



KUDU POWER PROJECT UPDATE

Brief Overview

The development of NamPower's strategic projects, the Kudu Power Project and the Caprivi Link Inter-connector, and other capital projects comes at a time when the SADC region is facing a steady decline in the power surplus.

Namibia has for years been dependent on the import of electricity from South Africa, which was made possible through favourable Bilateral Agreements that have been in place for the past couple of decades. Although a new Bilateral Agreement was signed mid-2006, the eminent power shortage in South Africa is expected to affect Namibia and it is thus of utmost importance that Namibia implement new supply options.

The successful development of these projects will alleviate the envisaged supply shortage in Namibia. The Kudu Power Project will ensure the security of reliable power supply for Namibia where-as the Caprivi Link Inter-connector will allow Namibia to access other supply options in Zambia and Zimbabwe.

The Kudu Power Project which is being driven by NamPower, the national electricity utility of Namibia, will use natural gas from the Kudu Gas Field situated 170 km offshore on the south-west coast of Namibia to power the Kudu Power Station near Oranjemund to generate electricity for a projected period of 22 years. The plant will be connected to the Namibian and Southern Africa power grids and power from the power station will be purchased under long-term Power Purchase Agreements. The Kudu Power Station will be based on Combined Cycle Gas turbine (CCGT) technology.

The initial project concept was based on an 800MW base load power station but recent developments in the region suggest that there could be other opportunities to exploit the synergies between the development of power in Namibia and the development of gas infrastructures in the region. The inclusiveness of the new approach which is still under discussion has signalled a positive spirit in accelerating the development of the Project.

The development of the Kudu Power Project carries regional support following the position that was taken at the SADC Heads of State and Government Summit which took place in Mauritius in 2005. At bilateral level, the Presidents of Namibia and South Africa at their Heads of State meeting in November 2006 tasked their Energy Ministers to unlock the potential of the gas resources. This demonstrates the regional outlook of the Project and the collective resolve at SADC and bilateral level to harness the region's natural resources to the benefits of national and regional economic growth.

The Kudu Power Project in addition to addressing the imminent power shortages in both Namibia and South Africa will also bring the following benefits:

- The Kudu Power project is a cornerstone investment which would provide the impetus and economies of scale to underwrite the ongoing development of the Namibian and South African gas industry;
- The commercialisation of gas will make a major contribution to the exploitation of Namibian and South African oil and gas resources;
- It would provide the first tangible opportunity to realise the vision of the Bilateral Gas Trade Agreement between the two countries;
- It would allow for the diversification of energy sources used for power conversion in both Namibia and South Africa;
- The investment will provide a catalyst for other investors and developers in the industry;
- Electricity and gas exports to South Africa would favourably address the Namibian trade deficit with South Africa.

Since the signing of the Joint Development Agreement in 2004 by NamPower, NamCor (Namibia), Eskom (South Africa) and Tullow Kudu (now 100% owned by Tullow Oil from Ireland), and the Memorandum of Understanding between NamPower and Eskom (South Africa), significant developments have taken place in realising Namibia's developmental objectives of securing power supply to meet current and projected future growth as envisaged in Vision 2030. NamPower, as mandated by the Namibian Government has made considerable progress in developing the Project, notably in the following aspects:

- Environmental assessments were completed and clearances obtained on the upstream gas development, power station and transmission line routes. Similar clearances were obtained by the developers of the upstream gas development.
- The tender document for the EPC (Engineering, Procure and Construct) for the power station has been prepared and 7 consortia were pre-qualified in 2005 (please see *attached list of pre-qualified consortia*).
- Seven (7) Mandated Lead Arrangers (MLA's) were pre-qualified of which the successful consortia/company will be appointed to assist NamPower in obtaining the required financing for the Project (*see attached list of pre-qualified consortia*).
- The Power Purchase Agreement (PPA) with Eskom (South Africa) as the major power off-taker is at an advanced stage. Finalisation of the agreement is expected once the range of gas prices has been obtained to determine the viability of the energy cost. Transmission integration between the Namibian and South African networks has been agreed upon.
- Consultations were held with local, regional and international banks as well as the Bank of Namibia in determining how the financial procurement of loans will be structured.
- Major international funding institutions such as EIB, IFC, KfW and AfD provided letters of comfort on their preparedness to part-finance the project.
- Interest was also received from several French financial institutions that want to take advantage of the favourable investment opportunity that the Project is providing.
- NamPower is investigating obtaining carbon credits and has made progress in applying for registration under the Clean Development Mechanism of the Kyoto Protocol.

Considering the fact that Kudu Power Station will be one of the first projects in Southern Africa to use CCGT technology, NamPower wishes to encourage local and regional contractors and other service providers to take advantage of the opportunities that this Project will offer. Foreign investors are encouraged to partner local companies and participate in the Project.

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