



**BOTSWANA POWER CORPORATION**

POWERING BOTSWANA  
**THROUGH 50 YEARS  
OF INDEPENDENCE**  
ANNUAL REPORT 2016







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An aerial photograph of a power plant facility, featuring large industrial buildings, cooling towers, and a network of pipes. The plant is situated in a dry, hilly landscape with sparse vegetation. In the background, a city skyline is visible under a clear blue sky. Three semi-transparent colored circles (green, purple, and yellow) are overlaid on the image, each containing text about the company's mission, vision, and values.

## OUR MISSION

is to provide safe,  
competitive and reliable  
electricity services

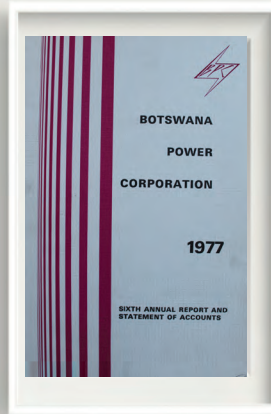
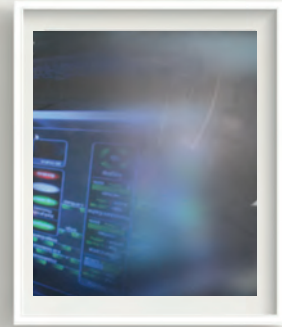
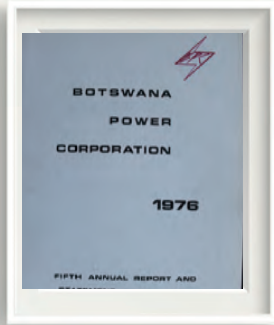
## OUR VISION

is to be a leading power  
utility in the region

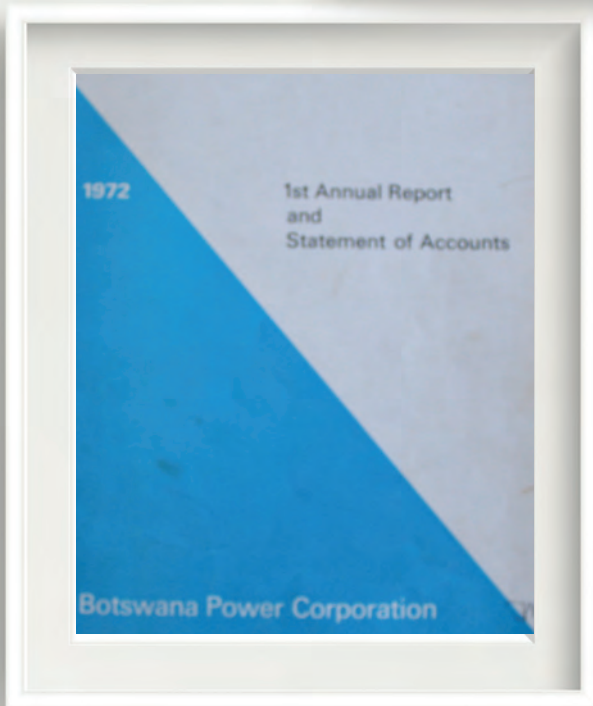
## OUR VALUES

Zero Harm  
Service Excellence  
Growth  
Ethical Conduct  
Valued Citizen

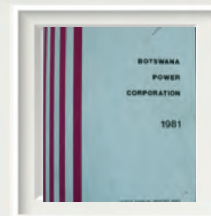
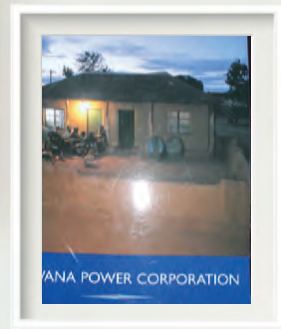
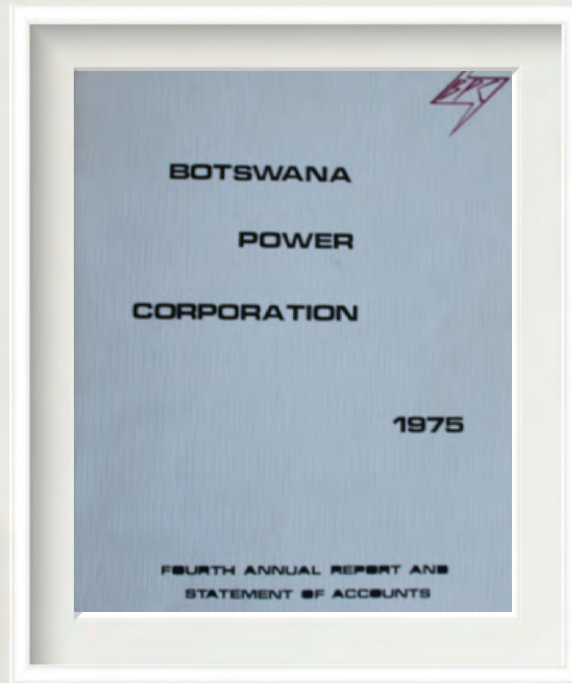
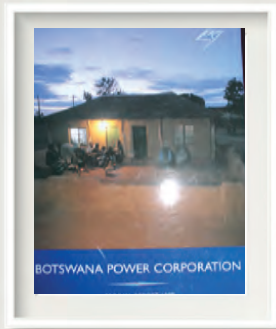




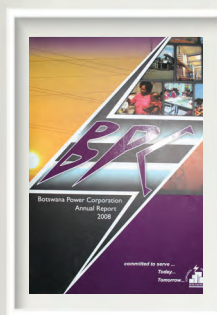
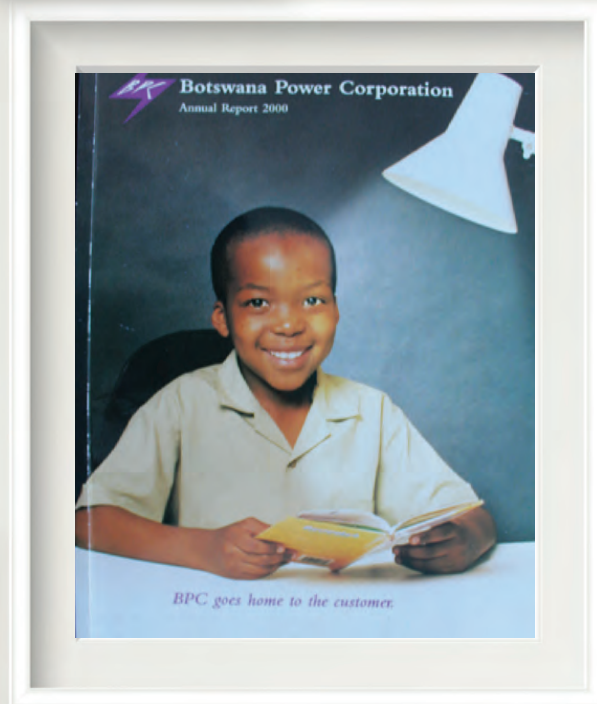
# OUR HISTORY 1970







# IN PICTURES 2016



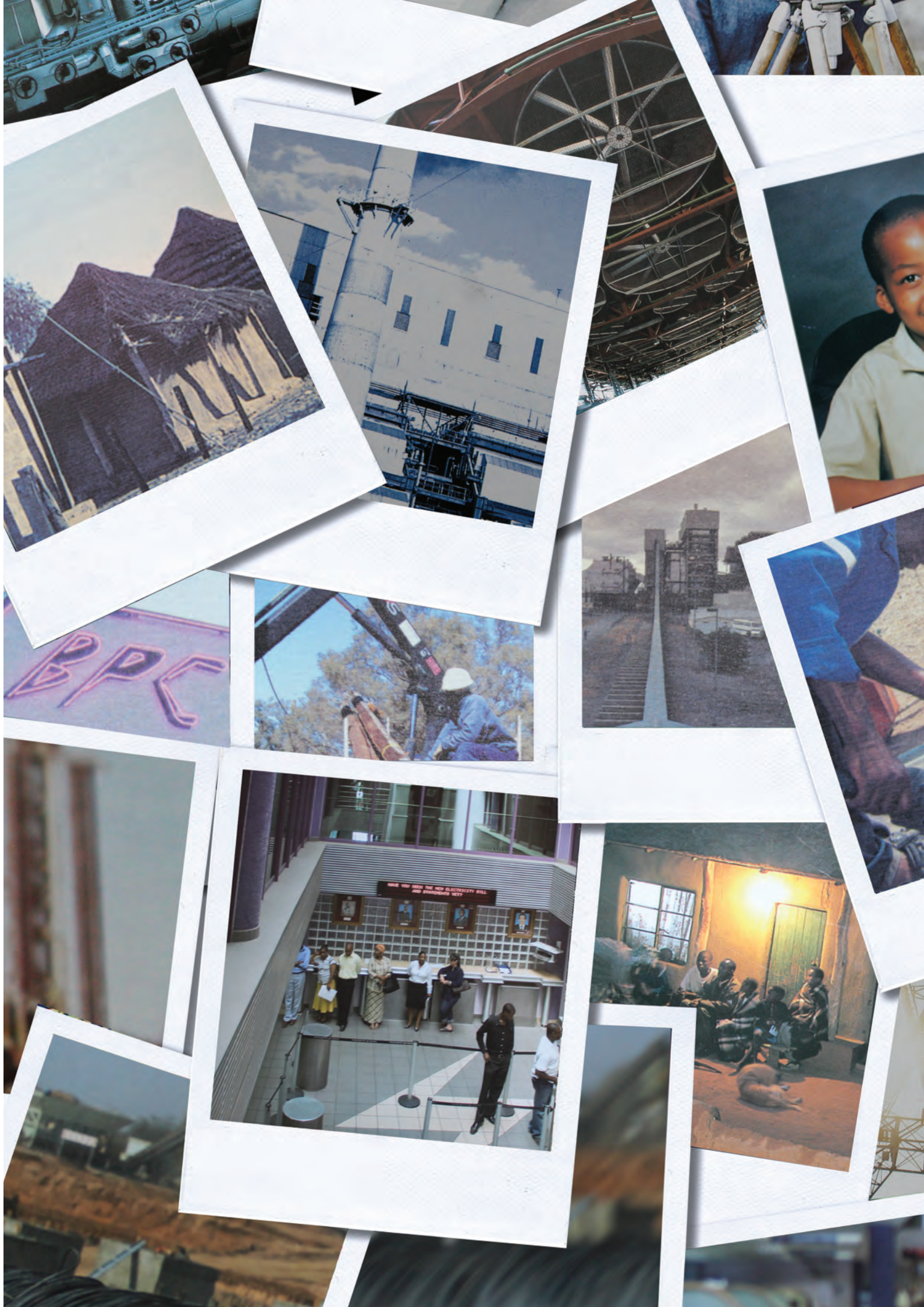


















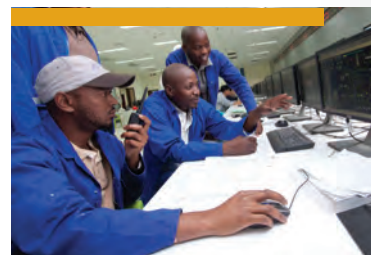








# OPERATIONAL HIGHLIGHTS



## Total Revenue

13%

Increased by 13% to **P2.857 billion** in 2016, compared to **P2.533 billion** as at March 2015

## Other Operating Income

30.6%

Stood at **P103.544 million**

## Non- Current Assets

7.3%

Increased by **P1143 billion** in 2016

## Total Comprehensive Loss

63.6%

Total Comprehensive Loss reduced from **P274 million** to **P99.6 million**

## Total Operating Costs

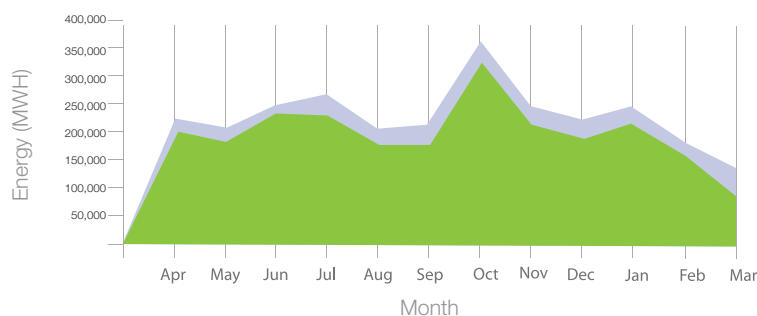
7.7%

amounted to **P4.954 billion** compared to **P4.599 billion** in the prior year

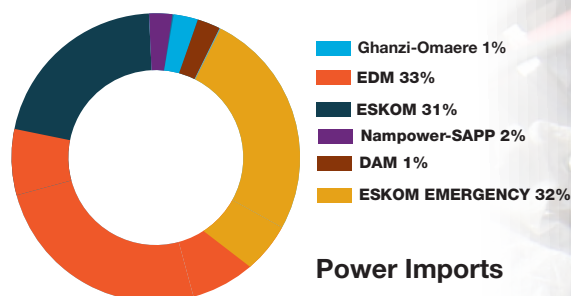
## Current Assets

18.6%

Increased by **P1.424 billion** to **P1.688 billion** for the year under review



Morupule B Energy Production Trend (FY2015/16)



Power Imports







# CHAIRMAN'S REVIEW

On behalf of the board, I would like to present the Botswana Power Corporation 2015/16 annual report which shall give a clear reflection of milestones achieved.

For the year 2015/16, the corporation continues to operate under its mission to provide safe and reliable electricity services with key strategic themes being of financial turnaround, service delivery, shero culture, organisational effectiveness and secure power supply.

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





POWERING BOTSWANA **THROUGH 50 YEARS  
OF INDEPENDENCE**







## Chairman's Review Continued

### Security of Power Supply

The Corporation started the process of ensuring that remedial works at the Morupule B 600MW power plant are undertaken to address inadequacy of power supply in the country. Progress has been made in regard to engineering designs which will see the Corporation undertaking remedial works in the next financial year. The Morupule B performance has remained unsatisfactory for the 2015/16 financial year with the plant availability at 55.8% against the initial target of 89%. This is a decline in availability of Morupule B power plant by 10.7% compared to its availability in 2014/15, further threatening the Corporation's strategic priority of ensuring security of power supply.

The Corporation remains positive that it will achieve on its targeted 15% reserve margin by 2018 once the ongoing refurbishment of Morupule A 132MW power plant is completed. The Corporation prides itself with the planned management of waste/harmful products of Morupule A plant that will support the achievement of the strategic priority of ensuring "zero harm" to the environment, customers and employees.

The upcoming Independent Power Producer project of Morupule 5 and 6 which is expected to be operational by June 2018 will provide an additional supply of 300MW, which when combined with Morupule A and B shall produce 1032MW, enough to meet the country's demand. The corporation plans to export any excess electricity to the region once these plants are fully operational thereby making financial returns.

The North West Transmission Grid Connection (NWTGC) project that targets to connect the north western parts of the country is ongoing. It is expected to connect villages such as Maun, Shakawe, Gumare, Gantsi, Pandamatenga and Kasane when completed.

### Service Delivery

The Corporation continues to sell electricity at tariffs regulated by Government to ensure affordability to customers. Furthermore, domestic customers within 500 meters radius from supply transformers still benefit from the National Electricity Standard Cost (NESC) that was set by the Government to make electricity connection affordable. The eligible customers pay a subsidised P5000 excluding VAT instead of the actual cost of the project which at most times far exceeds the P5000.

Through the Rural Electrification Program, the corporation has fulfilled its mandate to extend electricity to 387 villages by April 2016 since inception of the program. A further 125 villages are planned for electrification in the following financial year. Access to electricity in rural areas has improved by a further 5.32% as at the end of 2015/16 financial year from 67.18% at the end of the previous financial year.

### Rural Electrification Program

The corporation has fulfilled its mandate to extend electricity to

387 Villages

access to electricity in rural areas has improved by

5,32%

The Corporation prides itself with the planned management of waste/harmful products of Morupule A plant that will support the achievement of the strategic priority of ensuring "zero harm" to the environment, customers and employees.



## Chairman's Review Continued

**Financial Turnaround**

The Corporation is in its journey to financial recovery as evidenced by improvement from the 2014/15 total comprehensive loss of P274.9million to P99.6million loss in 2015/16 financial year which is a positive improvement of P175.3million on losses from the previous financial year.

In the short term an effective and diligent implementation of Morupule B remediation program, Government's commitment to continue providing operational subsidies, tariffs as well as funding of some capital projects to sustain the Corporation remains critical. The Corporation also has to improve operational efficiencies as well as improving and diversifying its revenue streams.

**Safety**

The Corporation continues to maintain the Lost Time Injury Frequency Rate (LTIFR) of less than 1 which is the relevant industry benchmark. This positive achievement is a continued trend for the Corporation as observed in the previous annual reports. The Corporation continues to sustain and monitor SHER performance through the implementation of SHER standards and training.

**Conclusion**

It is worth noting that the 2015/16 financial year had its unique outcomes when compared to previous financial years. In the outcomes there are challenges that are constructive and eye openers while at the same time it

is worth reflecting that the Corporation is gradually achieving its plan to turnaround its financial status given the reduction in loss from April 2016 P274.9million by P175.3million. I therefore would like to appreciate the input of all stakeholders especially Government for its continued support and efforts. I continue to pledge the Board's commitment to ensuring that the Corporation is transformed to enable it to deliver on its mandate.



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

Government's commitment to continue providing operational subsidies, tariffs as well as funding of some capital projects to sustain the Corporation remains critical. The Corporation also has to improve operational efficiencies as well as improving and diversifying its revenue streams.





# MEMBERS OF THE BOARD



**K. P. Lepekoane**  
Member



**B. Thebenyane**  
Vice Chairman



**T. Pule**  
Member

**O. Obakeng**  
Member



**B. Motshegwa**  
Member



**B. Kenosi**  
Member



**M. Setlhare**  
Member



**K. Blanchard**  
Member

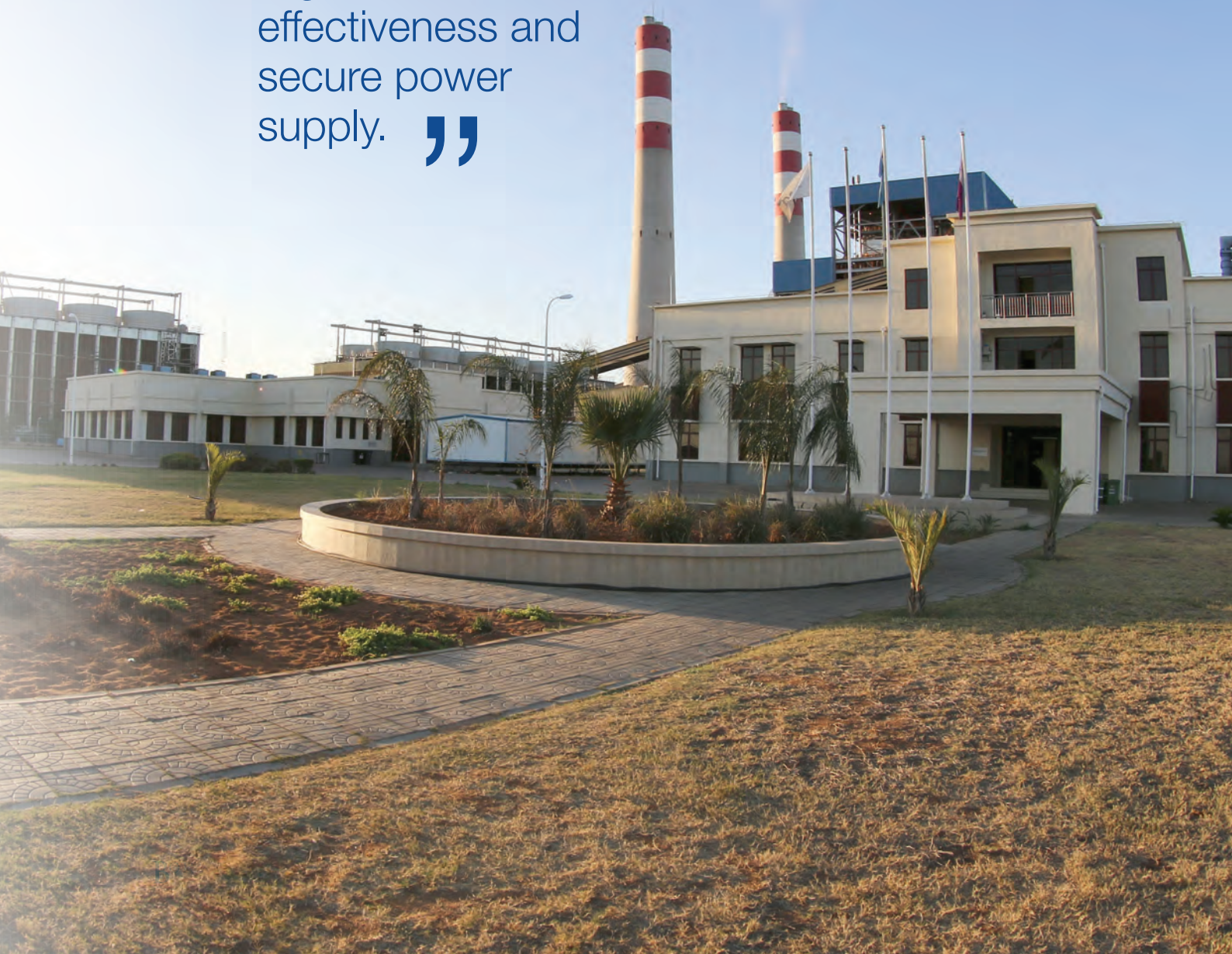


**S. Sebetlela**  
Board Chairman





“ The corporation continues to operate under its mission to provide safe and reliable electricity services with key strategic themes being financial turnaround, service delivery, sherq culture, organisational effectiveness and secure power supply. ”





# EXECUTIVE MANAGEMENT TEAM

**N. J. Raleru**  
Chief Executive Officer

**T. Ndzinge**  
Acting Director  
Corporate Services

**D. Matong**  
Acting General Manager  
Human Resources

**I. Moalafi**  
Acting General Manager  
Internal Audit



**R. Mgadla**  
Chief Financial Officer

**E. Rugoyi**  
Director  
Generation

**G. Molefe**  
Director  
Customer Service and Supply

**D. Makepe**  
General Corporate  
Counsel/Board Secretary

**N. Mothebe**  
Director  
Transmission





# KEY BUSINESS TERMS & RATIOS

## Borrowings/Debt

All interest bearing liabilities.

## Operating Profit

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

## 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.

## Return on property, plant and equipment

Net profit expressed as a percentage of capital employed.

## 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.







# ADDRESS, BANKERS & 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: 2931BD  
Website: [www.bpc.bw](http://www.bpc.bw)

## REGIONAL OFFICE

### Morupule

P/Bag 7  
Palapye  
Botswana

Tel: (267) 492 0200  
Fax: (267) 492 0494

### Francistown

P O Box 815  
Francistown  
Botswana

Tel: (267) 241 3939  
Fax: (267) 241 2877

### Selebi-Phikwe

P O Box 170  
Selebi -Phikwe  
Botswana

Tel: (267) 261 0422  
Fax: (267) 261 0407

## AUDITORS

### Deloitte & Touche

P O Box 778  
Gaborone  
Botswana

## BANKERS

### Barclays Bank of Botswana Limited

Barclays House  
P O Box 478  
Gaborone  
Botswana

### First National Bank of Botswana Limited

P O Box 1552  
Gaborone  
Botswana

### Standard Chartered Bank of Botswana Limited

P O Box 496  
Gaborone  
Botswana

### Stanbic Bank Of Botswana Limited

Private Bag 00168  
Gaborone  
Botswana

## ATTORNEYS

### Armstrongs

P O Box 1368  
Gaborone  
Botswana

### Minchin & Kelly

P O Box 1339  
Gaborone  
Botswana

### Collins Newman & Co

P O Box 882  
Gaborone  
Botswana







# KEY ANNUAL STATISTICS

## STATISTICS FOR THE YEAR ENDED 31 MARCH 2016

	2016	2015	2014	2013	2012	2011	2010	2009	2008
Total unit sales (GWh)	3,479	3,495	3,449	3,310.1	3,197.7	3,118	3,151	2,917	2,889
To generation (sent out) and imports	3,736	4,024	3,704	3,650.1	3,590.9	3,551	3,414	3,369	3,210
Staff Establishment	2,117	1,964	1,922	1,977	2,047	2,188	1,841	1,901	2,010
Total consumers	386024	367,003	343,050	315,669	291,338	251,773	214,170	196,755	196,755
Plant capacity Morupule B (MW)	600	600	600	-	-	-	-	-	-
Plant capacity Morupule A (MW)	132	132	132	132	132	132	132	132	132
System maximum demand (MW)	610	610	572	578	542	553	553	503	493
Average selling price per unit (Thebe/kWh)	82.1	72.5	65.5	60	57	48.0	36	36.7	32.0
Average cost per unit (Thebe/kWh)	139	129	104	109	85	68	57	50	36

Operating Results (P'000)									
Total Revenue	2,857,161	2,533,578	2,260,196	1,984,200	1,815,601	1,512,236	1,135,474	1,069,559	938,555
Net Operating Expenses	4,851,042	4,519,671	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	-1,993,881	-1,986,093	-1,325,862	-1,622,521	-819,436	-607,026	-563,573	-376,430	-85,767
Revenue Grant from the Government of Botswana	2,321,360	2,326,800	1,488,000	871,000	508,000	454,000	-	-	-
Operating profit/(loss) after Revenue Grant	327,479	340,707	162,138	-751,521	-311,436	-153,026	-563,573	-376,430	-85,767
Net Profit/(Loss)	-99,613	-274,905	114,053	-1,254,836	-1,122,872	-796,620	-1,572,169	-133,623	111,143

Capitalisation (P'000)									
Long term debt	6,953,734	6,743,406	6,330,541	6,313,407	5,359,783	4,154,439	1,460,764	119,209	135,803
Net assets	5,030,983	4,546,958	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	1,052,189	358,218	423,346	989,467	1,786,583	3,930,033	3,086,888	1,211,301	628,114

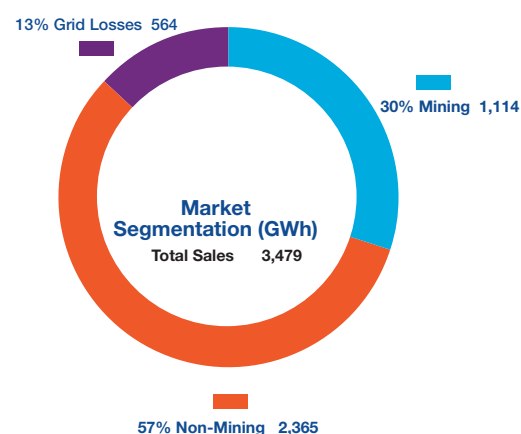
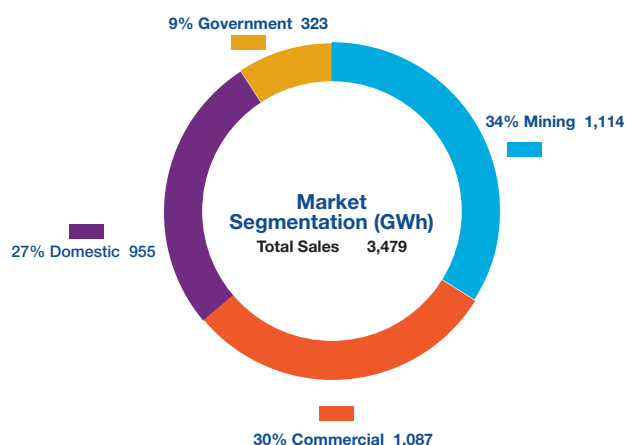


	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Electricity (GWh) Source</b>									
Morupule A	0	0	0	46.3	249.5	437.1	532.1	620.7	697.0
Morupule B	2,365	2,859	2,213	713.6	0.0	-	-	-	-
Station usage	307	410	292.2	91.2	29.9	66.0	74.8	71.0	66.5
Sent out	2,057.3	2,448.6	1,920.8	668.7	219.6	371.1	457.3	549.7	630.5
Purchased	1,679	1,575	1,783	2,981.4	3,371.3	3,180.1	2,984.5	2,748.5	2,585
<b>Total sent out and purchased</b>	<b>4,043</b>	<b>4,024</b>	<b>3,703.8</b>	<b>3,650.1</b>	<b>3,590.9</b>	<b>3,551.2</b>	<b>3,441.8</b>	<b>3,369.2</b>	<b>3,215.8</b>

<b>Sales disposition (GWh)</b>									
Mining	1,114	1,194	1,197	1,127.6	1,085.7	1,117.1	1,141.2	1,123.2	1,186.2
Commercial	1,087	1,059	1,028	982.2	910.1	820.0	830.7	734.6	683.9
Domestic	955	941	927	918.3	878.8	873.0	829.1	768.7	745.1
Government	323	301	297	282.1	323.2	308.0	307.5	290.4	273.5
<b>Total sales</b>	<b>3,479</b>	<b>3,495</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 Losses (GWh)</b>									
System losses (%)	15.09%	14.63%	7.47%	10.3%	12.3%	13.9%	10.7%	13.1%	11.3%
<b>Total consumers</b>	<b>386,024</b>	<b>367,003</b>	<b>343,050</b>	<b>315,699</b>	<b>291,338</b>	<b>251,773</b>	<b>214,170</b>	<b>198,615</b>	<b>196,755</b>

<b>Sales growth (%)</b>									
<b>Mining</b>	<b>-6.7</b>	<b>-0.2</b>	<b>6.2</b>	<b>3.9</b>	<b>-2.8</b>	<b>-2.1</b>	<b>1.6</b>	<b>-5.0</b>	<b>-1.1</b>
<b>Commercial</b>	<b>2.7</b>	<b>3.1</b>	<b>4.6</b>	<b>7.9</b>	<b>11.0</b>	<b>-1.3</b>	<b>13.1</b>	<b>7.4</b>	<b>7.9</b>
<b>Domestic</b>	<b>1.5</b>	<b>1.5</b>	<b>1.0</b>	<b>4.5</b>	<b>0.7</b>	<b>5.3</b>	<b>7.9</b>	<b>3.1</b>	<b>9.3</b>
<b>Government</b>	<b>7.3</b>	<b>1.2</b>	<b>5.3</b>	<b>-12.7</b>	<b>4.9</b>	<b>0.1</b>	<b>5.9</b>	<b>6.2</b>	<b>4.4</b>
<b>Total sales (decline) growth</b>	<b>-0.5</b>	<b>1.3</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	-3.5%	-10.9%	5.0%	-63.2%	-61.8%	-52.7%	-138.5%	-12.5%	11.8%
Earnings to irredeemable capital	7.0%	8.3%	4.0%	-20.3%	-9.7%	-7.0%	-34.4%	-8.1%	76.3%
Return on total average assets employed	1.8%	2.0%	1.0%	-4.6%	-2.1%	-1.0%	-3.8%	-1.8%	1.8%
Operating loss to revenue	11.5%	13.4%	7.2%	-37.9%	-17.2%	-10.1%	-49.6%	-35.2%	-9.1%
Return on revalued Property, Plant and Equipment (%)	2.1%	2.3%	1.1%	-4.6%	-2.1%	-1.0%	7.8%	-9.3%	-2.3%





# CHIEF EXECUTIVE OFFICE REVIEW

## SAFETY HEALTH AND ENVIRONMENT

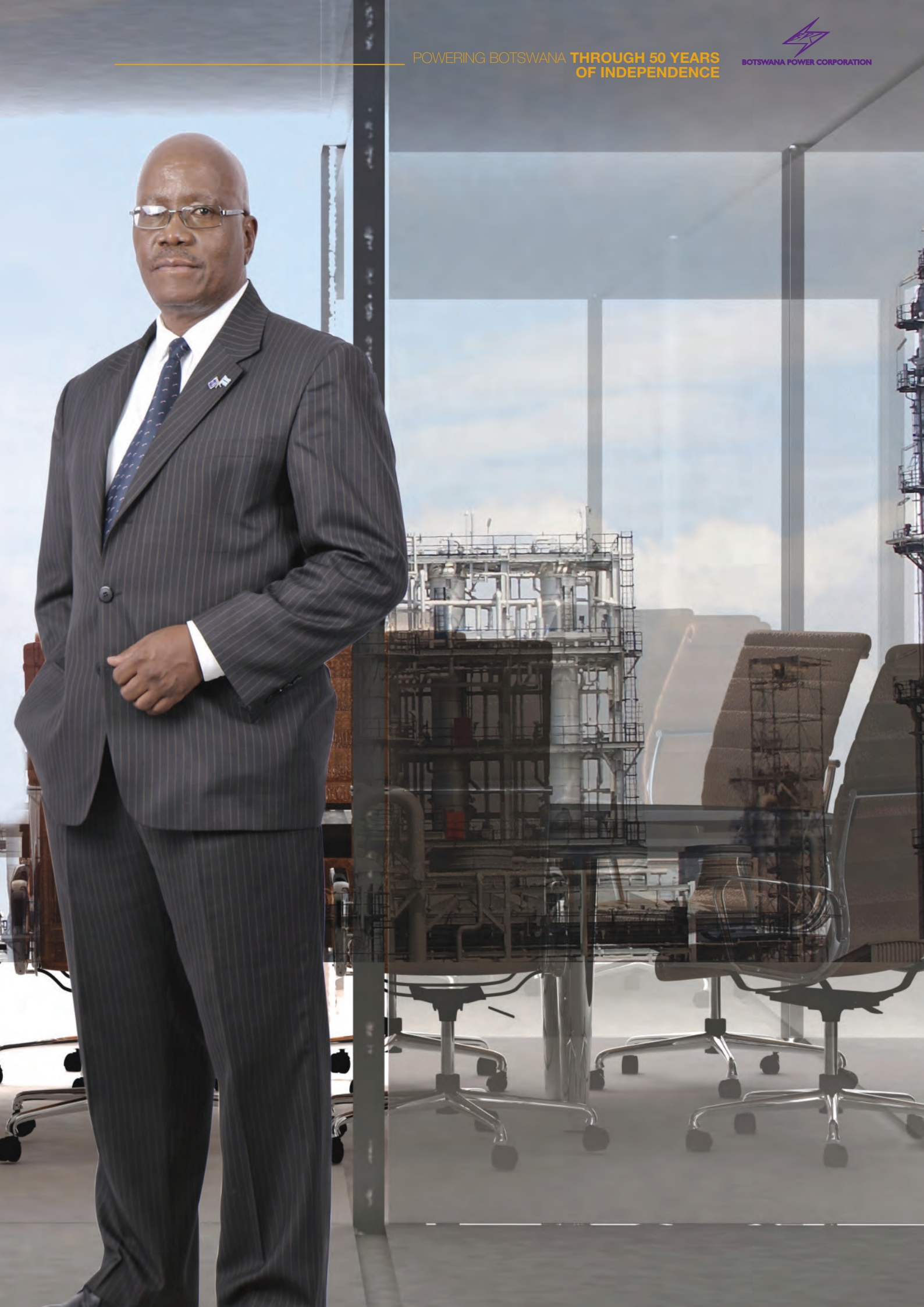
The Corporation continued to excel by maintaining the Lost Time Injury Frequency Rate (LTIFR) of less than 1, which is the related industry benchmark.

During the period under review, the Corporation subjected four Customer Service Centres to a baseline NOSA grading audit. The target was to achieve at least a 3-star NOSA grade. This was achieved at three sites, with the remaining site achieved a 2-star grade. All the sites that achieved a 3-star grading had a LTIFR of zero. The target is to achieve an average five (5) star grade by 2020.

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



POWERING BOTSWANA THROUGH 50 YEARS  
OF INDEPENDENCE





## Chief Executive Review Continued

### Safety Health and Environment Continued

#### NOSA Grading Audit

Location	Lost time injury frequency (LTFI)	NOSA Star Grading Result 2015/16
Kanye	0	3 stars
Selebi Phikwe	0	3 stars
Palapye	0	3 stars
Francistown	≥1	2 stars

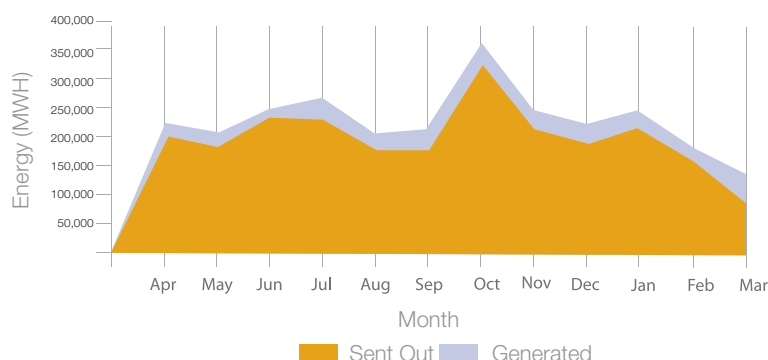
## REMEDIATION OF MORUPULE B 600MW POWER STATION

During the period under review, the Corporation continued to advance the measures, which were identified through a comprehensive gap analysis, to remedy the construction and equipment defects which have rendered the Morupule B Power Station unreliable in operation since its commissioning in 2013.

Significant progress has been made, with the Corporation and the Morupule B Contractor concluding an agreement on the scope and standard of the remediation works.

The defect remediation works have commenced, with the review and approval of engineering designs in progress. Actual remediation works are expected to commence in the first quarter of 2017, with completion expected in mid-2020.

During the period under review, plant availability at Morupule B was recorded at 55.8%, against a target of 89%. The Chart below depicts the total energy generated and sent out during the financial year.



Morupule B Energy Production Trend (FY2015/16)

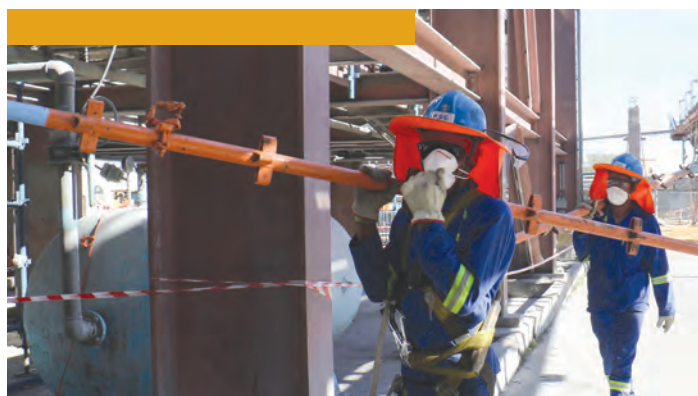
## EMERGENCY POWER FACILITIES

The Corporation continued to operate its diesel-fuelled Matshelegabedi (70MW) and the Orapa Turbine Power Plant (90MW) emergency power plants to supplement internal generation. These facilities will continue to be operated to bridge the supply gap during the period Morupule A and Morupule B will be undergoing refurbishment and defect remediation respectively.

The 70MW Emergency Power Plant which was rented from APR Energy was bought by BPC at the end of the rental period. Furthermore, BPC increased the emergency generation facility by renting an additional 35MW from APR Energy from 22nd May 2015 to 21st May 2017; the plant came into commercial operation on September 2015.

In view of the challenges experienced at Morupule B, the Corporation entered into a new three-year, non-firm contract for the supply of up to 150MW with Eskom of South Africa. In addition, an agreement to supply up to 80MW was signed with Electricidade de Mozambique (EdM).

During the year under review, unserved energy due to load shedding, system faults and planned outages amounted to 16,960.86 MWh, 2,373.55 MWh and 538.24 MWh respectively. In total, this amounted to 0.5% of the total supplied electricity of 3,971GWh.



Morupule B ongoing remediation works.



Chief Executive Review Continued

## SERVICE ACCESS AND DELIVERY

During the 2015/16 financial year, the Government financed network extensions in 24 villages and the electrification of 10 new villages at an amount of P155m, in line with the policy objective of attaining 80% access to electricity by 2016.

Rural access increased from 67.18% in March 2015 to 72.50% in March 2016, translating to a national electricity access of approximately 76%. This puts the corporation on a target of 80% by the end of 2016/17.

To date, 376 villages and localities out of 612 villages and localities have been connected to the electricity grid, bringing network penetration to approximately 61%.

## NATIONAL ELECTRICITY STANDARD COST

During the period under review, 16,894 customers benefited from the National Electricity Standard Cost (NESC) program, at an estimated cost of approximately P262 million, bringing the total number of customers who have benefited from NESC since its inception in October 2010 to 89,936 for a total estimated subsidy of P1 227 492 709.

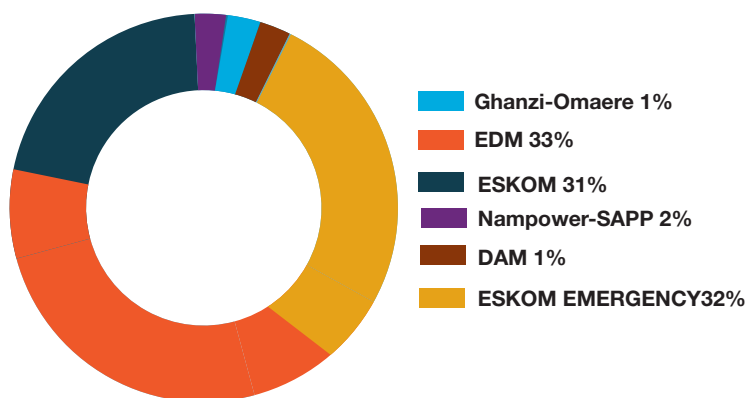
## Our People

In pursuit of its strategic priority of "Organisational Effectiveness", the Corporation aims to ensure that its employees are engaged, motivated and competent. For the reporting period, a major milestone was the review and implementation of a revamped Performance Management System. Going forward, the aim is to automate the system in SAP. In addition, management and employee representatives successfully negotiated an

across-the-board cost of living adjustment for all employees, thus contributing to a conducive industrial relations environment in the organisation.

Staff complement as at 31st March 2016 was 2117 against an approved establishment of 2307 (2238 at March 2015). The establishment increase was largely attributed to the on-going resourcing of the Morupule B Power Station, as this underpins the planned skills transfer and competency development programme for the plant. Other Business Units (BUs) establishment grew marginally. The staff turnover in the 2015/16 financial year was 0.57% compared to 3.0% in the previous year.

During the 2015/16 financial year, the Government financed network extensions in 24 villages and the electrification of 10 new villages.



Power Imports

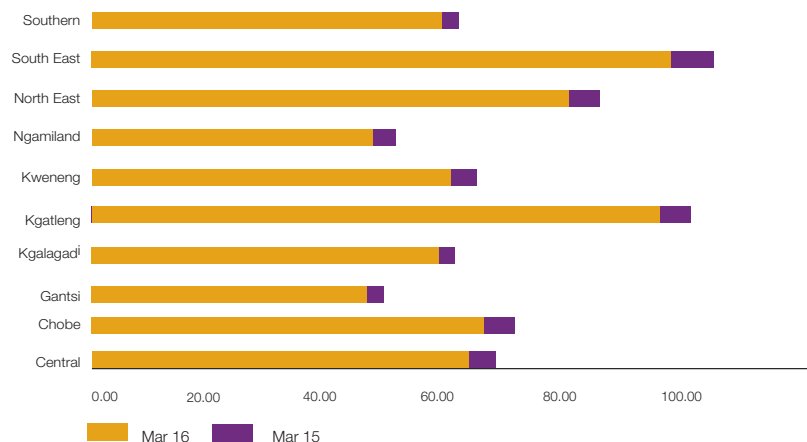


Chart 1: Rural Areas Access per District %

Rural access refers to number of households connected relative to the total number of households in a district. This figure excluded any other customer like institutions and businesses in the village/district.



Chief Executive Review Continued

Implementation of the Morupule B Skills Transfer Programme remains a key priority and is progressing according to plan. The programme is aimed at developing the capacity to replace staff of the Operations and Management contractor with a competent citizen workforce.

In terms of Leadership Development, a total of nine (9) employees completed the Senior Management Development Programme; and another nine (9) completed the Management Development Programme, while 77 completed the Supervisory Development Programme.

A number of strategic initiatives that are key to driving human capital efforts were commissioned during the year under review. These included:

- The development of the Manpower Planning Module which is one of five modules in the SAP Business Planning and Consolidation module.
- Training and Practitioner certification of 10 members of staff in Hay Guide Chart Job Evaluation Methodology by KORN FERRY HayGroup, for serving in the Corporate Job Evaluation Committee.
- Establishment of Business Unit Job Profiling and Grading Committees, trained in the Hay Job Analysis, Profiling and Guide Chart Evaluation methodology.

The Corporation's employee wellness programme continues to support employees on issues of primary health care through clinics in Morupule (A and B), medical surveillance and Employee Assistance with counselling services. The Special Benefit Fund (SBF), which provides care and treatment services for HIV positive employees and their dependents, reported a treatment adherence rate of 93% as at 31 March 2016.

SPORTS AND EVENTS

The Corporation supports and encourages participation in sports, with the belief in the concept that sporting activities promote overall workforce wellness, creativity and effectiveness.

During the period under review, the Corporation took part in the annual Inter-Power Games sporting event comprising electricity utilities from Botswana, Lesotho, Zimbabwe, Namibia, Swaziland and South Africa. The games were held in Lesotho, Maseru. In addition to promoting sport and fostering networking among the utilities' employees, the games promote sharing, of information on challenges and ideas around the discharging of the utilities' respective mandates. The Corporation's achievement from the games are as follows:

	Ladies	Gents
100m	Gold	Silver
200m	Gold	Silver
4 X 100m	Gold	Gold
4 X 400m	Gold	Gold
Netball	Gold	
Soccer		Gold
Chess		Gold
Morabaraba		Gold

BPC Pool Team during 2016 Inter Power Games at Maseru, Lesotho.





Chief Executive Review Continued  
**Sports and Events Continued**

	Ladies	Gents
Table Tennis (Mixed Team)		Silver
Volleyball (Mixed Team)		Bronze
Pool(Mixed Team)		Bronze
Tug of War (Mixed Team)		Bronze
Professional Category		Position 4
Golf		
Darts(Mixed Team)		
Tennis (Mixed Team)		

**SUMMARY**

<b>Gold</b>	<b>10</b>
<b>Silver</b>	<b>3</b>
<b>Bronze</b>	<b>3</b>

## CORPORATE SOCIAL RESPONSIBILITY

The Corporation continued to give back to the community through its corporate social responsibility initiatives. The year under review, the Corporation organised a Christmas party for Window of Hope Children's Centre in Ghanzi, made donations to the Cheshire Foundation of Mogoditshane, SOS Children's Village in Tlokweng, and Kalahari Conservation Society of Gaborone. Electricity connections were also donated to several beneficiaries across the country.

## CONCLUSION

In conclusion, I wish to express my gratitude and appreciation for the support rendered to the Corporation by the Ministry of Minerals Energy & Water Resources, the Board and the BPC Management team. Furthermore, my gratitude and appreciation go to the Corporation's employees and of course the Corporation's customers without whose dedication support and goodwill execution of the Corporation's mandate would not have been possible.



NKAGISANG JACOB RALERU  
**Chief Executive Officer**  
**Botswana Power Corporation**

**BPC CSR Team extending love to Window of Hope Centre Children in Ghanzi.**





# CORPORATE GOVERNANCE STATEMENT

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 for Board structures, procedures and processes; which assists the Board in regulating how it conducts its business.

## THE BOARD

### Composition

The composition of the Board of the Botswana Power Corporation is established in terms of Section 4 of the Botswana Power Act. 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 nine non-executive members, including the Board Chairman.

The current Botswana Power Corporation board structure ascertains that the Board maintains a high level of objectivity and independence in Board deliberations and resolutions.

Conforming to the commands of the King III Code of Governance, 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 Botswana Power Corporation Board members are experts in various fields including; Engineering, Project Management, and Finance, a variety which ensures that the strategic direction provided by the Board to the Corporation is diverse, well-informed, vigorous and sound.

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

- Corporate Governance Training for the Board.
- 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.

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

Board Member	Board	Board Finance & Investment Committee	Board Procurement & Tender Committee	Board Human Resources Committee	Board Security of Supply Committee	Board transformation & Strategy	Board Audit & Risk Committee
Mr. Sebetlela O. Sebetlela	Chairman						
Mr. Bonny Thebenyane	Vice-Chairman	Member		Member			
Mrs. Mmametsi Setlhare	Member			Member		Member	Chairperson
Prof. Baakile Motshegwa	Member		Member	Chairperson		Chairperson	
Ms. Keineetse P. Lepekoane	Member	Member	Member				
Mr. Keith Blanchard	Member		Member		Chairperson	Member	
Mr. Bernard Kenosi	Member		Chairperson		Member	Member	
Mrs. Tebelelo Pule	Member	Chairperson				Member	Member
Dr. Obolokile Obakeng					Member		Member

There have been no resignations and no new appointments during this period.



Corporate Governance Continued  
**The Board Continued**

## Board Meetings

The Board meets at least four times annually to discuss matters relating to, amongst other things; Strategy and Performance, Financial Position of the Corporation, Risk Management, Human Resource matters, Sustainability and Governance. Members contribute to strategy formulation as well as monitoring and measuring the Corporation's performance and that of 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 six sub committees to assist the Board to carry out its oversight role.

The current Botswana Power Corporation board structure ascertains that the Board maintains a high level of objectivity and independence in Board deliberations and resolutions.



Mrs. Tebelelo Pule

### Chairman Board Finance and Investment Committee

The purpose of the Board Finance and Investment Committee is to assist the Board's oversight on the Corporation's financial plans and budget management. This Committee also considers and advises the Board on all Finance matters such as cash management and borrowing, investments, foreign exchange and interest risk management.



Mr. Bernard Kenosi

### Chairman 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 bears the responsibility to monitor compliance to BPC Tender Regulations, maintain the Tender Regulations in an up-to-date status according to international standards and best practice, as well as monitor progress on the implementation of approved tenders and related projects.



Prof. Baakile Motshegwa

### Chairman 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.



Corporate Governance Continued  
The Board Continued



Mr. Keith Blanchard

**Chairman Board Security of Supply Committee**

The Board Security of Supply Committee's main responsibility is to assist in 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.



Mrs. Mmametsi Setlhare

**Chairman Board Audit and Risk Committee**

The Board Audit and Risk Committee assists the Board in oversight of;

- The integrity of the Corporation's financial statements, systems and and/or records;
- Effective risk management and internal control systems;
- The Corporation's compliance with legal and regulatory requirements;
- The annual independent audit process including engagement of the external auditor and receiving all reports and Management letter from the Auditor; and
- The performance of the Corporation's Internal Audit Corporate Support Unit.



Prof. Baakile Motshegwa

**Chairman Board Transformation & Strategy Committee**

The mandate of the Board Transformation & Strategy Committee (BTSC) is to oversee the Botswana Power Corporation's Transformation Turnaround Strategy by ensuring that business continuity is maintained through transformation and strategy. The Committee makes recommendations to the Board on matters pertaining to its mandate, duties and responsibilities to obtain the necessary approvals.

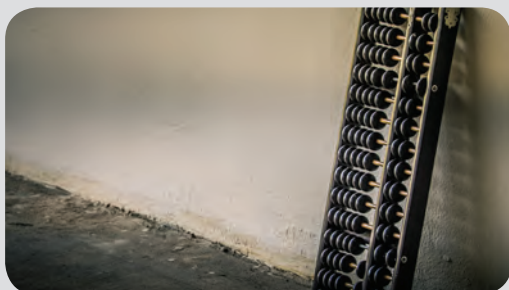
**Board of Directors' Declaration of Interest**

Board members of Botswana Power Corporation 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.





# Financial Statements

For the year ended 31st March 2016

40	General Information
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44	Statement of Financial Position
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49	Summary of Significant Accounting Policies
57	Notes to the Financial Statements



## GENERAL INFORMATION

<b>Members of the Board</b>	S Sebetlela	(Chairman)
	K P Lepekoane	
	M Setlhare	
	B Motshegwa	
	K Blanchard	
	B Kenosi	
	B Thebenyane	
	T Pule	
	Dr O Obakeng	
<b>Executive Management</b>	N J Raleru	Chief Executive Officer
	E Rugoyi	Director - Generation
	N Mothebe	Director - Transmission
	G Molefe	Director - Customer Service and Supply
	T Ndzinge	Acting Director - Corporate Services
	R Mgadla	Chief Financial Officer
	D Matong	Acting General Manager - Human Resources ( Ended on 8 August 2016)
	K Chiusiwa	General Manager - Human Resources ( Appointed 9 August 2016)
	G Ngele	General Manager - Internal Audit (Resigned on 29 January 2016)
	I Moalafi	Acting General Manager - Internal Audit (Appointed on 1 February 2016)
	D Makepe	General Corporate Counsel/Board Secretary (Resigned on 30 June 2016)
	N L Otsogile	Acting General Corporate Counsel/Board Secretary (Appointed on 1 July 2016)
<b>Nature of Business</b>	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).	
<b>Registered Office</b>	Motlakase House, Macheng Way, P O Box 48, Gaborone, Botswana	
<b>Auditors</b>	Deloitte & Touche P O Box 778 Gaborone, Botswana	
<b>Bankers</b>	Barclays Bank of Botswana Limited	
	Standard Chartered Bank Botswana Limited	
	First National Bank of Botswana Limited	
	First National Bank Limited (South Africa)	
	Stanbic Bank Botswana Limited	
<b>Attorneys</b>	Armstrongs, P O Box 1368, Gaborone, Botswana	
	Minchin and Kelly, P O Box 1339, Gaborone, Botswana	
	Collins Newman & Co, P O Box 882, Gaborone, Botswana	



## DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF FINANCIAL STATEMENTS

31 March 2016

### Directors' responsibility statement

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 2016, 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") and in the manner required by the Botswana Power Corporation Act (Cap 74:01).

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 and 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 directors are responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and in the manner required by the Botswana Power Corporation Act (Cap 74:01) 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 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 auditing and reporting on the Corporation's financial statements and their report is presented on page 42.

### 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 in the next twelve months. See note 41.

### Directors' approval of the financial statements

The financial statements set out on pages 39 to 82, which have been prepared on the going concern basis, were approved by the board on 20 September 2016 and were signed on its behalf by:



Board Chairman



Audit Committee Chairman



# 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 accompanying financial statements of Botswana Power Corporation set out on pages 43 to 82, which comprise the statement of financial position as at 31 March 2016, 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.

## 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 in the manner required by the Botswana Power Corporation Act (Cap 74:01), 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 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Botswana Power Corporation Act (Cap 74:01).

## Emphasis of Matters

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

## Remediation of Morupule B Power Station

As indicated in Note 39, the Morupule B Power Station has not operated to full capacity since commissioning. A root cause and gap analysis were subsequently performed by the Corporation on the Morupule B Power Station and the contractor has committed to remediate the defects at no cost to the Corporation and to the specified standards. The works are anticipated to be completed over a period of four years. The impairment assessment performed has been based on the fair value method assuming all defects will

be satisfactorily repaired and within the planned timelines. The impairment assessment also assumes the continued and escalated subsidy by the Government of the Republic of Botswana.

## Going Concern

The Corporation incurred a loss of P2,420,973,000 (2015: P2,601,705,000) before taking into account the tariff subsidy grant received from the Government of the Republic of Botswana of P2,321,360,000 (2015: P2,326,800,000). In addition, as at 31 March 2016 the Corporation's current liabilities exceed its current assets by P3,015,717,000 (2015: P2,699,621,000). 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 and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. As indicated in Note 41 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 37.3, the Corporation has exposure to certain significant contingent liabilities:

- There are a number of quantified and unquantified claims against the Corporation by a contractor. The Corporation's Board and Management believe there are counter claims against the contractor that will exceed the claims against the Corporation as disclosed in Note 37.3. The above claims matters will be negotiated once the Amendment Agreement has been satisfactorily fulfilled at which stage the claims will be quantified.

## 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; and
- 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 40 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 P1,993,881,000 for the year (2015: P1,986,093,000) before the tariff subsidy of P2,321,360,000 (2015: P2,326,800,000).

*Deloitte + Touche*

Deloitte & Touche  
Certified Auditors

Practicing Member  
P Naik (19900296)

Gaborone  
20 September 2016

**Deloitte**



## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	Notes	2016 P'000	2015 P'000
Revenue	1	2,857,161	2,533,578
Other operating income	2	103,544	79,261
<b>TOTAL OPERATING INCOME</b>		<b>2,960,705</b>	<b>2,612,839</b>
Generation, transmission and distribution expenses	3	(4,405,349)	(4,218,663)
Administration and other expenses	4	(549,237)	(380,269)
<b>TOTAL OPERATING EXPENSES</b>		<b>(4,954,586)</b>	<b>(4,598,932)</b>
<b>OPERATING LOSS BEFORE TARIFF SUBSIDY GRANT</b>	5	<b>(1,993,881)</b>	<b>(1,986,093)</b>
Tariff subsidy and emergency power grant	7	2,321,360	2,326,800
<b>OPERATING PROFIT AFTER TARIFF SUBSIDY GRANT</b>		<b>327,479</b>	<b>340,707</b>
Interest income	8	20,069	20,594
Finance costs	9.1	(191,291)	(170,817)
Net exchange losses	9.2	(669,839)	(863,691)
Fair value gain on cross currency and interest rate swap	10	413,969	398,302
<b>LOSS FOR THE YEAR</b>		<b>(99,613)</b>	<b>(274,905)</b>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(99,613)</b>	<b>(274,905)</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 2016

	Notes	2016 P'000	2015 P'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	15,238,963	14,668,529
Future coal supplies	12	60,092	80,123
Investments held-to-maturity	14	33,425	31,409
Consumer loans - hire purchase scheme	15	2,129	3,388
Other financial assets	32	1,399,420	807,890
		<b>16,734,029</b>	<b>15,591,339</b>
<b>Current assets</b>			
Future coal supplies	12	20,031	20,031
Standard cost recovery - NESC	18	320,142	229,783
Investments held-to-maturity	14	121,726	46,778
Consumer loans - hire purchase scheme	15	2,128	5,443
Consumer loans - NESC	19	37,108	32,241
Inventories	20	293,278	288,398
Trade and other receivables	21	684,389	565,869
Bank balances and cash		209,578	235,606
		<b>1,688,380</b>	<b>1,424,149</b>
<b>TOTAL ASSETS</b>		<b>18,422,409</b>	<b>17,015,488</b>
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves			
Irredeemable capital	22	4,708,325	4,124,687
Revaluation reserve	23	3,196,654	3,196,654
Other reserves	24	1,803,087	1,803,087
Accumulated loss		(4,677,083)	(4,577,470)
		<b>5,030,983</b>	<b>4,546,958</b>

## STATEMENT OF FINANCIAL POSITION

(Continued)  
As at 31 March 2016

	Notes	2016 P'000	2015 P'000
<b>Non-current liabilities</b>			
Government grants and advances	25	31	181
Deferred income - consumer financed projects	26	2,155,882	1,962,856
Borrowings	27	6,454,657	6,311,136
Consumer deposits	28	76,759	70,587
		<b>8,687,329</b>	<b>8,344,760</b>
<b>Current liabilities</b>			
Bank overdraft	36.8.2	15,572	38,382
Consumer loans - rural collective scheme	16	72,087	66,048
Standard cost recovery	17	88,680	88,680
Government grants and advances	25	75,027	341,046
Borrowings	27	499,077	432,270
Consumer deposits refunds	28	6,100	8,371
Trade and other payables	29	2,621,438	2,222,854
Advances - consumer financed projects	30	1,189,318	903,226
Provisions	31	136,798	22,893
		<b>4,704,097</b>	<b>4,123,770</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>18,422,409</b>	<b>17,015,488</b>



## STATEMENT OF CHANGE IN EQUITY

For the year ended 31 March 2016

		Irredeemable capital P'000	Revaluation reserve P'000	Other reserves P'000	Accumulated losses P'000	Total P'000
	Notes					
<b>Balance as at 1 April 2014</b>		<b>4,061,711</b>	<b>3,196,654</b>	<b>1,803,087</b>	<b>(4,302,565)</b>	<b>4,758,887</b>
Comprehensive loss for the year		-	-	-	(274,905)	(274,905)
Irredeemable capital contribution	22	62,976	-	-	-	62,976
<b>Balance at 31 March 2015</b>		<b>4,124,687</b>	<b>3,196,654</b>	<b>1,803,087</b>	<b>(4,577,470)</b>	<b>4,546,958</b>
Comprehensive loss for the year		-	-	-	(99,613)	(99,613)
Irredeemable capital contribution	22	583,638	-	-	-	583,638
<b>Balance at 31 March 2016</b>		<b>4,708,325</b>	<b>3,196,654</b>	<b>1,803,087</b>	<b>(4,677,083)</b>	<b>5,030,983</b>

## STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

	Notes	2016 P'000	2015 P'000
<b>CASH FLOWS USED IN OPERATING ACTIVITIES:</b>			
Cash used in operations	34	(946,309)	(1,514,260)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES:</b>			
Interest received		20,069	20,594
Purchase of property, plant and equipment	11	(1,052,189)	(358,218)
Proceeds from disposal of property, plant and equipment		1,414	-
<b>Net cash used in investing activities</b>		<b>(1,030,706)</b>	<b>(337,624)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repayment of borrowings		(486,293)	(412,865)
Proceeds of borrowings		59,387	-
Interest paid		(191,291)	(170,817)
Decrease in consumer loans - hire purchase scheme		4,574	11,035
Decrease in consumer loans - rural collective scheme		6,039	5,898
Increase in consumer deposits		3,901	962
Increase in standard cost recovery		-	603
Increase in deferred income - consumer financed projects		193,026	121,676
Decrease in investments held-to-maturity		(2,016)	(4,217)
Net settlements on other financial assets		(177,561)	(332,076)
(Decrease)/increase in Government grants and advances		(266,019)	301,663
Tariff subsidy grant received	7	2,321,360	2,326,800
Irredeemable capital contribution from the Government	22	583,638	62,976
<b>Net cash generated from financing activities</b>		<b>2,048,745</b>	<b>1,911,638</b>
<b>Net increase in cash and cash equivalents</b>		<b>71,730</b>	<b>59,754</b>
Cash and cash equivalents at beginning of the year		244,002	184,248
<b>Cash and cash equivalents at end of the year</b>		<b>315,732</b>	<b>244,002</b>
<b>Cash and cash equivalents comprise:</b>			
Investments held-to-maturity		121,726	46,778
Bank balances and cash		209,578	235,606
Bank overdraft		(15,572)	(38,382)
		<b>315,732</b>	<b>244,002</b>







## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

31 March 2016

### STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Botswana Power Corporation Act (Cap 74:01).

### 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*

In the current year, the entity has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual periods beginning on or after 1 April 2015. Adoption of these standards and interpretations have not had any impact significant on the financial statements of the Corporation.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (effective annual periods beginning on or after 1 July 2014).

Annual Improvements 2010-2012 Cycle (effective annual periods beginning on or after 1 July 2014) Makes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, and IAS 16, IAS 24 and IAS 38.

Annual Improvements 2011-2013 Cycle (effective annual periods beginning on or after 1 July 2014) Makes amendments to IFRS 1, IFRS 3 and IFRS 13 and IAS 40.

#### *Standards in issue but not yet effective*

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

#### *'IFRS 9 Financial Instruments: classification and measurement (effective annual periods beginning on or after 1 January 2018)*

'Amendment relates to classification and measurement requirements for financial instruments based on a combined business model and contractual cash flow test. Entities may recognise changes in their own credit risk for fair valued financial liabilities in Other Comprehensive Income. Impairment methodology is now based on expected credit losses rather than incurred credit losses.

#### *'IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) (effective annual periods beginning on or after 1 January 2018)*

'Introduces a new chapter to IFRS 9 on hedge accounting, putting in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

#### *IFRS 9 Financial Instruments (2014) (effective annual periods beginning on or after 1 January 2018)*

'A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The key impact of IFRS 9 will be to require that financial assets be classified into two measurement categories: fair value and amortised cost.

#### **Standards in issue but not yet effective**

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

#### *'IFRS 14 Regulatory Deferral Accounts (effective annual periods beginning on or after 1 January 2016)*

'IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities.

#### *IFRS 15 Revenue from Contracts with Customers (effective annual periods beginning on or after 1 January 2018)*

'IFRS 15 provides a new model for the recognition and measurement of all revenue arising from contracts with customers. In principle, an entity will be required to recognise revenue amounts that reflect consideration an entity is entitled to in exchange for transferring goods or services to a customer.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) (effective annual periods  
Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business.

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (effective annual periods beginning on or after 1 January 2016)

'Clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate.

Equity Method in Separate Financial Statements (Amendments to IAS 27) (effective annual periods beginning on or after 1 January 2016)



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)  
31 March 2016

### STANDARDS IN ISSUE BUT NOT YET EFFECTIVE (Continued)

*'Amends IAS 27 Separate Financial Statements to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.*

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (effective annual periods beginning on or after 1 January 2016)

*'Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture.*

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the consolidation exception (effective annual period beginning on or after 1 January 2016)*

The amendment clarifies the exemption from preparing consolidated financial statements and is only available to a parent entity that is a subsidiary of an investment entity.

*'Annual Improvements 2012-2014 Cycle (effective annual periods beginning on or after 1 July 2016)*

*'Makes amendments to IFRS 5, IFRS 7, IAS 9 and IAS 34.*

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

### 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. The Corporation's land and buildings and generation transmission and distribution assets are revalued at five year intervals.

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 method 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 on 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 freehold 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.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)  
31 March 2016

### IMPAIRMENT OF INTANGIBLE ASSETS

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.

### 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 ("NRV"). 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.

The Corporation reviews the net realisable value of inventory on a periodic basis in order to determine whether inventory is being held in the books at the lower of its cost and NRV. A provision for obsolete inventory is processed to write down inventory to NRV, where there are indications that the cost is more than the NRV.

### 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 contact 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.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

### 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. Emergency power generation costs are accounted for as part of normal power purchases or power generation costs.

### 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 AND EMERGENCY POWER GRANT

Tariff subsidy and emergency power grant comprise amounts received from the Government in respect of subsidies on electricity tariffs emergency power and generation costs. These are recognised in the income statement in the period to which they relate. The receipts from Government are amortised to profit or loss to match the operating expenses.

### 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 Corporation's 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.

### 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 parties:

- (a) directly, or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, the entity;
  - has an interest in the entity that gives it significant influence over the entity; or
- (b) that 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 timeframe 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.

#### 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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

31 March 2016

**FINANCIAL INSTRUMENTS (Continued)**

**EFFECTIVE INTEREST METHOD (Continued)**

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 36.9. 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 counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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,



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

31 March 2016

### financial instruments (continued)

#### Derecognition of Financial Assets (Continued)

the Corporation recognises its retained interest 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; or
- 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; or
- 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; or
- 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; or

- 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 36.9.

#### 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. 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 10 and 32.

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 is recognised on completion of such projects and is amortised to the profit or loss over the useful life of the related item of property, plant and equipment on a straight line basis.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)  
31 March 2016

### 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 not utilised 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 was 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 for account consumers. Invoicing is done monthly on an accrual basis. The Corporation also 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 in the current buying patterns. 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 materials;
- 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; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### CRITICAL JUDGEMENTS 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 in the current buying patterns.

#### *Held-to-maturity financial assets*

The directors have reviewed the Corporation's held-to-maturity financial assets in the 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 P33,425,000 (2015: P31,409,000). Details of these assets are set out in note 14.

### 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.



## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

31 March 2016

### KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

As described at above, the Corporation reviews the estimated useful lives of property, plant and equipment and residual values 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; and
- 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 on the degree to which the inputs to the fair value measurements are observable and 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); and
- 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. In 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 10,32 and 36.9.1.

The estimation of fair value of below market rate of interest government loans includes some assumptions based on current market conditions. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 36.9.

#### *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.

#### *Provision for obsolete inventory*

The Corporation reviews the net realisable value ("NRV") of inventory on a periodic basis in order to determine whether inventory is being held in the books at the lower of its cost and NRV.

# NOTES TO THE FINANCIAL STATEMENTS

31 March 2016

		2016 P'000	2015 P'000
<b>1</b>	<b>REVENUE</b>		
	Sale of electricity:		
	Mining	760,536	690,787
	Commercial	991,403	831,379
	Domestic	675,586	640,876
	Government	424,005	361,595
		<b>2,851,530</b>	<b>2,524,637</b>
	Interest earned on consumer loans	4,976	7,004
	Reconnection charges	655	1,937
		<b>2,857,161</b>	<b>2,533,578</b>
<b>2</b>	<b>OTHER OPERATING INCOME</b>		
	Profit on sale of materials	17,239	18,220
	Penalties and late payment fees	13,515	29,754
	Rent receivable	5,000	3,721
	Wheeling revenue	6,993	5,110
	Consumer finance projects recoveries	25,291	15,627
	Day Ahead Market (DAM) Sales	19,728	4,676
	Other sundry income	14,668	2,175
	Profit/(loss) on disposal of property, plant and equipment	1,110	(22)
		<b>103,544</b>	<b>79,261</b>
<b>3</b>	<b>GENERATION, TRANSMISSION AND DISTRIBUTION EXPENSES</b>		
	Fuel, water and chemicals	982,665	1,090,779
	Power purchases	1,963,861	1,941,104
	Maintenance		
	Generation	602,739	418,182
	Transmission, Distribution	93,033	56,578
	Amortisation of deferred income - Other	(61,814)	(54,720)
	Staff costs		
	Generation	130,497	105,186
	Transmission, Distribution	256,648	239,300
	Depreciation		
	Generation	223,191	219,640
	Transmission, Distribution	201,140	195,993
	Other expenses		
	Generation	9,197	4,696
	Transmission, Distribution	4,192	1,925
		<b>4,405,349</b>	<b>4,218,663</b>



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

	2016 P'000	2015 P'000
<b>4 ADMINISTRATION AND OTHER EXPENSES</b>		
Staff costs	111,509	114,910
Depreciation of items of property, plant and equipment	19,129	17,497
Auditor's remuneration	2,148	1,288
Board members fees	624	426
Provision for bad debts	127,144	22,531
Insurance expenses	34,858	41,051
Postage and telecommunications costs	13,337	13,013
Printing and stationery	2,891	3,707
Rental expense	3,761	4,830
Fuels and lubricants	13,480	16,137
Input VAT disallowed	-	17,188
Customs duty, freight charges and price variance	2,972	(2,282)
Travel and accommodation costs	9,338	7,079
Advertising	2,261	2,096
Commission costs	37,238	39,132
Security costs	22,310	26,317
Litigation claims	12,159	2,366
Bank charges	3,377	3,702
Consultancy fees	14,948	11,411
Office cleaning costs	16,365	8,024
Repairs and maintenance	33,190	14,303
Provision for early exit packages	-	-
Other sundry expenses	16,198	15,543
	<b>549,237</b>	<b>380,269</b>
<b>5 OPERATING LOSS BEFORE TARIFF SUBSIDY GRANT</b>		
Operating loss before tariff subsidy grant is arrived at after charging/(crediting) the following items;		
Depreciation of items of property, plant and equipment	443,460	433,130
(Profit)/loss on disposal of property, plant and equipment	(1,110)	22
Write-off of capital work in progress	37,991	-
Repairs and maintenance of property, plant and equipment	33,190	14,303
Sale of materials	(138,409)	(151,679)
Cost of materials sold	121,170	133,459
Operating lease charges - property rentals	3,761	4,830

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

	2016 P'000	2015 P'000
<b>6 STAFF COSTS</b>		
Salaries and wages	447,954	411,233
Gratuities	6,271	8,637
Pension contributions	43,995	39,478
Medical retirement packages	434	48
	<b>498,654</b>	<b>459,396</b>
Staffs costs are included in generation, transmission and distribution and administration expenses are reconciled below:		
Staff costs - Generation	130,497	105,186
Staff costs - Transmission, Distribution	256,648	239,300
Staff costs - Administration	111,509	114,910
	<b>498,654</b>	<b>459,396</b>
<b>7 TARIFF SUBSIDY GRANT</b>	<b>2,321,360</b>	<b>2,326,800</b>
The Corporation's end user tariffs are lower than the generation cost per unit. Based on the Corporation's long term financial strategy that informs both the required tariff levels and operational subsidy in the medium to long term the Government of the Republic of Botswana approved an average tariff adjustment of 13.96% for the year ended 31 March 2016, and paid a grant of P2,321,360,000 (2015:P2,326,800) to partially offset the operating losses.		
<b>8 INTEREST INCOME</b>		
Bank balances on call and investments held-to-maturity	<b>20,069</b>	<b>20,594</b>
<b>9 FINANCE COSTS</b>		
Interest losses on borrowings	<b>191,291</b>	<b>170,817</b>
The interest costs incurred on the Industrial and Commercial Bank of China (ICBC) loan disclosed per Note 27.		
<b>9 NET EXCHANGE LOSSES</b>		
Exchange losses on borrowings	637,234	851,831
Other exchange losses	32,605	11,860
	<b>669,839</b>	<b>863,691</b>



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

	2016 P'000	2015 P'000
<b>10 FAIR VALUE GAIN ON CROSS CURRENCY AND INTEREST RATE SWAP</b>		
Realised fair value loss on cross currency and interest rate swap	(177,561)	(332,076)
Received from Standard Bank Plc.	685,442	582,889
Payments to Standard Bank Plc.	(863,003)	(914,965)
Unrealised fair value gain on the cross currency and interest rate swap	591,530	730,378
	413,969	398,302

As detailed in Note 32, 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 entered into a pay fixed interest rate 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% (2015:10.8%) 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 P1,399,420,000 (2015: P807,890,000). See Note 32.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

11	PROPERTY, PLANT AND EQUIPMENT	Land & Buildings P'000	Generation, Transmission & Distribution P'000	Other P'000	Capital Work in Progress P'000	Total P'000
	<b>2016 Carrying Amount</b>					
	Balance at beginning of year	533,104	13,970,943	55,944	108,538	14,668,529
	Additions	90,222	268,545	53,531	639,891	1,052,189
	Disposals cost	-	-	(8,482)	-	(8,482)
	Transfers	-	26,631	(496)	(26,135)	-
	Write off of capital work in progress	-	-	-	(37,991)	(37,991)
	Accumulated depreciation eliminated on disposals	-	-	8,178	-	8,178
	Depreciation	(4,152)	(424,331)	(14,977)	-	(443,460)
	Balance at end of year	<b>619,174</b>	<b>13,841,788</b>	<b>93,698</b>	<b>684,303</b>	<b>15,238,963</b>
	<b>At 31 March 2016</b>					
	Cost or valuation	630,813	20,612,814	416,381	684,303	22,344,311
	Accumulated depreciation and impairment	(11,639)	(6,771,026)	(322,683)	-	(7,105,348)
	Carrying amount	<b>619,174</b>	<b>13,841,788</b>	<b>93,698</b>	<b>684,303</b>	<b>15,238,963</b>
	<b>2015 Carrying Amount</b>					
	Balance at beginning of year	536,620	12,846,992	42,185	1,340,767	14,766,564
	Additions	228	246,026	26,627	85,337	358,218
	Disposals cost	-	-	(1,285)	-	(1,285)
	Transfers	-	1,293,558	907	(1,294,465)	-
	Write off of capital work in progress	-	-	-	(23,101)	(23,101)
	Accumulated depreciation eliminated on disposals	-	-	1,263	-	1,263
	Depreciation	(3,744)	(415,633)	(13,753)	-	(433,130)
	Balance at end of year	<b>533,104</b>	<b>13,970,943</b>	<b>55,944</b>	<b>108,538</b>	<b>14,668,529</b>
	<b>At 31 March 2015</b>					
	Cost or valuation	540,591	20,317,638	371,828	108,538	21,338,595
	Accumulated depreciation and impairment	(7,487)	(6,346,695)	(315,884)	-	(6,670,066)
	Carrying amount	<b>533,104</b>	<b>13,970,943</b>	<b>55,944</b>	<b>108,538</b>	<b>14,668,529</b>



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31 March 2016

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 market comparable approach which reflects recent transaction prices for similar properties. Since the comparable property sales are not identical to the subject property, adjustments maybe made for the date of sale, location style, amenities, square meters and site size.

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. The significant inputs include estimated construction costs and other ancillary expenditure and a depreciation factor applied to the estimated construction cost. A slight increase in the depreciation factor would result in a significant decrease in the fair value of the buildings, generation, transmission and distribution assets, and a slight increase in the estimated construction costs would result in a significant increase in the fair value of the buildings, generation, transmission and distribution assets, and vice versa.

There has been no change to the valuation technique during the year.

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 2016 is as follows:

	Level 1	Level 2	Level 3	Total
	P'000	P'000	P'000	fair value P'000
Land and buildings	-	-	619,174	619,174
Generation transmission and distribution assets	-	-	13,841,788	13,841,788

There were no transfers between levels during theyear.

The Corporation does not have any property, plant and equipment pledged as security for borrowings.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

	2016 P'000	2015 P'000
<b>12 FUTURE COAL SUPPLIES</b>		
Balance at beginning of year	100,154	116,044
Adjustment due to finalisation of expansion costs	-	4,141
Amortisation during the year	(20,031)	(20,031)
Balance at end of year	80,123	100,154
Comprising of:		
Current portion	20,031	20,031
Non-current portion	60,092	80,123
	80,123	100,154

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 and fixed charges are payable to the supplier irrespective of the quantity of coal off take by the Corporation. During the period June 2011 to December 2011 the Corporation did not take up any coal due to construction delays experienced at the Morupule B Power Station. Capital and fixed charge payments for this period amounting to P182,985,000 were made and deferred in the statement of financial position as future coal supplies. These costs are being 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.

### 13 INVESTMENT IN SUBSIDIARY

BPC Lesedi (Proprietary) Limited	5,500	5,500
Less: Provision for impairment	(5,500)	(5,500)
Net investment	-	-

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 2016 (2015: P5.5 million). In consultation with other stakeholders, the Shareholders were yet to conclude on the voluntary liquidation process during the current year. 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.

### 14 INVESTMENTS HELD-TO-MATURITY

Deposits with local banks	121,726	46,778
Deposits with foreign banks	33,425	31,409
	155,151	78,187
Current portion	(121,726)	(46,778)
Long-term portion	33,425	31,409



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

	2016	2015
	P'000	P'000

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 2.5% to 4% (2015: 3.5% to 7%). These fixed deposits are invested for periods ranging from 7 to 91 days (2015: 7 to 91 days).

The long term portion of 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 27.

The deposits denominated in foreign currency are as follows:

US dollar (\$000)	3,065	3,150
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### 15 CONSUMER LOANS - HIRE PURCHASE SCHEME

Hire purchase scheme	99,792	98,398
Less short-term portion	(2,128)	(5,443)
Less provision for doubtful debts	(95,535)	(89,567)
Long-term portion	<b>2,129</b>	<b>3,388</b>
Hire purchase short-term portion	2,128	5,443
Less provision for doubtful debts	-	-
Short-term portion	<b>2,128</b>	<b>5,443</b>
<b>Total</b>	<b>4,257</b>	<b>8,831</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 7.5% (2015:8%).

#### Movement in the provision for doubtful hire purchase scheme receivable

Balance at beginning of year	89,567	78,564
Current year provision	5,968	11,003
Balance at end of year	<b>95,535</b>	<b>89,567</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31 March 2016

	2016	2015
	P'000	P'000

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 (2015: PNil).

### 16 CONSUMER LOANS - RURAL COLLECTIVE SCHEME

Long term Rural Collective Scheme consumer loans	100,137	100,137
Less advance from Government	(100,137)	(100,137)
Long-term portion	-	-
Short term Rural Collective Scheme consumer loans	31,611	37,650
Less advance from Government	(103,698)	(103,698)
Short-term portion	(72,087)	(66,048)
Total Government Revolving Fund	(72,087)	(66,048)

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 7.5% (2015:8%).

### 17 STANDARD COST RECOVERY

Total standard cost	(88,680)	(88,680)
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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 were 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 a government revolving fund. The Standard cost recovery scheme has now been replaced by NESC as disclosed under note 18 and 19.

### 18 STANDARD COST RECOVERY - NESC

Refunds due from the National Electrification Standard Connection Cost Fund	320,142	229,783
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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 (5thebe) levied to customers for every kWh billed.



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

	2016 P'000	2015 P'000
<b>19 CONSUMER LOANS - NESC</b>		
Consumer loans - NESC	90,438	84,051
Less provision for bad debts	(53,330)	(51,810)
	<b>37,108</b>	<b>32,241</b>

This balance comprises amounts owing from customers for their contribution under the NESC Scheme referred to in Note 18. 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 7.5% (2015:8%).

### Movement in provision for doubtful debts for consumer loans NESC

Balance at beginning of year	51,810	39,147
Current year provision	1,520	12,663
Balance at end of year	<b>53,330</b>	<b>51,810</b>

## 20 INVENTORIES

Coal and fuel	200,672	164,808
Maintenance spares and materials	92,606	123,590
Cost	131,039	155,304
Allowance for obsolete stock	(38,433)	(31,714)
	<b>293,278</b>	<b>288,398</b>

The cost of inventories recognised as an expense during the year was P121,170,000 (2015: P133,459,000).

The cost of inventories recognised as an expense includes P6,719,000 (2015: P1,745,000) in respect of write-downs of inventory to net realisable value.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31 March 2016

	2016 P'000	2015 P'000
<b>21 TRADE AND OTHER RECEIVABLES</b>		
Electricity sales receivables:	355,846	206,272
Mining	289,634	83,901
Commercial	204,578	177,961
Domestic	36,180	40,715
Government	104,753	54,204
Impairment of trade receivables	(279,299)	(150,509)
Small works contractors receivables:	31,267	42,564
Gross receivables from small works contractors	41,801	53,402
Impairment of small works contractors	(10,534)	(10,838)
VAT receivable	77,157	89,051
Contractor receivables	-	47,720
Coal rebate receivable	180,465	139,988
Other receivables	7,927	13,811
Prepayments	31,727	26,463
	<b>684,389</b>	<b>565,869</b>

The average credit period on sale of electricity is 88 days (2015: 54 days). 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.

The Corporation holds bank guarantees as security against certain of these receivables to the value of P22,298,000 (2015: P20,371,000). 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.



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31 March 2016

### TRADE AND OTHER RECEIVABLES (Continued)

	2016 P'000	2015 P'000	2016 P'000	2015 P'000
Movement in the impairment of receivables				
Balance at beginning of year	10,838	20,736	150,509	162,068
Current year (reversal)/provision	(304)	(9,898)	128,790	(11,559)
Balance at end year	10,534	10,838	279,299	150,509

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.

The directors deem the fair value of the trade and other receivables to approximate their carrying amounts.

	Small works contractors		Trade receivables	
<b>Age of receivables that are past due but not impaired</b>				
91 - 180 days	1,045	3,721	142,241	1,234
181 - 365days	2,011	799	-	-
>365 days	2,743	1,013	-	-
Total	5,799	5,533	142,241	1,234

#### Age of impaired receivables

91 - 180 days	2,130	3,635	101,344	48,551
181 - 365days	8,404	426	119,974	29,045
>365 days	-	6,777	57,981	72,913
Total	10,534	10,838	279,299	150,509

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

	2016 P'000	2015 P'000
<b>22 IRREDEEMABLE CAPITAL</b>		
Balance at beginning of year	4,124,687	4,061,711
Contribution received during the year	583,638	62,976
Government of Botswana Funding Morupule B	100,000	37,193
Government of Botswana Funding Rakola and Northwest Transmission projects	385,000	-
Government of Botswana Funding Morupule A	90,000	-
Government of Botswana via funds borrowed from International Bank for Reconstruction and Development of the World Bank Group ("IBRD") - Morupule B Funding (Refer below)	-	13,892
Government of Botswana via funds borrowed from African Development	-	11,891
Bank - Morupule B Funding	-	-
Village electrification and network extension	8,638	-
Balance at end of year	<b>4,708,325</b>	<b>4,124,687</b>

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.

No funds were received during the year 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 as shown below:

### Government of Botswana Funding through IBRD - World Bank Advances

Balance at beginning of year	-	37,108
Unutilised amount refunded to IBRD	-	(26,886)
Utilised during the year and capitalised to equity	-	(10,222)
Balance at the end of the year (Note 25)	-	-

The loan agreement entered between Government of Botswana and the IBRD was officially terminated in the prior year, and the unutilised balance on the designated account was remitted to the bank. As per the agreement, these funds were utilised for Morupule Generation Expansion, Alternative Energy Development and Institutional and Capacity Building.

	2016 EU'000	2015 EU'000	2016 EU'000	2015 EU'000
<b>Government of Botswana Funding through African Development Bank funds</b>				
Balance at beginning of year	-	-	-	-
Funds received during the year	-	1,106	-	11,891
Utilised during the year	-	1,106	-	(11,891)
Balance at the end of the year	-	-	-	-



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31 March 2016

### IRREDEEMABLE CAPITAL (Continued)

	2016	2015
	P'000	P'000

Disbursements under the African Development Bank Loan Agreement are effected under the direct payment method under which suppliers are paid directly by the bank. This loan was officially terminated during the year.

#### 23 REVALUATION RESERVE

Balance at beginning of year and end of year

3,196,654	1,803,087
-----------	-----------

The properties revaluation reserve arises on the revaluation of land and buildings, generation, transmission and distribution plant and equipment.

#### 24 OTHER RESERVES

Balance at beginning and end of year

1,803,087	1,803,087
-----------	-----------

The purpose of this reserve is to complement the funding requirements for capital expenditure for the Corporation's expansion program.

#### 25 GOVERNMENT GRANTS AND ADVANCES

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

31	181
----	-----

Advances in respect of North West and Rakola Transmission Project

75,027	341,046
--------	---------

75,058	341,227
--------	---------

Less short term portion

(75,027)	(341,046)
----------	-----------

31	181
----	-----

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.

The Government finances several projects 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.

#### 26 DEFERRED INCOME - CONSUMER FINANCED PROJECTS

Deferred income - consumer financed projects

Balance at beginning of the year

1,962,856	1,841,181
-----------	-----------

Additions

254,840	176,395
---------	---------

Amortisation

(61,814)	(54,720)
----------	----------

Balance at the end of the year

2,155,882	1,962,856
-----------	-----------

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

## NOTES TO THE FINANCIAL STATEMENTS

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31 March 2016

		Current		Non Current	
		2016	2015	2016	2015
		P'000	P'000	P'000	P'000
<b>27</b>	<b>BORROWINGS</b>				
	<b>Borrowings at amortised cost</b>				
Government of the Republic of Botswana (funded by Japanese Overseas Economic Cooperation Fund)					
		884	1,631	-	883
- Loan Balance					
		915	1,780	-	915
- Fair value adjustments transferred to Government grant					
		(31)	(149)	-	(32)
Government of the Republic of Botswana (funded by Nordic Development Fund)					
		2,487	2,163	37,304	34,615
Industrial and Commercial Bank of China					
		495,706	428,476	6,417,354	6,275,638
		<b>499,077</b>	<b>432,270</b>	<b>6,454,657</b>	<b>6,311,136</b>
Government of Republic of Botswana		<b>Security</b>	<b>Interest Rate</b>	<b>Interest Rate</b>	
Government of Republic of Botswana			<b>per annum</b>	<b>per annum</b>	
(funded by Japanese Overseas Economic Cooperation Fund)		<b>On-net</b>	3.75%	3.75%	884 2,514
Government of Republic of Botswana (funded by Nordic Development Fund)			3.00% - 5.00	3.00% - 5.00	39,791 36,778
Industrial and Commercial Bank of China			Libor+160bps	Libor+160bps	6,913,059 6,704,114
				<b>6,953,734</b>	<b>6,743,406</b>
<b>The borrowings are repayable as follows</b>					
Up to 1 year				499,077	432,270
2 - 5 years				1,992,765	1,713,904
Later than 5 years				4,461,892	4,597,232
Total				<b>6,953,734</b>	<b>6,743,406</b>

The Government of Republic of Botswana (funded by Nordic Development Fund) loan is repayable in biannual instalments with the last payment date in 2031. The loan is matched to foreign deposits placed with foreign banks made by the Corporation as disclosed in note 14.

The Industrial and Commercial Bank of China loan is repayable in biannual instalments over a 20 year period. The loan is hedged per the hedging arrangement disclosed in note 32.



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

	2016	2015
	P'000	P'000
<b>28 CONSUMER DEPOSITS</b>		
Consumer deposits-non current	76,759	70,587
Consumer deposits refunds-current	6,100	8,371
	<b>82,859</b>	<b>78,958</b>

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.

### 29 TRADE AND OTHER PAYABLES

Trade payables and accruals	1,729,995	1,320,468
Funds withheld for third parties	-	59,846
National Electricity Standard Cost levy payable to Government of Botswana	100,823	117,261
Deferred revenue on prepaid electricity sales	18,796	16,822
Interest on borrowings	10,173	16,822
Payroll related accruals	41,517	8,315
Retentions	720,134	663,629
	<b>2,621,438</b>	<b>2,222,854</b>

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 timeframe. The directors deem the fair value of the trade and other payables to approximate their carrying amounts.

### 30 ADVANCES - CONSUMER FINANCED PROJECTS

Advances received from customers	<b>1,189,318</b>	<b>93,226</b>
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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.

## NOTES TO THE FINANCIAL STATEMENTS

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31 March 2016

	Coal off-take penalty P'000	Litigation claims P'000	Gratuity P'000	Early Exit package P'000	Total P'000
<b>31 PROVISIONS</b>					
Balance at 1 April 2014	-	26,178	8,436	-	34,614
Provisions raised	-	2,366	8,637	-	11,003
Payments made during the year	-	(13,782)	(8,942)	-	(22,724)
Balance at 31 March 2015	-	14,762	8,131	-	22,893
Provisions raised	55,572	2,506	5,827	50,000	113,905
Balance at 31 March 2016	<b>55,572</b>	<b>17,268</b>	<b>13,958</b>	<b>50,000</b>	<b>136,798</b>

### Coal off-take penalty

In the current year the Corporation re-negotiated the coal off-take from Morupule Coal Mine Limited for the period to December 2016. In terms of the revised contract, should the Corporation fail to take delivery of a minimum of 1.4 million metric tonnes of coal during the year ending 31 December 2016, penalties would be charged to the Corporation for the difference between the actual off-take and 1.7 million metric tonnes as stipulated in the original agreement. Management believe that the Corporation may not be able to meet the minimum off-take requirement. The estimated coal offtake penalty may vary as a result of the actual monthly consumption compared to the estimated coal off-take.

### Litigation claims provision

The provision represents claims under employee disputes and claims for public liability. The amounts represents the directors best estimate of future outflows of economic benefits that will be required under the Corporations obligation for legal claims. The estimate has been based on the basis of historical claims trends and may vary as a result of and other issues affecting public liability.

### Gratuity provision

Gratuity provision is recognised in respect of contractual obligations with contract employees, to pay a certain percentage of their remuneration package as a lump sum at the end of their contracts. The gratuity is payable at the earlier of termination of contract or expiry of employment contract.

### Early exit package

As part of costs rationalisation, the Corporation has initiated a voluntary early exit exercise which has been approved by the Board of Directors for an amount of P50 million as the estimated cost of separation.

## 32 OTHER FINANCIAL ASSETS

Financial assets carried at fair value through profit or loss (FVTPL)

Balance at beginning of the year	807,890	77,512
Unrealised fair value gain on the cross currency and interest rate swap	591,530	730,378
Balance at end of the year	<b>1,399,420</b>	<b>807,890</b>



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

### OTHER FINANCIAL ASSETS (Continued)

	2016	2015
	P'000	P'000

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 entered into a pay fixed interest rate 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.

	Fixed Interest rate		Basket Currency Split	
	2016	2015	2016	2015
	%	%	%	%
South Africa Rands	13.35	13.35	65	65
United States Dollars	6.47	6.47	15	15
Euro	6.30	6.30	10	10
British Pounds	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 drawdown 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:

	2016	2015	2016	2015
	USD'0000	USD'0000	USD'0000	USD'0000
Notional hedge amount	672,423	727,984	7,332,854	7,258,066
Loan balance (Note 27)	(633,927)	(672,423)	(6,913,057)	(6,704,114)
<b>Over Hedge amount</b>	<b>38,496</b>	<b>55,561</b>	<b>419,797</b>	<b>553,952</b>

### 33 COMMITMENT

#### 33.1 Capital Commitment

Authorised but not contracted	1,757,535	4,383,663
Authorised and contracted	619,724	765,907
	<b>2,377,259</b>	<b>5,149,570</b>

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

#### 33.2 Operating lease commitments

Operating leases relate to leases land and buildings with lease terms between 2 and 10 years. All operating lease contracts contain clauses for market rental reviews. The Corporation does not have an option to purchase the leased land and buildings at the expiry of the lease period.

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

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31 March 2016

**COMMITMENT (Continued)****OPERATING LEASE COMMITMENTS (Continued)**

	2016	2015
	P'000	P'000
Within one year	3,631	3,044
Later than one year but not later than 5 years	19,667	16,486
	<b>23,298</b>	<b>19,530</b>
<b>33.3 Operations and maintenance contract</b>		
The Corporation entered into a contract for the operations and maintenance of its power station for a period of 4 years.		
Within one year	536,578	253,566
Later than one year but not later than 5 years	606,826	758,532
	<b>1,143,404</b>	<b>1,012,098</b>
<b>34 NOTE TO THE STATEMENT OF CASH FLOWS</b>		
<b>Cash used in operations:</b>		
Loss for the year	(99,613)	(274,905)
Tariff subsidy grant	(2,321,360)	(2,326,800)
Interest received	(20,069)	(20,594)
Interest paid	191,291	170,817
	(2,249,751)	(2,451,482)
Adjustments for non-cash items:		
Depreciation of property, plant and equipment (Note 11)	443,460	433,130
Other gains (Note 10)	(413,969)	(398,302)
Amortisation of Government grant	(150)	(248)
Amortisation of future coal supplies (Note 12)	20,031	20,031
Unrealised exchange losses on borrowings	637,234	851,831
Movement in provisions	113,905	11,003
Write-off of capital work in progress	37,991	-
(Profit)/loss on disposal of property, plant and equipment	(1,110)	22
	<b>(1,412,359)</b>	<b>(1,534,015)</b>
Cash flows used in /(from) working capital:		
Decrease in standard cost recovery - NESC	(90,359)	(100,248)
Increase in future coal supplies	-	(4,141)
Decrease in inventories	(4,880)	(60,952)
Decrease in government receivable	-	140,000
Increase in trade and other receivables	(118,520)	(73,285)
Increase in trade and other payables	398,584	148,738
Payments made against provisions raised	-	(22,724)
(Increase)/decrease in consumer loans - NESC	(4,867)	11,068
Increase/(decrease) in advances - consumer financed projects	286,092	(18,701)
	<b>466,050</b>	<b>19,755</b>
<b>Cash used in operations</b>	<b>(946,309)</b>	<b>(1,514,260)</b>



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31 March 2016

### Retirement Benefits (Continued)

	2016	2015
	P'000	P'000

#### 35 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 Pension 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 who are not members of the defined contribution plan are entitled to gratuities that are calculated on a percentage of the basic salary over the period of their employment. 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 6.

#### 36 FINANCIAL INSTRUMENTS

##### 36.1 Capital structure

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 funding strategy remains unchanged during the year ended 31 March 2016.

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 22, 23, 24 and the statement of financial position respectively.

##### Gearing ratio

Debt	13,391,426	12,468,530
Cash and cash equivalents	(315,732)	(244,002)
Net debt	<b>13,075,694</b>	<b>12,331,441</b>
Equity	<b>5,030,983</b>	<b>4,546,958</b>
Net debt to equity ratio (%)	<b>(260%)</b>	<b>(271%)</b>

##### 36.2 Categories of financial instruments

##### Financial assets at amortised cost

Held-to-maturity investments	155,151	78,187
Loans and receivables (including cash and cash equivalents)	966,125	816,828
	<b>1,121,276</b>	<b>895,015</b>
Financial assets at fair value	1399,420	807,890
Financial liabilities at amortised cost	13,254,597	12,445,456
Financial liabilities at fair value	31	181

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31 March 2016

### FINANCIAL INSTRUMENTS (Continued)

#### 36.3 Financial risk management objectives

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.

#### 36.4 Market risk

The Corporation's activities expose it primarily to the financial risk of changes in foreign exchange rates (see 36.5 below) and interest rates (see 36.6) 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 32.

#### 36.5 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	
	2016	2015	2016	2015
	P'000	P'000	P'000	P'000
Denominated in the following currencies:				
United States Dollar	6,913,059	6,704,114	33,425	31,409
South African Rand	1,089	2,824	84	3,396
Euro	39,791	36,778	274	29
	6,953,939	6,743,716	33,783	34,834

##### 36.5.1 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.

Increase in loss for the year	(34,601)	(33,544)
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#### 36.6 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.



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)  
31 March 2016

### FINANCIAL INSTRUMENTS (Continued)

	2016	2015
	P'000	P'000

#### 36.6.1 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:

Loss for the year would increase by	(32,156)	(32,176)
-------------------------------------	----------	----------

#### 36.7 Credit risk management

Credit risk refers to the risk that a counterparty 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 NESO) and trade accounts receivable, is disclosed on Note 15, 19 and 21. The most significant credit risk concentration of other financial assets are disclosed as follows.

African Alliance	47,660	45,384
Stanbic Investment Management Services	74,066	1,394
Barclays Bank of Botswana Plc. London	33,425	31,409
<b>Total</b>	<b>155,151</b>	<b>78,187</b>

#### 36.8 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 36.8.2 is the amount of undrawn facilities that the Corporation has at its disposal to further reduce liquidity risk.

#### 36.8 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

31 March 2016

### FINANCIAL INSTRUMENTS (Continued)

2016	Up to 1 year P'000	2 to 5 years P'000	+5 years P'000	Total P'000
Variable Interest rate	499,077	1,992,765	4,461,893	6,953,735
Non-interest bearing	4,189,448	45,975	-	4,235,423
	4,688,525	2,038,740	4,461,893	11,189,158
<b>2015</b>				
Variable Interest rate	432,270	1,918,438	4,392,698	6,743,406
Non-interest bearing	3,653,118	70,587	45,975	3,769,680
	4,085,388	1,989,025	4,438,673	10,513,086

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>2016</b>				
Variable Interest rate	248,814	273,290	-	522,104
Non-interest bearing	121,545	46,597	-	168,142
Fixed interest rate	181	181	-	362
	370,359	319,887	-	690,608
<b>2015</b>				
Variable Interest rate	273,290	3,388	-	276,678
Non-interest bearing	46,597	-	-	46,597
Fixed interest rate	181	31,409	-	31,590
	320,068	34,797	-	354,865

#### 36.8.2 Facilities

The Corporation has access to unutilised financing and overdraft facilities, of P84.4 million (2015: P62 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 USD 2.3 million.

#### 36.9 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.

##### 36.9.1 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 FINANCIAL STATEMENTS

(Continued)

31 March 2016

FINANCIAL INSTRUMENTS (Continued)

FAIR VALUE MEASUREMENTS (Continued)

### 36.9.1 Fair value measurements recognised in the statement of financial position

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
	2016	2015				
	P000	P000				
Cross currency and interest rate swap	Asset - 1,399,420	Asset - 807,890	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 exposure 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 spread adjustment to the interest rate parity relationship used to project the future expected Pula currency rates.</p> <p>For the CVA and DVA valuation a 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 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>

The reconciliation of the level 3 derivative financial instrument is disclosed in note 32.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

	2016 P'000	2015 P'000
<b>37 CONTINGENT LIABILITIES</b>		
<b>37.1 Employee Scheme</b>	<b>6,523</b>	<b>7,927</b>
The Corporation has guaranteed the obligations of certain employees under its motor vehicle and residential housing schemes in a total amount of		
<b>37.2 Public liability</b>		
Legal claims against the Corporation	<b>4,914</b>	<b>2,940</b>
<b>37.3 Claims for liquidated damages made under the EPC contract</b>		
<p>The implementation of the Morupule B project experienced prolonged delays during the construction period and as indicated in Note 39 an Amendment Agreement has since been signed with the contractor for defects remediation. The Corporation is permitted by the Engineering Procurement and Construction ("EPC") Contract to charge the contractor penalties for breach of contract and vice versa. The parties are still to settle liquidated damages for the late project completion and claims for time extension as well as other additional costs and non-compliance which cannot be remedied.</p> <p>In addition the EPC Contractor has submitted claims for both extension of time and costs compensation, which are still to be negotiated by parties. Based on the project status, and the guiding principles assessment, Management and the Board believe that the EPC Contractor claims will not exceed the Corporation's liquidated damages claims.</p> <p>The above claims matters will be negotiated once the Amendment Agreement has been satisfactorily fulfilled at which stage the claims will be quantified.</p>		
<b>38 RELATED PARTY BALANCES AND TRANSACTIONS</b>		
The Corporation is 100% owned by the Government of Botswana. Transactions and account balances with the Government of Botswana are disclosed in Note 1, Note 4, Note 7, Note 21, Note 22, Note 25 and Note 27.		
<b>Remuneration of key entity personnel:</b>		
Salaries and other short term employee benefits	7,076	6,063
Terminal benefits	1,696	1,607
Board fees	624	426
	<b>9,396</b>	<b>8,096</b>

Key entity personnel comprises of executive management as disclosed on Page 1 of the financial statements.

The Corporation paid operating expenses for its subsidiary BPC Lesedi (Proprietary) Limited amounting to P359 578 (2015: PNil).

As at 31 March 2016, there were no intercompany balances (2015: PNil), between the Corporation and its subsidiary BPC Lesedi (Proprietary) Limited.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

### 39 REMEDIAL WORKS - MORUPULE B POWER STATION

The Corporation took over three units of the Morupule B Power Station plant in July 2013, and the last unit plant was taken over for commercial operation on 4 May 2014. The power station has not operated to full capacity since commissioning. A root cause and gap analysis were subsequently performed by the Corporation on the power station and the defects were, mainly attributable to the construction and equipment defects, notably in the Boiler Fluidised Bed Heat Exchangers ("FBHE").

The Corporation signed an Amendment Agreement with the EPC Contractor on 29 August 2016. The Amendment Agreement outlines the scope and approach of defects remediation which, when completed is expected to render the plant reliable providing the designed generation capacity at an availability factor of not less than 85%. The remedial work is expected to run for a period of about 4 years (from August 2016 to August 2020), which will be followed by a further two - year Defects Notification Period (up to August 2022). The costs for remedying the defects note will be borne by the EPC Contractor in terms of the Amendment Agreement. The Corporation currently holds a retention of USD 59 million and a performance security bond of USD 58 million against the EPC Contract.

The final account will be negotiated between the parties at a future date once the matters noted above have been substantially and satisfactorily resolved. As a result, the final outcome in terms of final settlement of the contract regarding the payment of the retention, settlement of claims (see Note 37.3) are not yet known.

### 40 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 P1,993,881,000 for the year (2015: P1,986,093,000) was incurred, before taking into account the tariff subsidy grant from the Government of the Republic of Botswana of P2,321,360,000 (2015: P2,326,800,000).

### 41 GOING CONCERN

The Corporation has incurred a loss of P2,420,973,000 (2015: P2,601,705,000) before taking into account the tariff subsidy grant received from the Government of the Republic of Botswana of P2,321,360,000 (2015: P2,326,800,000). In addition, as at 31 March 2016 the Corporation's current liabilities exceed its current assets by P3,015,717,000 (2015: 2,699,621,000). These conditions, indicate the existence of a material uncertainty about the Corporation's ability to continue as a going concern. and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

- Approval of tariff increases.
- Operational subsidies - an operational subsidy of P1.35 billion for the 2016/2017 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 August 2016.
- Investment in generation infrastructure and operating subsidy aimed at sustaining the Corporation in the medium to long term.

As part of cost rationalisation, the Corporation has initiated a voluntary early exit exercise with a provision of P50 million as the estimated cost of separation.

### 42 EVENTS AFTER THE REPORTING PERIOD

#### Tariff Approval:

An operational subsidy of P1.35 billion for the 2016/17 revenue requirement was approved in March 2016.

The Parliament of Botswana approved the establishment of the Botswana Energy Regulatory Authority through the Botswana Energy Regulatory Authority Bill, Bill No. 12 of 2016 on 8 August 2016. After promulgation the Corporation will be regulated by this authority. The Directors and Management view this to be a positive development for the Corporation as the process of approval of future tariff increases will be better defined.

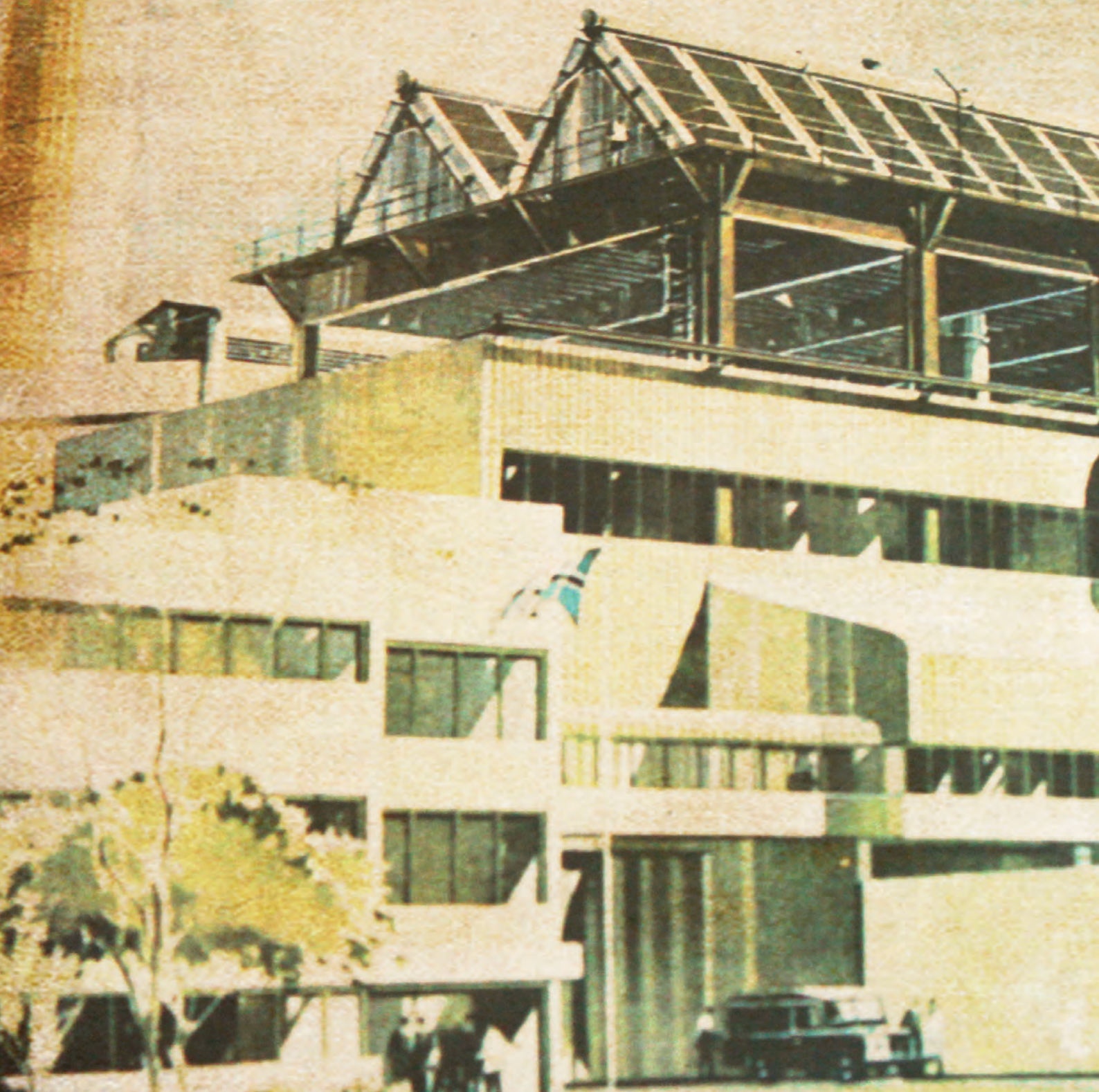
The Directors are not aware of any other matters other than those mentioned above or circumstances arising since the end of the financial year, not otherwise dealt with in these financial statements that would have a significant impact on the financial position of the Corporation or the result of its operations.



[illegible]

[illegible]

# **The early years of Morupule A Power Station**











**COVER**  
The ongoing remediation  
of Morupule B 600MW  
Power Station.



**BACK COVER**  
Morupule B Administration Block





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