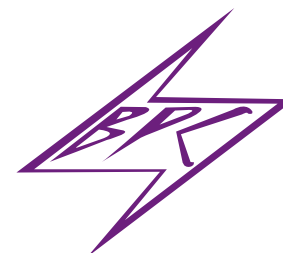




# Annual Report | 2014





BOTSWANA POWER CORPORATION



# HARNESSING TECHNOLOGY FOR LIFE & BUSINESS



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# MISSION

TO PROVIDE EFFICIENT, RELIABLE,  
SAFE AND ENVIRONMENTALLY  
SENSITIVE ELECTRICITY SERVICES  
THAT ARE COMMERCIALY VIABLE  
AND SUSTAINABLE

# VISION

THE LEADING UTILITY IN THE  
REGION BY 2018

# VALUES

BUSINESS EXCELLENCE

SERVICE EXCELLENCE

PERSONAL GROWTH

ETHICAL CONDUCT

VALUED CITIZEN







## OPERATIONAL HIGHLIGHTS

The financial performance of the Corporation for the year under review reflects an improvement on the overall bottom line, despite the negative impact arising from the low level of plant availability, leading to an unpredicted reliance on expensive alternative sources of supply.



The total revenue increased by 14% to P2.260 billion in 2014, compared to P1.984 billion in 2013.



Other Income stood at P56.1 million, registering an increase of 5% from P53.5 million from the prior year



Total operating expenditure for the year amounted to P3.642 billion compared to P3.660 billion in the prior year, reflecting 0.5% reduction (P17 million)



The total loss for the year amounted to P1.373 billion compared to P2.125 billion loss reported in 2013



Total comprehensive loss reduced from P385 367 to 61.532 million



The tariff subsidy increased from P871 million in 2013 to P1.488 billion in 2014





TOTAL SYSTEM ENERGY DEMAND



**3,570GWh**

ACCESS TO ELECTRICITY



**49.13%**

TOTAL RAW WATER USED



**531 976m<sup>3</sup>**



## CHAIRMAN'S REVIEW



**P2.26 Billion**

The operating results reflect that the total revenue increased by 14% to P2.260 billion, mainly attributable to 10% average tariff adjustment as well as a 4.2% unit sales growth.

Pursuant to the provisions of Section 23 (1) of Botswana Power Corporation Act CAP 74:01, it is my honour and privilege to present, on behalf of the Board, the Annual Report for the period 01st April 2013 to 31<sup>st</sup> March 2014.

In line with the Corporation's core mandate of generation, transmission, supply and distribution of electricity in areas approved by the Minister as stipulated in the relevant legislation, during the 2013/14 financial year the Board discharged its duties within its delegated functions and powers. In doing so, the Board continued to align its strategic direction to the National Vision and the National Development Plans towards a sustainable and diversified economy.



Mr Sebetlela Oletile Sebetlela  
*Chairman of the Board*



## CHAIRPERSON'S REVIEW [CONTINUED] >>>

The Corporation's mission remains; to provide efficient, reliable, safe and environmentally sensitive electricity services that are commercially viable and sustainable. The strategic direction for the Corporation therefore continued to focus on its key priorities of security of supply, service delivery, financial turnaround and organizational effectiveness.

### SECURITY OF POWER SUPPLY

In its endeavour to meet the national demand, the three units (sections) of the 4x150MW Morupule B plant, were fully commissioned and taken over during the period under review, with the remaining unit scheduled for take over during the second quarter of 2014/15. The plant has however not yet achieved the 528MW (Net) firm power supply as per the design due to the defects identified through an extensive gap analysis, with remedial work still to be undertaken. In this regard the sent out energy from the plant was only 40% of the total energy consumed of 3704 GWh. The deficit was met through purchased power, which constituted 53% (89% from Eskom) of the national supply, with the balance of 7% being for station usage.

Notwithstanding the mismatch between supply and demand, which prevailed in the year under review, the Corporation managed to meet the electricity needs of the economy, save for some load curtailment during peak-load hours. Through support from the regional electricity utilities cooperation, Southern Africa Power Pool (SAPP), the Corporation continues to secure alternative sources of supply to manage the generation deficit. Efforts to overcome this challenge include prioritization of generation and transmission projects, which the Corporation, through Government support, has put on top of its agenda.

In order to achieve the 15% reserve margin target by 2018, the refurbishment of the 4x30MW Morupule A plant commenced during the year after being put under care and maintenance since August 2012. The plant is expected to return to service by May 2017. In addition, the 2x150 Morupule C project was commissioned with target commercial operation of June 2018.

The Corporation is also embarking on another major infrastructure project, the North West Transmission Grid Connection (NWTGC), to extend the grid primarily to remove the existing constraints in the transmission network. In addition, the investment will go a long way in ensuring grid access by existing loads across the country, as well as to upgrade the infrastructure capacity in order to meet projected demand.

The NWTGC project is estimated to cost P4.5 billion and shall extend the grid to Maun, Shakawe, Gumare, Ghanzi, Pandamatenga and Kasane areas and it is planned to be implemented in two phases. Most of these areas depend on neighbouring countries for their power supply requirements. Currently Ghanzi is supplied through a 132 kV line from Namibia, Shakawe by a 33 kV line also from Namibia, Pandamatenga by a 33 kV line from Zimbabwe and Kasane by a 66 kV line from Zambia. To date the load in these areas has reached maximum capacity, which becomes one of the drivers for the Corporation to take such a strategic move.

### SERVICE DELIVERY

The Corporation continues to embark on activities geared at improving service delivery and operational efficiencies, with the primary focus being on facilitating customer access to services. In this regard the

Corporation recorded a growth in customer base of 8.6% on average. The Corporation to date has successfully integrated its value chain customer connection and billing processes, which has made a significant improvement on customer relations since the SAP Enterprise Resource Planning system was implemented in 2010. More investment towards the enhancement of the technology continues to be made to get maximum benefit of the automation.

As a commitment for continuous improvement on service delivery, at the end of the review period 98% of customers in urban areas were converted to pre-paid electricity metering as the facility was initially provided for the rural areas. The project commenced in 2012 and remains one of the success stories, not only on convenient service access to customers but as a critical credit control intervention to sustain the Corporation cash-flow.

Electricity being one of the key enablers for both economic development and the enhancement of the social well-being of Batswana, the Corporation continues to work with Government to implement the rural electrification initiative. For the projects which commenced in the prior year, the Corporation delivered the following;

- (a) 63 Villages Electrification,
- (b) 12 Villages Network Extension

In addition, a 9 Villages Network Extension project was commissioned, which was at preliminary design phase at the end of the review period. In the overall, access to electricity in the rural area increased from 55.15% in March 2013 to 62.58% in March 2014.



For urban areas, electricity access rate on average ranges from 55% to 100% and the Corporation continues to work with Government agencies to invest in infrastructure in order to make the cost of connection affordable in towns as well.

#### FINANCIAL TURNAROUND

Arising from the Corporation collaborative efforts with both the parent Ministry on Minerals Energy and Water Resources and the National Strategy Office, the Corporation has developed and adopted a 10 Year Financial Strategy, with the primary goal being to enable the Corporation to comply with the provisions of Section 17 of the BPC Act (Cap. 74:01). This Section requires the Corporation to conduct its affairs on a commercial basis as to produce a net operating income by which a reasonable return can be measured. In this regard, the two key outputs from the financial strategy are;

- (a) Establishing the level of tariff increases and/or annual Government contributions required to achieve BPC's business and service delivery

expectations and to operate on a long-term financially sustainable basis;

- (b) Identifying operational efficiency activities that the Corporation must undertake to minimize the level of tariff adjustments and/or Government contributions as well as to reduce its short and long-term expenditure while increasing revenues.

For the year under review, the overall financial performance of the Corporation reported a fairly significant (84%) improvement on its bottom line, registering a Total Comprehensive Loss of P61.5 million, compared to P385.4 million loss in the prior year.

The operating results reflect that the total revenue increased by 14% to P2.260 billion, mainly attributable to 10% average tariff adjustment as well as a 4.2% unit sales growth. On the other hand, the total operating expenditure for the year amounted to P3.642 billion, reflecting a 0.5% reduction on the P3.660 billion reported in the prior year, mainly

attributable to a decrease in administrative cost by 36% to P307 million, while the direct cost went up by 6% to P3.615billion.

The Corporation's total assets at the end of the review period closed at P16.256 billion, showing a slight decline of 0.49% from the prior year balance of P16.337 billion, mainly attributable to a 1.36% reduction in property plant and equipment largely on account of Morupule A impairment loss as the plant is yet to undergo a major refurbishment.

#### CONCLUSION

The industry landscape indicates that more challenges lie ahead for the Corporation to achieve its Mission as the 'Best Commercial and Competitive Electricity Utility in the Region'

For the year under review, the business climate continued to be quite volatile, with the main challenge being inability to meet the national electricity demand towards self-sufficiency, as reliance on imports averaged up to 50%.



## CHAIRPERSON'S REVIEW [CONTINUED] >>>

Although the financial position during the year reflected a significant improvement in regard to the total comprehensive loss compared to the previous year, more concerted effort is needed to turnaround the Corporation in order to achieve sustenance by 2018 as a target.

The Corporation still faces sustainability challenges which limits its ability to service working capital requirements. The mitigation is however still dependent upon Government's commitment to continue providing operating subsidies, including funding of emergency power and other capital projects to support it in the medium to long term.

The business sustainability remains highly influenced by the performance of the Morupule B plant. The plant was reported at an average availability of up to 75% against the 90% target. The full operation of the plant shall significantly reduce high power import costs as well as reliance on the expensive diesel-generated emergency power.

Further investment in generation in order to meet the NDP 10 goals, in particular, to supply adequate and reliable energy at minimum cost and to utilize energy resources sustainably, remains paramount. In this regard, the Corporation shall jointly work with the parent Ministry to achieve its set goals.

### GRATITUDE

It is my pleasure in this regard to give special gratitude to our Government for the continued support towards returning the Corporation to its sustainable position, hence allowing the national treasury to focus on other social obligations.

I would also like to unreservedly thank my fellow Board Members for their commitment and valued time, in the difficult journey with the sole aim of turning the Corporation around.

A special tribute goes to the Chief Executive, his Management team and the rest of the employees in all areas of operation for their continued dedication and loyalty to the Corporation. I encourage them to work as a complete team with the Board and all other Government agencies to achieve the turnaround strategies in order to achieve sustainability by 2018.

Last but not least, on behalf of the Board and the Employees of the Corporation, may I salute you, our customers and other stakeholders for your valued support, as without you the Corporation would not exist. We assure you of our commitment to serve you diligently at all times.

**Mr Sebetlela Oletile Sebetlela**  
Chairman of the Board  
Botswana Power Corporation







## BPC MEMBERS OF THE BOARD



Mr Sebetlela Oletile Sebetlela  
Board Chairperson



Mr Bonny Thebenyane  
*Vice Chairperson*



Mr Kgomotso Abi  
*Member*



Mr Geoffrey Bakwena  
*Member*



Mr Bernard Kenosi  
*Member*



Ms Keineetse Lepekoane  
*Member*



Mr Keith Thomas Blanchard  
*Member*



Prof. Baakile Motshegwa  
*Member*



Mrs. Mmametsi Setlhare  
*Member*



## BPC EXECUTIVE MANAGEMENT



**Mr Jacob. N. Raleru**  
Chief Executive Officer





Mr Edward Rugoyi  
*Director, Generation*



Mr Gordon Molefe  
*Director, Customer Service and Supply*



Mr Nchena Mothebe  
*Director, Transmission*



Ms Rebecca Mgadla  
*Chief Financial Officer*



Ms Ivy Ramalohanye  
*General Manager, Human Resources*



Ms Ditshetsa Makepe  
*General Corporate Counsel*



Mr Richard Mariwa  
*Acting Director - Corporate Services*



Ms Agnes Thebe  
*Acting General Manager Internal Audit*



## KEY BUSINESS TERMS AND RATIOS

### **Borrowings/Debt**

All interest bearing liabilities.

### **Operating profit**

Net profit before deducting finance cost and before adding investment income.

### **Total assets**

Fixed assets, Work in progress, investments and current assets.

### **Total liabilities**

Non-current liabilities and current liabilities.

### **Current ratio**

Current assets divided by current liabilities.

### **Cost of borrowing**

Finance costs expressed as a percentage of average total debt.

### **Liquid ratio**

Current assets less inventory divided by current liabilities.

### **Gearing ratio**

Total debt as a percentage of capital employed.

### **Gross margin**

Operating profit before depreciation expressed as a percentage of operating revenue.

### **Interest coverage ratio**

Operating profit after depreciation plus investment income divided by financing costs.

### **Net margin**

Net profit after financing costs expressed as a percentage of operating revenues.

### **Operating margin**

Operating profit after depreciation expressed as a percentage of operating revenues.

### **Return on capital employed**

Net profit expressed as a percentage.

### **Return on property, plant and equipment**

Net profit expressed as a percentage of capital employed.

### **Earning to irredeemable capital**

Net profit expressed as a percentage of irredeemable capital.

### **Dividend to irredeemable capital**

Dividend paid expressed as a percentage of irredeemable capital.

### **Return on operating assets**

Operating profit expressed as a percentage of fixed assets and net working capital.

### **Return on investments**

Interest received expressed as a percentage of average total investments and deposits on cash and call.

### **System losses**

The power that is lost during transmission and distribution due to resistance (impedance) of the system through which the electricity flows.

### **SAPP**

Southern African Power Pool.

## ADDRESSES, BANKERS AND ATTORNEY'S DETAILS

### HEAD OFFICE:

MOTLAKASE HOUSE  
Macheng Way  
P O Box 48  
Gaborone  
Botswana  
Tel : (267) 360 3000  
Fax : (267) 390 8674/397 3563  
Telex : 2931 BD  
Website : [www.bpc.bw](http://www.bpc.bw)

### REGIONAL OFFICES:

*MORUPULE*  
P/Bag 7  
Palapye  
Tel: (267) 492 0200  
Fax: (267) 492 0494

*FRANCISTOWN*  
P O Box 815  
Francistown  
Tel: (267) 241 3939  
Fax: (267) 2412877

*SELEBI-PHIKWE*  
P O Box 170  
Selebi-Phikwe  
Tel: (267) 261 0422  
Fax: (267) 261 0407

### BANKERS:

Barclays Bank of Botswana Limited  
Barclays House  
P O Box 478, Gaborone

Standard Chartered Bank of Botswana  
Limited  
P O Box 496, Gaborone

First National Bank of Botswana  
Limited  
P O Box 1552, Gaborone

Stanbic Bank of Botswana Limited  
Private Bag 00168, Gaborone

### ATTORNEYS:

Armstrongs  
P O Box 1368, Gaborone

Collins Newman  
P O Box 882, Gaborone

Minchin & Kelly  
P O Box 1339, Gaborone

### AUDITORS:

Deloitte & Touche  
P O Box 778, Gaborone



## KEY ANNUAL STATISTICS

for the year ended 31 March 2014

	2014	2013	2012	2011	2010	2009	2008
Total unit sales (GWH)	3,449	3,310.1	3,197.7	3,118	3,151	2,917	2,889
Total generation (sent out) and imports	3,703.6	3,650.1	3,590.9	3,551	3,414	3,369	3,210
Staff Establishment	1,922	1,977	2,047	2,188	1,841	1,901	2,010
Total consumers	343,050	315,669	291,338	251,773	214,170	196,755	196,755
Plant capacity Morupule B (MW)	600	-	-	-	-	-	-
Plant capacity Morupule A (MW)	132	132	132	132	132	132	132
System maximum demand (MW)	572	578	542	553	553	503	493
Average selling price per unit (Thebe/kWh)	65.5	60	57	48.0	36	36.7	32.0
Average cost per unit (Thebe/kWh)	104	109	85	68	57	50	36
<b>Operating Results (P'000)</b>							
Total Revenue	2,260,196	1,984,200	1,815,601	1,512,236	1,135,474	1,069,559	938,555
Net Operating Expenses	3,586,058	3,606,721	2,635,037	2,119,262	1,699,047	1,445,989	1,024,322
Operating Profit/(loss) before Revenue Grant	-1,325,862	-1,622,521	-819,436	-607,026	-563,573	-376,430	-85,767
Revenue Grant from the Government of Botswana	1,488,000	871,000	508,000	54,000	-	-	-
Operating profit/(loss) after Revenue Grant	162,138	-751,521	-311,436	-153,026	-563,573	-376,430	-85,767
Net Profit/(Loss)	114,053	-1,254,836	-1,122,872	-796,620	-1,572,169	-133,623	111,143
<b>Capitalisation (P'000)</b>							
Long term debt	6,330,541	6,313,407	5,359,783	4,154,439	1,460,764	119,209	135,803
Net assets	4,758,887	4,464,695	4,344,744	5,117,891	5,269,867	6,466,499	5,069,837
Capital expenditure and WIP	423,346	989,467	1,786,583	3,930,033	3,086,888	1,211,301	628,114
<b>Electricity (GWh) Source</b>							
Morupule A	0	46.3	249.5	437.1	532.1	620.7	697.0
Morupule B	2,213	713.6	0.0	-	-	-	-
Station usage	292.2	91.2	29.9	66.0	74.8	71.0	66.5
Sent out	1,920.6	668.7	219.6	371.1	457.3	549.7	630.5
Purchased	1,783	2,981.4	3,371.3	3,180.1	2,984.5	2,748.5	2,585
Total sent out and purchased	3,703.6	3,650.1	3,590.9	3,551.2	3,441.8	3,369.2	3,215.8

	2014	2013	2012	2011	2010	2009	2008
<b>Sales disposition (GWh)</b>							
Mining	1,197	1,127.6	1,085.7	1,117.1	1,141.2	1,123.2	1,186.2
Commercial	1,028	982.2	910.1	820.0	830.7	734.6	683.9
Domestic	927	918.3	878.8	873.0	829.1	768.7	745.1
Government	297	282.1	323.2	308.0	307.5	290.4	273.5
<b>Total sales</b>	<b>3,449</b>	<b>3,310.1</b>	<b>3,197.7</b>	<b>3,118.1</b>	<b>3,108.5</b>	<b>2,916.9</b>	<b>2,888.7</b>
<b>Transmission and distribution</b>							
Losses (GWh)	254.7	340.0	393.2	433.6	333.3	381.3	327.1
System losses (%)	7.4%	10.3%	12.3%	13.9%	10.7%	13.1%	11.3%
<b>Total consumers</b>	<b>343,050</b>	<b>315,699.0</b>	<b>291,338.0</b>	<b>251,773.0</b>	<b>214,170.0</b>	<b>198,615.0</b>	<b>196,755.0</b>
<b>Sales growth (%)</b>							
Mining	6.2	3.9	-2.8	-2.1	1.6	-5.0	-1.1
Commercial	4.6	7.9	11.0	-1.3	13.1	7.4	7.9
Domestic	1.0	4.5	0.7	5.3	7.9	3.1	9.3
Government	5.3	-12.7	4.9	0.1	5.9	6.2	4.4
<b>Total sales growth (decline)</b>	<b>4.2</b>	<b>3.5</b>	<b>2.6</b>	<b>0.3</b>	<b>6.6</b>	<b>1.0</b>	<b>4.0</b>
<b>Earning ratios (%)</b>							
Net margin	5.0%	-63.2%	-61.8%	-52.7%	-138.5%	-12.5%	11.8%
Earnings to irredeemable capital	4.4%	-20.3%	-9.7%	-7.0%	-34.4%	-8.1%	76.3%
Return on total average assets employed	1.0%	-4.6%	-2.1%	-1.0%	-3.8%	-1.8%	1.8%
Operating loss to revenue	7.2%	-37.9%	-17.2%	-10.1%	-49.6%	-35.2%	-9.1%
Return on revalued Property, Plant and Equipment (%)	1.1%-	4.6%	-2.1%	-1.0%	7.8%	-9.3%	-2.3%

<b>Mining</b>	<b>1,197</b>
<b>Commercial</b>	<b>1,028</b>
<b>Domestic</b>	<b>927</b>
<b>Government</b>	<b>297</b>
<b>Total sales</b>	<b>3,449</b>



● MINING	35%
● COMMERCIAL	30%
● DOMESTIC	27%
● GOVERNMENT	8%



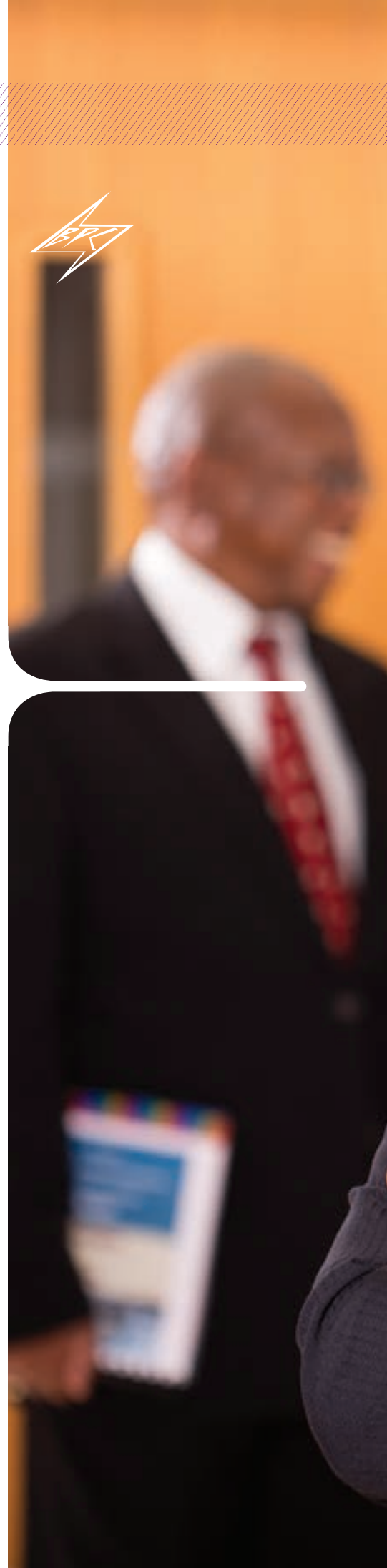
## CHIEF EXECUTIVE OFFICER'S REVIEW



### **Plant Operations and Maintenance**

The Corporation domestic supply during the period under review was from Morupule B as well as the two peaking power plants of Orapa 90MW and Matshelagabedi 70MW.

With three of the four units of Morupule B having been taken over for commercial operation from the Engineering, Procurement and Construction (EPC) contractor, the main focus for the Utility to meet the national demand has been plant availability, as well as taking over the last section. Due to remedial work still being undertaken on identified defects, the three units on operation could not reach the 90% availability target which resulted in a supply shortfall of up to 53% of the annual demand.





Mr Jacob Raleru  
*Chief Executive Officer*



## CHIEF EXECUTIVE OFFICER'S REVIEW [CONTINUED] >>>

For the operation and maintenance of Morupule B plant, the Corporation engaged Steag Energy Services (GmbH) (SES) of Germany under an operation services support agreement (OSSA) for the period 1st January 2014 to 30th April 2014. The three month arrangement was primarily to operate and maintain the plant while a long term agreement was being put in

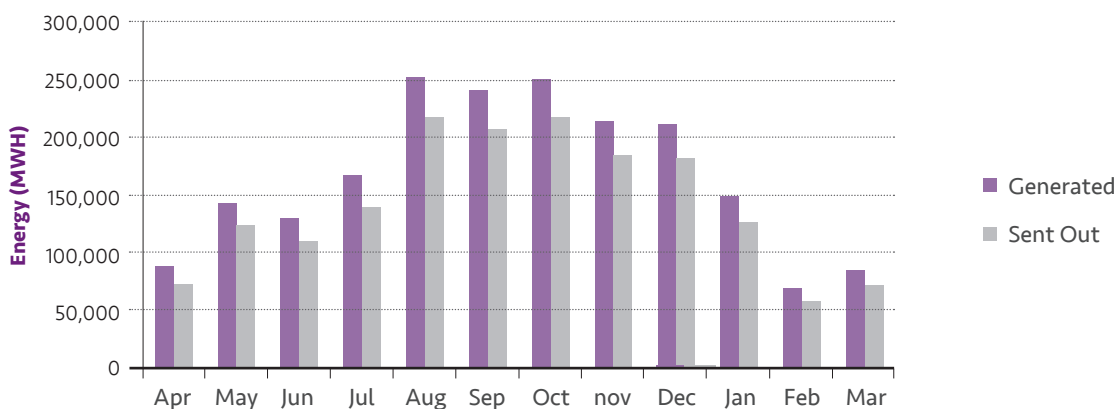
place. The plant had been operated and maintained by the EPC contractor since 2012.

While the key deliverable in the operation and maintenance contract is to improve the reliability, availability and maintainability (RAM) of the power station, one critical component of the engagement is competency

development of BPC staff to manage, operate and maintain the plant at the end of the envisaged medium term agreement.

The chart below depicts the total energy generated and sent out from Morupule B power station during the financial year under review.

**Chart 1: Morupule B Power Production Statistics (FY 2013/14)**



### PLANT REFURBISHMENT PROJECT

The Morupule A 132MW refurbishment project was advanced during the financial year under review, with the appointment of the owner's engineer, financial advisors and legal advisors. Project specifications and basic designs were completed and bid documents were prepared and issued to seven prequalified bidders for a turnkey EPC contract which is expected to be awarded during the 2014/15 financial year.

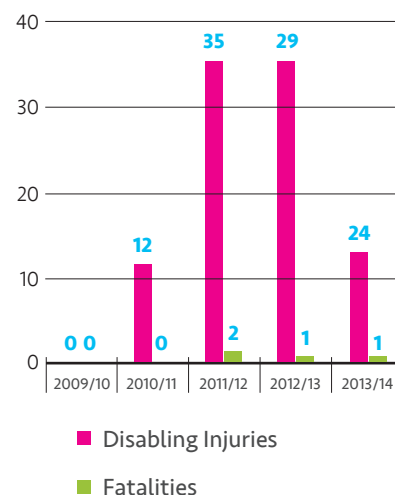
The refurbishment works are projected to take up to 28 months to complete after contract award, which implies realizing full capacity of the plant (132MW). Based on the current procurement process the last section of the plant is envisaged to be restored back to service by May 2017.

### ENVIRONMENTAL MANAGEMENT

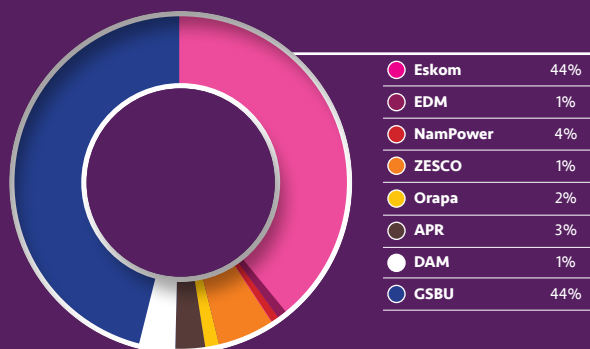
The Corporation has recorded a marked improvement in the safety performance based on various measure as being within the industry standard.

SHER activities are maintained in all the locations and more resources have so far been directed to major construction projects such as Morupule B power station site. Below are the statistics that were recorded at Morupule B project site for the year under review. The achievement is a result of the investment made on both human resources development and equipment at the plant to achieve the required standards.

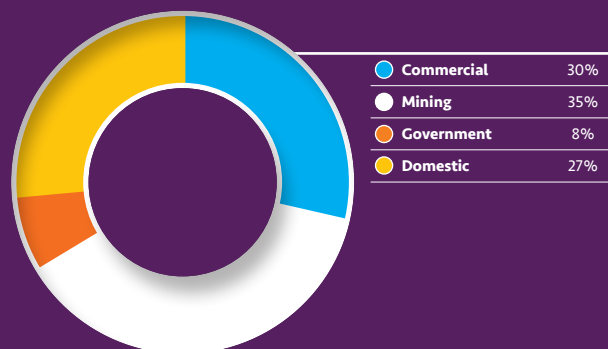
**Chart 2: Disabling injuries for the past four years of construction**



**Chart 3: Energy (MWhz) Actual Total**



**Chart 3: Sales MWh (2013/14)**



## SUPPLY-DEMAND BALANCE AND GRID MANAGEMENT

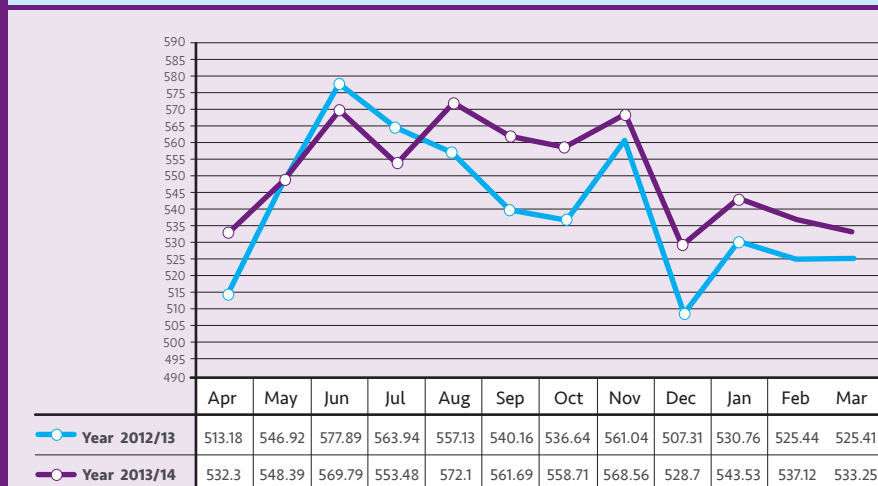
The year under review was characterized by higher than envisaged utilization of imported energy, which stood at 1,783GWh against total consumption of 3,703GWh. This amounted to 51.4% of the country's requirements. The regional supply situation remained constrained, while Eskom of RSA remained the major supplier at 1,569GWh (44 %) of energy consumed in the country during 2013/14 financial year. Other import sources were EDM of Mozambique, NamPower of Namibia, ZESCO of Zambia and the Southern African Power Pool (SAPP) Day Ahead Market (DAM). Proportion of the energy sources are reflected above in Chart 3.

The power imports analysis is as depicted above in Chart 4.

The system maximum demand recorded during the year was 572.10 MW, which was registered on 6th August 2013 at 20:00hrs. This represents a decrease of 1.02% over the previous year's system maximum demand of 578 MW. The maximum demand occurred in an environment of suppressed demand due to supply shortfall, in this regard a higher peak demand could have been recorded.

## System Peak Demand Trend

**Chart 4: Peak Demand Comparison - MW**



## Our Customers

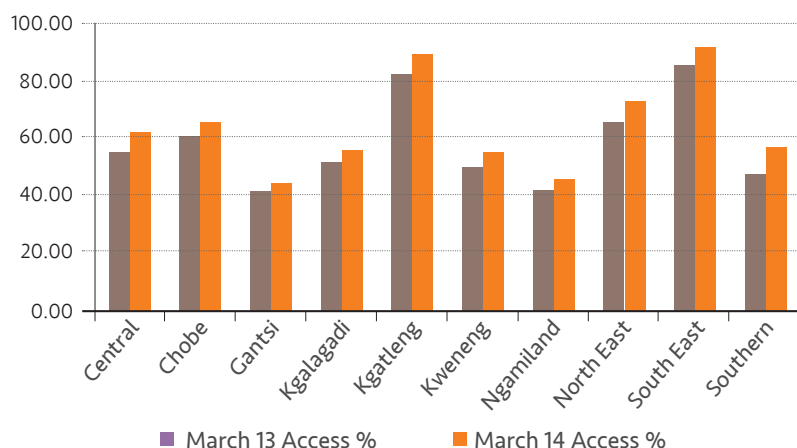
In line with the strategic direction, the Corporation has put customer service in its top agenda as a utility. Continuous investment on the network and the roll-out of P5000.00 standard cost of connection to more areas in the country has indeed facilitated an increase in access, as demonstrated by a growth in customer base of 8.6%. Chart 5 below reflects access level in rural areas which stands at 62.5% on average.

Through its Rural Business which has been established to implement and support Government initiatives on village electrification projects, three projects were completed during the year. In the overall 63 more villages were added to the grid from two electrification projects completed, 43 Villages and 20 Villages. In addition, network extensions were completed for 12 villages and another one for 9 villages was commissioned. To date 465 villages have been connected to electricity, either from the national grid or through cross border supply from Republic of South Africa, Namibia, Zimbabwe and Zambia.



## CHIEF EXECUTIVE OFFICER'S REVIEW [CONTINUED] >>>

**Chart 5: Rural Access Per District**

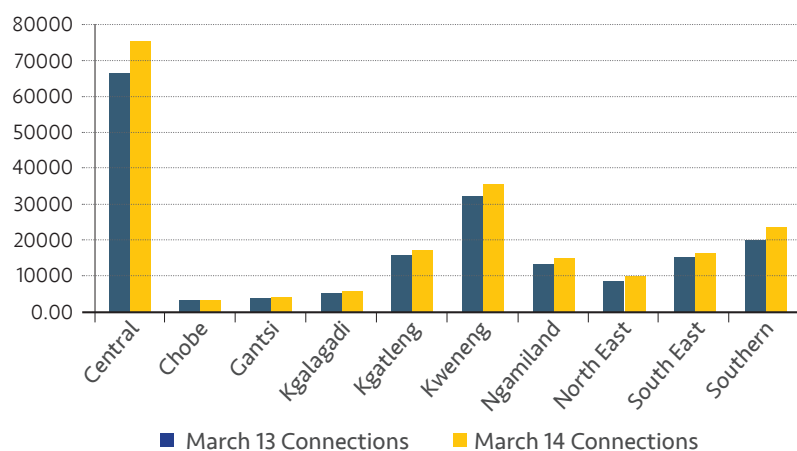


project has been fully rolled out in towns, and currently the focus is on systems enhancements to tap into new technology.

The prepaid system was indeed a good platform to interface with the latest technology to achieve customer convenience. During the year under review there was an increase in both the number and variety of channels, as demonstrated by the following;

- (a) Increase in Point of Sale Machines (PoS) from 128 to 2000
- (b) Use of electronic channels like Mobile Phones, Auto Teller Machines (ATMs)
- (c) 35 more villages had a vending point.

**Chart 7: Customer Connections Per District**



In its endeavour to improve its turnaround time on reported faults, as well as easing accessibility of BPC services, the Call Centre was converted to a 24 hour Contact Centre. The facility was also enhanced to be accessible nationwide.

### Our People

The Corporation continues not only to make material investment on its human resource, but also to enable a healthy climate through interventions that facilitate a balanced employee engagement level.

The National Electricity Standard Cost of P5000.00 implemented in 2010 continues to make a positive impact on the customer base growth as well. For the period under review 17644 customers benefited from the program, at a total cost of P231 094 679.70 and bringing the total number of customers who benefited from NESC to 57 115 since inception. The total Government subsidy as at the

end of the financial year was reported at P769 458 268.82, to make electricity connection costs more affordable to consumers.

The overall connection uptake has increased in most villages as demonstrated in the chart 7 above:

The Corporation continues to invest in its strategic initiative of converting customers to prepaid metering. The

As a commitment a Corporate-wide Climate Survey will be conducted every two years, with the objective of (amongst others), establishing a baseline from which staff engagement and satisfaction levels can be gauged. In general, the findings of the previous survey indicate that the current employee engagement level is 37%, and the climate index is 41%. Management has since instituted a climate survey implementation plan, articulating performance targets and tracking accordingly to realize plans to bring engagement levels to industry standards.



**COMPETENCIES  
& EXPERIENCE**

**31%**

A significant proportion of employees (31%) with competencies and experience are in age groups of 45 and above. This has then brought forward efforts to augment succession planning, for medium to long-term.

Human relations governance remains key in our endeavour to achieve the Corporation mandate of delivering power to the nation efficiently. For the year under review, the statutory requirements for consultation and bargaining was duly met with the Management/Union Forum meetings convened and attended by all stakeholders.

As growth in business has predominantly been towards the generation function, the resourcing of Morupule B therefore continues to be a priority in line with the strategic direction of supply security. The outsourcing of the operation and maintenance was indeed a strategic move considering the supply situation and skills required. The development of the Human Resource Agreement with Steag Germany as the contracted

service provider, was indeed a milestone on skills transfer to the local workforce for monitoring and evaluation.

Employee's conditions of service continues to be regularly reviewed to align with the trends and the changing business environment. To this end the project to revise the Human Resource Manual was commissioned and completed. It shall be launched in the first quarter of the next review period.

For operational efficiency the Corporation continues with its structure optimization and rationalization initiatives. As at March 2014 the employee strength was at 1922 against an approved establishment of 2088 approved for 2013/14. This indicates 1.1% reduction from overall establishment of 2112, approved for 2012/13.

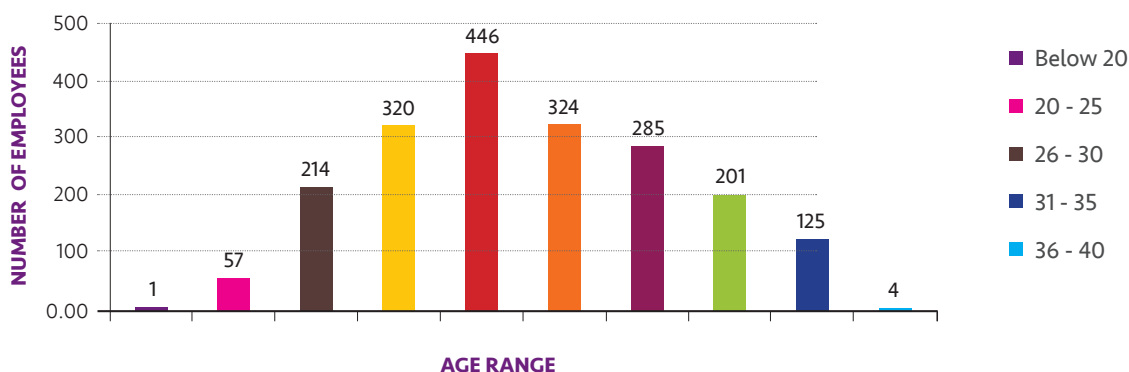
The labour turnover rate for the year stood at 5.1% indicating a slight increase from 3.7%, of the previous year, compared to industry standard of 5%. The Corporation continues to enhance its talent management strategies to manage this exposure.

One tool for talent management, particularly succession planning and being wellness responsive, has been the maintenance of the workforce age profile. The profile during the period reflected that most of the employees are in the middle age group of 36 - 40 years, with an average age of 38 years. A significant proportion of employees (31%) with competencies and experience are in age groups of 45 and above. This has then brought forward efforts to augment succession planning, for medium to long term.



## CHIEF EXECUTIVE OFFICER'S REVIEW [CONTINUED] >>>

**Chart 9: Employee Age Ranges**



Health, surveillance and medical services remain central to the welfare of employees. In this regard the Corporation continues to provide clinical and psychosocial support as well as preventative medical care.

The Corporate Wellness Strategy implementation is ongoing, which integrates the recommendations of the HIV/Knowledge Attitudes and Practices (KAP) survey conducted in the previous year, and is aligned to the Corporation's strategic priority of Organizational Effectiveness.

Recreation and Sports continues to be one of the cultures the Corporation embraces for a healthy and fit workforce. Through the Corporation's support employees continue with their participation on a number of inter-sports activities. These include inter-utility regional games and inter-departmental games at the parent Ministry level. The chart below reflects performance of the Corporation during 2013/14.

### Inter - Utility Games

MMWR RESULTS		MEDALS
Netball	Ladies	Gold
Volleyball	Mixed	Gold
400m	Gents	Gold
4x1 Relay	Ladies	Gold
4x4 Relay	Gents	Gold
7 Rounds	Ladies	Gold
800m	Ladies	Gold
		Gold
Overall Winner		BPC

### MMEWR Games

INTERPOWER GAMES RESULTS		MEDALS
NETBALL	Ladies	Gold
TABLE TENNIS	Mixed	Gold
CHESS	Mixed	Gold
ATHLETICS - 4X400 RELAY	LADIES	Gold
ATHLETICS - 4X400 RELAY	MEN	Gold
ATHLETICS - 4X100 RELAY	LADIES	Gold
ATHLETICS - 4X100 RELAY	MEN	Gold
GOLF	Mixed	Silver
VOLLEYBALL	Mixed	Bronze
SOCCER	Men	Position 4
TENNIS	Mixed	Bronze
OVERALL WINNER		BPC



#### Corporate Social Responsibility

The year under review saw the Corporation maintaining its support to one of Government's vision 2016 pillars of a "passionate, just and caring nation" by adhering to its moral obligation as enshrined in the Corporate Social Responsibility policy. The Corporation deployed its expertise, technology, partnerships, and financial resources to help build thriving, prosperous communities that improve people's lives and support our business.

The Corporation commitment to 'live the vision' by contributing towards uplifting people's standard of living was the main driver to undertake the following initiatives;

- Donating funds to Ghanzi District Council on its housing appeal for the less privileged in Charleshill village
- Contributing to the rural school project by Sanitation Water and People Trust (SWAT) in Borolong and Jamakata
- Renovating and electrifying a two roomed house and building a pit latrine toilet for the under-privileged couple in Tshane during the Vision 2016 month launch celebrations
- Continuing its membership donor support to Kalahari Conservation Society

#### Gratitude

I would like to take this opportunity to express my gratitude to the Corporation Board of Directors and the parent Ministry of Minerals Energy and Water Resources, as it is indeed through their guidance and support that Management and Employees were able to deliver on the mandate despite the volatile business climate.

My sincere appreciation also goes to the employees and customers, whose joint efforts have made it possible for the Corporation to go through the survival phase of its endeavour to turnaround the business.

**N. J. Raleru**  
Chief Executive Officer  
Botswana Power Corporation



## CORPORATE GOVERNANCE



BPC adheres to the Corporation's founding legislation – the Botswana Power Corporation Act (Chapter 74:01), the Laws of Botswana, common law provisions of corporate law and internationally accepted standards of good corporate governance.

Good corporate governance is a fundamental part of the culture and the business practices of BPC.

The Board recognises that they are ultimately responsible for the operations of Botswana Power Corporation through the delegation of various duties to the Chief Executive Officer and Executive Management. The Board is conscious of its obligations and accountability to the shareholder, as well as other stakeholder expectations.



In the execution of its duties the Board is guided by a Board Charter, which amongst others, clearly sets out the Board's role, duties and responsibilities. The Charter provides Board structures, procedures and processes; which assist the Board in regulating how it conducts its business.

#### BOARD COMPOSITION

The Minister of Minerals, Energy and Water Resources appoints BPC Board Members and charges the Board with the responsibility of setting the direction of the Corporation's affairs.

The Botswana Power Corporation has a unitary board structure, where the Board is comprised of exclusively non-executive members. The BPC Board is currently composed of eight non-executive members and a non-executive Board Chairman, in accordance with the BPC Act. This board structure ascertains that the Board maintains a high level of objectivity and independence in Board deliberations and resolutions. Conforming to the dictates of the King III Code of Governance for South Africa 2009, which is accepted by the Corporation as a sound and

robust benchmark for best corporate governance practice, the roles of Board Chairman and the Chief Executive Officer are separate, with a clear role distinction and division of duties.

The Board members are experts in various fields including engineering, project management and finance. This ensures that the strategic direction provided by the Board to the Corporation is diverse, knowledgeable, vigorous and sound.



## CORPORATE GOVERNANCE [CONTINUED] >>>

The Board is committed to development on corporate governance matters and has during the period engaged in the following Board development initiatives;

- Corporate Governance Training for the Board and Executive Management
- Board Induction for newly appointed Board members, aimed at introducing the Corporation to the members as well as enhancing their understanding of the business and industry

The table below sets out the current composition of the Board and the membership of each Board Committee.

Board Member	Board	Board Finance & Audit Committee	Board Procurement & Tender Committee	Board Human Resources Committee	Board Security of Supply Committee
Mr. Sebetlela O. Sebetlela	Chairman				
Mr. Bonny Thebenyane	Vice-Chairman	Member			
Mrs. Mmametsi Setlhare	Member	Chairman		Member	
Prof. Baakile Motshegwa	Member		Member	Chairman	
Mr. Geoffrey Bakwena	Member	Member	Chairman		Member
Ms. Keineetse P. Lepekoane	Member	Member	Member		Member
Mr. Keith Blanchard	Member				Chairman
Mr. Bernard Kenosi	Member			Member	Member
Mr. Kgomotso Abi	Member		Member		Member

During this period, the Board's composition changed as follows;

Retirements	Appointments
Mrs. Ewetse T. Rakhudu; Chairman <i>Retired 31st October 2014</i>	Mr. Sebetlela O. Sebetlela; Chairman <i>Appointed 1st November 2014</i>
Mr. Freddie Motlathledi; Vice Chairman <i>Retired 31st October 2014</i>	Mr. Keith Blanchard; Board Member <i>Appointed 1st November 2014</i>
Mrs. Audrey Kgosidintsi; Board Member <i>Retired 31st October 2014</i>	Mrs. Mmametsi Setlhare; Board Member <i>Appointed 1st November 2014</i>
Mrs. Parma Mogatle-Kanedi; Board Member <i>Retired 31st October 2014</i>	Prof. Baakile Motshegwa; Board Member <i>Appointed 1st November 2014</i>

### BOARD MEETINGS

The Board meets at least four times annually to discuss matters relating to (amongst other things) strategy and performance, financial position, risk management, human resource matters, sustainability and governance. Members contribute to strategy formulation as well as monitoring and measuring the Corporation's performance and its executive management against key performance indicators.

## BOARD COMMITTEES

The Board has, in terms of Section 12 of the BPC Act and through formal resolution, set up four sub-committees to assist the Board to carry out its oversight role.

### Board Finance and Audit Committee

The purpose of the Board Finance and Audit Committee is to assist the Board's oversight of;

- The integrity of the Corporation's financial statements, systems and records
- The Corporation's financial strategy and objectives
- The Corporation's compliance with legal and regulatory requirements
- The external auditor's qualifications, independence and performance
- The performance of the Corporation's internal audit function.



*The Chairman of the Board Finance and Audit Committee is Mrs. Mmametsi Setlhare*

### Board Procurement and Tender Committee

The Board Procurement and Tender Committee (BPTC) has been given the authority to adjudicate and approve tenders for the procurement of the Corporation's requirements for goods and services above the limits prescribed to Management by the Botswana Power Corporation Board. In addition, the BPTC has responsibility to monitor compliance to BPC Tender Regulations, maintain the Tender Regulations in an up-to-date status according to international standards best practice and monitor progress on implementation of approved tenders and related projects.



*The Chairman of the Board Procurement and Tender Committee is Mr. Geoffrey Bakwena*

### Board Human Resource Committee

The Board Human Resources Committee's mandate is to assist the Board's oversight of;

- The Corporation's human resources policies, strategies and plan;
- The appointment of Executive Management; and
- The Corporation's Performance Management System.



*The Chairman of the Board Human Resources Committee is Prof. Baakile Motshegwa*

### Board Security of Supply Committee

This Board sub-committee was formally known as the Morupule B Power Station Project Board Committee. During the review period, the sub-committee's mandate was expanded to include the entire Corporation's security of supply projects, not only the Morupule B Project.

The terms of reference of the Board Security of Supply Committee is to assist the Board's oversight of all security of supply realisation strategies and projects, including facilitating adequate and timeous resourcing of security of supply related projects.



*The Chairman of the Morupule B Committee is Mr. Keith Blanchard*

## BOARD OF DIRECTORS' DECLARATION OF INTEREST

The Board members declare their interest at every Board and Committee meeting in relation to matters placed before them for deliberation and decision making in accordance with Section 9 of the Botswana Power Corporation Act.

## BOARD SECRETARY

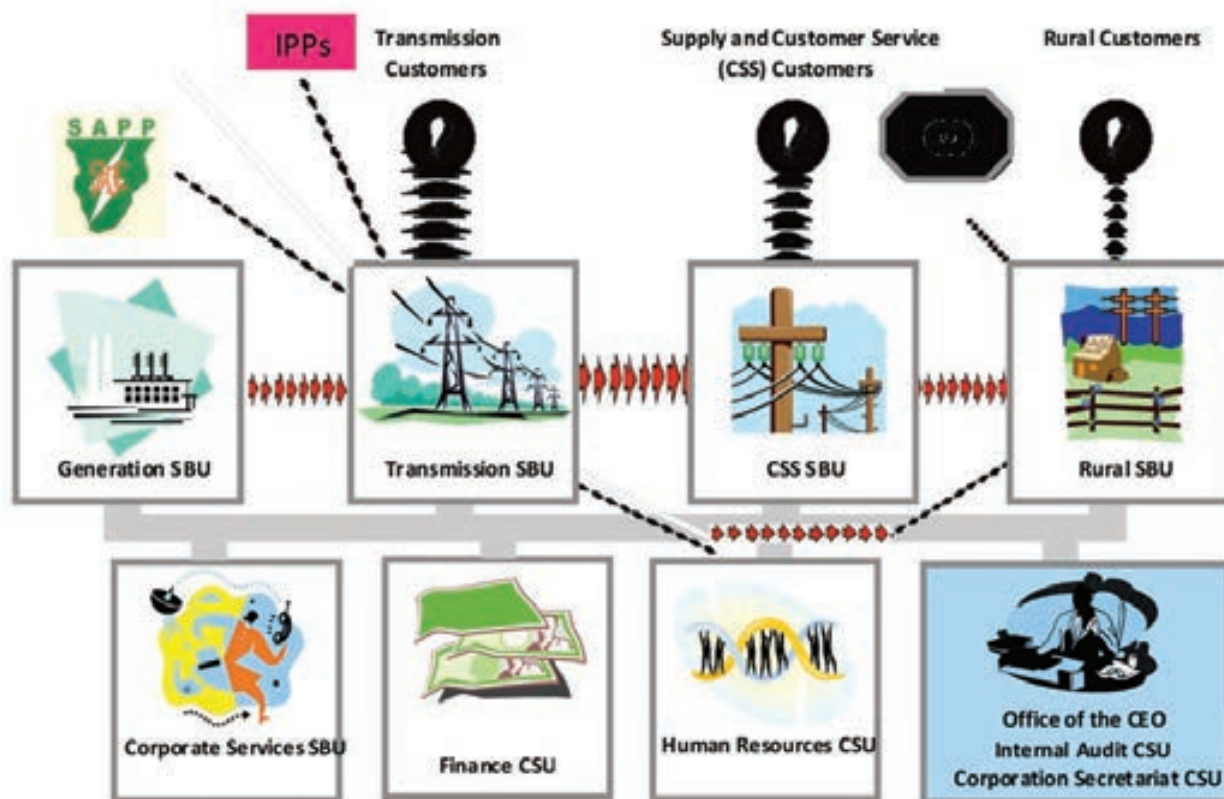
The Board Secretary, who is appointed in terms of the BPC Act, is responsible for providing guidance to the Chairman and Board of Directors on their duties, responsibilities and powers. The Board Secretary advises on corporate governance and statutory compliance.



## CORPORATE GOVERNANCE [CONTINUED] >>>

### BUSINESS SUSTAINABILITY

The operating model below defines the Corporation structure that sustains the business. The model is however regularly reviewed for effectiveness.



To sustain the business the strategic direction during the period maintained focus on the following pillars and objectives;

Strategy No	Strategic Priority	Strategy Objective
1	Financial Turnaround	To return the Corporation to a normal level in terms of acceptable profitability, solvency, liquidity and cash flows by 2018
2	Secure Supply of Power	To achieve and maintain a system reserve margin of 15%
3	Service Delivery	To improve customer satisfaction scores year on year by 10% using the customer service survey
4	Organizational Effectiveness	To improve organisational effectiveness by 10% year on year

The Corporation works jointly with Government on various infrastructure developments which include generation, transmission and distribution projects to drive economic development.

In its quest to meet stakeholders' expectations the Corporation and its workforce are guided and inspired by the following values:

1. Business Excellence
2. Personal Growth
3. Ethical Conduct
4. Valued Citizen

To adhere to its commitment to strike a balance between the cost reflective electricity tariffs and affordability to the consumer, Government continues to provide annual subsidies towards operations as well as infrastructure.

The monitoring of the Corporation's operational efficiency is being carried out through the parent Ministry of Minerals Energy and Water Resources, in collaboration with other Government agencies.

### BUSINESS RISK REGISTER

In order to sustain its business, the Corporation maintains a risk register to enable proactive mitigation of the key risks that could negatively impact on the achievement of its mandate, as outlined below. The main focus has therefore been to allocate resources that would facilitate mitigations of the risks, both at strategic and operational level.

Risk Type	Risk Name	Risk Description	Impact/Consequence
Regulatory	Going Concern	The Corporation continuing to experience operational losses hence eroding its financial sustainability and the shareholders' wealth.	Non-compliance with Section 17 of the BPC Act.  Over-reliance on Government Subsidies and guarantees.  Inability to raise alternative capital at competitive rates due to a weak balance sheet.
Operational	Financial	Unsustainable cash-flow position due to mismatch between average cost of supply and average sales price.	Weak working capital negatively impacting on operations  Defaulting on lenders and supplier obligations
Operational	Human Resource	Less competitive terms and conditions of service for the workforce to sustain operations, which could lead to a continuous loss of critical skills to the market.	Low productivity due inability to retain and attract skilled personnel.  Delays in taking over operations and maintenance for the plant in line with the Human Resource Agreement put in place.  Low staff morale as demonstrated by below industry standard engagement index.
Business	Supply of Security	Continued failure for the plant to reach the 90% availability level.	Loss of business to Independent Power Producers.  High level of unserved energy including continuous load shedding.  Slow economic growth.  Escalating cost of supply hence unaffordable tariffs due to sourcing expensive alternative supply.  Low asset utilisation hence lesser return on capital.
Reputational	Unsatisfactory Service Delivery	Below standard service delivery, evidenced by the level of customer complaints concerning efficiencies and turnaround time.	Loss of Image Loss of income as customers could be reluctant to meet their obligations on time.



## FINANCIAL REVIEW

The financial performance of the Corporation for the year under review reflects an improvement on the overall bottom line, despite the negative impact arising from the low level of plant availability, leading to an unpredicted reliance on expensive alternative sources of supply.

### REVENUE

The total revenue increased by 14% to P2.260 billion in 2014, compared to P1.984 billion in 2013. The revenue increase for the period is mainly attributable to 10% average tariff adjustment as well as a 4% unit sales growth.

### OTHER INCOME

Other income comprises mostly, margin on sale of material to distribution works contractors, interest on connection cost loans to customers, reconnection fees and late payment penalties. These stood at P56.1 million, registering an increase of 5% from P53.5 million from the prior year.

Total interest earned during the year was P5.2 million compared to P9.4 million recorded in 2013. The decline in interest income is mainly attributable to comparatively lower interest rates during the year, as well as lower average cash balances invested on the short-term liquidity market during the year.

### OPERATING COSTS

Total operating expenditure for the year amounted to P3.642 billion compared to P3.660 billion in the prior year, reflecting a 0.5% reduction (P17 million). The reduction is mainly resulting from decrease in administration expenses, which were reported at P307.8 million compared to P480.1 million for March 2013.

For the year under review, a total of P1.839 billion (51% of direct costs) was incurred in power purchases, of which P281 million was paid for by the Government through an emergency power grant. Direct cost

increased by 6% from P3.419 billion to P3.615 billion, partly attributable to generation input costs which increased by 19% to P916 million, while the power purchases decreased 6% to P1.839 billion.

### OVERALL OPERATING RESULTS

The Corporation has recorded an operating loss before the Tariff Subsidy Grant of P1.326 billion compared to P1.623 billion in 2013. However, the net impact of the tariff subsidy of P1.488 billion and P281 million support towards emergency power costs resulted in an overall operating profit of P162.1 million compared to an operating loss of P751.5 million recorded in the prior year.

The total profit for the year, after financing activities amounted to P114 million compared to P1.254 billion loss in 2013. The improvement was mainly attributable to a fair value-gain of P446 million on the cross currency and interest rate swap hedge.

In addition there has been a reduction of up to 50% on the Net Exchange Loss of P415 million on the Morupule B Export Credit Facility Agreement (ECFA) loan with Industrial and Commercial Bank of China (ICBC), compared to an exchange loss of P813 million recorded in 2013, mainly due to the appreciation of the US dollar against the Pula.

The Corporation registered a net profit before other comprehensive losses of P114.053 million for the year under review, compared to a loss of P1.254 billion in 2013. An impairment loss of P175.5 million was recognised on Morupule A plant, which is still under care and maintenance. The impairment loss contributed to the Corporation Total Comprehensive Loss of P61.5 million reported for the year is, however, significantly low if compared to P385.3 million recorded in the prior year.

### FINANCIAL POSITION

The Corporation balance sheet reported a decline of 0.49% to close the period at P16.256 billion, against a balance of P16.337 billion reported in the prior year. The main contributing factor being a 1.36% (P204 million) reduction in property plant and equipment, which is mainly on account of Morupule A impairment loss as the plant refurbishment is yet to be commissioned.

While overall, the Total Non-current Assets, net of depreciation, declined by 2% (P236 million) to P14.766 billion, there were however additions of P423.3 million to plant and equipment arising from Morupule B capitalisation.

Current Assets increased from P1.194 billion to P1.350 billion, mainly attributable to P140 million receivable from Government emergency fund and an overall asset position of P77 million with respect to the fair value hedge.

Capital and Reserve (shareholder's fund) increased by 7% (P294 million) to P4.76 billion when compared to the prior year. The increase was mainly driven by an increase in Government equity amounting to P355 million. Non-current liabilities increased by 1% (P64 million) to close the year at P7,850 billion. This increase is mainly accounted for by 5% (P82.4million) with respect to deferred revenue from consumer financed projects.

Current liabilities recorded an 11% decline (438 million), to close the year at P3.65 billion. The decrease is mainly attributable to a decrease of P727 million in the fair value hedge liability which reversed to an asset position during the year. However, this was offset by a significant increase in trade and other payables and provisions in excess of P401 million.

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phone or **email:** [contactcentre@bpc.bw](mailto:contactcentre@bpc.bw)

*Powering Botswana Towards Prosperity*



BOTSWANA POWER CORPORATION

# AUDITED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2014

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## GENERAL INFORMATION

31 March 2014

### MEMBERS OF THE BOARD

Mr S Sebetlela	Chairman ( <i>Appointed on 1 November 2013</i> )
E T Rakhudu	( <i>Resigned on 30 October 2013</i> )
K P Lepekoane	
M Setlhare	( <i>Appointed 1 November 2013</i> )
B Motshegwa	( <i>Appointed 1 November 2013</i> )
K Blanchard	( <i>Appointed 1 November 2013</i> )
G Bakwena	
B Kenosi	
K Abi	
B Thebenyane	
P Kanedi	( <i>Resigned on 30 October 2013</i> )
F Motlhatlhedhi	( <i>Resigned on 30 October 2013</i> )
A Kgosidintsi	( <i>Resigned on 30 October 2013</i> )

### EXECUTIVE MANAGEMENT

N J Raleru	Chief Executive Officer
E Rugoyi	Generation Director
N Mothebe	Transmission Director
G Molefe	Customer Service and Supply Director
R Mariwa	Acting Corporate Services Director
R Mgadla	Chief Financial Officer
I Ramalohlangye	General Manager Human Resources
G Ngele	General Manager Internal Audit ( <i>Appointed on 2 May 2014</i> )
D Makepe	General Corporate Counsel /Board Secretary

### NATURE OF BUSINESS

Botswana Power Corporation ("the Corporation") is a parastatal wholly owned by the Government of the Republic of Botswana, ("the Government"), that provides electricity throughout Botswana. The Corporation was established in 1970 by the Botswana Power Corporation Act (Cap 74:01).

### REGISTERED OFFICE

Motlakase House  
Macheng Way  
P O Box 48  
Gaborone

### AUDITORS

Deloitte & Touche  
P O Box 778  
Gaborone

### BANKERS

Barclays Bank of Botswana Limited  
First National Bank of Botswana Limited  
Standard Chartered Bank Botswana Limited  
First National Bank Limited (South Africa)  
Stanbic Bank Botswana Limited

### ATTORNEYS

**Armstrong's**  
P O Box 1368  
Gaborone

### Collins Newman & Co

P O Box 882  
Gaborone

### Minchin and Kelly

P O Box 1339  
Gaborone

## DIRECTORS' RESPONSIBILITY STATEMENT APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

31 March 2014

The directors are responsible for the preparation and fair presentation of the financial statements of Botswana Power Corporation ("the Corporation"), comprising the statement of financial position as at 31 March 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards ("IFRS").

The directors are required by the Botswana Power Corporation Act (Cap 74:01) to maintain adequate accounting records and are responsible for the content and integrity of related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the Corporation as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with IFRS. The external auditors are engaged to express an independent opinion on the financial statements.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The financial statements are prepared in accordance with IFRS and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent

judgments and estimates. The directors' responsibilities also include maintaining adequate accounting records and an effective system of risk management.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Corporation and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. While operating risk cannot be fully eliminated, the Corporation endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The external auditors are responsible for independently reviewing and reporting on the Corporation's financial statements and their report is presented on pages 40 to 41.

### DISCLOSURE OF AUDIT INFORMATION

Each of the directors at the date of approval of this report confirms that in so far as the director is aware, there is no relevant audit information of which the Corporation's auditor is unaware and the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Corporation's auditor is aware of that information.

### GOING CONCERN

The directors have made an assessment of the Corporation's ability to continue as a going concern and believe that the continued financial support pledged by the shareholder, the Government of the Republic of Botswana, and the revision of the tariffs, together with the ongoing operational efficiency initiatives are critical, and will ensure that the Corporation continues as a going concern over the next twelve months.

### DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The financial statements set out on pages 42 to 77, which have been prepared on the going concern basis, were approved by the board on 26 September 2014 and were signed on its behalf by:



Director



Director



## INDEPENDENT AUDITOR'S REPORT TO THE MINISTER OF MINERALS, ENERGY AND WATER RESOURCES AND MEMBERS PURSUANT TO SECTION 22 OF THE BOTSWANA POWER CORPORATION ACT (CHAPTER 74:01)

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Botswana Power Corporation, which comprise the statement of financial position as at 31 March 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 42 to 77.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the financial statements give a true and fair view of the financial position of Botswana Power Corporation as at 31 March 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to the following matters:

### IMPAIRMENT OF MORUPULE B POWER STATION

As indicated in note 41, various matters relating to the Morupule B Power Station project are currently being addressed. Once the rectification costs have been determined, the total Morupule B Power Station costs will be assessed for impairment as required by IAS 36 – Impairment of Assets.

### GOING CONCERN

The Corporation incurred a loss of P1,373,947,000 (2013: P2,125,112,000) before taking into account the tariff subsidy grant received from the Government of the Republic of Botswana of P1,488,000,000 (2013: P871,000,000). In addition, as at 31 March 2014 the Corporation's current liabilities exceed its current assets by P2,297,206,000 (2013: 2,891,530,000).

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Corporation's ability to continue, as a going concern. As indicated in Note 43 of these financial statements, the shareholder, the Government of the Republic of Botswana has undertaken to provide ongoing financial support in the future.

## CONTINGENT LIABILITIES

As disclosed in Note 39, the Corporation has exposure to certain significant contingent liabilities:

There are a number of quantified and unquantified claims against BPC by a contractor. BPC Board and Management believe there are counter-claims against the contractor that will exceed the claims against BPC as disclosed in Note 39.3.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with Section 22 of the Botswana Power Corporation Act (CAP 74:01), we confirm that:

- The Corporation has kept proper books of accounts with which the financial statements are in agreement
- We have received all the information and explanations necessary for the performance of our audit

- The Corporation has complied with all the financial provisions of the Botswana Power Corporation Act (CAP 74:01) except for the matter referred to below.

As set out in note 42 to the financial statements, the Corporation has not met the requirements of Section 17 of the Botswana Power Corporation Act (Cap 74:01), which requires it to conduct its affairs on commercial lines so as to produce a net operating income by which a reasonable return can be measured. The Corporation incurred an operating loss of P1,325,862,000 for the year (2013: P1,622,521,000) before the tariff subsidy of P1,488,000,000 (2013: P871,000,000).

Deloitte & Touche 26 September 2014

Certified Auditors

Practicing Member: P Naik  
(19900296)

*Deloitte + Touche*

**Deloitte.**



## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2014

	Notes	2014 P'000	2013 P'000
Revenue	1	2,260,196	1,984,200
Other operating income	2	56,180	53,484
<b>TOTAL OPERATING INCOME</b>		<b>2,316,376</b>	<b>2,037,684</b>
Generation, transmission and distribution expenses	3	(3,615,457)	(3,419,777)
Reimbursement of emergency power purchases	4	281,030	239,723
Administration and other expenses	5	(307,811)	(480,151)
<b>TOTAL OPERATING EXPENSES</b>		<b>(3,642,238)</b>	<b>(3,660,205)</b>
<b>OPERATING LOSS BEFORE TARIFF SUBSIDY GRANT</b>	6	<b>(1,325,862)</b>	<b>(1,622,521)</b>
Tariff subsidy grant	8	1,488,000	871,000
<b>OPERATING PROFIT/(LOSS) AFTER TARIFF SUBSIDY GRANT</b>		<b>162,138</b>	<b>(751,521)</b>
Interest income	9	5,153	9,390
Finance costs	10	(76,530)	(5,392)
Net exchange losses		(415,733)	(812,995)
Fair value gain on cross-currency and interest rate swap	11	446,745	306,406
Impairment of unrecovered CFP balances	32	(7,720)	-
<b>PROFIT/(LOSS) FOR THE YEAR</b>		<b>114,053</b>	<b>(1,254,112)</b>
Other comprehensive income/(loss):			
Impairment of property, plant and equipment	12	(175,585)	-
Gains on revaluation of property, plant and equipment	12	-	868,745
Total other comprehensive (loss)/income for the year		(175,585)	868,745
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(61,532)</b>	<b>(385,367)</b>

The Corporation is exempt from income taxation in terms of the second schedule of the Income Tax Act (52:01).

## STATEMENT OF FINANCIAL POSITION

as at 31 March 2014

	Notes	2014 P'000	2013 P'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	14,766,564	14,970,590
Future coal supplies	13	96,015	132,614
Available - for - sale investments	15	3,000	3,000
Investments held -to - maturity	16	27,192	28,311
Consumer loans - hire purchase scheme	17	13,982	8,491
		14,906,753	15,143,006
<b>Current assets</b>			
Other financial assets	34	77,512	-
Future coal supplies	13	20,029	22,100
Standard cost recovery - NESC	20	129,535	130,430
Government grant receivable	4	140,000	-
Investments held - to - maturity	16	649	154
Consumer loans - hire purchase scheme	17	5,884	24,452
Consumer loans - NESC	21	43,309	55,557
Inventories	22	227,446	318,596
Trade and other receivables	23	492,584	457,217
Bank balances and cash		213,207	185,693
		1,350,155	1,194,199
<b>TOTAL ASSETS</b>		<b>16,256,908</b>	<b>16,337,205</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Irredeemable capital	24	4,061,711	3,705,987
Revaluation reserve	25	3,196,654	3,372,239
Other reserves	26	1,803,087	1,797,934
Accumulated loss		(4,302,565)	(4,411,465)
		4,758,887	4,464,695
<b>Non-current liabilities</b>			
Government grants and advances	27	429	764
Deferred income - consumer financed projects	28	1,841,180	1,758,744
Borrowings	29	5,947,443	5,951,652
Consumer deposits	30	61,608	75,621
		7,850,660	7,786,781
<b>Current liabilities</b>			
Bank overdraft	38.8.2	29,608	-
Consumer loans - rural collective scheme	18	60,150	43,078
Standard cost recovery	19	88,077	88,063
Government grants and advances	27	39,383	192,733
Borrowings	29	383,098	361,755
Consumer deposits refunds	30	16,388	14,064
Trade and other payables	31	2,074,116	1,672,648
Advances - consumer financed projects	32	921,927	894,196
Provisions	33	34,614	91,721
Other financial liabilities	34	-	727,471
		3,647,361	4,085,729
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>16,256,908</b>	<b>16,337,205</b>



## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2014

	Notes	Irredeemable capital P'000	Revaluation reserve P'000	Other (Accumulated reserves losses) P'000	Total P'000
Balance at 31 March 2012		3,200,669	2,503,494	1,788,544 (3,147,963)	4,344,744
Loss for the year		-	-	(1,254,112)	(1,254,112)
Gains on revaluation of property, plant and equipment		-	868,745	-	868,745
Transfers	26	-	-	9,390 (9,390)	-
Irredeemable capital contribution	24	505,318	-	-	505,318
<b>Balance at 31 March 2013</b>		<b>3,705,987</b>	<b>3,372,239</b>	<b>1,797,934 (4,411,465)</b>	<b>4,464,695</b>
Profit for the year		-	-	114,053	114,053
Impairment of property, plant and equipment		-	(175,585)	-	(175,585)
Transfers	26	-	-	5,153 (5,153)	-
Irredeemable capital contribution	24	355,724	-	-	355,724
<b>Balance at 31 March 2014</b>		<b>4,061,711</b>	<b>3,196,654</b>	<b>1,803,087 (4,302,565)</b>	<b>4,758,887</b>

## STATEMENT OF CASH FLOWS

for the year ended 31 March 2014

	Notes	2014 P'000	2013 P'000
<b>CASH FLOWS USED IN OPERATING ACTIVITIES:</b>			
Cash used in operations	36	(421,528)	(1,004,612)
Interest paid		(146,046)	(144,848)
<b>Net cash used in operating activities</b>		<b>(567,574)</b>	<b>(1,149,460)</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>			
Interest received		5,153	9,390
Proceeds from disposal of property, plant and equipment		–	295
Purchase of property, plant and equipment	12	(353,830)	(850,011)
<b>Net cash used in investing activities</b>		<b>(348,677)</b>	<b>(840,326)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayment of borrowings		(379,513)	(12,434)
Proceeds of borrowings		–	229,920
Decrease in consumer loans - hire purchase scheme		13,077	15,670
Decrease in consumer loans - rural collective scheme		17,072	5,044
Decrease in consumer deposits		(11,689)	(5,819)
Increase/(decrease) in standard cost recovery		14	(18,825)
Increase in deferred income - consumer financed projects		82,436	172,325
Decrease in investments held - to - maturity		1,119	1,691
Net settlements on other financial assets or liabilities		(358,238)	(437,513)
(Decrease)/increase in Government grants and advances		(293,350)	81,668
Tariff subsidy grant received	8	1,488,000	871,000
Irredeemable capital contribution from the Government	24	355,724	505,318
<b>Net cash generated from financing activities</b>		<b>914,652</b>	<b>1,408,045</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,599)</b>	<b>(581,741)</b>
Cash and cash equivalents at beginning of the year		185,847	767,588
<b>Cash and cash equivalents at end of the year</b>		<b>184,248</b>	<b>185,847</b>
Cash and cash equivalents comprise:			
Investments held-to-maturity		649	154
Bank balances and cash		213,207	185,693
Bank overdraft		(29,608)	–
		<b>184,248</b>	<b>185,847</b>



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for the year ended 31 March 2014

### STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards.

### BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared on the historical cost basis except for the revaluation of certain property plant and equipment and financial instruments and are presented in Botswana Pula (P). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The financial statements incorporate the following principal accounting policies which have been consistently followed in all material respects.

### ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

#### Standards and interpretations effective in the current year

The following revised standards and interpretations were available for adoption for the year ended 31 March 2014. Adoption of these standards and interpretations have not had any impact on the financial statements of the Corporation, except for IFRS 13 on Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) for fair value measurement.

Standards and interpretations effective in the current year	Effective Date
IFRS 10 - Consolidated Financial Statements	1 January 2013
IFRS 11 - Joint Arrangements	1 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 - Fair Value Measurement	1 January 2013
IAS 19 - Employees Benefits: Post - Employment and Termination Benefits Projects	1 January 2013
IAS 27 - Consolidated and Separate Financial Statements - Reissued as IAS 27 Separate Financial Statements (as amended in 2011)	1 January 2013
IAS 28 - Investments in Associates - Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)	1 January 2013

#### Standards and interpretations in issue but not yet effective

At the date of authorization of these financial statements, the following standards and interpretations were issued but not yet effective for annual periods beginning on or after:

New/Revised International Financial Reporting Standards	Effective Date
IFRS 7 - Instruments: Disclosures (Government loans)	1 January 2015
IFRS 7 - Financial Instruments : Disclosures (initial application of IFRS 9)	1 January 2015
IFRS 9 - Financial Instruments : Classification and measurement	1 January 2015
IFRS 9 - Financial Instruments : Financial liabilities and derecognition	1 January 2015
IFRS 9 - Financial Instruments : Disclosure (amendment to transition)	1 January 2015
IFRS 10 - Consolidated Financial Statements	1 July 2014
IFRS 11 - Joint Arrangements	1 January 2016
IFRS 12 - Disclosure of Interests in Other Entities	1 January 2014
IFRS 14 - Regulatory Deferral Accounts	1 January 2016
IFRS 15 - Revenue from Contracts with Customers	1 January 2017
IAS 16 - (amended) Property, Plant and Equipment	1 January 2016
IAS 19 - Defined Benefit Plans : Employee Contributions (amendments to IAS 19)	1 July 2014
IAS 32 - Financial Instrument : Amendment (offsetting of assets and liabilities)	1 January 2014
IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
IFRIC 21 - Levies (recognition of liability for levies imposed by a Government in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets)	1 January 2014

The Corporation will evaluate the effect of all the new standards, amendments and interpretations that are in issue for adoption in the applicable periods.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

### for the year ended 31 March 2014

#### PROPERTY, PLANT AND EQUIPMENT

Land and buildings and generation, transmission and distribution assets are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such items of property, plant and equipment is credited in equity to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings and generation, transmission and distribution expenses is charged to profit or loss. On the subsequent sale or retirement of a revalued item, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings. No transfer is made from the revaluation reserve to retained earnings except when an asset is derecognised.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land and capital work in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods

are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The following are the rates assessed by management at year end as being reflective for the remaining useful lives of the items of property, plant and equipment.

Buildings	25 - 60 years
Generation facilities	20 - 60 years
Transmission facilities	20 - 60 years
Distribution facilities	10 - 45 years
Equipment and Motor vehicles	7 - 25 years
Furniture and office equipment	3 - 5 years
Data processing equipment and software	3 - 5 years

The gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss and the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

Assets that have an indefinite useful life like land are not subject to amortisation and are tested annually for impairment. Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### IMPAIRMENT

At each reporting date, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset

is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED] for the year ended 31 March 2014

### FUTURE COAL SUPPLIES

Non-refundable payments for capital charges and fixed charges to suppliers of coal for the period that the Corporation did not receive coal due to construction delays of the power station are deferred in the statement of financial position within future coal supplies and amortised over a period of eight years against the cost of coal supplied on the basis of the estimated annual tonnages and actual tonnes delivered. Under-recovered capital and fixed charges incurred during periods when the Corporation received lower tonnage than scheduled are immediately recognised in profit or loss.

### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### RETIREMENT BENEFITS

Payments to the defined contribution retirement benefit plan are recognised as an expense when employees have rendered service entitling them to the contributions. Contractual gratuities that accrue to contract employees over the period of their employment contracts are expensed over the period of such contracts.

### INVESTMENTS IN SUBSIDIARIES

Investments in entities where the Corporation owns more than half of the voting rights are classified as investments in subsidiaries. These investments are initially recognised at cost. At each reporting date, the directors assess the recoverable amount of the investments and recognise an impairment loss where applicable. Where the fair value is greater than cost, the carrying amount is maintained at the original cost of the investment.

### LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Corporation's leases are principally of an operating lease nature.

#### Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### GOVERNMENT GRANTS AND ADVANCES

#### Benefit of the Government loan at a below-market rate of interest

The difference between the proceeds received for below market interest rate loans and the fair value of such loans determined as per the accounting policy on financial instruments is recognised as a Government grant and amortised over the period of the loan. The amortisation is determined as the difference between the actual interest payments and the market interest rate on the fair valued loan.

#### Other Government grants and advances

Other Government grants and advances comprising grants for emergency power purchases and advances for the government equity contribution into the Morupule B power plant construction are initially recognised as liabilities on the statement of financial position. These are amortised into the profit or loss to match the expenditure directly related to the grants.

### Government advances

Government advances comprise funds advanced by the Government for its equity contribution into the construction of the Morupule B power station. These funds are initially recognised as a liability on the statement of financial position. When the expenditure associated with these advances has been incurred, a transfer of the same amount is made to irredeemable capital as additional contribution by the Government.

### TARIFF SUBSIDY GRANT

The tariff subsidy grant comprises amounts received from the Government in respect of subsidies on electricity tariffs. These are recognised in the income statement in the period to which they relate.

### BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### FOREIGN CURRENCIES

In preparing the financial statements of the Corporation, transactions in currencies other than the Corporations' functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

### for the year ended 31 March 2014

#### PROVISIONS

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event. It is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### RELATED PARTY TRANSACTIONS

Related parties are defined as those which:

- (a) directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the entity (this includes parastatals and government departments) has an interest in the entity that gives it significant influence over the entity, or
- (b) are members of the key management personnel of the entity or its parent including close members of the family.

#### FINANCIAL INSTRUMENTS

##### Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Corporation does not have financial assets (FVTPL).

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

##### Held-to-maturity investments

Fixed deposits with fixed or determinable payments and fixed maturity dates that the Corporation has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

##### AFS financial assets

Unlisted bonds and listed redeemable bonds held by the Corporation that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 38.9. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired,

the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

##### Loans and receivables

Trade receivables, consumer loans (rural collective schemes and hire purchase), and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

##### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counter-party
- default or delinquency in interest or principal payments
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED] for the year ended 31 March 2014

### FINANCIAL INSTRUMENTS [CONTINUED]

#### Impairment of financial assets [continued]

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered irrecoverable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

#### Derecognition of financial assets

The Corporation derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Corporation recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Corporation retains substantially all the risks and rewards of ownership of a transferred financial asset, the Corporation continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### Financial liabilities and equity instruments issued by the Corporation

##### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recorded at the proceeds received, net of direct issue costs. In the Corporation's case, there is no equity issued. However the Government of Botswana, which is the owner through the Botswana Power Corporation Act (74:01), has a residual interest in the assets of the entity after deducting all of its liabilities.

##### Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in note 37.9.

##### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

### for the year ended 31 March 2014

#### FINANCIAL INSTRUMENTS [CONTINUED]

##### Financial Liabilities [continued]

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

##### Derecognition of financial liabilities

The Corporation derecognises financial liabilities when, and only when, the Corporation's obligations are discharged, cancelled or they expire.

#### DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in note 11 and 34. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

#### CONSUMER DEPOSITS

Consumer deposits are carried at the proceeds received from consumers. They are refundable to consumers when their accounts are closed and there are no balances owing to the Corporation. These are not measured at fair value as the fair value cannot be reliably determined due to the uncertainty of when they would be refunded to consumers.

#### DEFERRED INCOME CONSUMER FINANCED PROJECTS

Deferred income consumer financed projects comprises the cost of capital projects that are financed by third parties. Deferred income consumer financed projects are recognised on completion of such projects and are amortised to the profit or loss over the useful life of the related item of property, plant and equipment on a straight line basis.

#### ADVANCES ON CONSUMER FINANCED PROJECTS

Advances on consumer-financed projects comprise funds received/receivable from customers and the government of Botswana in advance of capital projects financed by the customers/government. The actual expenditure on these capital projects is netted off against these advances on consumer financed projects as and when it is incurred. The carrying amount is considered to be at fair value as the advances are unexpended during the normal course of the business of the Corporation.

#### NATIONAL ELECTRIFICATION STANDARD CONNECTION COST (NESC) RECOVERY

National electrification standard connection cost comprises of refunds due from Government through the National Electrification Standard Cost Connection Fund. The amount claimable by the Corporation is the difference between the standard charge of P5,000 borne by the customer and the actual cost incurred by the Corporation in connecting the customers. The excess of the actual costs incurred over and above the P5,000 is recoverable from the National Electrification Standard Connection Cost Fund. This fund is established from P0.05 (5 thebe) levied to customers for every kWh billed.

#### STANDARD COST RECOVERY/NESC

Standard cost recovery comprises the excess of the amount levied to customers for new electricity connections and the actual expenditure incurred by the Corporation to effect these connections. This amount is recoverable through further connections around the initial connection which are assumed to be within the standard cost. Consumers are expected to pay a standard fee for connections which is assumed to be more than the actual cost incurred by the Corporation when work is being done in an area where a connection has already been set up for previous customers at a higher cost. However, Government fully paid the standard cost deficit in prior years and the amount is now being treated as a Government revolving fund.

#### REVENUE

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated rebates and other similar allowances.

##### Sale of electricity

Sale of electricity is recognised when consumed. Invoicing is done monthly on an accrual basis. Reconnection charges are recognised when the reconnection services are provided.

##### Interest received

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

##### Other income

The revenue from sale of material is recognised when all of the following conditions are satisfied.

- the Corporation has transferred to the buyer the significant risks and rewards of ownership of the material
- the Corporation retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the materials sold
- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the entity
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### REIMBURSEMENT OF EMERGENCY POWER PURCHASES

The Corporation augments its sources of power supply with emergency power that is purchased at a premium. The Government funds the premium associated with such emergency power purchases. The receipts from the government are amortised to profit or loss to match the emergency power purchases charged to profit or loss.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [CONTINUED] for the year ended 31 March 2014

### CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

The following are the critical judgements, apart from those involving estimations (see below), that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

#### Revenue recognition

The Corporation sells prepaid electricity which consumers key into the meters installed at their premises. As at reporting date, prepaid electricity that has not been utilised by the consumers is recognised as deferred revenue in line with IAS 18 - Revenue. The consumption of the prepaid electricity is measured by the meters installed at the consumers' premises. The Corporation estimates the amount of such prepaid electricity sales utilised at year-end based on the current buying patterns.

#### Held-to-maturity financial assets

The directors have reviewed the Corporation's held-to-maturity financial assets in light of its capital maintenance and liquidity requirements and have confirmed the Corporation's positive intention and ability to hold those assets to maturity. The carrying amount of the held-to-maturity financial assets is P27,841,000 (2013: P28,465,000). Details of these assets are set out in note 16.

### KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### Useful lives of property, plant and equipment

As described above, the Corporation reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the financial year, the directors

determined that the useful life of items of property, plant and equipment should remain the same as in the prior year as there has not been any material change in the condition of the equipment.

#### Impairment of property, plant and equipment

The Corporation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Key assumptions are made for the following:

- estimation of future cash flows
- the discount rate used.

#### Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Corporation takes into account the characteristics of the asset or liability if the market participants would take those characteristics into account when pricing that asset or liability at the measurement date. Fair value measurement and/or disclosure purposes in these financial statements is determined on such basis, except for leasing transactions within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based firstly on the degree to which the inputs to the fair value measurements are observable and secondly on the significance of the inputs to the fair value measurements in its entirety which are described as follows:

- **Level 1:** Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the Corporation can access at the measurement date
- **Level 2:** Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (prices) or indirectly (that is, derived from prices)
- **Level 3:** Inputs are unobservable inputs for the asset or liability.

Some of the Corporation's assets and liabilities are measured at fair value for financial reporting purposes. When estimating the fair value of an asset or a liability, the Corporation uses market-observable data to the extent available. Where level 1 inputs are not available, the Corporation engages third party qualified valuers to determine the valuation techniques and inputs for the fair value measurements. Management of the Corporation work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The valuation findings are reported to the board of directors of the Corporation every quarter to explain the cause of the fluctuations in the fair valuation of the assets and liabilities. Information about the valuation techniques and inputs used in determining the fair value of the assets and liabilities are disclosed in notes 11, 34 and 38.9.1.

The estimation of fair value of below market rate of interest government loans includes some assumptions based on current market conditions. The carrying amount of this loan is P3,980,000 (2013:P5,298,000). Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 38.9.

#### Provision for bad debts

In assessing the recoverability of trade and other receivables, management consider the age of the outstanding balances and any other indicators to conclude on recoverability. Management's key assumption in this regard is that the balance in the 90 day plus category is likely to be impaired and provisions are recognised for such receivables.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>1. REVENUE</b>		
Sale of electricity:		
Mining	624,649	544,651
Commercial	748,868	634,851
Domestic	555,143	533,987
Government	320,874	255,114
	2,249,534	1,968,603
Interest earned on consumer loans	9,896	11,626
Reconnection charges	766	3,971
	<b>2,260,196</b>	<b>1,984,200</b>
<b>2 OTHER OPERATING INCOME</b>		
Profit on sale of materials	10,350	12,493
Penalties and late payment fees	23,474	15,586
Rent receivable	3,512	3,633
Wheeling revenue	4,550	2,353
Consumer finance projects recoveries	1,040	13,702
Other sundry income	13,269	5,430
(Loss)/profit on disposals of property plant and equipment	(15)	287
	<b>56,180</b>	<b>53,484</b>
<b>3 GENERATION, TRANSMISSION AND DISTRIBUTION EXPENSES</b>		
Fuel, water and chemicals	916,011	768,618
Power purchases	1,838,927	1,947,905
Maintenance - Generation	135,952	212,568
- Transmission, Distribution	33,477	40,043
Amortisation of deferred income - Other	(54,183)	(51,066)
Staff costs - Generation	69,731	70,623
- Transmission, Distribution	232,705	219,173
Depreciation - Generation	185,032	42,908
- Transmission, Distribution	196,149	156,451
- Impairment - Generation (note 12)	52,865	-
Other expenses - Generation	2,701	2,183
- Transmission, Distribution	6,090	10,371
	<b>3,615,457</b>	<b>3,419,777</b>
<b>4 REIMBURSEMENT OF EMERGENCY POWER PURCHASES</b>		
Advances not spent at beginning of year (note 27)	26,868	54,322
Receipts during the year	450,000	502,602
Expenditure on capital projects	(377)	(4,966)
Direct payments	(335,461)	(285,367)
Government grant receivable at end of year (note 27)	140,000	(26,868)
Reimbursement of emergency power purchases	<b>281,030</b>	<b>239,723</b>

The Corporation augments its sources of power supply with emergency power that is purchased at a premium. The Government funds the premium associated with such emergency power purchases. During the year, the Government disbursed a total of P450,000,000 (2013: P502,601,594) towards emergency power purchases and other projects associated with emergency power generation. The receipts from the Government are amortised to profit or loss to match the emergency power purchases charged to profit or loss.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED] for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>5 ADMINISTRATION AND OTHER EXPENSES</b>		
Staff costs	100,294	129,495
Depreciation of items of property, plant and equipment	17,726	66,279
Auditor's remuneration - current audit	1,185	1,795
- prior year under provision	-	719
Board members fees	633	441
Provision for bad debts	397	88,582
Insurance expenses	19,516	26,683
Postage and telecommunications costs	32,344	16,146
Printing and stationery	2,916	3,617
Rental expense	6,346	5,016
Fuels and lubricants	17,504	10,949
Customs duty, freight charges and price variance	1,339	16,903
Travel and accommodation costs	7,317	7,186
Advertising	2,954	3,222
Commission costs	26,347	13,464
Security costs	28,472	21,555
Litigation claims	(16,316)	27,112
Bank charges	4,725	5,951
Consultancy fees	19,210	14,098
Office cleaning costs	7,474	3,836
Repairs and maintenance	13,249	3,978
	<b>307,811</b>	<b>480,151</b>
<b>6 OPERATING PROFIT/(LOSS) BEFORE TARIFF SUBSIDY GRANT</b>		
Operating profit/(loss) before tariff subsidy grant is arrived at after charging/(crediting) the following items;		
Depreciation of items of property, plant and equipment	398,907	265,638
Loss/(profit) on disposal of property, plant and equipment	15	(287)
Impairment loss on property, plant and equipment	52,865	-
Repairs and maintenance of property, plant and equipment	14,179	265,735
Sale of materials	(177,853)	(150,425)
Cost of materials sold	167,503	137,932
Operating lease charges - property rentals	6,346	5,016
<b>7 STAFF COSTS</b>		
Salaries and wages	362,761	342,488
Gratuities	6,653	3,488
Pension contributions	35,869	35,369
Early exit packages	(3,043)	37,500
Medical retirement packages	490	446
	<b>402,730</b>	<b>419,291</b>
Staffs costs are included in generation, transmission and distribution and administration expenses are reconciled below:		
Staff costs - Generation	69,731	70,623
Staff costs - Transmission, Distribution	232,705	219,173
Staff costs - Administration	100,294	129,495
	<b>402,730</b>	<b>419,291</b>

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]**  
for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>8 TARIFF SUBSIDY GRANT</b>	1,488,000	871,000
The Corporation's end user tariffs are lower than the generation cost per unit. The Government has sanctioned the Corporation to develop a long term financial strategy that will inform on both the required tariff levels and operational subsidy in the medium to long term. For the year ended 31 March 2014 the Government of the Republic of Botswana has approved and paid a grant of P1,488,000,000 (2013:P871,000,000) to partially offset the operating losses.		
<b>9 INTEREST INCOME</b>		
Bank balances on call and investments held-to-maturity	5,153	9,390
<b>10 FINANCE COSTS</b>		
Interest on borrowings	146,046	144,848
Less interest capitalised to property, plant and equipment	(69,516)	(139,456)
	76,530	5,392
A portion of the interest costs incurred on the Industrial and Commercial Bank of China (ICBC) loan disclosed per Note 29 has been capitalised to capital work in progress, as part of additions, as it relates to borrowings directly associated with the construction of the Morupule B power station.		
<b>11 FAIR VALUE GAIN ON CROSS CURRENCY AND INTEREST RATE SWAP</b>		
Realised fair value loss on cross currency and interest rate swap	358,238	437,513
Unrealised fair value gain on the cross currency and interest rate swap	(804,983)	(743,919)
	(446,745)	(306,406)

As detailed in Note 34, to reduce the risk of changing interest rates and foreign currency exchange rates on the loan from Industrial and Commercial Bank of China (ICBC), the Corporation has entered into a pay fixed interest rates and receive floating interest rate hedging arrangement with Standard Bank plc. The nature of the hedge in place is that it effectively converts the USD825 million loan into a notional basket currency which historical trends and forecasts have indicated to be highly correlated to the Botswana Pula. During the year, the resultant cash flows translate to an average effective interest rate of 10.8% (2013: 10.8%) which management assessed to be reasonable.

The cross currency interest rate swap is revalued at quarterly intervals and the valuation methodology incorporates among other factors unobservable inputs, methodology incorporating basis risk, and assumptions on estimation of probability of default risk and loss given default risk when incorporating Credit Valuation Adjustment and Debit Valuation Adjustments in line with IFRS 13. The fair valuation results indicated an asset of P77,512,000 (2013: P727,471,000).



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

for the year ended 31 March 2014

	Land & Buildings P'000	Generation, Transmission & Distribution P'000	Other P'000	Capital Work in Progress P'000	Total P'000
<b>12 PROPERTY, PLANT AND EQUIPMENT</b>					
<b>2013 Net Book Value</b>					
Balance at beginning of year	363,417	4,498,069	89,772	8,426,766	13,378,024
Additions *	250	251,701	10,501	727,015	989,467
Disposals cost	-	-	(613)	-	(613)
Transfers	4,252	661,907	1,637	(667,796)	-
Revaluation increase	187,522	681,223	-	-	868,745
Revaluation - cost	143,027	1,243,704	-	-	1,386,731
Revaluation - depreciation	44,495	(562,481)	-	-	(517,986)
Accumulated depreciation eliminated on disposal	-	-	605	-	605
Depreciation	(15,078)	(199,359)	(51,201)	-	(265,638)
<b>Balance at end year</b>	<b>540,363</b>	<b>5,893,541</b>	<b>50,701</b>	<b>8,485,985</b>	<b>14,970,590</b>
<b>At 31 March 2013</b>					
Cost or valuation	540,363	11,214,972	343,668	8,485,985	20,584,988
Accumulated depreciation	-	(5,321,431)	(292,967)	-	(5,614,398)
<b>Carrying amount</b>	<b>540,363</b>	<b>5,893,541</b>	<b>50,701</b>	<b>8,485,985</b>	<b>14,970,590</b>
<b>2014 Net Book Value</b>					
Balance at beginning of year	540,363	5,893,541	50,701	8,485,985	14,970,590
Additions *	-	167,567	5,459	250,320	423,346
Disposals cost	-	-	(3,571)	-	(3,571)
Transfers	-	7,395,515	23	(7,395,538)	-
Impairment loss	-	(228,450)	-	-	(228,450)
Accumulated depreciation eliminated on disposal	-	-	3,556	-	3,556
Depreciation	(3,743)	(381,181)	(13,983)	-	(398,907)
<b>Balance at end of year</b>	<b>536,620</b>	<b>12,846,992</b>	<b>42,185</b>	<b>1,340,767</b>	<b>14,766,564</b>
<b>At 31 March 2014</b>					
Cost or valuation	540,363	18,778,054	345,579	1,340,767	21,004,763
Accumulated depreciation and impairment	(3,743)	(5,931,062)	(303,394)	-	(6,238,199)
<b>Carrying amount</b>	<b>536,620</b>	<b>12,846,992</b>	<b>42,185</b>	<b>1,340,767</b>	<b>14,766,564</b>

\* Included in additions is interest on borrowings capitalised for qualifying assets under construction amounting to P 69,516,000 (2013: P139,456,000).

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

### for the year ended 31 March 2014

The Corporation's land and buildings and generation transmission and distribution assets are revalued at five year intervals. The last revaluation was performed as at 31 March 2013. The valuation of the Corporation's land and buildings was performed by Willy Kathurima Associates (Proprietary) Limited and the valuation of the generation, transmission and distribution assets was performed by Parsons Brinckerhoff independent valuers.

The fair value of land was determined based on the open market value approach that reflects recent transaction prices of similar transactions. The fair values of buildings and generation transmission and distribution assets was determined using the replacement cost approach which reflects the cost to the market participant to construct assets of a comparable utility and age, adjusted for obsolescence.

Details of the Corporation's land and buildings and generation transmission and distribution assets and information about the fair value hierarchy as at 31 March 2014 is as follows:

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Land and buildings	-	-	536,620	536,620
Generation transmission and distribution assets	-	-	12,846,992	12,846,992

There were no transfers between levels during the year.

#### Impairment losses recognised during the year

During the year the Corporation carried out a review of the recoverable amount of the Morupule A Power Station and related assets. The power station is included as part of generation assets. An impairment loss of P228,450,000 has been recognised during the year. The impairment of the assets have been determined on the basis of their value in use, taking into consideration that capital expenditure of P1,176,000,000 will be incurred on refurbishment costs in order to extend its useful life by 15 years.

The discount rate used in measuring the value in use was 10.74% per annum.

	2014 P'000	2013 P'000
The impairment losses have been recognised as follows:		
Income statement (generation, transmission and distribution costs)	52,865	-
Other comprehensive income	175,585	-
	228,450	-



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

### for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>13 FUTURE COAL SUPPLIES</b>		
Balance at beginning of year	154,714	176,814
Adjustment due to finalisation of expansion costs	(16,570)	-
Amortisation during the year	(22,100)	(22,100)
Balance at end of year	116,044	154,714
<b>Comprising of:</b>		
Current portion	20,029	22,100
Non-current portion	96,015	132,614
	<b>116,044</b>	<b>154,714</b>
<p>The Corporation entered into a revised coal supply agreement with Morupule Coal Mine on 28 April 2010 to align with the coal requirements of the Morupule B Power Station. In accordance with this Coal Supply Agreement, the coal price has three components to the coal charges which are capital charge, fixed charge and variable charge. The capital charges were based on Morupule Coal Mine expansion costs which were capped at an estimated cost of P1,795,200,000. The Coal Supply Agreement further allows the capital charge to be adjusted in line with the final actual costs of the expansion. The actual expansion costs to date, is reported at P1,476,733,000. The savings generated from this actual cost are shared in a ratio of 60%:40% between Botswana Power Corporation (BPC) and Morupule Coal Mine with BPC portion at approximately P191,080,000, with capital cost reduction to 31 March 2014 amounting to P87,060,000, of which P16,570,000 relates to the future coal supplies amortised above. The remaining P70,490,000 relating to the period to 31 March 2014 has been recognised in the income statement.</p>		
<b>14 INVESTMENT IN SUBSIDIARY</b>		
BPC Lesedi (Proprietary) Limited	5,500	5,500
Less: Provision for impairment	(5,500)	(5,500)
Net Investment	-	-
<p>The Corporation has a controlling interest in BPC Lesedi (Proprietary) Limited, "BPC Lesedi". This subsidiary is owned 55% by the Corporation and 45% by EDF International. The Corporation's investment is through Government's equity injection. P5.5 million had been contributed as at 31 March 2014. BPC Lesedi was formed to exploit renewable solar energy sources in Botswana through a fee-for-service franchising model under which direct participation by private small scale investors is encouraged and supported. The directors believe that the financial information of this subsidiary is not material both quantitatively and qualitatively to the financial statements of the Corporation. The directors believe that the cost of this investment is impaired and hence the provision.</p>		
<b>15 AVAILABLE-FOR-SALE INVESTMENTS</b>		
Barclays Bank of Botswana Limited-Bond	3,000	3,000

Available-for-sale investments comprises a Barclays Bank of Botswana Limited bond. This Bond has a variable rate of interest. At year end the rate was 9% (2013:6.78%) and is tradable on the open market. Available-for-sale investments are classified as non-current assets, unless they are expected to be realised within twelve months of the statement of financial position date or if it is management's intention to dispose of the investments within twelve months of the statement of financial position date. The directors believe the cost of this investment is less than its fair value.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]**  
for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>16 INVESTMENTS HELD-TO-MATURITY</b>		
Deposits with local banks	649	154
Deposits with foreign banks	27,192	28,311
	27,841	28,465
Current portion	(649)	(154)
Long-term portion	27,192	28,311
Investments held-to-maturity are classified as non-current assets, except for maturities within 12 months of the statement of financial position date which are classified as current assets. The current portion of the investments held-to-maturity comprises fixed deposits with local banks which earn interest at rates ranging from 3.5% to 3.75% (2013: 5.75% to 6.15%). These fixed deposits are invested for periods ranging from 7 to 28 days (2013: 7 to 28 days).		
The deposits with foreign banks have been placed to match the foreign currency exposure on certain of the Corporation's foreign borrowings as per Note 29.		
The deposits denominated in foreign currency are as follows:		
US dollar (\$000)	3,097	3,428
<b>17 CONSUMER LOANS - HIRE PURCHASE SCHEME</b>		
<b>17.1 Hire purchase scheme</b>	98,430	92,188
Less short-term portion	(5,884)	(24,452)
Less provision for doubtful debts	(78,564)	(59,245)
Long-term portion	13,982	8,491
<b>17.2 Hire purchase short-term portion</b>	5,884	24,452
Less provision for doubtful debts	-	-
Short-term portion	5,884	24,452
<b>Total</b>	<b>19,866</b>	<b>32,943</b>
Consumer loans represent outstanding balances under the deferred repayment scheme for the cost of capital connections payable by consumers in urban areas over periods of up to 180 months. Terms of payment are agreed with each respective customer.		
Loans which are repayable within 18 months are interest free. Loans over longer periods bear interest which is linked to the Barclays Bank of Botswana Limited prime lending rate, which at the end of the year was 9% (2013:10%).		
<b>Movement in the provision for doubtful hire purchase scheme receivables</b>		
Balance at beginning of year	59,245	49,390
Current year provision	19,319	9,855
Balance at end year	78,564	59,245

Credit risk is spread over numerous consumers located in urban areas. In determining the recoverability of the consumer loans, the Corporation considers any change in the credit quality of the consumer loans receivable from the date credit was initially granted up to the reporting date. The directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

There are no past due but not impaired receivables as at year end (2013: Nil).



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>18 CONSUMER LOANS - RURAL COLLECTIVE SCHEME</b>		
18.1 Long term Rural Collective Scheme	100,137	100,137
Less advance from Government	(100,137)	(100,137)
Long-term portion	-	-
<b>18.2 Short term Rural Collective Scheme</b>	43,548	60,620
Less advance from Government	(103,698)	(103,698)
Short-term portion	(60,150)	(43,078)
Total Government Revolving Fund	(60,150)	(43,078)
<p>Rural Collective Scheme is a Government revolving fund established to provide rural consumers with access to electricity. The scheme is guaranteed by the Government. Loans which are repayable within a period of 18 months are interest free. Loans over longer periods bear interest which is linked to the Barclays Bank of Botswana Limited prime lending rate which at the end of the year was 9% (2013:10%).</p>		
<b>19 STANDARD COST RECOVERY</b>		
Total standard cost	(88,077)	(88,063)
Less provision for impairment	-	-
	(88,077)	(88,063)
<p>The amount represents an under-recovery of connection costs for customers, within the corridor of standard cost of the Rural Electrification funded by the Government. Ordinarily, this amount is recoverable from connection of future customers who will pay more than the actual cost of the connection due to their proximity to the already set up connection. However, in the past financial years, this balance has been less likely to be recoverable in this manner due to the increasing cost of raw materials not matched by revised standard charges to the customer, which are determined by the Government in the prior years. Pursuant to the recovery of these amounts, management sought reimbursement from the Government in the prior years. The amount paid by Government is now being treated as government revolving fund. Standard cost scheme has now been replaced by NESC as disclosed under note 20.</p>		
<b>20 STANDARD COST RECOVERY - NESC</b>		
Refunds due from the National Electrification Standard Connection Cost Fund	129,535	130,430
<p>With effect from 1 October 2010, the Government introduced the National Electricity Standard Connection Cost (NESC) in selected rural and semi urban areas. Participants of this scheme pay a standard charge of P5,000 for a connection. The difference between this standard charge and the actual cost incurred by the Corporation is claimable from the National Electrification Standard Connection Cost Fund. This fund is established from P0.05 (Sthebe) levied to customers for every Kwh billed.</p>		

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]**  
for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>21 CONSUMER LOANS - NESC</b>		
Consumer loans - NESC	82,456	68,323
Less provision for bad debts	(39,147)	(12,766)
	<b>43,309</b>	<b>55,557</b>
<p>This balance comprises amounts owing from customers for their contribution under the NESC Scheme referred to in Note 20. The customer's electricity connection cost is a standard charge of P5,000 and any short fall is funded from the NESC fund. 5% of the P5,000 is payable by the customer up front and the balance is payable over a period of up to 18 months. Balances repayable within 6 months are interest free and loans over longer periods bear interest which is linked to the Barclays Bank of Botswana Limited prime lending rate, which at the end of the year was 9% (2013:10%).</p>		
<b>22 INVENTORIES</b>		
Coal and fuel	139,570	225,667
Maintenance spares and materials	87,876	92,929
	<b>227,446</b>	<b>318,596</b>
<p>The cost of inventories recognised as an expense during the year was P112,587,000 (2013: P109,100,000).</p>		
<b>23 TRADE AND OTHER RECEIVABLES</b>		
Electricity sales receivables:	163,515	145,664
Mining	47,979	42,478
Commercial	151,129	160,269
Domestic	53,535	99,362
Government	72,940	48,227
Impairment of trade receivables	(162,068)	(204,672)
Small works contractors receivables:	30,824	43,060
Gross receivables from small works contractors	51,560	74,417
Impairment of small works contractors	(20,736)	(31,357)
VAT receivable	34,856	106,752
Government tariff subsidy	87,991	139,991
Contractor receivables	47,720	-
Coal rebate receivable (note 13)	87,060	-
Other receivables	24,018	15,186
Prepayments	16,600	6,564
	<b>492,584</b>	<b>457,217</b>

The average credit period on sale of electricity is 62 days (2013: 68 days). No interest is charged on the trade receivables. The Corporation has provided fully for all receivables over 90 days, because historical experience has shown that receivables that are past due beyond 90 days, are generally not recoverable. Trade receivables between 60 days and 90 days are provided for based on estimated irrecoverable amounts from the sale of electricity, determined by reference to past default experience.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED] for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>23 TRADE AND OTHER RECEIVABLES [CONTINUED]</b>		
Corporation holds bank guarantees as security against certain of these receivables to the value of P8,421,321 (2013: P10,663,484). In addition, where customers do not have a bank guarantee, they are required to pay a deposit equivalent to two months worth of their estimated consumption before being connected with electricity supply. The value of these deposits held by the Corporation is disclosed per note 30.		
Movement in the provision for doubtful trade receivables		
Balance at beginning of year	204,672	155,841
Current year (reversal)/provision	(42,604)	48,831
Balance at end year	162,068	204,672
In determining the recoverability of a trade receivable, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is disclosed as per the breakdown of electricity sales receivables above. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for doubtful debts.		
There are no past due but not impaired receivables as at year end (2013: Nil).		
<b>Age of impaired receivables</b>		
91 - 180 days	51,972	52,428
181 - 365days	36,707	27,717
>365 days	73,389	124,527
Total	162,068	204,672
<b>24 IRREDEEMABLE CAPITAL</b>		
Balance at beginning of year	3,705,987	3,200,669
Contribution received during the year	355,724	505,318
Government of Botswana Funding	160,000	293,000
Government of Botswana via funds borrowed from International Bank for Reconstruction and Development of the World Bank Group ("IBRD") - Morupule B Funding (Refer below)	122,728	82,734
Government of Botswana via funds borrowed from African Development Bank - Morupule B Funding	48,294	107,353
Village electrification and network extension	24,702	22,231
Balance at end of year	4,061,711	3,705,987

Irredeemable capital comprises contributions received from the Government in respect of its obligations as the owner of the Corporation in terms of the Botswana Power Corporation Act (74:01).

The Government of the Republic of Botswana entered into loan agreements with the African Development Bank Group and the International Bank for Reconstruction (World Bank Group), the proceeds under the loan agreements are disbursed in favour of the Corporation as part of Government's equity contribution towards the construction of capital infrastructure integral to the Morupule B Power station.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

### for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>24 IRREDEEMABLE CAPITAL [CONTINUED]</b>		
The Funds received by the Corporation on behalf of the Government of Botswana from World Bank and African Development Bank for the construction of the Morupule B Power station are shown below:		
<b>Government of Botswana Funding through IBRD - World Bank Advances</b>		
Balance at beginning of year	162,819	47,918
Funds received during the year	1,214	197,635
Utilised during the year for government projects	(4,197)	-
Utilised during the year and capitalised to equity	(122,728)	(82,734)
Balance at the end of the year (Note 27)	37,108	162,819

Under the Loan Agreement between Government of Botswana and the IBRD, the funds are received via an imprest system quarterly in advance. A separate designated account has been opened with a local bank for these funds. Funds disbursed are credited to equity after the amounts have been spent on the Morupule B Project. The unutilised funds are recorded as a liability as disclosed in Note 27.

As per the agreement, these funds are utilised for Morupule Generation Expansion, Alternative Energy Development and Institutional and Capacity Building.

Total cumulative disbursements under the International Bank For Reconstruction and Development Loan Agreement amounted to USD68,880,018 as at 31st March 2014 (2013:USD 68,879,880).

#### Government of Botswana Funding through African Development Bank funds

	2014 EUR'000	2013 EUR'000	2014 P'000	2013 P'000
Balance at beginning of year	-	-	-	-
Funds received during the year	4,330	10,668	48,294	107,353
Utilised during the year	(4,330)	(10,668)	(48,294)	(107,353)
Balance at the end of the year	-	-	-	-

Disbursement under the African Development Bank Loan Agreement are effected under the direct payment method under which suppliers are paid directly by the bank. The funds received in the current year were utilised in the construction of the following:

- Morupule Isang 400kv transmission line;
- Isang 400/220 substation; and
- 3x50mvz 400kv shant reactors.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>25 REVALUATION RESERVE</b>		
Balance at beginning of year	3,372,239	2,503,494
Impairment recognised during the year (Note 12)	(175,585)	–
Gains on revaluation of property, plant and equipment	–	868,745
<b>Balance at end of year</b>	<b>3,196,654</b>	<b>3,372,239</b>
<p>The properties revaluation reserve arises on the revaluation of land and buildings, generation, transmission and distribution plant and equipment. In the prior financial year, the Corporation performed revaluation of its properties, plant and equipment and the revaluation surplus of P868,745,000 was recognised. During the current year an impairment loss of P175,585,000 relating to the revaluation portion has been recognised.</p>		
<b>26 OTHER RESERVES</b>		
Balance at beginning of year	1,797,934	1,788,544
Transfer from retained earnings	5,153	9,390
<b>Balance at end of year</b>	<b>1,803,087</b>	<b>1,797,934</b>
<p>Other reserves comprise amounts transferred annually from accumulated losses. The annual transfers represent the interest received on the Corporation's investments during the year. The purpose of this reserve is to complement the funding requirements for capital expenditure for the Corporation's expansion program.</p>		
<b>27 GOVERNMENT GRANTS AND ADVANCES</b>		
Benefit of the government loan at a below-market rate of interest	429	764
Emergency power grants 70MW and 90MW	–	26,868
Other emergency power grants (Seronga, Energia and Eltel)	2,275	3,046
Advances in respect of Morupule B Power Plant capital expenditure	37,108	162,819
	39,812	193,497
	(39,383)	(192,733)
<b>Less short term portion</b>	<b>429</b>	<b>764</b>

The Benefit of the Government loan at a below-market rate of interest represents the difference between the fair value of Government loans received at below market rate of interest and the proceeds received. The grant is amortised to profit or loss over the period of the loan. The amortisation is determined as the difference between the interest on the fair valued loan at market rates and the interest paid at the actual below market rate of interest.

Emergency power grants represent the balance of emergency power funds disbursed to the Corporation at reporting date. The Government funds any power purchased at a premium above normal prevailing prices as well as any capital works aimed at providing energy on an emergency basis. P450 million was received during the year (2013:P502.6 million). The funds received have been reconciled to the statement of comprehensive income in note 4.

The Government finances up to 50% of the Morupule B construction expenditure through additional equity contribution. In cases where such equity contribution is received in advance, it is disclosed as a liability to the extent that it remains unspent.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]**  
for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>28 DEFERRED INCOME - CONSUMER FINANCED PROJECTS</b>		
Deferred income - consumer financed projects	1,841,180	1,758,744

Deferred income comprises the value of items of property, plant and equipment financed by customers. Deferred income is amortised to the income statement over the useful life of the related items of property, plant and equipment.

	Current		Non-current	
	2014 P'000	2013 P'000	2014 P'000	2013 P'000
<b>29 BORROWINGS</b>				
<b>Borrowings at amortised cost</b>				
Government of the Republic of Botswana:				
Debt Participation Capital Fund	968	1,832	–	968
Government of the Republic of Botswana (funded by Japanese Overseas Economic Cooperation Fund)	1,468	1,317	2,512	3,980
- Loan Balance	1,715	1,652	2,694	4,409
- Fair value adjustments transferred to Government grant	(247)	(335)	(182)	(429)
Debt Participation Capital Fund	917	1,598	–	917
Government of the Republic of Botswana (funded by Nordic Development Fund)	2,430	2,127	41,308	38,282
Industrial and Commercial Bank of China	377,315	354,881	5,903,623	5,907,505
	<b>383,098</b>	<b>361,755</b>	<b>5,947,443</b>	<b>5,951,652</b>
<b>Currency analysis of borrowings</b>				
Pula denominated			5,865	10,612
Foreign denominated			6,324,676	6,302,795
Total borrowings			<b>6,330,541</b>	<b>6,313,407</b>

	Security	Interest Rate per annum		
Government of Republic of Botswana				
Debt Participation Capital Fund	On-lent	7.50%	968	2,800
Government of Republic of Botswana (funded by Japanese Overseas Economic Cooperation Fund)	On-lent	3.75%	3,980	5,297
Debt Participation Capital Fund	On-lent	7.50%	917	2,515
Government of Republic of Botswana (funded by Nordic Development Fund)	Government of the Republic of Botswana	3.00%-5.00%	43,738	40,409
Industrial and Commercial Bank of China	Government of Republic of Botswana	Libor + 160bps	6,280,938	6,262,386
			<b>6,330,541</b>	<b>6,313,407</b>

<b>The borrowings are repayable as follows</b>		
Up to 1 year	383,098	361,755
2 - 5 years	1,509,370	1,423,263
Later than 5 years	4,438,073	4,528,389
Total	<b>6,330,541</b>	<b>6,313,407</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED] for the year ended 31 March 2014

	2014 P'000	2013 P'000		
<b>30 CONSUMER DEPOSITS</b>				
Consumer deposits-non current	61,608	75,621		
Consumer deposits refunds-current	16,388	14,064		
	77,996	89,685		
Consumer deposits comprise amounts received from customers held as security against failure to settle accounts. These ordinarily represent two months estimated electricity consumption by customers and are refundable on closing the customer account.				
<b>31 TRADE AND OTHER PAYABLES</b>				
Trade payables and accruals	1,279,070	826,085		
Performance bonds	59,846	-		
National Electricity Standard Cost levy payable to Government of Botswana	56,554	159,416		
Deferred revenue on prepaid electricity sales	26,712	18,973		
Interest on borrowings	7,267	5,383		
Payroll related accruals	33,683	41,153		
Retentions	610,984	621,638		
	2,074,116	1,672,648		
The average credit period on purchases from most suppliers is 30 days. No interest is charged on the trade payables for the first 60 days from the date of the invoice. Thereafter, interest is charged at varying rates of interest per annum on the outstanding balance. The Corporation has financial risk management policies in place to ensure that all payables are paid within the credit time frame.				
<b>32 ADVANCES - CONSUMER FINANCED PROJECTS</b>				
Advances received from customers	921,927	894,196		
These are funds received in advance from customers for electricity connections and capacity modifications. The amounts are interest free and are expected to be expended during the normal course of the Corporation's business.				
<b>Movement in provision for impairment of unrecovered CFP balances</b>				
Balance at beginning of year	-	-		
Provision raised	(40,924)	7,720		
Balance at end year	(40,924)	7,720		
	Litigation claims P'000	Gratuity P'000	Early Exit package P'000	Total P'000
<b>33 PROVISIONS</b>				
Balance at 31 March 2013	47,574	6,647	37,500	91,721
Provisions raised (reversed)	(16,316)	6,653	(3,043)	(12,706)
Payments made during the year	(5,080)	(4,864)	(34,457)	(44,401)
Balance at 31 March 2014	26,178	8,436	-	34,614

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]**  
for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>33 PROVISIONS [CONTINUED]</b>		
<b>Litigation claims provision</b>		
The provision represents claims under employee disputes and claims for public liability.		
<b>Gratuity provision</b>		
Gratuity provision is recognised in respect of contractual obligations with contract employees, to pay a certain percentage of their basic pay as a lump sum at the end of their contracts.		
<b>Early exit package provision</b>		
The provision is recognised in respect to Morupule A staff made redundant following board resolution to put the power station under care and maintenance.		
<b>34 OTHER FINANCIAL ASSETS/LIABILITIES</b>		
Financial assets/liabilities carried at fair value through profit or loss (FVTPL)		
Balance at beginning of the year	727,471	1,471,390
Unrealised fair value gain for the year	(446,745)	(306,406)
Realised loss	(358,238)	(437,513)
Received from Standard Bank Plc.	569,298	142,773
Payments to Standard Bank Plc.	(927,536)	(580,286)
Balance at end of the year	(77,512)	727,471
Comprising:		
Total fair value loss	1,190,521	1,482,242
Total realised fair value loss	(1,113,009)	(754,771)
	77,512	727,471

To reduce the fair value risk of changing interest rates and foreign currency exchange rates on the loan from Industrial and Commercial Bank of China (ICBC), the Corporation has entered into a pay fixed interest rates and receive floating interest rate hedging arrangement with Standard Bank plc. The swap matures every six months starting on 15 January 2010. The swap is made up of a basket of notional currencies on which interest is calculated on the predetermined notional currency amounts at a fixed interest rate and converted to Botswana pula at the exchange rate ruling two days before the settlement date. The Corporation receives in United States Dollars (USD) an amount calculated on the hedged amount based on the 6 month USD Libor +1.60%. This amount is received in USD and is calculated based on the same rate charged on the loan from ICBC. The USD amount hedged is converted to the basket of notional currencies based on the following percentages and also attracts interest at the percentages shown below.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

for the year ended 31 March 2014

	Fixed Interest Rate		Basket Currency Split	
	2014	2013	2014	2013
	%	%	%	%
<b>34 OTHER FINANCIAL ASSETS/LIABILITIES [CONTINUED]</b>				
South African Rands	13.35	13.35	65	65
United States Dollars	6.47	6.47	15	15
Euro	6.30	6.30	10	10
British Pound	6.67	6.67	5	5
Japanese Yen	4.07	4.07	5	5
			100	100

The hedged amount is pegged in USD for the hedging bank, Standard Bank plc. This amount is determined at the beginning of every six months based on the estimated draw-down on the USD 825 million loan facility with the ICBC. At statement of financial position date the hedged amount and the loan from ICBC were as follows.

	2014	2013	2014	2013
	USD'000	USD'000	P'000	P'000
Notional hedged amount	776,516	765,353	6,320,008	6,320,008
Loan balance (Note 29)	(715,399)	(758,374)	(6,280,938)	(6,262,386)
Over hedged amount	61,117	6,979	39,070	57,622

	2014	2013
	P'000	P'000
<b>35 COMMITMENTS</b>		
<b>35.1 Capital commitments</b>		
Authorised but not contracted	1,760,957	–
Authorised and contracted	28,703	100,641
	1,789,660	100,641

The Corporation will finance the above expenditure through internal funds and Government funding.

### 35.2 Operating lease commitments

The future aggregate minimum lease payments under operating lease agreements are as follows:

Within one year	4,508	421
Later than one year but not later than 5 years	22,813	29,693
	27,321	30,114
<b>35.3 Operations and maintenance contract</b>		
Within one year	401,623	–
Later than one year but not later than 5 years	1,215,014	–
	1,616,637	–

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]**  
for the year ended 31 March 2014

	<b>2014 P'000</b>	<b>2013 P'000</b>
<b>36 NOTES TO THE STATEMENT OF CASH FLOWS</b>		
Cash used in operations:		
Profit/(loss) for the year	114,053	(1,254,112)
Tariff subsidy grant	(1,488,000)	(871,000)
Interest received	(5,153)	(9,390)
Interest paid	76,530	5,392
	(1,302,570)	(2,129,110)
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	398,907	265,638
Other gains (Note 11)	(446,745)	(306,406)
Amortisation of Government grant	(335)	(409)
Amortisation of future coal supplies	22,100	22,100
Unrealised exchange losses on borrowings	449,512	736,137
Movement in provisions	(12,706)	79,458
Loss/(profit) on disposal of property, plant and equipment	15	(287)
	<b>(891,822)</b>	<b>(1,332,879)</b>
Cash flows from/(used in) working capital:		
Decrease/(increase) in standard cost recovery - NESC	895	(64,525)
Decrease in future coal supplies	16,570	-
Decrease/ (increase) in inventories	91,150	(96,729)
Increase in trade and other receivables	(35,367)	(68,232)
Increase in trade and other payables	401,468	413,777
Payments made against provisions raised	(44,401)	(12,879)
Decrease/(increase) in consumer loans - NESC	12,248	(6,128)
Increase in advances - consumer financed projects	27,731	162,983
	<b>470,294</b>	<b>328,267</b>
<b>Cash used in operations</b>	<b>(421,528)</b>	<b>(1,004,612)</b>

**37 RETIREMENT BENEFITS**

All permanent citizen employees of the Corporation are members of a defined contribution benefit plan operated by independent administrators. This fund is registered under the Pensions and Provident Funds Act (Cap 27:03). The Corporation is required to contribute 15% (16% for contributory employees) of the pensionable earnings of the members. The only obligation of the Corporation with respect to the retirement benefit plan is to make the specified contributions.

Contract employees that are not members of the defined contribution plan are entitled to gratuities that are a percentage of the basic salary over the period of their employment contributions. These are accrued for on a time served basis. The contributions recognised as an expense for the defined contribution benefit plan and the gratuity expense are disclosed per Note 7.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>38 FINANCIAL INSTRUMENTS</b>		
<b>38.1 Capital structure</b>		
The Corporation manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Corporation's overall finding strategy remains unchanged during the year ending 2014. However the Corporation commenced capital repayments under ICBC loan.		
The capital structure of the Corporation consists of debt, which includes the current and non current liabilities as disclosed on the statement of financial position, cash and cash equivalents disclosed on the statement of cash flows and equity and reserves comprising irredeemable capital, revaluation reserves, other reserves and accumulated losses as disclosed in Notes 24, 25, 26 and the statement of financial position respectively.		
<b>Gearing ratio</b>		
Debt	11,498,021	11,872,510
Cash and cash equivalents	(184,248)	(185,847)
Net debt	11,313,773	11,686,663
Equity	4,758,887	4,464,695
Net debt to equity ratio (%)	(238%)	(262%)
<b>38.2 Categories of financial instruments</b>		
Financial assets at amortised cost		
Held-to-maturity investments	27,841	28,465
Loans and receivables (including cash and cash equivalents)	899,985	748,524
Available-for-sale financial assets	3,000	3,000
	930,826	779,989
Financial assets at fair value	77,512	-
Financial liabilities at amortised cost	11,462,978	11,144,275
Financial liabilities at fair value	429	728,235
<b>38.3 Financial risk management objectives</b>		
The Corporation's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Corporation through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.		
<b>38.4 Market risk</b>		
The Corporations activities expose it primarily to the financial risk of changes in foreign exchange rates (see 38.5 below) and interest rates (see 38.6) below. The risk of movements in foreign exchange rates is mitigated through.		
- maintaining money market investments in currencies that match the foreign loan obligations;		
- maintaining foreign currency bank accounts to settle foreign currency obligations; and		
- cross currency swaps per note 34.		

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

### for the year ended 31 March 2014

#### 38 FINANCIAL INSTRUMENTS [CONTINUED]

##### 38.5 Foreign currency risk management

The Corporation undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters through active engagement of bankers to obtain the best available rates in the market and maintaining bank balances in the respective currencies that the Corporation has exposure in. The carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2014 P'000	2013 P'000	2014 P'000	2013 P'000
Denominated in the following currencies:				
United States Dollar	6,324,676	6,302,795	27,192	28,392
South African Rand	433,801	97,334	18	3,736
Euro	–	–	408	–
	6,758,477	6,400,129	27,618	32,128

##### 38.5.1 Foreign currency sensitivity analysis

The following table shows the effect of a 0.5% devaluation in the Botswana Pula currency against major currencies. The amount is exact and opposite if the Botswana Pula currency strengthened against major currencies. This sensitivity analysis is based on the year end exposure to foreign currency risk.

	2014 P'000	2013 P'000
Increase in loss for the year	(33,654)	(31,840)

##### 38.6 Interest rate risk management

The Corporation is exposed to interest rate risk as it holds both fixed and floating interest rate financial instruments. The risk is managed by the Corporation by spreading the short term investment portfolio across various financial institutions to maximise returns.

The Corporation's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

##### 38.6.1 Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates based on the history of the movement of the prime lending rate.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Corporation's:

	2014 P'000	2013 P'000
Loss for the year would increase by	(30,117)	(30,039)



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

### for the year ended 31 March 2014

### 38 FINANCIAL INSTRUMENTS [CONTINUED]

#### 38.7 Credit risk management

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the Corporation. The Corporation has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by obtaining deposits from new customers, guarantees from the bank and continuously monitoring the debtors. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. On-going credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, customers are disconnected until they settle and increase their deposits.

The concentration of credit risk for consumer loans (hire purchase and NESCC) and trade accounts receivable, is disclosed on Note 17, 21 and 23. The most significant credit risk concentration of other financial assets are disclosed as follows.

	2014 P'000	2013 P'000
African Alliance	22	21
Stanbic Investment Management Services	627	133
Barclays Bank of Botswana Plc. London	27,192	28,311
<b>Total</b>	<b>27,841</b>	<b>28,465</b>

#### 38.8 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Corporation's short, medium and long-term funding and liquidity management requirements. The Corporation manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 38.8.2 is the amount of undrawn facilities that the Corporation has at its disposal to further reduce liquidity risk.

##### 38.8.1 Liquidity risk and interest tables

The following tables detail the Corporation's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Corporation can be required to pay. The table includes only principal cash flows.

	Up to 1 year P'000	2 to 5 years P'000	+5 years P'000	Total P'000
<b>2014</b>				
Variable interest rate	383,098	1,509,370	4,438,073	6,330,541
Non interest bearing	3,234,655	61,608	–	3,296,263
	3,617,753	1,570,978	4,438,073	9,626,804
<b>2013</b>				
Variable interest rate	361,755	1,423,263	4,528,389	6,313,407
Non interest bearing	2,996,503	75,621	–	3,072,124
	3,358,258	1,498,884	4,528,389	9,385,531

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]**  
for the year ended 31 March 2014

	Up to 1 year P'000	2 to 5 years P'000	+5 years P'000	Total P'000
<b>38 FINANCIAL INSTRUMENTS [CONTINUED]</b>				
The following tables detail the Corporation's remaining contractual maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets based on the earliest date on which the Corporation's will receive cash settlement. The table includes principal cash flows only.				
<b>2014</b>				
Variable interest rate	262,400	16,982	–	279,382
Non interest bearing	623,603	–	–	623,603
Fixed interest rate	649	27,192	–	27,841
	886,652	44,174	–	930,826
<b>2013</b>				
Variable interest rate	265,702	11,491	–	277,193
Non interest bearing	474,331	–	–	474,331
Fixed interest rate	154	28,311	–	28,465
	740,187	39,802	–	779,989

**38.8.2 Facilities**

The Corporation has access to financing and overdraft facilities, of P100 million. (2013: P100 million). The Corporation also has bonds and guarantees amounting to USD10 million, unsecured import letters of credit amounting to USD10 million, commercial standby letters of credit amounting to USD1.855 million.

**38.9 Fair value measurements**

The directors of the Corporation believe that all the carrying amounts of all financial instruments approximate their fair values. The fair value of these financial instruments is determined based on the accounting policy on financial instruments. The key assumption used is a market interest rate of 6% to discount the future cash flows on settlement of the Government loan.

**38.9.1 Fair value measurements recognised in the statement of financial position**

This note provides information about how the Corporation determines the fair values of the various financial assets and financial liabilities.

Fair value of the Corporation's financial assets and financial liabilities that are measured at fair value on a recurring basis.

Some of the Corporation's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and the inputs used).



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

### for the year ended 31 March 2014

#### 38 FINANCIAL INSTRUMENTS [CONTINUED]

##### 38.9 Fair value measurements (continued)

##### 38.9.1 Fair value measurements recognised in the statement of financial position (continued)

Financial assets/ liability	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2014 P	2013 P				
Cross currency and interest rate swap	Asset - 72,512,000	Liability - 727,471,000	Level 3	<p>Discounted cash flow (income approach) valuation technique.</p> <p>Firstly the cross-currency swap is valued on a clean basis excluding credit and debit valuation adjustments (CVA and DVA).</p> <p>The future cash flows of the two legs of the cross currency swap are projected in USD, based on market observable forward exchange rates as far as possible. These cash flows are then discounted using the 3 Month USD Libor swap curve, built from market observable money market instruments, FRA's (forward rate agreements) and swaps. Forward rates are calculated from the USD Libor swap curve to project the expected future 3 Month Libor Rates.</p> <p>Secondly a CVA and DVA adjustment is calculated by applying the default probabilities (PDs), loss-given default (LGDs) estimates and potential future exposures of the deal. The potential future exposures is calculated with the use of Monte-Carlo simulation techniques. The Hull-White single factor model is used to simulate multiple USD interest rate scenarios and Geometric Brownian Motion (GBM) processes are used to simulate multiple exchange rate scenarios."</p>	<p>For the clean valuation: The Botswana pula forward currency rate was unobservable after the four year point requiring an unobservable basis spreads adjustment to the interest rate parity relationship used to project the future expected Pula currency rates.</p> <p>For the CVA and DVA valuation adjustment the following inputs were not directly market observable:</p> <ul style="list-style-type: none"> <li>• The default probabilities and loss given default estimates of the Corporation and Standard Bank plc.</li> <li>• The correlation parameters between the currency pairs and interest rates (short term USD interest rates),</li> <li>• The alpha and sigma parameters in the Hull-White single factor interest rate model.</li> </ul>	<p>The higher the Botswana pula currency basis spread the higher the fair value of the asset.</p> <p>The higher Standard Bank PLC's default probability and LGD the lower the value of the swap.</p> <p>The higher the Corporation's default probability and LGD the higher the value of the swap.</p> <p>The higher the correlation of the parameters the higher the CVA and DVA adjustments.</p> <p>The higher the alpha parameter the lower the CVA and DVA adjustment.</p> <p>The higher the sigma parameter the higher the CVA and DVA adjustment.</p>

There were no transfers between Level 1 and 2 in the period.

The reconciliation of the level 3 derivative financial instrument is disclosed in note 34.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]**  
for the year ended 31 March 2014

	2014 P'000	2013 P'000
<b>39 CONTINGENT LIABILITIES</b>		
<b>39.1 Employee Scheme</b>		
The Corporation has guaranteed the obligations of certain employees under its motor vehicle and residential housing schemes in a total amount of	5,942	8,132
<b>39.2 Public liability</b>		
Legal claims against the Corporation	3,192	7,626
<b>39.3 Claims for liquidated damages made under the EPC contract</b>		
The implementation of Morupule B project was delayed and the EPC contract allows the Corporation to charge the contractor penalties for breach of contract and vice versa. The contractor has submitted claims relating to events for extension of time which are in the process of being evaluated, quantified and negotiated. The Corporation believes the counter claims by the contractor, if successful, would not exceed the Corporation's claims against the contractor. Furthermore, the contractor has submitted claims of P260 million relating to various contract matters which the Corporation considers are not due to the contractor.		
<b>40 RELATED PARTY BALANCES AND TRANSACTIONS</b>		
<b>Amounts due (from)/to:</b>		
Botswana Unified Revenue Service (Value added tax)	34,856	106,752
Botswana Unified Revenue Service (Withholding Tax)	932	2,123
Botswana Unified Revenue Service (Import Value added tax)	5,238	28,497
	41,027	137,372
<b>Remuneration of key entity personnel:</b>		
Salaries and other short term employee benefits	7,424	8,988
Terminal benefits	2,187	1,545
	9,611	10,533

Trade receivables due from the Governments disclosed in Note 23. Electricity sales to the Government of the Republic of Botswana during the year ended 31 March 2014 are disclosed per Note 1. Borrowings from the Government are disclosed in Note 29. Note 27 details the balance of advances received from the Government for emergency power purchases. Note 31 discloses the amount of levies payable to the Government of Botswana.



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED] for the year ended 31 March 2014

### 41 SUBSEQUENT EVENTS

#### **Tariff Approval:**

An average tariff adjustment of 8.5% was approved by Government effective 1 April 2014 and an operational subsidy of P1.5 billion for the revenue requirement was received in May 2014.

#### **Morupule B**

The Morupule B project did not meet the planned commercial operation dates for the four 150 MW units and the remedial measures instituted led to the last unit, Unit 2, being taken over on 4 May 2014. The four Units of Morupule B were taken over and the block tests successfully completed and approved on 24 June 2014. The plant Defects Notification Period (DNP) of two years effectively commenced on 24 June 2014.

The defects identified in the progress reports by the Owner's engineer are currently being addressed by the contractor as covered under the DNP requirements of the contract.

The delays in taking over the units were due to, amongst other matters, a number of failures on the Boiler Fluidised Bed Heat Exchangers (FBHE). The Corporation has appointed consultants to conduct a root cause analysis for the FBHE failures and related deficiencies.

The Corporation has entered into an Operation and Maintenance (O&M) agreement with an Operator, effective 1 August 2014, to be executed in two phases:

**Phase 1:** A six month O&M contract during which a gap analysis is to be carried out with the view to agree on recommended measures to address identified gaps. The operator is to provide a report setting out the results of the findings and estimates of expenditure required for such measures to be taken to address the gaps towards performance sustainability of the plant.

**Phase 2:** A forty-eight month O&M contract during which remedial measures will be implemented in the first twelve months followed by a thirty-six month operational phase.

Upon satisfactory resolution of the defects as notified to the contractor, resolution of claims and counter claims (refer to note 39.3) and various other project issues including the FBHE and related deficiencies and matters arising from the gap analysis, the total Morupule B project costs to completion, including any additional costs to be incurred, will be determined.

An impairment assessment was performed by management at 31 March 2014, based on the costs incurred to date. Management concluded that based on the costs incurred to date, the asset is not impaired.

Once the costs related to the rectification of the matters outlined above have been determined, the total Morupule B project costs, including any additional costs that may be incurred will need to be assessed for impairment in terms of IAS 36 - Impairment of Assets.

### 42 COMPLIANCE WITH THE BOTSWANA POWER CORPORATION ACT (CHAPTER 74:01)

The Corporation has not complied with the requirements of Section 17 of the Botswana Power Corporation Act (Chapter 74:01) which requires the Corporation to conduct its affairs on sound commercial lines and to produce a net operating income by which a reasonable return can be measured. An operating loss of P1,373,947,000 (2013: P2,125,112,000) was incurred, before taking into account the tariff subsidy grant from the Government of the Republic of Botswana of P1,488,000,000 (2013: P871,000,000).



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS [CONTINUED]

### for the year ended 31 March 2014

#### 43 GOING CONCERN

The Corporation has incurred a loss of P1,373,947,000 (2013: P1,622,521,000) before taking into account the tariff subsidy grant received from the Government of the Republic of Botswana of P1,488,000,000 (2013: P871,000). In addition, as at 31 March 2014 the Corporation's current liabilities exceed its current assets by P2,297,206,000 (2013: 2,891,530,000). These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern.

The Government of the Republic of Botswana has committed to provide ongoing financial support in the future through the following:

- Approval of tariff increases - an average tariff adjustment of 8.5% was approved by Government effective 1 April 2014.
- Operational subsidies - an operational subsidy of P1.5 billion for the 2014/2015 financial year to meet both the loan obligations and other operating costs as per the revenue requirement gap resulting from the less cost reflective tariffs. This amount was received in May 2014.
- Investment in generation infrastructure and operating subsidy aimed at sustaining the Corporation in the medium to long term.
- Government has also endorsed the Corporation's long-term ten year financial strategy approved by the Board in 2013, with its main objective being to inform the Board and Government on the initiatives to address the adverse financial position as well as the funding needs.
- Continuing with the support of emergency power purchases secured by the Corporation to address the supply gap during the period the new generation capacity is still being built.

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## NOTES

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