

## Namibia Power Corporation (Proprietary) Limited

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	BB+	Negative	Affirmed 28 February 2019
National Long-Term Rating	AA+(zaf)	Negative	Affirmed 28 February 2019
National Short-Term Rating	F1+(zaf)		Affirmed 28 February 2019

[Click here for full list of ratings](#)

### Financial Summary

(NADm)	Jun 2016	Jun 2017	Jun 2018	Jun 2019F
Gross Revenue	5,006	5,921	6,595	6,958
Operating EBITDA	602	1,731	1,986	1,629
FFO Fixed-Charge Coverage (x)	6.3	10.4	13.3	9.1
FFO Adjusted Leverage (x)	2.8	1.4	1.2	1.1
FFO Adjusted Net Leverage (x)	-3.4	-2.5	-3.3	-4.4

Source: Fitch Ratings, Fitch Solutions

Namibia Power Corporation (Proprietary) Ltd's (NamPower) ratings reflect the standalone credit profile (SCP) of its monopolistic position in energy trading and transmission in Namibia, with a cost-reflective tariff framework and strong financial profile. However, the rating is capped by that of the group's Namibian sovereign shareholder (BB+/Negative). Fitch Ratings expects capex to lead to negative free cash flow (FCF) for the financial year ending June 2020 (FY20), which will largely be funded from existing cash resources.

### Key Rating Drivers

**Strong Shareholder Links:** NamPower is rated under Fitch's *Government-Related Entities Rating (GRE) Criteria* and its rating is capped by Namibia. The ratings for NamPower are driven by its SCP of 'BBB-', which is stronger than the sovereign's, but are capped by the sovereign's ratings, given its strong links with the government.

**SCP Assessment Improves:** NamPower's SCP assessment has been revised higher to 'BBB-' from our previous assessment of 'BB' category, on confirmation (including importantly clarity on timing, scale and funding) of the utility's investment decision on power generation. The limited visibility on NamPower's investment decision previously led to a lower assessment of the group's SCP.

**Final Investment Decision on Generation:** Fitch understands from the management that NamPower has committed to three renewable power generation projects to reduce its reliance on imported energy. Once completed, these will improve its generation capacity to 500MW by end-FY22/23 from 400MW at FYE17. The three renewables projects will be funded by cash resources and cash-flow from operations, and will comprise solar photovoltaics, wind power and biomass. In addition to these projects NamPower is considering a 50MW generation option.

**Reliant on Imported Electricity:** Fitch expects NamPower to remain reliant on imported electricity as opposed to its own generation for the next four years. The level of energy imports marginally increased in FY18 to 69% from 63% in FY17, as the hydro power plant produced about 450 gigawatt hours (GWh) less electricity in FY18 compared to FY17.

NamPower optimises its electricity supply mix between its own generation, independent power producers (IPPs) and imported electricity. The energy trading department manages the imported electricity through power purchase agreements (PPAs) and the Southern African Power Pool (SAPP) spot market. Fitch expects NamPower to remain dependent on its trading partners to meet its electricity demands, especially the spot market. NamPower has long-term contracts with Eskom Holdings SOC Ltd (Eskom; Long-Term Local-Currency IDR BB-/Negative), Zimbabwe Power Company (ZPC), and Zambia Electricity Supply Corporation (ZESCO).

**Growth in IPPs:** IPPs contributed about 120 GWh to Namibia generation in FY18. The development of IPPs originated from the government's initiative, Interim Renewable Energy Feed-in Tariff (REFIT), which planned to develop 14 IPPs, each with a 5MW capacity. In addition, 57MW of solar photovoltaics capacity and 5MW of wind capacity were added to generation at end-December 2018.

**State Boost to Own Generation:** The government aims to reduce reliance on imported electricity by improving local electricity generation. In October 2018, the Minister of Mines and Energy announced new renewable generation projects in Namibia for a combined generation capacity of 220MW. NamPower is expected to build, own and operate assets with about 150MW capacity and the remaining 70 MW is expected to be provided by IPPs. These initiatives could improve Namibia's generation to about 800MW (including NamPower's and IPPs' capacities) in the next six to eight years, although the exact timing and form of these further projects is yet to be determined.

The government is also committed to the Paris climate accord to obtain 70% of its electricity requirements from renewable sources by 2030.

**Shortage of Electricity Mitigated:** NamPower's five-year supply agreement with Eskom expires at end-March 2022, but Fitch does not expect it to face an electricity shortage by 2022. NamPower could negotiate an extension to the supply agreement or source the deficit in the SAPP spot market. NamPower sourced about 830 GWh in the SAPP spot market for FY18, compared with about 135 GWh in FY17.

Eskom is expected to supply a significant portion of Namibia's electricity requirement up to 2022. Fitch forecasts electricity sales volume to increase for FY19 despite lower peak demand in FY18 of 653MW, compared with 661MW in FY17. If, however, the government introduces the Modified Single Buyer (MSB) market model, NamPower's electricity sales would be affected and could decline as early as FY21.

**Modified Single Buyer Market Model:** We do not expect the MSB's introduction to negatively affect NamPower's rating, although our view may change as details emerge. The government and the Electricity Control Board (ECB, which is NamPower's regulator) aim to liberalise the supply of electricity in Namibia. MSB will allow IPPs to generate and sell electricity output directly to regional electricity distributors, large industrial and mining companies, including municipalities, compared with the current single-buyer model, whereby electricity output can only be sold to NamPower.

These agreements are expected to be limited to about 20% of customers energy consumption. Nevertheless NamPower is expected to retain its monopoly transmission position and remain the supplier of last resort.

## Rating Derivation Relative to Peers

Rating Derivation Versus Peers	
Peer Comparison	NamPower's ratings are the same as Namibia Water Corporation's (NamWater; BB+/Negative). The SCP drives the ratings for NamPower, which are capped by the sovereign. The rating of Telecom Namibia Limited (TN; BB/Negative) is driven by the support it receives from the government but it is notched lower than that of NamPower under our GRE criteria, due to TN's weaker links.  NamPower's financial profile is the strongest in terms of funds from operations (FFO) net adjusted leverage in the regional peer sector group, which includes Eskom and Saudi Electricity Company (A/Stable) mainly due to cash generated by operations supported by cost-reflective tariffs and delays in capex for new generation capacity. This is balanced against a business profile with weaker market trends, volatility of cash flows and reliance on imported electricity.
Parent/Subsidiary Linkage	We assess NamPower's links with the government of Namibia under the GRE and <i>Parent and Subsidiary Rating Linkage</i> criteria. The ratings of NamPower are capped by the sovereign rating.
Country Ceiling	No Country Ceiling constraint was in effect for these ratings.
Operating Environment	Operating environment considered to be neutral for these ratings.
Other Factors	n.a.
Source: Fitch Ratings, Fitch Solutions	

## Navigator Peer Comparison

Issuer		Business profile						Financial profile			
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Position and Cash Flow Profile	Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Structure	Financial Flexibility	
Namibia Power Corporation (Proprietary) Limited	BB+/Neg	bbb-	bb+	bbb-	bb+	bb	bb+	bb+	a	a	
Eskom Holdings SOC Ltd.	BB-/Neg	bb+	b+	bbb+	b	bb	bb+	ccc	ccc	ccc	
PGE Polska Grupa Energetyczna S.A.	BBB+/Sta	a	a-	bbb	bbb	bbb+	bb	bbb	a	a-	

Source: Fitch Ratings

Importance: Higher (Red), Moderate (Blue), Lower (Light Blue)

## Rating Sensitivities

### Developments That May, Individually or Collectively, Lead to Positive Rating Action

- An upgrade of Namibia's sovereign ratings or revision of the sovereign Outlook to Stable. The rating impact of any improvement in the SCP would be limited by the sovereign ratings.

### Developments That May, Individually or Collectively, Lead to Negative Rating Action

- A downgrade of Namibia's sovereign ratings.
- A significant change in the market trends, for example, introduction of the MSB market model reducing NamPower's cash generation, or increased capex funding leading to weaker credit metrics such as FFO net adjusted leverage above 3.5x on a sustained basis, which would be negative for the SCP.

### Sovereign Rating Sensitivities

For the sovereign rating of Namibia, Fitch outlined the following sensitivities in its Rating Action Commentary dated 21 February 2019.

### Developments That Could Lead to a Stabilisation of the Outlook Include:

- Stabilisation of the government debt-to-GDP ratio
- Marked narrowing in external deficits consistent with an improvement in Namibia's external balance sheet
- Stronger medium-term growth resulting, for example, from improved prospects for the mining sector or implementation of structural reforms.

### Developments That Could Result in Negative Rating Action Include:

- Failure to halt the rise in government debt-to-GDP
- Widening of external deficits or emergence of external funding pressures
- Persistently weaker growth performance and prospects.

## Liquidity and Debt Structure

**Robust Liquidity:** NamPower had NAD565 million of cash at FY18, supported by a liquid investment portfolio of about NAD7.2 billion. This can be accessed at short notice to bolster its liquidity position and investment needs. This compares with NAD207 million of short-term debt and Fitch's expectation of positive FCF for FY19.

## Debt Maturities and Liquidity at FYE18

Available Liquidity (NAD Mil.)	2019F	2020F	2021F	2022F
Beginning Cash Balance	7,764	8,845	6,971	3,337
Rating Case FCF after Acquisitions and Divestitures	1,289	-993	-3,502	-1,234
<b>Total Available Liquidity (A)</b>	<b>9,052</b>	<b>7,852</b>	<b>3,469</b>	<b>2,103</b>
<b>Liquidity Uses</b>				
Debt Maturities	-207	-882	-132	-169
<b>Total Liquidity Uses (B)</b>	<b>-207</b>	<b>-882</b>	<b>-132</b>	<b>-169</b>
<b>Liquidity Calculation</b>				
Ending Cash Balance (A+B)	8,845	6,971	3,337	1,934
Revolver Availability	0	0	0	0
<b>Ending Liquidity</b>	<b>8,845</b>	<b>6,971</b>	<b>3,337</b>	<b>1,934</b>
<b>Liquidity Score</b>	<b>43.6</b>	<b>8.9</b>	<b>26.3</b>	<b>12.4</b>

Scheduled Debt Maturities	Original
Statement Date	30/06/2018
2019	207
2020	882
2021	132
2022	169
2023	89
Thereafter	553
<b>Total</b>	<b>2,032</b>

Source: Fitch Ratings, Fitch Solutions, NamPower

## Key Rating Issues

Government-Related Entity Assessment		
Factor	Assessment	Rationale
Status, Ownership and Control	Strong	The government owns 100% of NamPower, appoints the board and maintains oversight via the Ministry of Mines and Energy and the Ministry of Public Enterprises.
Support Track Record and Expectations	Strong	We expect the government to provide timely tangible support if required, as has been the case, including government guarantees.
Socio-Political Impact of Default	Strong	NamPower has a monopolistic position in energy trading and transmission in Namibia, and a default could temporarily endanger its continued operations as there are significant asset development needs.
Financial Implications of a GRE Default	Strong	A default by NamPower could hit the availability and funding costs for the sovereign as the company is one of the country's largest corporate issuers.
<b>Standalone Credit Profile</b>	<b>BBB-</b>	The standalone credit profile is supported by a strong financial profile. This is balanced, however, against a business profile with weaker market trends and a reliance on imported electricity.
Analytical Approach: Capped		
Source: Fitch Ratings		

## Existing and Planned Capacity

The Issue	NamPower's existing capacity is insufficient to meet demand		
Our View	Fitch expects NamPower to remain reliant on imported electricity more than its own generation for the next four years. Fitch views the relative size of NamPower as a constraint to its SCP.		
Timeline	Medium / Long term	Rating Impact:	Neutral
Source: Fitch Ratings			

## Existing and Planned Capacity at end-June 2018

	Existing MW	Planned MW	Projection date
<b>NamPower</b>			
Ruacana	347		
Van Eck	30		Reduced from 120
Anixas	22.5		
Paratus			Decommissioned in FY15/FY16
Wind		40	2022
Solar		20	2021
Biomass		40	2022
To be determined		50	2021
<b>NamPower Total</b>	<b>399.5</b>	<b>150</b>	
<b>Namibia IPP generation</b>			
Solar	49.5	97	REFIT plus others
Wind	5	94	Diaz 44MW plus others
<b>Total</b>	<b>454</b>	<b>341</b>	
Source: Fitch Ratings, NamPower			

<b>Electricity Sold</b>				
	<b>2018 GWh</b>	<b>2017 GWh</b>	<b>2016 GWh</b>	<b>Additional details</b>
<b>NamPower</b>				
Ruacana	1,144	1,593	1,359	Hydro power station
Van Eck	21	66	53	Coal
Anixas	0.2	0.3	9	Diesel
<b>Sub Total</b>	<b>1,165.2</b>	<b>1,659.3</b>	<b>1,421</b>	
<b>IPP</b>				
Omburu Sun Energy	12	12	12	REFIT – Solar
Hopsol Power Generation	13	12	-	REFIT – Solar
Osona Sun Energy	15	12	-	REFIT – Solar
METDECCI Energy	13	4	-	REFIT – Solar
Aloe	14			REFIT – Solar
Ejuva (I) and (II)	21			REFIT – Solar
Momentous	9			REFIT – Solar
Alcon	10			REFIT – Solar
Camelthorn	0			REFIT – Solar
Ombepo	19			REFIT – Wind
<b>Sub Total</b>	<b>124</b>	<b>40</b>	<b>12</b>	
<b>SAPP</b>				
Eskom	1,396	2,090	1,956	200MW firm PPA expires 2022 – option to renew 300MW uncommitted
ZPC	357	348	349	80MW PPA expires 2025 – option to renew
ZESCO	356	334	334	50MW PPA expires 2020
ZESA	-	-	55	
Aggreko	-	-	301	
Short-Term Energy Market	829	136	55	Day-ahead SAPP purchases
Electricidade de Mozambique	-	3	23	
<b>Sub Total</b>	<b>2,938</b>	<b>2,911</b>	<b>3,073</b>	
<b>Total</b>	<b>4,228</b>	<b>4,610</b>	<b>4,506</b>	
<b>NamPower Electricity Sold</b>				
Namibian Customers	3,585	3,454	3,324	
Exports	114	100	99	Sold into SAPP
Orange River	142	132	145	
Skorpion Zinc Mine	444	471	440	
<b>Total Units Sold</b>	<b>4,285</b>	<b>4,157</b>	<b>4,008</b>	

Source: Fitch Ratings, NamPower

## Key Assumptions

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### Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Energy sales including MSB to fall on average about 3% a year for 2021-2022
- NAD5.5 billion of liquid investments (treated as readily available cash) to be used to fund capex
- Zero tariff increase for FY20
- Average capex of about NAD2.8 billion per year for FY19 to FY21

## Financial Data

(NADm)	Historical			Forecast		
	Jun 2016	Jun 2017	Jun 2018	Jun 2019F	Jun 2020F	Jun 2021F
<b>Summary Income Statement</b>						
Gross Revenue	5,006	5,921	6,595	6,958	6,979	7,185
Revenue Growth (%)	11.7	18.3	11.4	5.5	0.3	3.0
Operating EBITDA (Before Income from Associates)	867	1,731	1,986	1,629	1,310	1,161
Operating EBITDA Margin (%)	17.3	29.2	30.1	23.4	18.8	16.2
Operating EBITDAR	867	1,731	1,986	1,629	1,310	1,161
Operating EBITDAR Margin (%)	17.3	29.2	30.1	23.4	18.8	16.2
Operating EBIT	131	940	1,110	761	369	59
Operating EBIT Margin (%)	2.6	15.9	16.8	10.9	5.3	0.8
Gross Interest Expense	-233	-215	-193	-177	-149	-79
Pretax Income (Including Associate Income/Loss)	-137	1,497	1,735	1,168	825	381
<b>Summary Balance Sheet</b>						
Readily Available Cash and Equivalents	5,846	6,272	7,764	8,845	6,971	3,337
Total Debt with Equity Credit	2,622	2,259	2,032	1,825	943	811
Total Adjusted Debt with Equity Credit	2,622	2,259	2,032	1,825	943	811
Net Debt	-3,223	-4,013	-5,732	-7,021	-6,028	-2,526
<b>Summary Cash Flow Statement</b>						
Operating EBITDA	867	1,731	1,986	1,629	1,310	1,161
Cash Interest Paid	-150	-154	-132	-177	-149	-79
Cash Tax	0	-363	-647	-23	0	0
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	6	0	0	0	0	0
Other Items Before FFO	-42	225	413	0	0	0
Funds Flow from Operations	1,109	1,961	2,231	2,013	1,766	1,483
FFO Margin (%)	22.1	33.1	33.8	28.9	25.3	20.6
Change in Working Capital	-395	-359	-470	-15	-86	-30
Cash Flow from Operations (Fitch Defined)	713	1,602	1,761	1,998	1,680	1,453
Total Non-Operating/Non-Recurring Cash Flow	0	0	0			
Capital Expenditure	-504	-753	-663			
Capital Intensity (Capex/Revenue) %	10.1	12.7	10.1			
Common Dividends	0	0	0			
Free Cash Flow	210	849	1,098			
Net Acquisitions and Divestitures	0	6	1			
Other Investing and Financing Cash Flow Items	-550	-523	-564	0	0	0
Net Debt Proceeds	218	-170	-95	-207	-882	-132
Net Equity Proceeds	0	0	0	0	0	0
Total Change in Cash	-123	162	441	1,082	-1,875	-3,634
<b>Calculations for Forecast Publication</b>						
Capex, Dividends, Acquisitions and Other Items Before FCF	-504	-747	-662	-709	-2,673	-4,955
Free Cash Flow After Acquisitions and Divestitures	210	855	1,100	1,289	-993	-3,502
Free Cash Flow Margin (After Net Acquisitions) (%)	4.2	14.4	16.7	18.5	-14.2	-48.7
<b>Coverage Ratios</b>						
FFO Interest Coverage (x)	5.6	10.4	13.3	9.1	8.8	14.7
FFO Fixed-Charge Coverage (x)	5.6	10.4	13.3	9.1	8.8	14.7
Operating EBITDAR/Interest Paid + Rents (x)	5.8	11.3	15.1	9.2	8.8	14.7
Operating EBITDA/Interest Paid (x)	5.8	11.3	15.1	9.2	8.8	14.7
<b>Leverage Ratios</b>						
Total Adjusted Debt/Operating EBITDAR (x)	3.0	1.3	1.0	1.1	0.7	0.7
Total Adjusted Net Debt/Operating EBITDAR (x)	-3.7	-2.3	-2.9	-4.3	-4.6	-2.2
Total Debt with Equity Credit/Operating EBITDA (x)	3.0	1.3	1.0	1.1	0.7	0.7
FFO Adjusted Leverage (x)	3.2	1.4	1.2	1.1	0.7	0.7
FFO Adjusted Net Leverage (x)	-3.9	-2.5	-3.3	-4.4	-4.6	-2.2

Source: Fitch Ratings, Fitch Solutions

**How to Interpret the Forecast Presented**

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator

FitchRatings

Namibia Power Corp (Pty) Ltd

ESG Relevance:



Corporates Ratings Navigator  
EMEA Utilities

Factor Levels	Sector Risk Profile	Operating Environment	Management and Corporate Governance	Business Profile			Financial Profile			Issuer Default Rating
				Position and Cash Flow Profile	Regulation	Market Trends and Risks	Asset Base and Operations	Profitability and Cash Flow	Financial Structure	
aaa										AAA
aa+										AA+
aa										AA
aa-										AA-
a+										A+
a										A
a-										A-
bbb+										BBB+
bbb										BBB
bbb-										BBB-
bb+										BB+
bb										BB
bb-										BB-
b+										B+
b										B
b-										B-
ccc+										CCC+
ccc										CCC
ccc-										CCC-
cc										CC
c										C
d or rd										D or RD

Operating Environment

bbb	Economic Environment	bb	Below-average combination of countries where economic value is created and where assets are located.
bbb-	Financial Access	a	Strong combination of issuer-specific funding characteristics and the strength of the relevant local financial market.
	Systemic Governance	bbb	Systemic governance (eg rule of law, corruption, government effectiveness) of the issuer's country of incorporation consistent with 'bbb'.
b-			
ccc+			

Position and Cash Flow Profile

bbb+	Market Presence and Integration	a	Top-tier position in more than one market. Vertically integrated (typically including generation, transmission, distribution and supply).
bbb	Earnings from Regulated Network Assets	bbb	Less than 40% of EBITDA comes from high-quality regulated network assets.
bbb-	Quasi-Regulated Earnings	b	Small amounts of income from quasi-regulated assets or long-term contracts.
bb+			
bb			

Market Trends and Risks

bbb-	Fundamental Market Trends	bb	Markets with structural challenges.
bb+	Generation and Supply Positioning	bb	Weak position in the merit order; limited hedging. Own generation not in balance with marginal position in supply and services.
bb	Customer Base and Counterparty Risk	bb	Structurally challenged economy in area served; high counterparty risk; supply operations with high doubtful debt levels.
bb-			
b+			

Profitability and Cash Flow

bbb	Free Cashflow	bbb	Structurally neutral to negative FCF across the investment cycle.
bbb-	Volatility of Profitability	bb	Lower stability and predictability of profits than utility peers.
bb+			
bb			
bb-			

Financial Flexibility

aa-	Financial Discipline	bbb	Financial policies less conservative than peers but generally applied consistently.
a+	Liquidity	a	Very comfortable liquidity. Well-spread debt maturity schedule. Diversified sources of funding.
a	FFO Fixed Charge Cover	a	5.0x
a-	FX Exposure	aa	No material FX mismatch.
bbb+			

**How to Read This Page:** The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

bbb	Management Strategy	bbb	Strategy may include opportunistic elements but soundly implemented.
bbb-	Governance Structure	bbb	Good governance track record but board effectiveness/independence less obvious. No evidence of abuse of power even with ownership concentration.
bb+	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bb	Financial Transparency	bb	Financial reporting appropriate but with some failings (eg lack of interim or segment analysis).
bb-			

Regulation

bbb	Regulatory Framework and Policy Risk	bb	Opaque or overly demanding frameworks with limited track record, short-term tariffs; significant political risk.
bbb-	Cost Recovery and Risk Exposure	bbb	Tariff setting that may limit efficiently incurred cost and investment recovery, with moderate regulatory lag, price and volume risk.
bb+			
bb			
bb-			

Asset Base and Operations

bbb	Asset Quality	bbb	Mid-range asset quality not likely to affect opex and capex requirements compared with peers.
bbb-	Asset Diversity	bb	Limited diversification by geography, generation source, supplied product.
bb+	Carbon Exposure	a	Energy production mostly from clean sources and low carbon exposure (< 300gCO2/kWh).
bb			
bb-			

Financial Structure

aa-	Lease Adjusted FFO Gross Leverage	a	3.5x
a+	Lease Adjusted FFO Net Leverage	a	3.0x
a			
a-			
bbb+			

Credit-Relevant ESG Derivation

				Overall ESG	
key driver	0	issues	5		
➤ Emissions from operations	0	issues	4		
➤ Fuel use to generate energy	0	issues	3		
➤ Impact of waste from operations	12	issues	2		
➤ Plants' and networks' exposure to extreme weather	2	issues	1		
➤ Product affordability and access	0	issues	1		
➤ Quality and safety of products and services; data security	0	issues	1		
Showing top 6 issues					

For further details on Credit-Relevant ESG scoring, see page 3.

Credit-Relevant ESG Derivation

Namibia Power Corporation (Proprietary) Limited has 12 ESG potential rating drivers

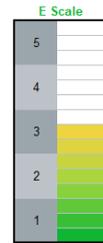
- ➔ Namibia Power Corporation (Proprietary) Limited has exposure to emissions regulatory risk but this has very low impact on the rating.
- ➔ Namibia Power Corporation (Proprietary) Limited has exposure to energy productivity risk but this has very low impact on the rating.
- ➔ Namibia Power Corporation (Proprietary) Limited has exposure to waste & impact management risk but this has very low impact on the rating.
- ➔ Namibia Power Corporation (Proprietary) Limited has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Namibia Power Corporation (Proprietary) Limited has exposure to access/affordability risk but this has very low impact on the rating.
- ➔ Namibia Power Corporation (Proprietary) Limited has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

			Overall ESG Scale	
key driver	0	issues	5	
driver	0	issues	4	
potential driver	12	issues	3	
not a rating driver	2	issues	2	
	0	issues	1	

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	3	Emissions from operations	Asset Base and Operations; Profitability and Cash Flow
Energy Management	3	Fuel use to generate energy	Asset Base and Operations; Market Trends and Risks; Profitability and Cash Flow
Water & Wastewater Management	2	Water used by hydro plants or by other generation plants; effluent management	Asset Base and Operations; Market Trends and Risks; Profitability and Cash Flow
Waste & Hazardous Materials Management; Ecological Impacts	3	Impact of waste from operations	Asset Base and Operations; Profitability and Cash Flow
Exposure to Environmental Impacts	3	Plants' and networks' exposure to extreme weather	Asset Base and Operations; Profitability and Cash Flow



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

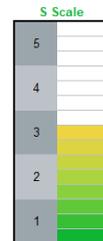
The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

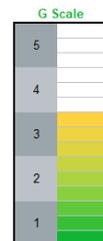
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	3	Product affordability and access	Profitability and Cash Flow; Regulation
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Quality and safety of products and services; data security	Profitability and Cash Flow
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Profitability and Cash Flow; Financial Structure; Financial Flexibility
Employee Wellbeing	2	Worker safety and accident prevention	Profitability and Cash Flow; Financial Structure; Financial Flexibility
Exposure to Social Impacts	3	Social resistance to major projects that leads to delays and cost increases	Asset Base and Operations; Profitability and Cash Flow



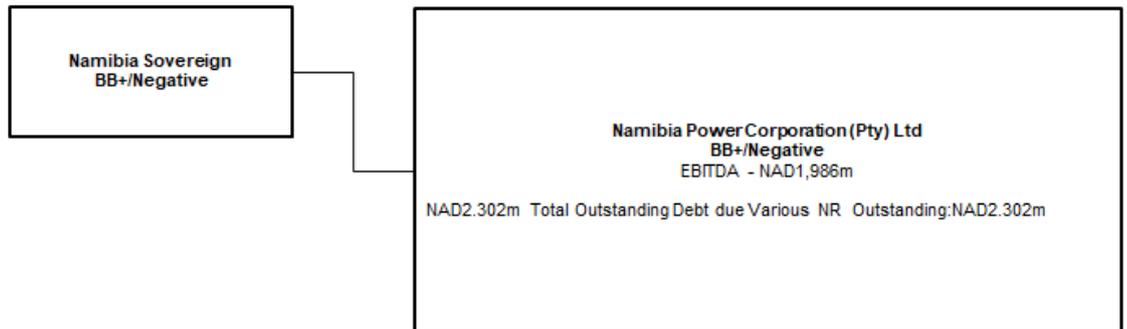
Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, NamPower, Outstanding Debt As at June 2018

## Peer Financial Summary

Company	IDR	Financial Statement Date	Gross Revenue (USDm)	Operating EBITDA (USDm)	FFO Fixed-Charge Coverage (x)	FFO Adjusted Leverage (x)	FFO Adjusted Net Leverage (x)
Namibia Power Corporation (Proprietary) Limited	BB+						
		2020F	501	94	8.8	0.7	-4.6
		2019F	499	117	9.1	1.1	-4.4
		2018	500	151	13.3	1.2	-3.3
		2017	432	126	10.4	1.4	-2.5
		2016	347	42	6.3	2.8	-3.4
Saudi Electricity Company	A						
		2017	13,497	5,250	9.1	3.5	3.4
		2016	13,311	5,170	11.8	2.8	2.8
		2015	11,077	4,521	12.7	2.7	2.6
Eskom Holdings SOC Ltd.	LC BB-						
		2018	13,670	3,444	1.2	9.9	9.4
		2017	12,598	2,696	1.6	7.9	7.2
		2016	11,936	2,323	1.6	8.7	7.8
PGE Polska Grupa Energetyczna S.A.	BBB+						
		2017	6,156	2,025	21.0	1.5	1.1
		2016	7,124	1,699	30.4	1.5	0.8
		2015	7,568	2,199	38.5	0.7	0.4

Source: Fitch Ratings, Fitch Solutions

## Reconciliation of Key Financial Metrics

(NAD Millions, As reported)	30 Jun 2018
<b>Income Statement Summary</b>	
Operating EBITDA	1,986
+ Recurring Dividends Paid to Non-controlling Interest	0
+ Recurring Dividends Received from Associates	0
+ Additional Analyst Adjustment for Recurring I/S Minorities and Associates	0
<b>= Operating EBITDA After Associates and Minorities (k)</b>	<b>1,986</b>
+ Operating Lease Expense Treated as Capitalised (h)	0
<b>= Operating EBITDAR after Associates and Minorities (j)</b>	<b>1,986</b>
<b>Debt &amp; Cash Summary</b>	
<b>Total Debt with Equity Credit (l)</b>	<b>2,032</b>
+ Lease-Equivalent Debt	0
+ Other Off-Balance-Sheet Debt	0
<b>= Total Adjusted Debt with Equity Credit (a)</b>	<b>2,032</b>
Readily Available Cash [Fitch-Defined]	2,310
+ Readily Available Marketable Securities [Fitch-Defined]	5,454
<b>= Readily Available Cash &amp; Equivalents (o)</b>	<b>7,764</b>
<b>Total Adjusted Net Debt (b)</b>	<b>-5,732</b>
<b>Cash-Flow Summary</b>	
<b>Preferred Dividends (Paid) (f)</b>	<b>0</b>
Interest Received	611
<b>+ Interest (Paid) (d)</b>	<b>-132</b>
<b>= Net Finance Charge (e)</b>	<b>480</b>
<b>Funds From Operations [FFO] (c)</b>	<b>2,231</b>
+ Change in Working Capital [Fitch-Defined]	-470
<b>= Cash Flow from Operations [CFO] (n)</b>	<b>1,761</b>
<b>Capital Expenditures (m)</b>	<b>-663</b>
<b>Multiple applied to Capitalised Leases</b>	<b>6.0</b>
<b>Gross Leverage</b>	
<b>Total Adjusted Debt / Op. EBITDAR* [x] (a/j)</b>	<b>1.0</b>
<b>FFO Adjusted Gross Leverage [x] (a/(c-e+h-f))</b>	<b>1.2</b>
<i>Total Adjusted Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
<b>Total Debt With Equity Credit / Op. EBITDA* [x] (l/k)</b>	<b>1.0</b>
<b>Net Leverage</b>	
<b>Total Adjusted Net Debt / Op. EBITDAR* [x] (b/j)</b>	<b>-2.9</b>
<b>FFO Adjusted Net Leverage [x] (b/(c-e+h-f))</b>	<b>-3.3</b>
<i>Total Adjusted Net Debt/(FFO - Net Finance Charge + Capitalised Leases - Pref. Div. Paid)</i>	
<b>Total Net Debt / (CFO - Capex) [x] ((l-o)/(n+m))</b>	<b>-5.2</b>
<b>Coverage</b>	
<b>Op. EBITDAR / (Interest Paid + Lease Expense)* [x] (j/-d+h)</b>	<b>15.1</b>
<b>Op. EBITDA / Interest Paid* [x] (k/(-d))</b>	<b>15.1</b>
<b>FFO Fixed Charge Cover [x] ((c+e+h-f)/(-d+h-f))</b>	<b>13.3</b>
<i>(FFO + Net Finance Charge + Capit. Leases - Pref. Div Paid) / (Gross Int. Paid + Capit. Leases - Pref. Div. Paid)</i>	
<b>FFO Gross Interest Coverage [x] ((c+e-f)/(-d-f))</b>	<b>13.3</b>
<i>(FFO + Net Finance Charge - Pref. Div Paid) / (Gross Int. Paid - Pref. Div. Paid)</i>	
* EBITDA/R after Dividends to Associates and Minorities	
Source: Fitch Ratings, Fitch Solutions, based on information from company reports.	

## Fitch Adjustment Reconciliation

	Reported Values 30 Jun 18	Sum of Fitch Adjustments	Preferred Dividends, Associates and Minorities Cash Adjustments	Cash Adjustment	Other Adjustment	Adjusted Values
<b>Income Statement Summary</b>						
Revenue	6,595	0				6,595
Operating EBITDAR	2,044	-59			-59	1,986
Operating EBITDAR after Associates and Minorities	2,044	-59	0		-59	1,986
Operating Lease Expense	0	0				0
Operating EBITDA	2,044	-59			-59	1,986
Operating EBITDA after Associates and Minorities	2,044	-59	0		-59	1,986
Operating EBIT	1,169	-59			-59	1,110
<b>Debt &amp; Cash Summary</b>						
Total Debt With Equity Credit	2,032	0				2,032
Total Adjusted Debt With Equity Credit	2,032	0				2,032
Lease-Equivalent Debt	0	0				0
Other Off-Balance Sheet Debt	0	0				0
Readily Available Cash & Equivalents	7,766	-2		-4	2	7,764
Not Readily Available Cash & Equivalents	0	0				0
<b>Cash-Flow Summary</b>						
Preferred Dividends (Paid)	0	0				0
Interest Received	611	0				611
Interest (Paid)	-132	0				-132
Funds From Operations [FFO]	2,231	0	0			2,231
Change in Working Capital [Fitch-Defined]	-470	0				-470
Cash Flow from Operations [CFO]	1,761	0	0			1,761
Non-Operating/Non-Recurring Cash Flow	0	0				0
Capital (Expenditures)	-663	0				-663
Common Dividends (Paid)	0	0				0
Free Cash Flow [FCF]	1,098	0	0			1,098
<b>Gross Leverage</b>						
Total Adjusted Debt / Op. EBITDAR* [x]	1.0					1.0
FFO Adjusted Leverage [x]	1.2					1.2
Total Debt With Equity Credit / Op. EBITDA* [x]	1.0					1.0
<b>Net Leverage</b>						
Total Adjusted Net Debt / Op. EBITDAR* [x]	-2.8					-2.9
FFO Adjusted Net Leverage [x]	-3.3					-3.3
Total Net Debt / (CFO - Capex) [x]	-5.2					-5.2
<b>Coverage</b>						
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	15.5					15.1
Op. EBITDA / Interest Paid* [x]	15.5					15.1
FFO Fixed Charge Coverage [x]	13.3					13.3
FFO Interest Coverage [x]	13.3					13.3

Source: Fitch Ratings, Fitch Solutions, based on information from company reports.

## Full List of Ratings

	Rating	Outlook	Last Rating Action
<b>NamPower</b>			
Long-Term IDR	BB+	Negative	Affirmed 28 February 2019
Short-Term IDR	B		Affirmed 28 February 2019
National Long-Term Rating	AA+(zaf)	Negative	Affirmed 28 February 2019
National Short-Term Rating	F1+(zaf)		Affirmed 28 February 2019

## Related Research & Criteria

<a href="#">Corporate Rating Criteria (February 2019)</a>
<a href="#">Government-Related Entities Rating Criteria (October 2018)</a>
<a href="#">Parent and Subsidiary Rating Linkage (July 2018)</a>
<a href="#">National Scale Ratings Criteria (July 2018)</a>

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