MW-800MW coal-fired power project is foreseen through IPPs. NamPower's role will be that of de facto single buyer, possibly a minority investor and as facilitator/coordinator. NamPower is coordinating the environmental impact assessment study and final site study to ensure that all issues are addressed, and that boundaries on technology types to be employed are made clear.
- **Small Orange River Hydro Power Stations:** still in feasibility study phase, and border issues have not yet been fully resolved. However, it appears that the essential support for this project has been confirmed by the governments of South Africa and Namibia. NamPower contributes to development costs, and may become an equity partner.
- **Baynes Hydro Power Station:** a 360MW mid merit/peaking plant in the Baynes Mountains along the Kunene River is envisaged, and feasibility studies are currently under way.

- **Renewables:** Nampower established a target of 10% renewables capacity as a proportion of the total by 2011, focusing on selected technologies – including wind, solar and invader bush. A first target of 40MW should be met by 2011.

Demand-Side Management Projects

The Electricity Control Board, NamPower and the Ministry of Mines and Energy are working together to provide relief to supply shortages by means of demand-side management. So far, the focus has been on three main initiatives:

- Introduction of Compact Fluorescent Light-bulbs: free distribution started in August 2007, and 900,000 bulbs have since been procured – of which 90% has been distributed to customers. This measure is expected to result in savings of some 12MW-20MW at a cost of NAD14.25m.
- Demand-management programmes, under which customers are remunerated for reducing their load.
- Introduction of Time of Use Tariffs; this is mainly relevant for transmission to mining and bulk water pumping customers. Savings from this measure are currently around 29MW, as customers respond to price signals for different time periods (peak, standard, off-peak).

Future Generation and Supply

Assumptions for capacity planning of existing installations are that the Van Eck plant will run until 2013, which appears conservative, whilst from end-2009 NamPower will be able to benefit from the ZESCO PPA through the Caprivi link. The Kudu plant is not expected to come on stream until 2013.

Nampower has identified a number of options for future generation and supply, and a final decision on priority projects is pending. The main options include: 1) 800MW Kudu, 2) 450MW Kudu and 360MW Baynes, and 3) 360MW Baynes and 250MW Walvis Bay Coal. The impact of these options on pricing varies substantially. An integrated resource plan is used to assist NamPower in ranking these projects.

Regulation

The regulator continues to make progress towards bringing regulation more into line with developed market standards. A good dialogue between the regulator and NamPower, also facilitated by the CEO's previous experience within the regulator, has played a significant part in implementing change. Although one might expect government interference in tariff-setting decisions where the incumbent utility is wholly state-owned, this actually does not appear to be the case in Namibia, which is a positive factor and demonstrates the development of a degree of market maturity and independence on the regulator's part. It is apparent, however, that the Electricity Control Board (ECB) plays an important role in advising the government on electricity-related issues, including providing recommendations for licences.

While 2009 is an election year, Fitch does not expect electricity pricing or regulation to be a determining factor in the campaigns. The upcoming tariff review will also become effective in July, well ahead of the November general elections. Tariffs do not currently vary depending on consumption, and it is unclear whether this is a key objective.

Fitch notes that the lack of an established energy policy by government represents a limiting factor for the development of the sector and its regulation.

Key Priorities for the Regulator Include

- Tariffs should be fully cost-reflective by 2011. As a clear sign of this, the regulator approved an 18% increase as of July 2008. The ECB acknowledges that

existing generation facilities are dated and that their replacement will require further tariff increases.

- Once this has been achieved, the regulator intends to move towards rate of return-based regulation with incentive-based tariffs, probably in 2012-2013. However, at the same time the regulator is keen to maintain a tariff of last resort for poor households, probably linked to certain usage thresholds.
- Price harmonisation and alignment of tariffs of the two REDs that have not yet been established with those of the other REDs. The ECB may also establish minimum return rates, which will have to vary by RED in function of their customer profile.
- Developing a clear and transparent IPP framework to attract new investment. This will probably require IPPs to be compensated on a cost-plus basis and to offer solid investment return rates, most likely above rates allowed for NamPower. However, it remains to be seen whether return expectations of the IPP sponsors can be aligned with those of the regulator, and Fitch understands that proposals received so far have largely been unrealistic. In principle, the ECB is willing to consider various technologies, including wind, clean-coal and gas-fired proposals.

Financial Analysis

Accounting

The financial statements for the year ending July 2008 were for the first time prepared in accordance with IFRS. Until 2007, Nampower had reported its accounts under Namibian GAAP.

Financial Policies

NamPower has a defined minimum DSCR target of 1.5x. This minimum target ratio compares with a notional 60:40 debt/equity ratio set by the regulator. NamPower does not, however, focus on the latter ratio for internal planning purposes, but is mindful of the importance of operating within the regulator's parameters. The 1.5x DSCR is covenanted and documented, and cure periods for breach of the level are allowed within defined time periods. Fitch believes that government support would be highly likely to be forthcoming in the event that circumstances arise which might lead to a sustained breach of the covenanted level.

Earnings

Revenues in the year ending June 2008 and in the period July 2008-January 2009 were up by 9.7% and 26%, respectively, driven mainly by increased tariffs.

While the overall EBITDA margin has shown a downward trend since FY06, it remained strong at 31% in FY08 and 26% in the period ending January 2009. Profitability in both periods was negatively impacted by the need to utilise the more expensive Van Eck and Paratus facilities to meet growing demand. This is likely to continue, until capacity forecast to become available via the major new projects (see above) comes into operation, with a subsequent impact on short-medium term profitability. Future margin pressure should be partly offset by the government's decision to support the operational expenditure with grants, comprising two payments of NAD120m to be made by 2010.

Interest income rose further in FY08 to NAD290m, from NAD191m in the prior year, which reflects the increased balance of cash and short-term investments – which is the result of capex pre-funding (including in the form of a NAD500m bond and a NAD500m equity injection from the government) and slower-than-expected rollout of the investment plan.

Earnings in FY07 were impacted by impairment charges, which included NAD27m related to the Hwange project in Zimbabwe as the auditors took a conservative

view on related risks. However, this provision was reversed in FY08, because the commercial arrangement has not been affected by the volatile political and economic conditions as underpinned by the 150MW that NamPower already receives as per the PPA.

FY08 net income of NAD198.9m includes the effect of embedded derivatives and firm commitments. Excluding this effect, profits were NAD535.5m.

Summary Results and Budget

(NADm)	Jul 08 - Jan 09 Actual	Jul 08 - Jan 09 Budget	Prior year
Revenues	950.7	967.7	756.5
EBITDA	251.5	238.4	212.8
EBITDA margin (%)	26.5	24.6	37.0
Interest payable	51.5	122.5	57.7
Interest income	245.5	119.3	191.3
Net profit	170.5	43.1	189.0
Cash & equivalents	35.3		205.8
Short-term investments	2,421.0		2,024.4
Gross debt	1,605.5		1,485.6
Gross debt/EBITDA (x)	3.7		4.1
Gross debt - cash/EBITDA (x)	3.6		3.5
Gross debt - cash - investments/EBITDA (x)	Net surplus		Net surplus
EBITDA/gross interest (x)	4.9	1.9	3.7
EBITDA/net interest (x)	Net surplus	Net surplus	Net surplus

Source: NamPower

The table *Summary Results and Budget* indicates that performance in the period ending January 2009 has been above budget, which was also the case in the prior year. This underscores the prudence applied in the forecasting process, but also reflects the slower-than-expected implementation of the investment plan.

Debt

NamPower had the following debt instruments outstanding as of end-June 2008:

Debt Breakdown

Loan provider	Amount (NADm)	Maturity	Other information
Bonds (NMP20N)	500	2020	ZAR-denominated; 9.35% coupon rate
Agence Francaise de Développement	49.2	2019	Guaranteed by government
EIB (loan I)	416.6	2020	Guaranteed by government
AB Svensk Exportkrediet	56.2	2014	Guaranteed by government
African Development Bank	42.0	2018	Guaranteed by government
Development Bank of Southern Africa	220.0	2022	Secured by pledge of investments with book value of NAD79.9m and nominal value of NAD220m
EIB (loan II)	238.4	2022	Guaranteed by government
Total	(NAD1bn)		

Source: NamPower

In December 2008, NamPower successfully negotiated funding totalling NAD1.3bn from a combination of KfW Development Bank, the European Investment Bank, Development Bank of Namibia Limited, and Agence Francaise de Développement, to help fund the Caprivi Interconnection. Fitch notes that its ability to arrange for funding at a time of serious global market volatility reflects positively on the company's reputation. Average funding costs benefit from a lender subsidy. The funding ranks at least pari passu with present and any future claims of unsecured and unsubordinated creditors. Covenants include:

- DSCR >1.3 with a rolling average in any two years above 1.4
- Debt to capitalisation <65%
- Net debt to EBITDA <7x until the end of 2010, and <4x thereafter

On 17 July 2007, NamPower issued NAD500m worth of bonds maturing in 2020 with a 9.35% semi-annual coupon, denominated in South African rand and launched under the company's NAD3bn debt issuance programme. The proceeds from the bonds are to be used for the construction of the Caprivi Link Interconnector.

Most non-capital market debt remains in the form of development agency loans, and typically benefits from a government guarantee. NamPower hedges interest and exchange rate risk by entering into swap agreements and forward exchange contracts.

Some EUR2.8bn of the NAD13.9bn capex programme until 2013 is expected to be funded with additional bond issuance and development funding. The remaining funding needs are expected to be met by a combination of cash reserves, equity injections from its shareholder, and non-recourse debt.

Cash Flow

The positive FFO trend continued in FY08, with an increase of 17% over the prior year to NAD635.8m, largely reflecting higher net interest income. Capex approximately doubled yoy in FY08 to NAD268m, but the implementation of the investment programme remains substantially below forecast levels.

In future, NamPower's cash flow generation profile should benefit from an improvement in debt collection days following the creation of the REDs (see *Market Restructuring* above). Its average collection period declined to 38 days at end-December 2008, from 43 days in the prior year.

NamPower has large investment requirements, and expects to spend some NAD13.9bn until 2013. In addition to expenditure for new generation capacity, the plan also includes investment for the refurbishment and extension of the grids, as the current grid is on average more than 20 years old. Namibia's highly corrosive climate (salt, sand and temperature) means that grid maintenance capex will continue to be high.

Liquidity

Bank and cash balances totalled NAD35.3m at end-January 2009. Short-term liquid investments of NAD2.4bn were also held by the company, mainly in the form of deposits at notice and other call accounts held with financial institutions. Non-current investments of NAD628m included proceeds from the bond and from the equity injection. While Fitch does not include the non-current assets in its liquidity calculations, the presence of these funds has the potential to add to NamPower's financial flexibility.

Forecasts

NamPower makes extensive forecast cash flow information available to Fitch, including detailed financial forecasting models that are reviewed by external accountants. Fitch bases its view on the modelling of the company's forecast financial results, together with the assumptions and sensitivity analysis provided and performed by the company at Fitch's request.

Revenue, Tariff and Electricity Demand Growth Forecast

Sharp expected revenue growth is mainly due to a combination of continued demand growth and above-inflationary tariff increases. The impact of new projects delivering cost-effective electricity into the system, and reducing the need to despatch more costly capacity, should stabilise revenue growth in the medium term.

Capex

The capex profile to 2028 focuses on projects to which management is committed as of March 2009. This, and near-term security of supply concerns, explain the front-loaded investment profile and the concentration on transmission investment to improve flows of electricity both to and within the country.

DSCR

As part of its financial management, the company focuses on the DSCR. As mentioned earlier in this report, NamPower has DSCR covenants set at 1.5x, and Fitch closely monitors this ratio. Should the DSCR drop below 1.5x, Fitch would immediately review the rating because: 1) covenants are breached, 2) it may suggest that government support is not sufficiently forthcoming, and 3) <1.5x is getting close to a situation in which the company cannot comfortably meet its obligations.

However, it should be borne in mind that the DSCR calculation does not include the company's considerable cash balances, which gives it substantial additional flexibility.

NAMIBIA POWER CORPORATION (PROPRIETARY) LIMITED

	30 Jun 2008 NADm Original	30 Jun 2007 NADm Original	30 Jun 2006 NADm Original	30 Jun 2005 NADm Original	30 Jun 2004 NADm Original
Summary Balance Sheet					
ASSETS					
Cash and Marketable Securities	210.6	660.4	266.1	68.5	87.4
Accounts Receivable/Trade Debtors	130.9	114.0	151.0	198.1	260.5
Inventory	187.8	151.1	138.6	156.7	181.6
Other Current Assets	3,038.6	1,256.6	968.3	1,060.3	619.3
Property, Plant & Equipment	6,564.8	6,456.2	6,798.9	4,569.4	4,670.6
Intangible Assets	6.0	17.2	41.4	0.0	0.0
Other Non-current Assets	1,692.3	1,379.7	1,095.2	586.4	548.8
TOTAL ASSETS	11,831.0	10,035.2	9,459.6	6,639.5	6,368.2
LIABILITIES					
Short-term Debt (inc. CPLTD)	71.1	51.4	54.8	32.7	33.1
Accounts Payable/Trade Creditors	294.8	107.5	112.9	103.9	105.6
Provisions	2,228.8	2,185.4	2,088.1	1,341.0	1,281.3
Other Short-term Liabilities	132.5	54.5	425.7	231.6	172.9
Other Long-term Liabilities	826.8	621.5	72.8	0.0	0.0
Long-term Secured Debt	1,451.3	892.7	943.7	952.4	902.7
Long-term Unsecured Debt	0.0	0.0	0.0	2.2	2.0
TOTAL LIABILITIES	5,005.2	3,913.0	3,698.1	2,663.8	2,497.6
EQUITY					
Minority Interest/Minorities	0.0	0.0	0.0	0.0	0.0
Equity Capital & Reserves	6,825.8	6,122.2	5,761.5	3,975.7	3,870.6
TOTAL LIABILITIES & EQUITY	11,831.0	10,035.2	9,459.6	6,639.5	6,368.2
Adjusted Gross Debt	1,522.3	944.1	998.6	987.3	937.8
Debt Schedule					
DEBT PRIORITY					
Lease Liabilities	0.0	0.0	0.0	0.0	0.0
Secured	1,522.3	944.1	998.6	985.1	935.8
Unsecured	0.0	0.0	72.8	2.2	2.0
Convertible	0.0	0.0	0.0	0.0	0.0
Subordinated	0.0	0.0	0.0	0.0	0.0
Total Debt	1,522.3	944.1	1,071.3	987.3	937.8
Off-Balance Sheet Debt	0.0	0.0	0.0	0.0	0.0
Total Adjusted Debt	1,522.3	944.1	1,071.3	987.3	937.8
Non-recourse + Equity Hybrid Component	0.0	0.0	0.0	0.0	0.0
Total Adjusted Debt with Equity Credit	1,522.3	944.1	1,071.3	987.3	937.8
Adjusted Liabilities--	1,522.3	944.1	1,071.3	987.3	937.8
DEBT SOURCE					
Bank	1,522.3	944.1	998.6	987.3	937.8
Capital Markets	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
TOTAL DEBT	1,522.3	944.1	998.6	987.3	937.8
DEBT MATURITY					
Less than 1 Year	71.1	51.4	65.8	32.7	33.1
1 To 2 Years	0.0	0.0	0.0	0.0	0.0
2 To 5 Years	0.0	345.7	339.9	0.0	0.0
More than 5 Years	1,451.3	547.0	592.9	954.6	904.7
TOTAL DEBT	1,522.3	944.1	998.6	987.3	937.8
Unrestricted Cash & Deposits	210.6	660.4	266.1	68.5	87.4
CURRENT DEBT NET OF CASH	-139.5	-609.0	-211.3	-35.8	-54.2
TOTAL DEBT NET OF CASH	1,311.8	283.7	732.4	918.9	850.4
TOTAL ADJUSTED DEBT NET OF CASH	1,311.8	283.7	805.2	918.9	850.4
Adjusted Liabilities Net of Cash	1,311.8	283.7	805.2	918.9	850.4
Restricted Cash & Deposits	0.0	0.0	0.0	0.0	0.0

~ includes Restricted Cash

~~ Total Adjusted Debt with Equity Credit plus Debt-like Pref. Stock

NAMIBIA POWER CORPORATION (PROPRIETARY) LIMITED

Summary Income Statement

	30 Jun 2008	30 Jun 2007	30 Jun 2006	30 Jun 2005	30 Jun 2004
	NADm	NADm	NADm	NADm	NADm
	Original	Original	Original	Original	Original
SUMMARY INCOME STATEMENT					
Revenue*	1,261.5	1,150.0	986.5	869.3	808.3
Cost of Goods Sold	923.9	770.3	596.7	559.2	532.7
GROSS PROFIT	337.7	379.7	389.8	310.1	275.6
Selling, Distribution & Administrative Expenses	0.0	0.0	0.0	0.0	0.0
Other Operating Expenditure**	-49.9	-28.0	-13.5	0.0	-5.2
Presentational only: L-T Rentals (incl. in SG&A above)	0.0	0.0	0.0	0.0	0.0
Operating EBITDAR	387.6	407.7	403.4	310.1	280.8
Depreciation & Amortisation	228.0	241.3	246.2	248.5	224.1
Non-recurring, non-operational and non-recourse income***	0.0	-9.9	-0.1	0.0	0.0
Associate Income/Loss	-68.0	-22.0	0.9	0.0	1.9
Other Income/Expense	0.0	0.0	0.0	0.0	0.0
EBIT	91.6	134.5	158.0	61.5	58.6
Interest Income	289.8	191.3	158.2	145.7	142.5
Interest Expense	75.2	73.1	117.2	117.3	124.4
Non-interest Financial Income/Charges	-15.6	-35.2	0.0	0.0	0.0
PBT	290.6	217.5	199.1	90.0	76.8
Taxation	91.6	98.1	52.7	27.7	16.6
Minorities	0.0	2.6	4.8	0.0	0.0
NET INCOME	198.9	122.0	151.2	62.2	60.1
Extraordinary Items/Accounting Changes	0.0	0.0	0.0	0.0	0.0
NET INCOME AFTER EXTRAORDINARY ITEMS (before dividends)	198.9	122.0	151.2	62.2	60.1

Summary Cash Flow

	30 Jun 2008	30 Jun 2007	30 Jun 2006	30 Jun 2005	30 Jun 2004
	NADm	NADm	NADm	NADm	NADm
	Original	Original	Original	Original	Original
SUMMARY CASH FLOW					
Operating EBITDAR	387.6	407.7	403.4	310.1	280.8
Cash Interest Paid, Net of Interest Income	-199.0	-83.0	-41.0	-28.4	-18.2
Cash Tax Paid	0.0	0.0	0.0	0.5	-5.1
Associate Dividends	0.0	0.0	0.0	0.0	0.0
Other Changes before Funds From Operations****	49.2	53.7	-63.8	68.7	56.0
FUNDS FROM OPERATIONS	635.8	544.4	380.6	406.7	360.1
Working Capital	-202.4	-19.0	-7.4	97.1	-25.5
CASH FLOW FROM OPERATIONS	433.3	525.4	373.2	503.7	334.6
Non-Operational Cash Flow***	-1,452.4	-85.3	0.0	0.0	0.0
Capital Expenditure	268.0	133.4	196.0	158.2	280.7
Dividends Paid	0.0	0.0	5.0	4.0	6.5
FREE CASH FLOW	-1,287.0	306.7	172.2	341.6	47.4
Receipts from Asset Disposals	1.3	3.0	0.7	14.9	17.0
Business Acquisitions	41.5	88.8	45.6	394.8	-29.0
Business Divestments	0.0	-6.5	0.0	0.0	0.0
Exceptional & Other Cash Flow Items	-191.3	-20.1	77.5	-15.0	-1.3
NET CASH IN/OUTFLOW	-1,518.6	194.3	204.7	-53.3	92.1
Equity Issuance/(Buyback)	500.0	250.0	0.0	0.0	0.0
FX movement	0.0	0.0	0.0	0.0	0.0
Other Items Affecting Cash Flow****	-9.5	4.4	-18.3	-15.2	3.8
NET CASH FLOW AVAILABLE FOR FINANCING	-1,028.1	448.7	186.4	-68.5	95.9
OPENING TOTAL DEBT NET OF CASH	283.7	732.4	918.9	850.4	946.3
Net Debt Increase/(Decrease)	1,028.1	-448.7	-186.4	68.5	-95.9
CLOSING TOTAL DEBT NET OF CASH	1,311.8	283.7	732.4	918.9	850.4

* Net of Sales, Royalty & Other Operational Taxes

** Excludes Depreciation & Amortisation

*** Analyst Estimate

**** Balancing Item

NAMIBIA POWER CORPORATION (PROPRIETARY) LIMITED

Ratio Analysis

	30 Jun 2008 NADm Original	30 Jun 2007 NADm Original	30 Jun 2006 NADm Original	30 Jun 2005 NADm Original	30 Jun 2004 NADm Original
EARNINGS/PROFITABILITY					
Revenue Growth (%)	9.7	16.6	13.5	7.5	28.9
Gross Profit/Revenues (%)	26.8	33.0	39.5	35.7	34.1
Op. EBITDAR/Revenues (%)	30.7	35.5	40.9	35.7	34.7
EBIT/Revenues (%)	7.3	11.7	16.0	7.1	7.3
Pre-Tax Profit/Revenues (%)	23.0	18.9	20.2	10.4	9.5
Profit after tax/Revenues (%)	15.8	10.4	14.8	7.2	7.4
Effective Tax Rate (%)	31.5	45.1	26.5	30.8	21.7
Profit after tax/Average Equity (%)	4.5	3.7	4.1	2.3	2.0
Return on Average Assets (%)	2.5	2.0	3.3	2.8	2.9
FFO Return on Adjusted Capital (%)	8.5	8.7	7.4	10.6	10.1
Free Cash Flow Margin (%)	-102.0	26.7	17.5	39.3	5.9
COVERAGES					
FFO/Gross Interest Expense and Preferred Dividends (x)	9.5	8.5	4.3	4.5	3.9
FFO Fixed Charge Cover (x)	9.5	8.5	4.3	4.5	3.9
(Op. EBITDAR-Capex)/Gross Fixed Charges(x)	1.6	3.8	1.8	1.3	0.0
Op. EBITDAR/Net Fixed Charges (x)	-1.8	-3.5	-9.8	-10.9	-15.5
FFO/Interest Expense Net of Interest Income (x)	-2.0	-3.6	-8.3	-13.3	-18.8
Free Cash Flow Debt Service Coverage (x)	-8.3	3.1	1.7	3.1	1.1
Net Fixed Charges Cover (x)	-0.7	-1.4	-3.8	-2.2	-3.1
LEVERAGE					
Total Adjusted Debt/Op. EBITDAR (x)	3.9	2.3	2.7	3.2	3.3
Total Adjusted Debt Net of Cash/Op. EBITDAR(x)	3.4	0.7	2.0	3.0	3.0
Adjusted Liabilities Net of Cash/Op. EBITDAR (x)	3.4	0.7	2.0	3.0	3.0
Adjusted Net Leverage/FFO (x)	3.1	0.7	2.4	2.4	2.5
Adjusted Leverage/FFO (x)	2.1	1.5	2.2	1.9	1.9
Free Cash Flow/ Adjusted Liabilities (%)	-84.5	32.5	16.1	34.6	5.1
CFO/Total Debt Net of Cash (%)	33.0	185.2	51.0	54.8	39.3
CFO/Adjusted Liabilities Net of Cash (%)	33.0	185.2	46.4	54.8	39.3
Total Adjusted Debt/Total Adjusted Capitalisation (%)	18.2	13.4	14.8	19.9	19.5
FINANCIAL STRUCTURE					
Secured and Lease Debt/Total Debt (%)	100.0	100.0	93.2	99.8	99.8
Current Debt/Total Debt (%)	4.7	5.4	6.6	3.3	3.5
Off-Balance Sheet Debt/Total Adjusted Debt (%)	0.0	0.0	0.0	0.0	0.0
Total Debt Net of Cash/Tangible Equity (%)	19.2	4.7	12.8	23.1	22.0
PENSION ADJUSTED RATIOS					
Mixed Scheme Pension Liability	10.2	6.3	6.5	8.4	7.2
Pension Adjusted Net Leverage	3.4	0.7	1.8	3.0	3.1
Pension Adjusted Net Coverage	0.0	0.0	0.0	0.0	0.0
Pension Adjusted Net Coverage (Implied)	-1.8	-3.6	-12.7	-10.9	-15.5
Implied Interest Cost	0.0	0.0	0.0	0.0	0.0
Pension Adjusted Gross Coverage	0.0	0.0	0.0	0.0	0.0
Pension Adjusted Gross Coverage (Implied)	-1.8	-3.6	-12.7	-10.9	-15.5
WORKING CAPITAL CYCLE					
Average Inventory Processing Period (days)	67.0	68.6	90.3	110.4	119.1
Average Receivables Collection Period (days)	35.4	42.1	64.6	96.3	114.3
Gross Cash Cycle (days)	102.4	110.7	154.9	206.7	233.3
Average Payables Payment Period (days)	79.5	52.2	66.3	68.4	77.4
Cash Conversion Cycle (days)	22.9	58.5	88.6	138.3	155.9
ADDITIONAL INFORMATION					
Depreciation	216.2	224.1	228.5	245.6	224.1
Amortisation	11.8	17.2	17.6	2.9	0.0
Capital Expenditure/Depreciation (x)	1.2	0.6	0.9	0.6	1.3
CFO/Capital Expenditure (x)	1.6	3.9	1.9	3.2	1.2
Interest Capitalised	0.0	0.0	0.0	0.0	0.0
Hire/Lease/Rent Costs for Current Assets	0.0	0.0	0.0	0.0	0.0
Hire/Lease/Rent Costs for Long-term Assets	0.0	0.0	0.0	0.0	0.0
Contingent Liabilities	0.0	0.0	0.0	0.0	0.0
Operating Exceptionals in Operating Costs	0.0	0.0	0.0	0.0	0.0
Staff cost/Revenues (%)	0.0	0.0	0.0	0.0	0.0
R&D (net)/Revenues (%)	0.0	0.0	0.0	0.0	0.0

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