

VOLTA RIVER AUTHORITY

4TH STAKEHOLDER INTERFACE

CHAIRMAN'S STATEMENT

The year 2012 was a very challenging and demanding economic period. The remarkable financial and operational results attained the previous year were more than offset by a combination of headwinds driven primarily by the following factors:

- Disruption in gas supply to our thermal plants and those of Independent Power Producers (IPPs) resulting from a rupture to the West African Gas pipeline accidentally caused by an anchor of irate sea pirates off the coast of Togo.
- Insufficiency in capacity reserve margin available in Ghana's electricity system.
- Rapid growth in Ghana's electricity demand at a rate of 10 percent per annum.
- Inadequacy of tariffs to attract timely investments in the power sector.

The Volta River Authority ended the fiscal year with a Net Income Loss of GH¢90.15 million compared with a Net Profit of GH¢82.64 million in 2011. The decline in profits reflects the impact of the collateral damage of the pipelines supplying gas to our thermal plants, leading to a distressing load management programme for almost one year. During the period, the Authority was challenged by a severe shortage of electricity that drove up production costs, increased the unit cost of every kilowatt of electricity produced by 100% as the VRA had to turn to increasing quantities of expensive light crude oil imports with explosion in world prices. The net effect of this has been liquidity challenges and stunted business growth of the VRA.

It is important to note that during this period of challenges the VRA did not receive any tariff increase to shore off the escalating cost of electricity production. Indeed, since 2011 the VRA has not been granted any tariff increase even in the midst of severe inflationary pressures.

Though revenue from sale of electricity increased by 58% (GH¢683.83 million) to GH¢1,749.39 million over the previous year's sales of GH¢1,110.56 million, the revenue was pulled down by over 200% increase in cost of sales related to crude oil and distillate fuel oil imports alone. Increase in deregulated mining companies tariff went up from \$0.1305/kWh in 2011 to \$0.1580/kWh in 2012 with a 19% depreciation of the average GH¢/\$ exchange rate from GH¢1.5217/\$1 in 2011 to GH¢1.8181/\$ in 2012.

However, we are pleased to report that the Government of Ghana paid to the VRA an amount of GH¢360.78 million in respect of tariff shortfalls absorbed as subsidy to domestic consumers in Ghana.

With regard to generation and power supply, the Akosombo and Kpong plants combined to perform at 96.77% ahead of their targets; the Takoradi thermal plants registered 75.65% and 57.59% plant availability and capacity utilization factors respectively. The new Tema thermal plants also performed satisfactorily. We are also happy to report that the

Takoradi steam unit that had been out of service for a year for repairs is now in service operating at full capacity.

From all this experience, it is clear that our results will continue to be driven primarily by uncertainty in gas supply and volatility in crude oil prices. In 2012, we learned how difficult it is to forecast the energy market, given the impact of gas supplies and crude oil swings in a highly challenged fuel supply chain.

Strategy Review

Observable weaknesses in the fuel supply chain requires transformational changes critical for sustainable business growth. Consequently, we have made regular and stable gas supply our key priority. This is our business model. We believe that pursuing this objective and executing it consistently with discipline is the proven way for the VRA to deliver operational and financial results which we are firmly committed to.

Accordingly, we have deepened our exploration of other alternatives of gas supply with gas producers in Nigeria, and ENI, a multi-national Italian oil and gas company. We have aggressively pursued initiatives to secure additional and reliable gas supplies through Liquefied Natural Gas (LNG) imports through UK based consultants, Gas Strategies for the development of an LNG Project in addition to securing gas from Ghana. The Millennium Challenge Corporation (MCC) and the United States Trade and Development Agency (USTDA) have expressed interest in the possibility of financing the infrastructure component of the Liquefied Natural Gas (LNG) project. The World Bank is also interested in the project because of its regional character as the project will make gas available to thermal power projects in Ghana and Benin.

Financial Health

Declines in the year, as I mentioned, adjusted net income and diluted operating profit partly attributable to over 200% increase related to operating cost. Thus, the unfavourable economic conditions I have referred to have withered our economic gains experienced the previous year.

In its 50 years, the VRA has weathered economic down turns and crises and phenomenal change in all aspects of its operations. We have gone through some rough patches, but we have stayed focus on the fundamentals of our business, learned from our mistakes, and preserved the core of our business while being willing to change to respond to the challenges of change to keep to the path of growth.

Portfolio Growth

However, while 2012 was a particularly difficult year, operationally, these challenges did not slow our progress toward transforming the Authority into a stronger long-term world class organization. In 2012, we laid much of the groundwork that we will build on as we transform the Authority to drive productivity and increase efficiency for the future.

We focused on a number of generation expansion projects designed to ensure electricity availability and accessibility expected to add 500 MW in new capacity in the short-to-medium term. These include:

- A 132 MW (T3) (Magellan) plant at Aboadze commissioned in 2012;
- Conversion of the 220 MW Thermal Plant, Takoradi International Company (TICO), into a 330 MW combined cycle plant. Financing arrangement has been concluded and construction work started in 2012;
- Development of 110 MW renewable energy capacity- wind and solar – the first 2 MW solar plant commissioned in 2012, and one year of wind measurement started in 2012;
- Commencement of feasibility studies for the development of 140 MW of hydro dams at Pwalugu and Juale in the Northern Region
- Commencement of feasibility studies aimed at expanding the 110 MW single cycle Tema Thermal plant (TT1PP) into a 330 MW combined cycle plant by PB Power, an international engineering services company.
- Expansion of electricity accessibility and availability under the *Ghana Energy Development and Access Programme* (GEDAP). This project, which is in two parts, involves the development of the Kumasi Second Bulk Supply Point and distribution networks, funded by the African Development Bank (AfDB); and a sub-component of GEDAP, the NEDCO Intensification Project, which seeks to improve electricity accessibility, funded by the International Development Association (IDA) of the World Bank. This project is expected to improve the network operation, supply reliability, power quality and safety and increase access to prospective customers and secure additional revenue.

Renewable Energy

Under the theme, “***Advancing Clean Energy for Sustainable Development,***” for the 2012 corporate reporting, the Authority is providing leadership in reducing green-house gas and global warming by diversifying into renewable energy. Accordingly, the Authority is introducing an increasing role for renewable energy in its generation mix. The first 2 MW solar plant was commissioned in 2012, and a one year of wind measurement for a wind power project also started in 2012. While 2 MW solar energy is a modest start, it paves the way for the rapid addition of new solar capacity. The German Development agency, KfW is currently processing a grant of 22.8 million Euros to add another 12 MW solar energy at Kaleo and Lawra in the Upper West Region. The Authority is also developing 100 MW of solar energy at Bongo in the Upper East Region over the next six years in gradual increase of 20 to 25 MW annually to reach its renewable energy target of 10% of its portfolio in wind and solar by 2020.

On wind projects, we have entered into an agreement with two internationally renowned wind turbine manufacturers and project developers, Vestas Mediterranean and Elsewedy, for the development of two wind projects with a total capacity of 150-200 MW. The Authority is exploring plans to develop biomass sources of power with Clark Sustainable Resource Development.

Commercialization of Non-Power Generation Functions

To accelerate momentum of our power generation functions and address shortfalls in generation capacity, we have made a deliberate refocus of our non-core functions to make them self-financing strategic business units (SBUs) so that we could concentrate our efforts on our core functions. We witnessed continuous improvements in the Authority's non-power areas. Our operating subsidiaries, Akosombo Hotels Limited (AHL) and Volta Lake Transport Company (VLTC), continued to record profits: AHL for the second continuous time in over 11 years; VLTC for the second time in over twenty-five years. In the same breadth, business plans have been developed for all other areas: Kpong Farms Limited (KFL); the Schools; the Health Services; and the Real Estate Departments. These business plans will serve as a strong groundswell of support for private investments in the context of the on-going of the power sector reform programme. The Northern Electricity Distribution Company (NEDCO), a standalone, wholly owned, subsidiary of the VRA is being weaned off the VRA to become a full-fledged autonomous company.

Performance Management : *The Balanced Scorecard*

Our new performance management system, the *Balanced Scorecard (BSC)*, which provides a framework for aligning individual performance with departmental and corporate goals, and assessing and rewarding performance accordingly, remains a central pillar of our efforts to create a strong productivity culture. Launched in 2011, the *BSC*, has become the primary driver of our business growth, leveraging efficiencies that enable our staff to perform effectively ahead of their targets.

Corporate Social Responsibility

We consider our social responsibility as a business imperative. The Authority believes that when it takes an active interest in the well-being of the communities in which it operates, a number of long-term benefits of community support, loyalty, and goodwill is gained.

Accordingly, in April 2012, the Authority launched its Community Development Programme (CDP). This document sets out a framework for guiding the process of support for development of all communities impacted by the operations of the Authority. The CDP also seeks to improve the existing Community Development Initiative (CDI) Framework Document for promoting the empowerment of the communities to take action for development.

The Authority sponsored a number of priority programmes such as rural electrification projects, health, education, water resources, capacity building, culture, community development and democratic governance, and made various donations to governmental and non-governmental organizations. A total of GH¢200,000 was committed in sponsorships, donations and philanthropy. The Authority also continued to commit the cedi equivalent of US\$500,000 to the VRA Resettlement Fund to support projects for environmental improvement, social welfare, public health, education, electricity, potable water supply and sanitation.

Conclusion

I have mentioned the unfavourable and demanding economic conditions under which we had to operate. We shall have to restart growth in the coming year and to get our recovery programme to full run-rate levels predicated on improvement in productivity and cost savings. We have the right metrics to incent results. We shall have to move forward with urgency to restore the fundamentals of our business. I am proud of the extraordinary efforts of our management and staff to keep the Authority growing through a very demanding economic period. The quality of our management and staff are the Authority's most important competitive advantage, and the character and calibre of these people remain my greatest source of confidence for the future of this Authority.

Akilagpa Sawyerr

CHAIRMAN

28th August, 2013