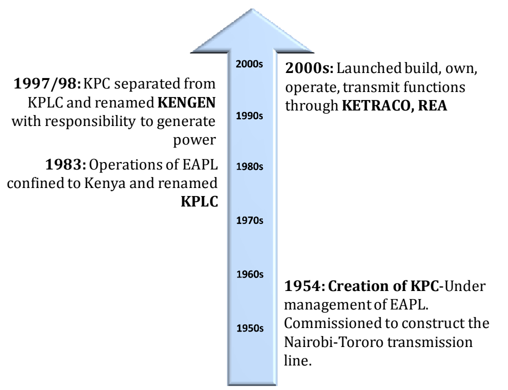
The Power Sector- A tremendous growth opportunity

HISTORY OF KENYA'S POWER SECTOR

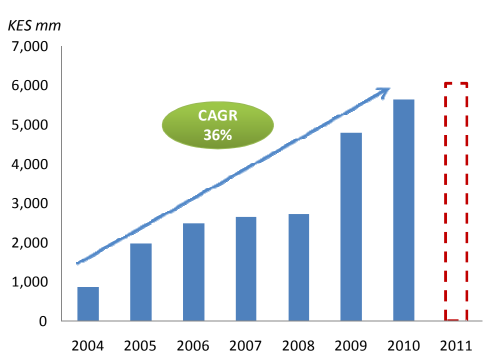
In the pre and post colonial eras, the perceived role of the power sector was one of a service utility for the efficient running of administrative machinery. There was an apparent lack of appropriate infrastructure for improving consumer access. The move towards liberalization of the power sector in Kenya brought with it the establishment of institutional frameworks aimed at providing an efficient actualization of the process[1].



Historical Timeline & Diversification of Functions

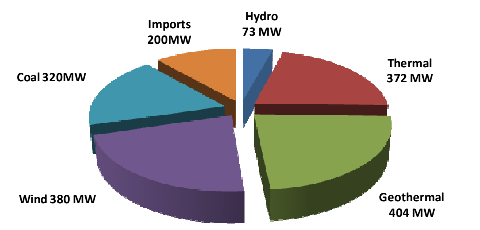
__KPC__- Kenya Power Company, __EAPL__- East African Power & Lighting Company
__KPLC__- Kenya Power & Lighting Company, __KENGEN__- Kenya Electricity Generating Company,
__KETRACO__- Kenya Electricity Transmission Company, __REA__- Rural Electrification Authority

Kenya Power is engaged in the transmission, distribution and retail of electricity and is the only licensed electricity distributor and supplier in Kenya. It has shown tremendous growth in its operations with the company's profits growing yearly recording a compounded annual growth rate of 36% in the last six years (2004- 2010), mainly due to the increased demand for power that remains severely underpenetrated. During this period, the number of connections more than doubled from 0.68 million to 1.46 million with the company pledging to increase the number of connections by 200,000 annually over the next five years.[2]



KPLC Profits After Tax

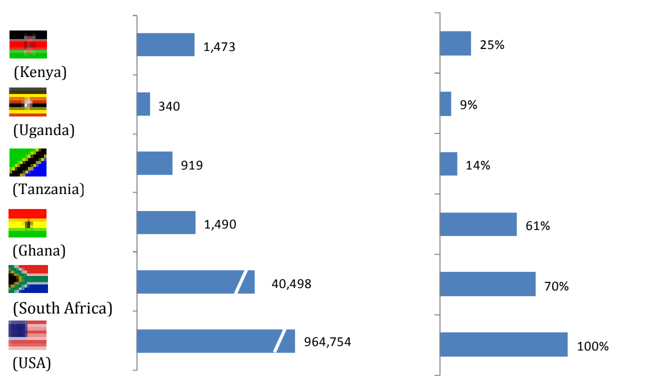
Kenya has traditionally depended mainly on hydro-power which accounts for over 65% of the total power generated. This has frustrated the power sector due to the unreliable nature of hydro-power when water levels drop during drought periods. Kengen, the country's largest power producer generating over 80%[3] of the country's installed capacity has developed a five year power generation plan that would see a diversification in the sources of power to more reliable alternatives such as geothermal.



Proposed 5 Yr Power Generation Plans

THE POWER OPPORTUNITY

East Africa's installed power capacity lags not just in the developed markets of the world, such as the United States and Europe, but even more interestingly the region's peers of South Africa and Ghana. Essentially, Kenya with a similar population as South Africa has approximately one-fortieth, the installed capacity, which hampers Kenya's competitiveness industrially, particularly in industries that have high power demand. In power-starved markets like Kenya, consumers (industrial and retail) are forced to rely on back-up solutions, which have both a capital and an operating cost.



Installed Capacity (MW) | Electrification rate: % of population

Source KPLC Rights Issue Presentation, November 2010, US Energy Information Administration, 2009 (EIA)

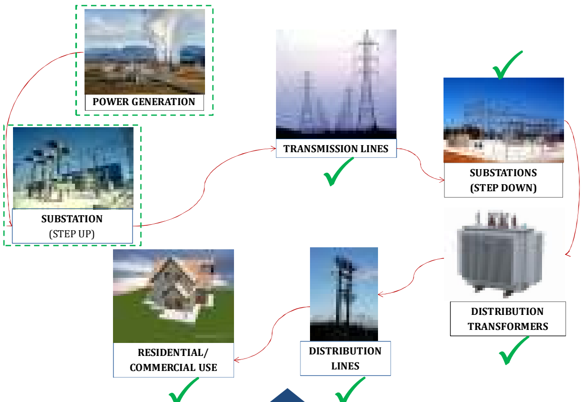
Access to power in Africa – both for industrial use and for retail consumers – is hampered by limited generation capacity and limited distribution and transmission capacity, presenting an exciting growth opportunity for TransCentury's Power Infrastructure Division. Even more exciting are the determined

[1] Source; Power Sector Reform and Sustainable Develop, UNEP
[2] Source: KPLC Annual Financial Statements, KPLC rights issue presentation dated 26/11/2010
[3] Source: KenGen Annual Report 2010

efforts by the public and private sectors to improve on this access.

Power in Africa displays the characteristics of **under-penetration and inefficiencies** that are the cornerstones of TransCentury's selection of market opportunities. Increased demand for connections is critical for the power infrastructure sector as delivering power close to populations has historically driven demand for domestic power cabling. This demand will also lead to increased power demand which requires additional power distribution, transmission and generation capacity.

TransCentury is already active across the power grid as illustrated below:



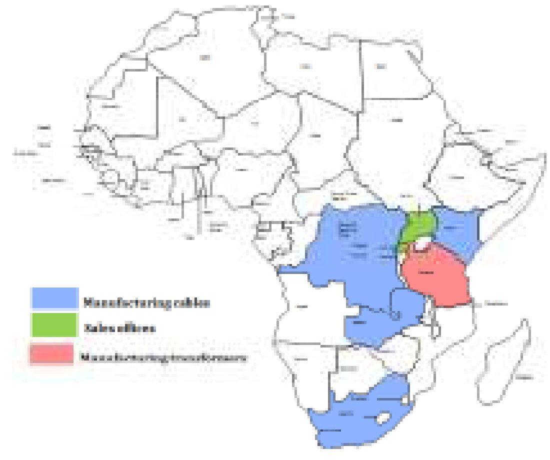
TransCentury's Participation In The Power Sector

- FOCUS AREAS: *power generation, substation (step up)*

✓ *-: Transmission lines through EAC, Construction of sub stations through Avery, Manufacture of distribution transformers through Tanelec, Distribution and manufacture of cables through EAC, Power line construction through Avery, Residential and commercial use through EAC.*

TransCentury has already positioned itself to take advantage of the vast power opportunity in Africa by diversifying its operations. Its Power Infrastructure division has a presence as the:

- Leading power cable manufacturer with five factories in East and Central Africa, through East Africa Cables and Cableries Du Congo
- Predominant manufacturer of transmission equipment (transformers and switchgear) in East and Central Africa, through Tanelec
- Leading manufacturer of specialized cables in East, Central Africa and Southern Africa, through Kewberg
- Leading manufacturer of low and medium voltage switchgear through Tanelec



Pan-African presence

DRIVERS IN THE POWER SECTOR

Over the next five years TransCentury is confident of successful growth in the power sector as a result of the following drivers:

- The **strong growth in the regional economies** has increased purchasing power of the population. This has led to an increasing percentage of the population who can afford electrification. The growth of the economies has also lead to increased per capita consumption of power as more of the population can purchase an increasing amount of electrical equipment such as refrigerators, televisions and other electronics.

- **Urbanisation** in the region has also contributed to increased power consumption. As more of the population moves to cities and large towns that are connected to the grid, the demand for electricity connections increases. The **emergence of secondary urban centers** such as Nakuru, Naivasha, Kitale, Eldoret and many others is also a driver of increased power demand. With the implementation of the devolution of power and funds to the counties, growth in these urban areas should escalate leading to increased demand for electricity and consequently, investment in building out distribution grids in these urban centers

- There has also been strong growth in the **real estate development market**, with an increased number of planned residential developments. There are also large scale developments such as Vipingo Ridge and Tatu City that will create new satellite cities outside large urban areas. These new master-planned developments will not only drive demand, but also present a more efficient distribution platform for utilities to supply needs more effectively, using a modern optimized network

- **Diversification of energy sources** with a variety of energy sources such as geothermal, thermal, wind, coal and diesel being developed by private companies.

- **Increased government involvement** and **investment in power infrastructural development** through creation of Ketraco, REA, Energy Scale up Program targeting one million new households in the next 5 yrs at cost of KShs. 84 billion,[4] Planned regional interconnection projects such as the

[4] Source: KPLC rights issue presentation dated 26/11/2010

connection to the Southern Africa Power Pool, Ethiopia and 2nd Uganda line.

- **Public private partnership framework** such as the Public Private Infrastructure Advisory Facility (PPIAF) whose support has enabled the government of Kenya to develop a successful strategy for restructuring the country's power sector to facilitate private sector participation in generation and distribution of power and also to facilitate procurement of new projects that augment capacity in geothermal, thermal, wind.

STRATEGY GOING FORWARD

Key areas of focus going forward include:

- Continued geographical expansion
- Growth in the product offering
- Aggressive targeting of revenue and cost synergies across the division and the broader TransCentury business
- Use acquisitions, greenfield start-ups and/or joint ventures, to grow the geographical and product spread
- Investment in power transmission and power generation assets

CONCLUSION

Power strikes a mirror-like image of the telecommunication sector in the 1990s- a story of under penetration and inefficiencies. At TransCentury we believe that power is the next telecommunication! In 1998 there were less than 4 million mobile connections in Africa, had you mentioned that in 2011 over 50% of the continent's population- 500 million of 1 billion[5]- would have mobile phone connections at an affordable price, you would have seemed outrageous. But as is the case, mobile phone connectivity has become readily available and affordable. It is this trend we at TransCentury foresee replicating itself in the power sector; a tremendous growth opportunity.

[5] *Source: The Guardian, Africa's Mobile Economic Revolution.*