

ANNUAL Report 2012



BOTSWANA POWER CORPORATION

Mission, Vision and Values

Mission

To provide efficient, reliable, safe and environmentally sensitive electricity services to Botswana.

Our Vision

A leading competitive commercial electricity utility in the region.

Our Values

- Business Excellence
 - Personal Growth
 - Ethical Conduct
 - Valued Citizen
-



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Operational Highlights

for the year ended 31 March 2012

Commissioning of the diesel-fired 90MW Orapa Turbine Power Plant in August 2011 significantly enhanced the country's generation capacity, and the ability of the Corporation to meet a peak demand of 542MW.

TOTAL SYSTEM ENERGY DEMAND

3,570GWh



ACCESS TO ELECTRICITY

49.13%



TOTAL RAW WATER USED

531 976m³



Operational Highlights (continued)

for the year ended 31 March 2012

DIRECT COST OF SUPPLY

▲ 25%

During the year under review, the direct cost of supply (generation, transmission and distribution) went up by 25%, driving average cost to 85 thebe/kWh, against an average selling price of 57 thebe/kWh.

TOTAL REVENUE

▲ 18.2%

At P1,815 billion, total revenue increased by 18.2% compared to the previous period. The increase is mainly attributable to a 30% tariff adjustment effected from June 2011.

Chairman's Review



Pursuant to section 23(1) of the Botswana Power Corporation Act (Cap 74:01) it is a privilege to present on behalf of the Board the Annual Report for the 2011/12 financial year.

Meeting the National Supply Demand

Botswana Power Corporation is driven by its mandate to provide the electrical energy and related services that are a pre-requisite to economic growth and industrialisation. It is in recognition of this that the Corporation has, as one of its strategic priorities, the security of power supply.

Chairman's Review (continued)

For generation capacity, this requires that the Corporation should have supply capacity that is 115% of peak demand. Transmission and Distribution network capacity should also be sufficient to evacuate and distribute the power from the generation facilities. During the period under review, the Corporation maintained its focus on infrastructure development. In this regard, most of the resources were channelled towards the completion of the 600MW Morupule B Power Station and related projects. Once commissioned, the power station will reduce reliance on imports from the current level of more than 80% continuously to about 30% at specific periods.

For the medium- to long-term, efforts are underway to secure additional generation capacity (300MW) by 2016. Options that are being pursued in this respect include extension of the Morupule B Phase 1 by an additional two 150MW units, as well as procurement of the same capacity under an Independent Power Producer (IPP) arrangement.

For the period under review, national electricity demand continued to be predominantly met through imports from the region, with domestic generation contributing only up to 9% of the demand.

The Morupule A Power Station will, for the foreseeable future, remain a significant part of the Corporation's supply portfolio. For this reason, the Corporation is planning a refurbishment and extension-of-life project for the station. Major Transmission infrastructure projects to be undertaken as part of the security of supply priority are:-

- (a) Establishment of a 220/132kV substation in the Rakola area, and associated transmission lines, to reinforce the supplies to the southern part of the country; and
- (b) Construction of a 400kV transmission line to extend the grid to the north western region, as well as provide a connection to the planned ZIZABONA regional transmission interconnector.

Performance and Service Delivery

During the year under review, the direct cost of supply (generation, transmission and distribution) went up by 25%, driving average cost to 85 thebe/kWh, against an average selling price of 57 thebe/kWh. The net effect was a 22% increase in total operating costs, against an 18.2% growth in revenue. Under the circumstances, the Corporation registered an operating loss of P311,4 million (P153,03 million in 2011), net of Government subsidies.

The net loss for the year is P1,122 billion (P796,62 million in the prior year). At a combined total of P974.79 million, the Morupule B USD loan exchange and fair value losses made up the major portion of the net loss. This negative reflection is directly influenced by current market conditions, which are yet to recover following the economic downturn.

Providing customers with convenient access to services is important to the Corporation. A key strategic initiative has been to enhance and roll out prepaid electricity to urban areas, following a strong demand by customers in these areas. With the enhancement to the system, customers across the country will be able to purchase prepaid electricity through various channels, including cell phones and automated teller machines.

Regulatory Framework

The Corporation is looking forward to the establishment of the energy regulator, which is anticipated to be concluded during the 2012/13 financial year. The Corporation views the establishment of the Botswana Energy and Water Regulatory Authority (BEWRA) as important for enhancing operational efficiencies and financial management prudence in the Electricity Supply Industry, both of which can only be for the consumer's benefit.

Chairman's Review (continued)

Improving Access To Electricity

The Corporation is a committed implementing agency for the Government's planning objective of achieving 80% access to electricity by 2016 in order to drive socio-economic improvement. During the period under review, the Corporation undertook and completed network extension projects in eleven (11) villages.

While enhancing network coverage in villages improves access to electricity, it also helps to sustain the National Electricity Fund (NEF) which subsidises connection costs for individual consumers under the National Electricity Standard Cost (NESC) program implemented in 2010. In a reflection of the benefits of network extensions and NESC, access to electricity increased from 43.42% in 2010/11 to 49.13% in 2011/12.

Promotion of Renewable Energy

Promotion of renewable is not only to reduce the country's carbon footprint, but also to have a supply mix that will utilize one of the country's other abundant natural resource, the sun. Modest efforts to this end are being made through the three projects detailed below:

- (a) **BPC Lesedi**, in which the Corporation holds a majority shareholding, has continued to offer off-grid energy solutions. The project contributes to Government's policy objective of offering a least-cost energy mix, while at the same time facilitating, through its franchising model, participation of Small, Medium and Micro Enterprises (SMMEs) in the energy industry.
- (b) Construction of the **1.3 MW Solar Photovoltaic Power Plant** pilot project at Phakalane, which is funded by the Japanese International Cooperation Agency (JICA), is at an advance stage. When completed in the second quarter of financial year 2012/13, it will be connected to supply power to the Botswana Power Corporation grid. The power generated by the plant will be adequate to supply up to 800 low-consumption houses.
- (c) A Bankable Feasibility Study for a **200MW Concentrating Solar Thermal Power (CSTP)** plant is currently underway. The study is expected to be completed by the end of 2012.

Considering the capacity envisaged, the project will go a long way towards contributing to the security of supply. Consideration will be given to implementation through an Independent Power Producer (IPP) or Public Private Partnership (PPP), thus allowing private sector investment in power generation.

Conclusion

The period under review has been, in financial performance terms, one of tremendous difficulty and challenges. However, much has been accomplished. For this, I would like to also my colleagues on the Board for their dedication and support. My gratitude also goes to all employees for their tireless efforts in providing a very necessary service, even in the midst of very challenging circumstances.

A lot remains to be accomplished. My view is that it will take the concerted efforts of all the stakeholders to see the Corporation during these difficult times.

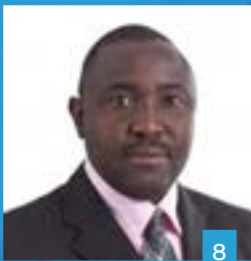
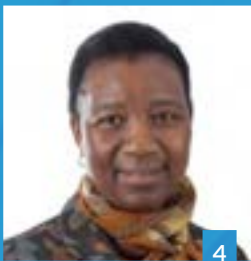
On behalf of the Board of Directors and all Botswana Power Corporation employees, I wish to acknowledge the invaluable support of all our customers, and to thank the Government for its continuing support for the Corporation's endeavours to ensure security of supply 2016 and beyond.



Ms Ewetse T. Rakhudu
Chairman of the Board
 Botswana Power Corporation



Members of the Board



1. Ms Ewetse T. Rakhudu (Chairman)
2. Mr Freddie O. Motlathedi (Vice Chairman)
3. Ms Parma M. Mogatle-Kanedi
4. Ms Audrey Kgosidintsi
5. Mr Kgomotso Abi
6. Mr Geoffrey M. Bakwena
7. Mr Bonny Thebenyane
8. Mr Bernard Kenosi
9. Ms Keineetse P. Lepekoane

Executive Management Team



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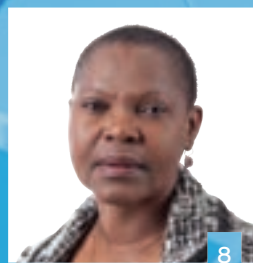
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1. Mr Jacob. N. Raleru
Chief Executive Officer
2. Mr Edward Rugoyi
Director, Transmission
3. Mr Gaoleboge Mmola
Acting Director,
Customer Service & Supply
4. Mr Alban Motsepe
Acting Director, Corporate Services
5. Mr Mphoe Ratshee
Acting Director, Generation
6. Mr Gordon Molefe
Acting Director, Rural
7. Ms Rebecca Mgadla
Chief Financial Officer
8. Ms Ivy Ramalohanye
General Manager, Human Resources
9. Ms Ditshetsa Makepe
General Corporate Counsel
10. Mr Mmoloki Tibe
General Manager,
Strategy and Transformation
11. Ms Kefetole M. Mothobi
General Manager, Internal Audit

Key Business Terms and Ratios

Borrowings/Debt

All interest bearing liabilities.

Operating profit

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

Total assets

Fixed assets, Work - in - progress, Investments and current assets.

Total liabilities

Non-Current liabilities and current liabilities.

Current ratio

Current assets divided by current liabilities.

Cost of borrowing

Finance costs expressed as a percentage of average total debt.

Liquid ratio

Current assets less inventory divided by current liabilities.

Gearing ratio

Total debt as a percentage of capital employed.

Gross margin

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

Interest coverage ratio

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

Net margin

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

Operating margin

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

Return on capital employed

Net profit expressed as a percentage.

Return on property, plant and equipment

Net profit expressed as a percentage of capital employed.

Earning to irredeemable capital

Net profit expressed as a percentage of Irredeemable capital.

Dividend to irredeemable capital

Dividend paid expressed as a percentage of Irredeemable capital.

Return on operating assets

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

Return on investments

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

System losses

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

SAPP

Southern African Power Pool.

Address, Bankers and Attorneys' Details

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BANKERS:

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P O Box 478, Gaborone

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First National Bank of Botswana Limited
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Stanbic Bank of Botswana Limited
Private Bag 00168, Gaborone

REGIONAL OFFICES:

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Francistown
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Fax: (267) 2412877

SELEBI-PHIKWE

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

ATTORNEYS:

Armstrongs
P O Box 1368, Gaborone

Collins Newman
P O Box 882, Gaborone

Minchin & Kelly
P O Box 1339, Gaborone

AUDITORS:

Deloitte & Touche
P O Box 778, Gaborone

Vital Statistics 2012

for the year ended 31 March 2012

	2012	2011	2010	2009	2008	2007	2006
Electricity Revenue Sales (P'000)	1,815,601	1,512,236	1,135,474	1,069,559	938,555	819,680	714,809
Revenue Grant from the Government of Botswana (P'000)	508,000	454,000					
Net Profit/(Loss) (P'000)	(1,122,872)	(796,620)	(1,572,169)	(133,623)	111,143	101,305	120,718
Return on revalued fixed assets (%)	-8%	-6%	-11%	-9%	-2%	-2%	-1%
Total unit sales (GWh)	3,197.7	3,118	3,151	2,917	2,889	2,777	2,626
Total generation (sent out) and imports (GWh)	3,590.9	3,551	3,414	3,369	3,210	3,120	2,917
Head count	2,047	2,188	1,841	1,901	2,010	2,015	2,091
Total consumers	291,338	251,773	214,170	198,615	197	166,651	151,800
Plant capacity (MW)	132	132	132	132	132	132	132
System maximum demand (MW) ¹	542	553	553	503	493	473	434
Average selling price per unit (Thebe/kWh)	57	48	36	36	31,7	28,7	26,3
Average cost per unit (Thebe/kWh)	85	68	57	50	36	32	29

¹ Demand has decreased from last year while consumers have increased from 251 000 to 291 000.

Key Annual Statistics

for the year ended 31 March 2012

	2012	2011	2010	2009	2008	2007	2006
Revenue (P'000)	1,815,601	1,512,236	1,135,474	1,069,559	938,555	819,680	714,809
Revenue Grant from the Government of Botswana (P'000)	508,000	454,000					
Operating profit/(loss) before Revenue Grant (P'000)	(819,436)	(607,026)	(563,573)	(376,430)	(85,767)	(63,414)	(27,098)
Operating profit/(loss) after Revenue Grant (P'000)	(311,436)	(153,026)	(563,573)	(376,430)	(85,767)	(63,414)	(27,098)
Net profit/(loss)	(1,122,872)	(796,620)	(1,572,169)	(133,623)	111,143	101,305	120,718
Capitalisation (P'000)							
Long term debt	5,359,783	4,154,439	1,460,764	119,209	135,803	130,163	135,822
Net assets	4,344,744	5,117,891	5,269,867	6,466,499	5,069,837	4,720,903	4,582,454
Capital expenditure and WIP	1,786,583	3,930,033	3,086,888	1,211,301	628,114	168,888	226,778
Electricity (GWh) Source							
Morupule	249.5	437.1	532.1	620.7	697.0	821.5	977.1
Station usage	29.94	66.00	74.8	71.0	66.5	95.4	110.8
Sent out	219.6	371.10	457.3	549.7	630.5	726.1	866.3
Purchased	3,371.32	3,180.10	2,984.5	2,748.5	2,585.0	2,393.6	2,050.4
Total sent out and purchased	3,590.88	3,551.20	3,441.8	3,369.2	3,215.8	3,119.7	2,916.7
Sales disposition (GWh)							
Mining	1,086	1,117	1,141.2	1,123.2	1,186.2	1,199.0	1,184.3
Commercial	910.10	820	830.7	734.6	683.9	634.0	631.1
Domestic	878.76	873	829.1	768.7	745.1	681.7	584.4
Government	323.15	308	307.5	290.4	273.5	262.0	226.6
Total sales	3,197.7	3,118.1	3,108.50	2,916.90	2,888.70	2,776.70	2,626.40
Transmission and distribution							
Losses (GWh)	393.17	433.6	333.3	381.3	327.1	343.0	290.3
System losses (%)	12	12	10	11.6	10.2	11.0	10.0
Total consumers	291,338	251,773	214,170	198,615	196,755	166,651	151,800
Sales growth (%)							
Mining	(2.8)	(2.1)	1.6	(5)	(1.07)	1.24	13.16
Commercial	11.0	(1.3)	13.1	7.4	7.9	0.5	2.9
Domestic	0.7	5.3	7.9	3.1	9.3	16.6	8.4
Government	4.9	0.1	5.9	6.2	4.39	15.62	4.47
Total sales growth (decline)	2.6	0.3	6.6	1	4	5.7	8.7
Average selling price (thebe)	56.8	48.0	36.0	36.0	32.0	31.0	26.0
Earning ratios (%)							
Net margin	-61.8%	-52.7%	-138.5%	-12.5%	11.8%	12.4%	16.9%
Earnings to irredeemable capital	-10%	-7%	(34.4)	(8.1)	76.3	69.3	82.9
Return on total average assets employed	-2.1%	-1.0%	(3.8)	(1.8)	1.81	1.83	2.6
Operating loss to revenue (%)	-17%	-10%	(48.8)	(35.2)	(9.1)	(7.7)	(3.8)
Return on revalued Property, Plant and Equipment (%)	-2%	-1%	(7.8)	(9.25)	(2.27)	(1.86)	(1.0)

Chief Executive Officer's Review



POWER SUPPLY SITUATION

Notwithstanding the mismatch between supply and demand, which continued in the year under review, the Corporation managed to meet the electricity needs of all sectors of the economy, save for some load curtailment during peak-load hours in, notably, the month of January 2012. The quantum of energy not supplied on account of the power supply deficit was 5.5GWh, or 0.2% of the total system energy requirement.

Commissioning of the diesel-fired 90MW Orapa Turbine Power Plant in August 2011 significantly enhanced the country's generation capacity, and the ability of the Corporation to meet a peak demand of 542MW.

Chief Executive Officer's Review (continued)

The project was developed under a Build and Transfer (BT) arrangement between the Government of Botswana and Debswana,

In the short- to medium-term, commissioning of the 600MW Morupule B Power Station, which is currently in progress, is expected to end the country's predominant dependence on imported electricity. The power plant is scheduled for full commercial operation by the end of the third quarter of 2012/13.

The total system energy demand for the year under review was 3,570GWh representing a marginal growth of 0.5% over the 3,552GWh demand of the previous year. The bulk of the energy was procured from South Africa, with the balance secured from local sources, as well as imports from Namibia, Mozambique and the Democratic Republic of Congo. Chart 1 below indicates the market share for the various sources of supply.

Chart 2 below depicts the distribution of energy supplied to the mining and non-mining sectors. It also includes transmission grid technical losses.

A total of 267 transmission grid faults accounted for an Average System Availability Index (ASAI) of 99.88% against a target of not less than 99.97%. Most of the faults occurred during the rainy season during which time lightning is prevalent. The total energy not served on account of transmission system outages was 4.1GWh, or 0.12% of total system energy demand.

Grid Extension

The Corporation successfully delivered two customer-funded transmission infrastructure projects to facilitate grid access to the AKO6 and BK11 diamond mines. In addition, the Corporation completed the Jwaneng substation capacity increase project.

In pursuance of ensuring transmission grid reliability, the Corporation advanced the reinforcement of power supply in the southern part of the country with the commencement of basic system design, specifications and bid document preparation for the Rakola 220/132kV bulk supply point and associated 220kV transmission lines.

A bankable feasibility study for the extension of the 400kV transmission grid to the north-western region was initiated towards the end of the review period. It is expected that the necessary investment decisions will be made in the coming financial year. In the medium- to long-term, the north-western grid extension is expected to provide a connection to the ZIZABONA regional interconnector project, which is being undertaken by Botswana, Namibia, Zambia and Zimbabwe.

Chart 1: Sources of Supply Market Share

Energy (GWh)

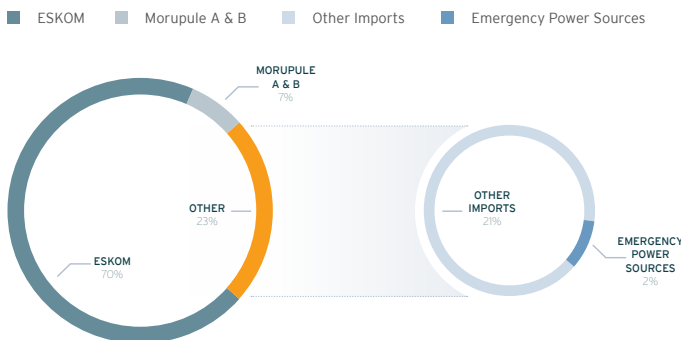


Chart 2: FY 2012 Market Segmentation

Market Segmentation (GWh)



Chief Executive Officer's Review (continued)

Regional Co-operation Through The Southern African Power Pool

The Southern Africa Power Pool (SAPP), of which the Corporation is an operating member together with eight other national power utilities, continued to focus on addressing the prevailing challenge of a growing generation deficit. Efforts to overcome this regional challenge included prioritization of generation and transmission projects which, if implemented, would alleviate the current power shortages.

Other activities pursued under the auspices of the SAPP included enhancement of the SAPP interconnected grid Operating Guidelines for system reliability, formulation of SAPP Markets Guidelines and the associated Markets Surveillance Mechanism, review of SAPP wheeling regulations, review of control area charges and enhancement of control area performance standards.

ELECTRIFICATION AND SERVICE DELIVERY

During the period under review, the Corporation successfully completed network extension projects, which had commenced in the prior year, covering eleven (11) villages, at a total investment of some P35 million.

The Corporation's alternative energy subsidiary, BPC Lesedi, had as at the end of March 2012, sold 461 solar home systems, 465 efficient cooking stoves, 1001 rechargeable lanterns, 65 heat retention bags (hot bags) and 10 low pressure solar geysers. Furthermore, 3 recharging stations had been established in Kgope, Dikgatlong, and Medie.

Cross-Border Supplies

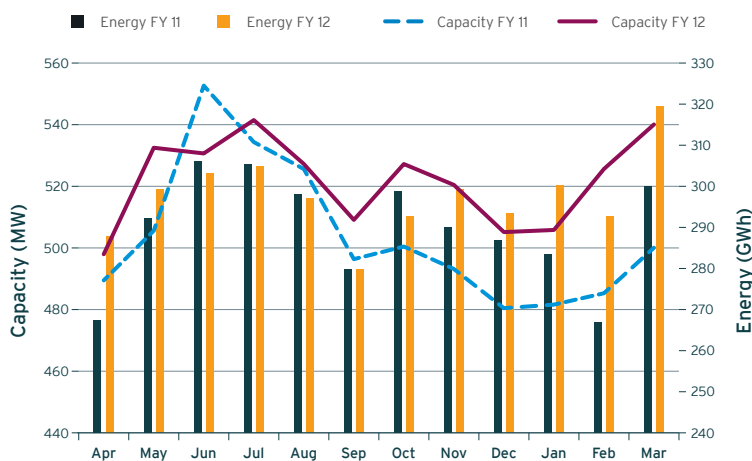
During the review period, energy imports to the thirty-nine (39) villages supplied through cross-border arrangements with neighbouring utilities stood at 60.3 GWh, an increase of 4 GWh compared to the previous year. It is expected that an additional seven (7) cross-border points will be installed the end of the next financial year resulting.

National Electricity Standard Cost (NESC)

The period under review marks the second year of the National Electricity Standard Cost (NESC) programme. During the period, the programme was extended to cover towns and cities, as well as any villages and settlements that had not been covered in the initial roll-out. As at March 2012, a total of 21 873 customers had benefited from the program, for a total cost of connection amounting to P426,253,573, with the fund having accumulated P307,739,330. Sustainability of the programme is a key area of focus for the Corporation.

Chart 3: Month on Month System Energy and System Peak Comparison 2011: 2012

Capacity & Energy Month on Month Comparison (FY11 Vs FY12)



Access to Electricity

The on-going initiatives based on planning and policy objectives regarding rural access to electricity are having a positive impact, as demonstrated by access having increased from 43.42% in 2010/11 to 49.13% in 2011/12.

Figure 1 overleaf shows the electricity access levels per district for the financial years 2010/11 and 2011/12. As at the end of the 2011/12 period, the South East District had the highest electricity access rate at 78.04%, with Gantsi District having the lowest at 38.91%.

Chief Executive Officer's Review (continued)

Figure 2 shows the electricity connection patterns per district. Out of a total rural customer base of 164,559, Domestic Category customers constitute 156,331, while the other categories, which include business customers, make up the rest.

Service Delivery Improvement

The Corporation continued to embark on activities to enhance service delivery, with primary focus on facilitating customer access to services. The initiatives included:

- (a) implementation of third-party prepaid electricity, with two pilot sites operated in Gaborone. Among others, the project served as a platform for the conversion of customers in urban areas to prepaid electricity, which is targeted to commence in 2012/13;

- (b) the extension of payment channels for customer convenience and effective credit control. These deployed channels included on-line bank payments; and

- (c) opening of additional service centres in Gaborone and surrounding areas.

CORPORATE CITIZENSHIP AND SOCIAL RESPONSIBILITY

The Corporation continued to strengthen its relations with the public by playing a key role in keeping the various stakeholders informed about its services. The Corporation also participated in exhibitions, fairs, awareness campaigns and sporting competitions in the region to promote the BPC brand.

A significant number of medals were attained during the national and regional inter-utility games. Furthermore, the Corporation attained first prizes in the Parastatals category at both the national Consumer Fair and the BOCCIM Northern Trade Fair.

In pursuit of its aspiration as a caring corporate citizen, the Corporation maintained the practice of contributing to the development and the improvement of the lives of the people. This was achieved through investing in the community through donations to charity organizations and assistance to non-profit and other organizations such as the Masiela Trust Fund, Sekgoma Memorial Hospital, Society for the Deaf, and Bobirwa Sub Land Board.

Rural Access to Electricity

Figure 1 : Electricity access levels per district for 2010/11 and 2011/12 financial years

Electricity access per District as at 31st March 2012

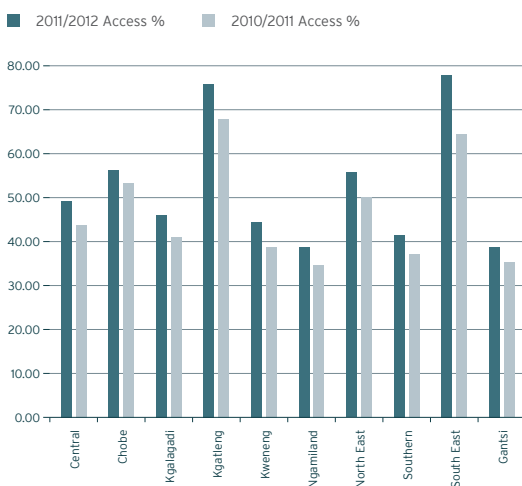
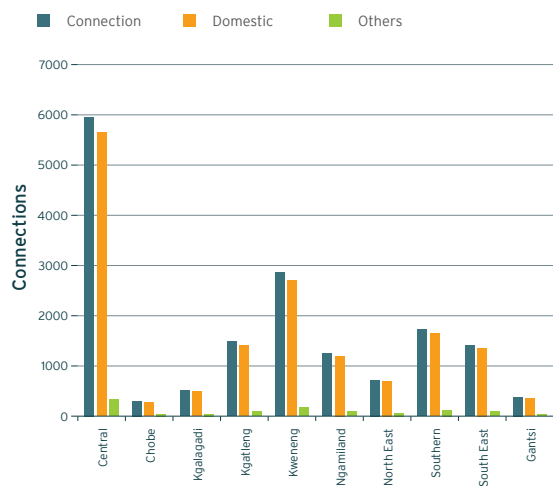


Figure 2 : Electricity connection levels per district as at 31 March 2012

Rural Connections - 2011/2012



Chief Executive Officer's Review (continued)



SAFETY HEALTH ENVIRONMENT AND RISK (SHER)

Employee SHER Awareness

A total of 372 employees attended SHER awareness courses, which was higher than the previous review period. The courses varied from First Aid through Introduction to Safety Management Training (SAMTRAC), and Full SAMTRAC to Enterprise Wide Risk Management.

SHER Monitoring

SHER performance during the period under review is reflected in the table below.

EMPLOYEE SAFETY	No
Lost Time Injuries (Employees)	12
Non Lost Time Injuries (Employees)	23
Fatalities (Employees)	0
CONTRACTORS SAFETY	
Electrical Contact Injuries	4
Fatalities	1
PUBLIC SAFETY	
Injuries	7
Fatalities	1

While every injury is undesirable, the Corporation's Disabling Injury Frequency Rate (DIFR) was, for the period under review, below the industry standard of less than 1

Chief Executive Officer's Review (continued)

Vandalism & Fraud Incidents

Sadly, the period under review saw an increase in incidents of vandalism of Corporation equipment from 170 in the previous period to 361, at a cost of some P1,6 million compared to just over P1 million in the previous period. Most of the incidents were experienced in the northern region, and was attributed to cross-border crime.

The joint effort with Botswana Police Service and private security address the problem was maintained. In addition, anti-vandalism committees have been resuscitated.

Waste Management And Emission Control

Fly-ash from generation activities remains a major waste arising directly from the Corporation's operations. Its disposal was managed through a contract with local cement manufacturers. The off-take of fly-ash reduced to 741 tonnes from 4,380 in the previous period, on account of drastically reduced generation from the Morupule A Power Station.

A new ash dump site has been identified for the Morupule B Power Station, and plan is to integrate the current disposal system to the new site, in order to facilitate rehabilitation of the old site.

Generation activities resulted in emissions of 277,319 and 1,768 tonnes of carbon dioxide and sulphur dioxide, respectively. The Waste Management Plan and an Environmental Management Implementation Guidelines/ Procedures for the existing Morupule A Power Station were reviewed/ developed. Procurement of expert services for the implementation of an air quality monitoring network for Morupule A & B commenced during the year.

Water management remains one of the key areas of focus. The total raw water used for the year stood at 531 976 m³ against an abstraction limit of 559 396 m³. The usage is divided between steam generation, fire systems, potable water, and ash disposal system.

HUMAN CAPITAL MANAGEMENT

The Corporation's Human Resource strategic focus during the period and beyond anchors on the following key elements:

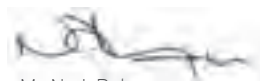
- (a) organisation-wide capacity building;
- (b) promotion of harmonious working relationships;
- (c) continuous improvement of holistic employee wellness;
- (d) inculcating a high-performance culture; and
- (e) have an engaged and productive workforce.

Employee strength at year-end was 2047 compared to 2188 reported in the previous financial year. The reduction is mainly attributable to the ongoing staff rationalisation as well as vacancies which had to be deferred. Meanwhile, staff turnover for the financial year was 2.47%, compared to 5.43% of the previous year.

During the period, a total of eighty (80) employees were exited under the programme with the first batch of employees leaving during the month May 2011 and the last batch exiting at the end of July 2011. The Early Exit Programme was one of the initiatives aimed at optimising organisational structures and skills.

As part of its approach to holistic employee wellness, the Corporation has pursued wellness initiatives, including:-

- (a) monitoring employee health to prevent occupational diseases and injury through a number of methods, including conducting wellness days;
- (b) enhancing employee access to medical care by increasing the number of medical aid service providers from one (1) to three (3); and
- (c) availing general psycho-social support services to employees on a regular basis.



Mr N. J. Raleru

Chief Executive Officer
Botswana Power Corporation

Corporate Governance



BPC adheres to its 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 governance is a fundamental part of the culture and business practices of BPC.

The authority for the Corporation to discharge its mandate as a body corporate is vested in the Board of Directors. The Minister of Minerals, Energy and Water Resources appoints the BPC Board and charges it with the responsibility of setting the direction of the Corporation's affairs.

Board Mandate

To effectively discharge its mandate, the Board has adopted a formal charter which sets out the roles and responsibilities of the Board and its sub-committees.

The Board's responsibilities include the following:-

- setting and reviewing the strategic direction of the Corporation and monitoring the implementation of that strategy;
- approving the annual business plans as well as capital and operating budgets;
- monitoring the operational and financial performance;
- formulating and monitoring the strategy to manage risk; and
- ensuring the implementation of, as well as monitoring compliance to, internal controls.

Composition

The Board, in accordance with the BPC Act, is constituted of nine non-executive members as per the table overleaf.

The Board has, through formal resolution, set up the three sub-committees to assist in carrying out its oversight role. Membership of the Board committees is also reflected in the table overleaf.

Corporate Governance (continued)

Member	Board	BFAC	BPTC	BHRC
Ms Ewetse T. Rakhudu	Chairman			
Mr Freddie Motlathledi	Vice-Chairman		Chairman	Member
Ms Parma Kanedi	Member	Chairman		
Ms Audrey Kgosidintsi	Member		Member	Chairman
Mr Geoffrey Bakwena	Member	Member	Member	
Ms Keineetse Lepekoane	Member	Member	Member	
Mr Bonny Thebenyane	Member	Member		Member
Mr Bernard Kenosi	Member	Member		Member
Mr Kgomotso Abi	Member		Member	

Key:-

BPTC = Board Procurement and Tender Committee

BFAC = Board Finance and Audit Committee

BHRC = Board Human Resources Committee

BOARD COMMITTEES

Board Finance and Audit Committee

The Chairperson of the Board Finance and Audit Committee is Mrs Parma Kanedi.

The purpose of the Board Finance and Audit Committee is to assist with the Board's oversight on:-

- the integrity of financial statements, systems and records;
- the implementation of financial strategy;
- compliance to legal and regulatory requirements;
- external auditor's qualifications, independence and performance; and
- performance of the internal audit function.

Board Procurement and Tender Committee

The Chairperson of the Board Procurement and Tender Committee is Mr Freddie Motlathledi.

The BPTC considers and monitors recommendations arising from tender adjudications, and awards tenders for the procurement of goods and services for amounts in excess of Two Million Five Hundred Thousand Pula (P2,500,000.00).

Board Human Resource Committee

The Chairperson of the Board Human Resources Committee is Ms Audrey Kgosidintsi.

The Board Human Resources Committee has the mandate to carry out, inter alia, the following:-

- consideration and recommendation to the Board the Corporation's human resources strategies and policies; and

- make recommendations pertaining to the employment of executive management;

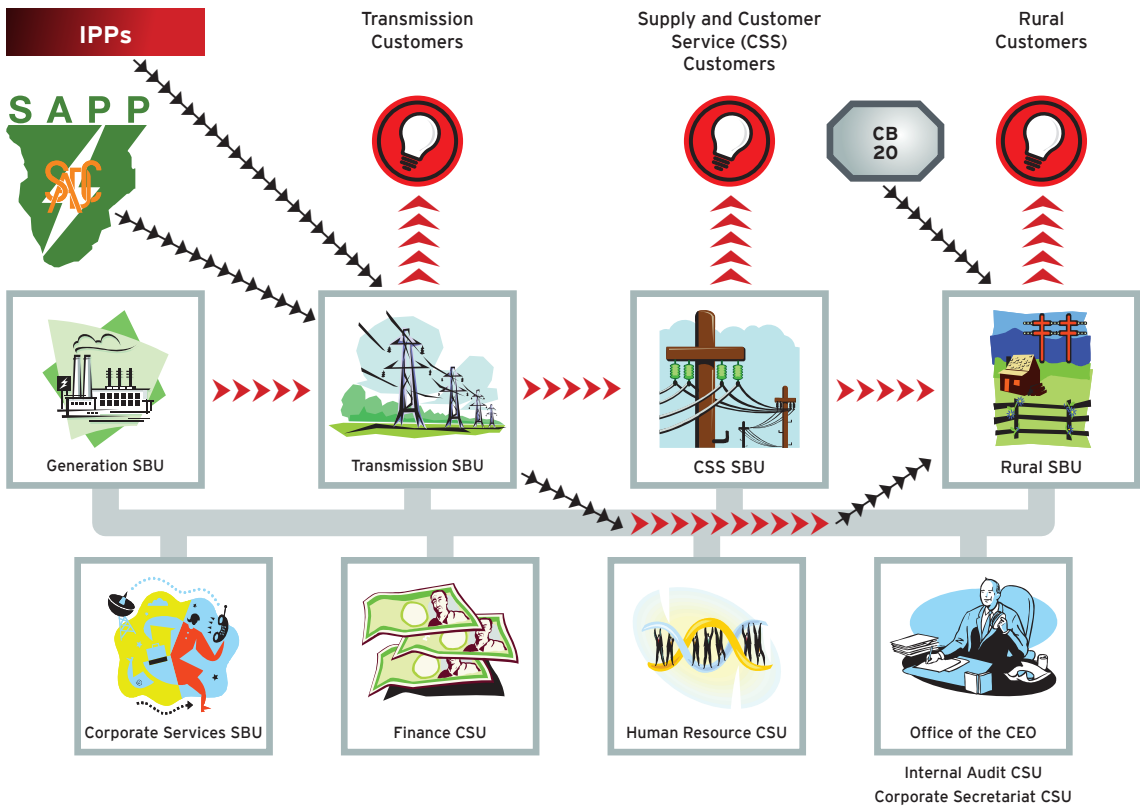
The BPC Act provides that the Board should meet at least four times annually. The Board has complied with this during the year under review. Furthermore, it held additional meetings in fulfilment of its oversight role. Board meetings discussed and resolved on matters pertaining to, amongst other things:-

- Strategy and performance;
- Project management;
- Financial performance;
- Risk management;
- Human resources;
- Sustainability; and
- Governance.

Sustainability Reporting

Business Model-Single Buyer

As depicted below the Corporation operates a 'single buyer' business model with five value chain businesses, referred to as Strategic Business Units (SBU), and four Centralised Support Units (CSU).



Sustainability Reporting (continued)

Strategy Analysis

The Corporation's Strategic Agenda to carry out its mission, which is 'to provide efficient, reliable, safe and environmentally sensitive electricity services to Botswana', continued to focus on four key strategic priorities as detailed below:

Strategy No	Strategic Priority	Strategy Objective
1	Financial Turn-Around	To return the Corporation to normal in terms of acceptable levels of profitability, solvency, liquidity and cash flows by 2016
2	Secure Supply of Power	To achieve and maintain a system reserve margin of 15%
3	Service Delivery	To improve customer satisfaction score year on year by 10% using the customer service survey
4	Organizational Effectiveness	To improve organisational effectiveness by 10% year on year

During the five year period of its strategic plan which ended during the year under review, the main focus has been on the strategic priority of securing power supply with the key activities being towards achieving the goal of meeting the national demand and have a reserve margin of 15% by 2016.

The Corporation is working jointly with Government on various infrastructure developments which include Morupule B expansion project as well as those initiated for regional interconnections.

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

- a) Business Excellence
- b) Personal Growth
- c) Ethical Conduct
- d) Valued Citizen

Financial Review

Operational Highlights

While the income from sales showed an upward trend, the overall financial performance of the Corporation continued to buck the trend. Power supply input costs, as well as liabilities arising out of the shortfall in the off-take of coal as a result of the delay in the commissioning of Morupule B Power Station, contributed the 30% increase in costs registered during the year.

At P1,815 billion, total revenue increased by 18.2% compared to the previous period. The increase is mainly attributable to a 30% tariff adjustment effected from June 2011.

The 18.2% increase in revenue was not enough to offset the increase in total operating expenditure to P2,671 billion, mainly due to a 25% increase in Generation, Transmission and Distribution expenses. As a result, the Corporation recorded an operating loss of P311,43 million, net of a Government tariff subsidy of P508 million, and a P220,54 million support towards emergency power costs.

The operating loss for the previous year was recorded at P153,03 million. The increase in the operating loss is mainly from impairment, comprising P31,2 million on Distribution Works Contractors, and P17,9 million on trade and scheme debtors, as well as the loss attributable to a shortfall in the coal off-take amounting to P82 million, on account of the delay in Morupule B commercial operation.

Total loss for the year amounted to P1,122 billion, compared to P796 million in 2011. The increase has been primarily due to a Net Exchange Loss of P494,517 million compared to a gain of P132,9 million in 2011, as well as P480,27 million fair value losses on the Hedge Cross Currency and Interest Swap. It is, however, worth noting an improvement on the fair value loss, which has reduced by 36% to P480,27 million compared to P744.68 million losses incurred in 2011.

For the year under review, a total of P1,744 billion (71% of direct costs) was incurred in power purchases, of which P220,54 million was paid for by the Government through an emergency power grant. There has been an overall 23% increase in operational expenditure, out of which P485 million relates to an increase in Generation, Transmission and Distribution expenses. Administration and other expenses stood at P440,8 against P415,9 million for the prior year. The increase in staff costs from P347,8 million in 2011 to P403,1 million is mainly attributable to a pay-out of early exit packages amounting to P62 million. In the overall, the salaries and wages bill reduced from P308,7 million to P301,4 million, reflecting a 2.4% reduction.

Other Income which, includes a margin on sale of material to Distribution Works contractors and interest on scheme loans, amounted to P35,5 million, declining by 34.9% from P54,4 million registered in the prior year. The decline is attributable to an increase in a provision for doubtful debt amounting to P31,2 million.

Finance Income experienced a significant decline from P48,6 million recorded in 2011 to P23 million. This income is earned mainly from fixed deposits placed with local banks. The decline in interest income is mainly attributable to comparatively lower interest rates during the year, which averaged 5%, as well as a lower level of cash balances in investment that prevailed during the year under review, when compared to 2011.

Financial Position

Non-current Assets increased by 13% (P1,79 billion) before taking into account depreciation of P282 million and P529 million attributable to Morupule A impairment. As indicated in the prior year, the increase was largely driven by Morupule B work-in-progress. This accounted for 82.79% (P1,479 million) of the increase in non-current assets, which closed the year at P13,594 billion. The figure is after taking into account depreciation for the year and Morupule A impairment at P529 million (approximately 64% of the carrying amount).

Financial Review (continued)

Current Assets decreased from P2,004 billion to P1,535 billion, mainly as a result of a reduction in Bank and Cash balances by 56% from P914,8 million in the prior year to P396,2 million. Up to 27% (P104,4 million) of the gross Trade Receivables was attributable to Value Added Tax, refundable from BURS.

The Bank and Cash Balance of P396,2 million held as at the end of the period was mainly attributable to Government Equity Funding for Morupule B and the Government Emergency Power fund.

Shareholders' fund was reported at P4,344 billion, experiencing a P773 million decline from the prior year. Although there was a significant additional P879 million contribution to equity by the Government, the amount was significantly offset by the P1,652 billion total comprehensive loss for the year.

Non-Current liabilities closed the year at P7,031 billion, reflecting a P1,349 billion increase. This increase is mainly accounted for by the loan drawdown of up to P1,206 billion under the Government-guaranteed Export Credit Facility Agreement ('ECFA') between the Corporation and the Industrial and Commercial Bank of China (ICBC).

Current liabilities recorded a 2% (P85,05 million) decrease, to close the year at P3,754 billion. The decrease is mainly attributable to a P479 million cash received from Botswana Government in respect of the Standard Cost Recovery scheme.



Annual Financial Statements

for the year ended 31 March 2012

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General Information

for the year ended 31 March 2012

MEMBERS OF THE BOARD

E T Rakhudu	Chairman
K P Lepekoane	
P Kanedi	
F Motlathledi	
A Kgosidintsi	
G Bakwena	
B Paya	(Resigned 30 June 2011)
B Kenosi	(Appointed 1 July 2011)
K Abi	(Appointed 1 July 2011)
B Thebenyane	(Appointed 1 July 2011)

EXECUTIVE MANAGEMENT

N J Raleru	Chief Executive Officer
M Ratshee	Generation Director
E Rugoyi	Transmission Director
G Mmola	Acting Customer Service and Supply Director
A Motsepe	Acting Corporate Services Director
G Molefe	Acting Rural Director
R Mgadla	Chief Financial Officer
I Ramalohlangye	General Manager Human Resources
M Tibe	General Manager Strategy and Performance
K M Mokobi	Internal Audit Manager
D Makepe	Corporate Secretary

NATURE OF BUSINESS

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

REGISTERED OFFICE

Motlakase House
Macheng Way
P O Box 48
Gaborone

BANKERS

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

ATTORNEYS

Armstrongs	Collins Newman
P O Box 1368	P O Box 882
Gaborone	Gaborone

Minchin and Kelly

P O Box 1339
Gaborone

AUDITORS

Deloitte & Touche
P O Box 778
Gaborone

Directors' Responsibility Statement and Approval of the Annual Financial Statements

for the year ended 31 March 2012

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the annual financial statements of Botswana Power Corporation ("the Corporation"), comprising the statement of financial position as at 31 March 2012, and the statement of comprehensive income, the statement of changes in equity and statement of 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 annual 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 independent auditors are engaged to express an independent opinion on the annual financial statements.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

The directors' responsibility also includes maintaining adequate accounting judgements and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

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. These controls are monitored throughout the Corporation and all employees are required to maintain the highest ethical standards in ensuring the Corporation's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Corporation is on identifying, assessing, managing and monitoring all known forms of risk across the Corporation. 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 have made an assessment of the Corporation's ability to continue as a going concern and believe that continued Government support and the revision of the tariffs will ensure that the Corporation continues as a going concern in the next twelve months.

Although the board are primarily responsible for the financial affairs of the Corporation, they are supported by the Corporation's independent auditors. The independent auditors are responsible for reporting on whether the annual financial statements are fairly presented in accordance with IFRS.

The independent auditors are responsible for independently reviewing and reporting on the Corporation's annual financial statements. The annual financial statements have been examined by the Corporation's independent auditors and their report is presented on pages 30 to 31.

Directors' approval of the annual financial statements

The annual financial statements set out on pages 32 to 77, which have been prepared on the going concern basis, were approved by the board on 12 October 2012 and were signed on its behalf by:



Director



Director

Independent Auditor's Report

for the year ended 31 March 2012

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 annual financial statements of Botswana Power Corporation, which comprise the statement of financial position as at 31 March 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 32 to 77.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and 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 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 present fairly, in all material respects, the financial position of Botswana Power Corporation as at 31 March 2012, 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 Matter

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

Going concern

The Corporation has incurred a loss for the year of P1,122,872,000 (2011: P796,620,000). The operating loss for the year before the tariff subsidy grant of P508,000,000 (2011: 454,000,000) is P819,436,000 (2011: 607,026,000). This condition, indicates the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. The Board believes that the Corporation will receive on-going support from the Government of the Republic of Botswana as disclosed in Note 43 of these annual financial statements.

Consolidation of subsidiary

The Corporation has not prepared consolidated financial statements as per Note 14. The directors believe the subsidiary, BPC Lesedi (Proprietary) Limited, is neither quantitatively or qualitatively material in the context of these financial statements.

Independent Auditor's Report (continued)

for the year ended 31 March 2012

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 42 to the financial statements, the Corporation has not met the requirements of Section 17 of the Botswana Power Corporation Act (Cap 74:01) which requires it to conduct its affairs on commercial lines so as to produce a net operating income by which a reasonable return can be measured. The Corporation incurred an operating loss of P819,436,000 for the year (2011: P607,026,000) before the Tariff Subsidy of P508,000,000 (2011: P454,000,000).

Deloitte & Touche

Certified Auditors

Practicing Member: F C Els (19980074.16)

Gaborone

12 October 2012

Deloitte.

Statement of Comprehensive Income

for the year ended 31 March 2012

	Notes	2012 P'000	2011 P'000
Revenue	1	1,815,601	1,512,236
Other operating income	2	35,544	54,376
TOTAL OPERATING INCOME		1,851,145	1,566,612
Generation, transmission and distribution expenses	3	(2,450,268)	(1,964,388)
Reimbursement of emergency power purchases	4	220,540	206,715
Administration and other expenses	5	(440,853)	(415,965)
TOTAL OPERATING EXPENSES		(2,670,581)	(2,173,638)
OPERATING LOSS BEFORE TARIFF SUBSIDY GRANT	6	(819,436)	(607,026)
Tariff subsidy grant	8	508,000	454,000
OPERATING LOSS AFTER TARIFF SUBSIDY GRANT		(311,436)	(153,026)
Interest income	9	23,009	48,559
Finance costs	10	(2,359)	(2,171)
Net exchange (losses)/gains		(494,517)	132,853
Fair value loss on cross currency and interest rate swap	11	(480,273)	(744,679)
Provision for impairment on investments	14	–	(5,500)
Unwinding of impairment loss on standard cost recovery	19	55,028	45,567
Reversal/Impairment of unrecovered CFP balances	32	87,676	(118,223)
LOSS FOR THE YEAR		(1,122,872)	(796,620)
Other comprehensive losses:			
Impairment of property, plant and equipment	12	(529,663)	–
Total other comprehensive losses for the year		(529,663)	–
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(1,652,535)	(796,620)

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 2012

	Notes	2012 P'000	2011 P'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	13,378,024	12,403,436
Future coal supplies	13	176,814	–
Available-for-sale investments	15	3,000	3,000
Investments held-to-maturity	16	30,002	31,147
Consumer loans - hire purchase scheme	17	7,013	13,647
Consumer loans - rural collective scheme	18	–	6,456
Standard cost recovery	19	–	177,939
		13,594,853	12,635,625
Current assets			
Standard cost recovery	19	–	202,637
Standard cost recovery - NESC	20	65,905	42,333
Investments held-to-maturity	16	371,388	235,127
Consumer loans - hire purchase scheme	17	41,600	6,365
Consumer loans - rural collective scheme	18	–	4,764
Consumer loans - NESC	21	49,429	30,153
Inventories	22	221,867	98,773
Trade and other receivables	23	388,985	469,226
Bank balances and cash		396,200	914,893
		1,535,374	2,004,271
TOTAL ASSETS		15,130,227	14,639,896

Statement of Financial Position (continued)

as at 31 March 2012

	Notes	2012 P'000	2011 P'000
EQUITY AND LIABILITIES			
Capital and reserves			
Irredeemable capital	24	3,200,669	2,321,281
Revaluation reserves	25	2,503,494	3,033,157
Other reserves	26	1,788,544	1,765,535
Accumulated loss		(3,147,963)	(2,002,082)
		4,344,744	5,117,891
Non-current liabilities			
Government grants and advances	27	1,173	1,644
Deferred income - consumer financed projects	28	1,586,419	1,458,428
Borrowings	29	5,348,122	4,141,980
Consumer deposits	30	95,504	80,639
		7,031,218	5,682,691
Current liabilities			
Consumer loans - rural collective scheme	18	38,034	-
Standard Cost Recovery	19	106,888	-
Government grants and advances	27	111,065	166,812
Borrowings	29	11,661	12,459
Trade and other payables	31	1,258,871	1,288,678
Advances - consumer financed projects	32	731,213	920,397
Provisions	33	25,142	11,486
Other financial liabilities	34	1,471,391	1,439,482
		3,754,265	3,839,314
		10,785,483	9,522,005
TOTAL EQUITY AND LIABILITIES		15,130,227	14,639,896

Statement of Changes in Equity

for the year ended 31 March 2012

	Notes	Irredeemable capital P'000	Revaluation reserves P'000	Other reserves P'000	(Accumulated loss) P'000	Total P'000
Balance at 31 March 2010		1,676,637	3,033,157	1,716,976	(1,156,903)	5,269,867
Total comprehensive loss for the year		–	–	–	(796,620)	(796,620)
Transfers	26	–	–	48,559	(48,559)	–
Irredeemable capital contribution	24	639,144	–	–	–	639,144
Investment in subsidiary		5,500	–	–	–	5,500
Balance at 31 March 2011		2,321,281	3,033,157	1,765,535	(2,002,082)	5,117,891
Total comprehensive loss for the year		–	(529,663)	–	(1,122,872)	(1,652,535)
Transfers	26	–	–	23,009	(23,009)	–
Irredeemable capital contribution	24	879,388	–	–	–	879,388
Balance at 31 March 2012		3,200,669	2,503,494	1,788,544	(3,147,963)	4,344,744

Statement of Cash Flows

for the year ended 31 March 2012

	Notes	2012 P'000	2011 P'000
CASH FLOWS (USED IN)/GENERATED FROM OPERATING ACTIVITIES:			
Cash (used in)/ generated from operations	36.1	(848,240)	128,091
Dividends paid	36.2	–	(53,112)
Interest paid		(2,359)	(2,171)
Net cash (used in)/generated from operating activities		(850,599)	72,808
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Interest received		23,009	48,559
Investment in subsidiary		–	(5,500)
Proceeds from disposal of property, plant and equipment		1,226	–
Purchase of property, plant and equipment	12	(1,786,583)	(3,930,033)
Net cash used in investing activities		(1,762,348)	(3,886,974)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings		(12,860)	(12,718)
Proceeds of borrowings		708,451	2,847,565
Increase in consumer loans - hire purchase scheme		(28,601)	(9,070)
Decrease in consumer loans - rural collective scheme		49,254	48,169
Increase in consumer deposits		14,865	12,533
Decrease in standard cost recovery		487,464	283,035
Increase in deferred income - consumer financed projects		127,991	55,797
Decrease in investments held-to-maturity		1,145	7,713
Net settlements on other financial liabilities		(448,364)	(315,198)
(Decrease)/increase in Government grants and advances		(56,218)	121,384
Tariff subsidy grant received		508,000	454,000
Irredeemable capital contribution from the Government		879,388	648,954
Government contribution for acquisition of investment in subsidiary	24	–	5,500
Net cash generated from financing activities		2,230,515	4,147,664
Net (decrease)/increase in cash and cash equivalents		(382,432)	333,498
Cash and cash equivalents at beginning of the year		1,150,020	816,522
Cash and cash equivalents at end of the year		767,588	1,150,020
Cash and cash equivalents comprise:			
Investments held-to-maturity		371,388	235,127
Bank balances and cash		396,200	914,893
		767,588	1,150,020

Summary of Significant Accounting Policies

for the year ended 31 March 2012

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations effective in the current year

The following revised standards and interpretations were available for adoption for the year ended 31 March 2012. These standards and interpretations have not had any impact on the annual financial statements of the Corporation.

Revised International Financial Reporting Standards		Effective Date
IFRS 1	First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	Annual periods beginning on or after 1 July 2010
IFRS 1	First-time Adoption of International Financial Reporting Standards - Amendments resulting from May 2010 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2011
IFRS 3	Business Combinations - Amendments resulting from May 2010 Annual Improvements to IFRSs	Annual periods beginning on or after 1 July 2010
IFRS 7	Financial Instruments: Disclosures - Amendments resulting from May 2010 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2011
IAS 1	Presentation of Financial Statements - Amendments resulting from May 2010 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2011
IAS 24	Related Party Disclosures - Revised definition of related parties	Annual periods beginning on or after 1 January 2011
IAS 27	Consolidated and Separate Financial Statements - Amendments resulting from May 2010 Annual Improvements to IFRSs	Annual periods beginning on or after 1 July 2010
IAS 34	Interim Financial Reporting - Amendments resulting from May 2010 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2011

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

New/Revised International Financial Reporting Standards		Annual Periods beginning on or after
IFRS 1	First-time Adoption of International Financial Reporting Standards - Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'	Annual periods beginning on or after 1 July 2011
IFRS 1	First-time Adoption of International Financial Reporting Standards - Additional exemption for entities ceasing to suffer from severe hyperinflation	Annual periods beginning on or after 1 July 2011
IFRS 7	Financial Instruments: Disclosures - Amendments enhancing disclosures about transfers of financial assets	Annual periods beginning on or after 1 July 2011
IFRS 9	Financial Instruments - Classification and Measurement	Annual periods beginning on or after 1 January 2015
IFRS 10	Consolidated Financial Statements	Annual periods beginning on or after 1 January 2013
IFRS 11	Joint Arrangements	Annual periods beginning on or after 1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	Annual periods beginning on or after 1 January 2013
IFRS 13	Fair Value Measurement	Annual periods beginning on or after 1 January 2013
IAS 12	Income Taxes - Limited scope amendment (recovery of underlying assets)	Annual periods beginning on or after 1 January 2012
IAS 19	Employee Benefits (2011) - An amended version of IAS 19 Employee Benefits with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes	Annual reporting periods beginning on or after 1 January 2013
IAS 27	Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.	Annual reporting periods beginning on or after 1 January 2013
IAS 28	Investments in Associates and Joint Ventures (2011) - This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	Annual reporting periods beginning on or after 1 January 2013

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The annual financial statements are prepared under the historical cost convention 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.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

Freehold land is not depreciated.

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

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land 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 of 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.

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

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

IMPAIRMENT

At each reporting date, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

FUTURE COAL SUPPLIES

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

INVENTORIES

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

RETIREMENT BENEFITS

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

INVESTMENTS IN SUBSIDIARIES

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

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

LEASING

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

Operating leases

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

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

GOVERNMENT GRANTS AND ADVANCES

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

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

Other Government grants and advances

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

Government advances

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

TARRIF SUBSIDY GRANT

Tariff subsidy grant comprise amounts received from the Government in respect of subsidies on electricity tariffs. These are recognised in the statement of financial position in the period in which they relate to.

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.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is deferred in equity and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

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.

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

FOREIGN CURRENCIES

In preparing the financial statements of the Corporation, transactions in currencies other than the entity'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 balance sheet date. 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:
 - (i) controls, is controlled by, or is under common control with, the entity (this includes parastatals and government departments);
 - (ii) 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. The Corporation does not have financial assets (FVTPL).

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

Effective interest method

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

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

Held-to-maturity investments

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

AFS financial assets

Unlisted bonds and listed redeemable bonds held by the Corporation that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 37.9. 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.

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

Financial assets (continued)

Impairment of financial assets (continued)

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 uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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

Derecognition of financial assets

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

Financial liabilities and equity instruments issued by the Corporation

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Corporation are recorded at the proceeds received, net of direct issue costs. In the Corporations 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

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

Financial liabilities (continued)

- 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 remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in note 37.9.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. 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.

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 comprise 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.

ADVANCES ON CONSUMER FINANCED PROJECTS

Advances on consumer financed projects comprised 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 gets incurred. The carrying amount is considered to be at fair value as the advances are unexpended during the normal course of the business of the Corporation.

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

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 P5,000.00 borne by the customer and the actual cost incurred by the Corporation in connecting the customers. The excess of the actual costs incurred over and above the P5,000 is recoverable from the National Electrification Standard Connection Cost Fund. This fund is established from P0.05 (5 thebe) levied to customers for every kWh billed.

STANDARD COST RECOVERY/NESC

Standard cost recovery comprises the excess of the amount levied to customers for new electricity connections and the actual expenditure incurred by the Corporation to effect these connections. This amount is recoverable through further connections around the initial connection which are assumed to be less cost to the Corporation. 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 area where a connection has already been set up for previous customers at a higher cost. However, during the year government has fully paid the standard cost deficit.

REVENUE

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

Sale of electricity

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

Interest received

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

Other income

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

- the Corporation has transferred to the buyer the significant risks and rewards of ownership of the 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 JUDGEMENT IN APPLYING ACCOUNTING POLICIES

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

Revenue recognition

The Corporation sells prepaid electricity vouchers which consumers key in the serial numbers into their meters installed at their premises. As at reporting date, prepaid electricity that has not been utilised by the consumer should be recognised as deferred revenue in line with IAS 18 - Revenue. However, the consumption of the prepaid electricity is determined by the meter installed at the consumers premises, and the Corporation has got no means to know how much the consumers have not utilised at year end.

Summary of Significant Accounting Policies (continued)

for the year ended 31 March 2012

Revenue recognition (continued)

In making their judgement, the directors considered the detailed criteria for the recognition of revenue from the provision of service set out in IAS 18 Revenue and, in particular, whether the Corporation can measure the revenue reliably. Following this consideration management has concluded to defer half of the revenue in the last month of the financial year to the statement of financial position. This was based on the payment pattern of customers and the usage of the prepaid units over time.

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 P401,390,000 (2011: P266,274,000). Details of these assets are set out in note 16.

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Useful lives of property, plant and equipment

As described at above, the Corporation reviews the estimated useful lives of property, plant and equipment at the end of each annual 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 prior year as there has been no 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

The estimation of fair value of below market rate of interest government loans includes some assumptions based on current market conditions. The carrying amount of this loan P7,543 million (2011: P8,498 million). Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 38.9.

Provision for bad debts

In assessing the recoverability of trade and other receivables, management consider the age of the outstanding balances and any other indicators to conclude on recoverability. Management's key assumption in this regard is that the balance in the 120 day plus category are likely to be impaired and provisions are recognised for such receivables.

Notes to the Annual Financial Statements

for the year ended 31 March 2012

	2012 P'000	2011 P'000
1 REVENUE		
Sale of electricity:		
Mining	499,189	432,664
Commercial	525,301	439,342
Domestic	495,765	395,963
Government	275,293	229,932
	1,795,548	1,497,901
Interest earned on consumer loans	13,098	14,161
Reconnection charges	6,955	174
	1,815,601	1,512,236
2 OTHER OPERATING INCOME		
Profit on sale of materials	12,092	42,250
Penalties and late payment fees	4,023	4,333
Rent receivable	3,325	3,034
Wheeling revenue	2,174	3,291
Consumer finance projects recoveries	16,837	-
Other sundry income	(4,082)	1,468
Profit on disposals of property, plant and equipment	1,175	-
	35,544	54,376
3 GENERATION, TRANSMISSION AND DISTRIBUTION EXPENSES		
Fuel, water and chemicals	203,182	106,670
Power purchases	1,744,496	1,363,137
Maintenance	38,869	40,688
- Generation		
- Transmission, Distribution	26,353	13,285
Amortisation of deferred income	(45,845)	(42,042)
- Other		
Staff costs	62,442	64,601
- Generation		
- Transmission, Distribution	191,361	189,649
Depreciation	69,682	67,839
- Generation		
- Transmission, Distribution	144,554	138,175
Other expenses	1,875	2,371
- Generation		
- Transmission, Distribution	13,299	20,015
	2,450,268	1,964,388

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
4 REIMBURSEMENT OF EMERGENCY POWER PURCHASES		
Advances not spent at beginning of year (note 27)	80,064	45,376
Receipts during the year	344,600	610,000
Expenditure on capital projects	(4,689)	(39,034)
Direct payments	(145,113)	(90,017)
Repayment of standard cost recovery balance	–	(239,546)
Advances not spent at end of year (note 27)	(54,322)	(80,064)
Reimbursement of emergency power purchases	220,540	206,715
<p>The Corporation augments its sources of power supply with emergency power that is purchased at a premium. The Government funds the premium associated with such emergency power purchases. During the year, the Government disbursed a total of P344,600,000 (2011: P610,000,000) towards emergency power purchases and other projects associated with emergency power generation. The receipts from the government are amortised to profit or loss to match the emergency power purchases charged to profit or loss.</p>		
5 ADMINISTRATION AND OTHER EXPENSES		
Staff costs	149,336	93,617
Depreciation of items of property, plant and equipment	68,047	68,354
Auditors' remuneration		
- current audit	995	1,100
- non audit	–	446
Board members' fees	167	119
Provision for bad debts	17,909	118,154
Insurance expenses	26,087	21,509
Postage and telecommunications costs	13,410	13,536
Printing and stationery	3,158	2,248
Rental expense	4,678	4,304
Fuels and lubricants	30,734	6,225
Customs duty and freight charges	10,445	4,406
Travel and accommodation costs	8,257	8,580
Advertising	3,326	7,150
Commission costs	10,856	8,040
Security costs	19,375	17,651
Bank charges	5,502	3,677
Consultancy fees	23,727	23,802
Office cleaning costs	3,559	2,814
Repairs and maintenance	13,533	9,128
Other sundry expenses	27,752	1,105
Administration and other expenses	440,853	415,965

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
6 OPERATING LOSS		
Operating loss is arrived at after charging/(crediting) the following items:		
Depreciation of items of property, plant and equipment	282,283	274,368
Profit on disposal of property, plant and equipment	(1,175)	-
Repairs and maintenance of property, plant and equipment	78,755	63,101
Sale of materials	(168,575)	(149,707)
Cost of materials sold	156,483	107,457
Operating lease charges - property rentals	4,678	4,304
7 STAFF COSTS		
Salaries and wages	301,350	308,697
Gratuities	8,202	5,314
Pension contributions	30,985	31,278
Early exit packages	62,099	923
Medical retirement packages	503	1,655
	403,139	347,867
Staffs costs are included in generation, transmission and distribution and administration expenses are reconciled below		
Staff costs - Generation	62,442	64,601
Staff costs - Transmission, Distribution	191,361	189,649
Staff costs - Administration	149,336	93,617
	403,139	347,867
8 TARIFF SUBSIDY GRANT	508,000	454,000
The Corporation's end user tariffs are lower than the generation cost per unit. The Government has approved a plan to gradually ramp up the tariffs to an economically sustainable level. For the year ended 31 March 2012 the Government of the Republic of Botswana has approved and paid a grant of P508 million (2011: 454 million) to partially offset the operating losses.		
9 INTEREST INCOME		
Bank balances on call and investments held-to-maturity	23,009	48,559

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
10 FINANCE COSTS		
Interest on borrowings	2,359	2,171
Interest on borrowings capitalised to property, plant and equipment (Note 12)	100,083	51,520
	102,442	53,691
Less interest capitalised to property, plant and equipment	(100,083)	(51,520)
	2,359	2,171
<p>The interest costs incurred on the Industrial and Commercial Bank of China (ICBC) loan disclosed per Note 29 has been capitalised to capital work in progress, as part of additions, as it relates to borrowings directly associated with the construction of the Morupule B power station.</p>		
11 FAIR VALUE LOSS ON CROSS CURRENCY AND INTEREST RATE SWAP		
Realised fair value loss on cross currency and interest rate swap	448,364	315,198
Unrealised fair value loss on the cross currency and interest rate swap	31,909	429,481
	480,273	744,679

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

As at 31 March 2012, the fair valuation results indicated a liability of P1,471,391,000 (2011: P1,439,482,000) which was among other factors influenced by the fact the Botswana Pula remained strong against the USD and forecast interest rates remain lower than predictions at the time of entering into the hedge. The hedge structure and set up is under revision with a view to address both the accumulated liability and the effect it has on the profit or loss. The revision will take into account the latest available market information.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	Land & Buildings P'000	Generation Transmission & Distribution P'000	Other P'000	Capital Work in Progress P'000	Total P'000
12 PROPERTY, PLANT AND EQUIPMENT					
2011					
Balance at beginning of year	378,334	4,666,812	58,686	3,653,749	8,757,581
Transfer to emergency power grant	–	(9,810)	–	–	(9,810)
Additions	–	5,656	16,628	3,907,749	3,930,033
Transfers	3,801	281,276	111,417	(396,494)	–
Depreciation	(14,393)	(206,013)	(53,962)	–	(274,368)
Balance at end year	367,742	4,737,921	132,769	7,165,004	12,403,436
At 31 March 2011					
Cost or valuation	382,353	8,553,613	321,899	7,165,004	16,422,869
Accumulated depreciation	(14,611)	(3,815,692)	(189,130)	–	(4,019,433)
Carrying amount	367,742	4,737,921	132,769	7,165,004	12,403,436
2012					
Balance at beginning of year	367,742	4,737,921	132,769	7,165,004	12,403,436
Additions	422	298,219	8,859	1,479,083	1,786,583
Disposals	–	–	(49)	–	(49)
Transfers	10,059	205,828	1,434	(217,321)	–
Impairment losses recognised in other comprehensive income	–	(529,663)	–	–	(529,663)
Depreciation	(14,806)	(214,236)	(53,241)	–	(282,283)
Balance at end of year	363,417	4,498,069	89,772	8,426,766	13,378,024
At 31 March 2012					
Cost or valuation	392,834	9,057,660	332,143	8,426,766	18,209,403
Accumulated depreciation and impairment	(29,417)	(4,559,591)	(242,371)	–	(4,831,379)
Carrying amount	363,417	4,498,069	89,772	8,426,766	13,378,024

Included in additions is interest on borrowings capitalised for qualifying asset under construction amounting to P100,083,000 (2011: P51,520,000).

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
12 PROPERTY, PLANT AND EQUIPMENT (continued)		
The Corporation's property, plant and equipment is revalued at 5 year intervals. The last revaluations were performed as at 31 March 2008. If the assets had not been revalued, the cost and accumulated depreciation would have been as shown below.		
Cost	5,399,559	3,612,976
Accumulated depreciation	(2,028,475)	(1,357,302)
Carrying amount	3,371,084	2,255,674

The details of land and buildings are available at the Corporation's head office. The Corporation is in the process of obtaining copies of all title deeds over its properties owned as a number of title deeds over the Corporation's properties are not available or reflect historical ownership data.

12.1 Impairment losses recognised in the year

During the year, as a result of the significant breakdowns and operational challenges which has resulted in Morupule A Power Station operating below capacity, the Corporation carried out a review of the recoverable amount of Morupule A Power Station and related assets. The Power station is included as part of generation assets in note 12. The review led to the recognition of an impairment loss of P529,663,000 which has been recognised in other comprehensive income. The recoverable amounts of the relevant assets have been determined on the basis of their value in use on the assumption that the Corporation needs to spend P600,000,000 during the year ending 31 March 2013 in refurbishment costs on the Morupule A Power Station in order to extend its useful life to 7 years. The discount rate used in measuring the value in use was 8.35% per annum.

The impairment losses have been included in the line item impairment of property plant and equipment in the statement of comprehensive income.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
13 FUTURE COAL SUPPLIES		
Balance at beginning of year	–	–
Additions during the year	182,985	–
Amortisation during the year	(6,171)	–
	176,814	–

The Corporation entered into a revised coal supply agreement with Morupule Colliery Limited on 28 April 2010 to align with the coal requirements of the Morupule B Power Station. According to the agreement, the Corporation was scheduled to start taking up coal in June 2011. There are 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 within future coal supply. 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.

During the period from January 2012 to 31 March 2012, the Corporation started receiving coal, however due to the fact that the tonnage received is less than what was originally scheduled, capital and fixed charges amounting to P75,555,000 were expensed through profit and loss account during the year. These costs have been included in fuel, water and chemicals costs per Note 3.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
14 INVESTMENT IN SUBSIDIARY		
BPC Lesedi (Proprietary) Limited	5,500	5,500
Less: Provision for Impairment	(5,500)	(5,500)
Net Investment	–	–
<p>The Corporation has a controlling interest in BPC Lesedi (Proprietary) Limited, "BPC Lesedi". This subsidiary is a joint venture between the Corporation (55%) and EDF International (45%). The Corporation's investment is through Government's equity injection. P5.5 million had been contributed as at 31 March 2012. BPC Lesedi was formed to exploit renewable solar energy sources in Botswana through a fee-for service franchising model under which direct participation by private small scale investors is encouraged and supported. The directors believe that the financial information of this subsidiary is not material both quantitatively and qualitatively to the financial statements of the Corporation. The directors believe that the cost of this investment has been impaired and hence the provision.</p>		
15 AVAILABLE-FOR-SALE INVESTMENTS		
Barclays Bank of Botswana Limited Bond	3,000	3,000

Available-for-sale investments comprises a Barclays Bank of Botswana Limited bond held as at 31 March 2012. This Bond has a variable rate of interest. At year end the rate was 9.51% (2011: 9.51%) and is tradable on the open market. Available-for-sale investments are classified as non-current assets, unless they are expected to be realised within twelve months of the statement of financial position date or if it is management's intention to dispose of the investments within twelve months of the statement of financial position date. The directors believe the cost of this investment is less than the fair value.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
16 INVESTMENTS HELD-TO-MATURITY		
Deposits with local banks	371,388	235,127
Deposits with foreign banks	30,002	31,147
	401,390	266,274
Current portion	(371,388)	(235,127)
Long-term portion	30,002	31,147

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 5.75% to 6.15% (2011: 5.75% to 6.15%). These fixed deposits are invested for periods ranging from 7 to 28 days (2011: 7 to 28 days).

The deposits with foreign banks have been placed to match the foreign currency exposure on certain of the Corporation's foreign borrowings as per Note 29.

The deposits are denominated in foreign currency as follows:

US dollar	\$'000	4,125	4,781
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Deposits and short term investments are retained primarily to fund the future replacement of and additions to the Corporation's property, plant and equipment. Interest from these funds is accordingly transferred to the other reserves as disclosed per Note 26.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
17 CONSUMER LOANS - HIRE PURCHASE SCHEME		
17.1 Hire purchase scheme	98,003	60,217
Less short-term portion	(41,600)	(6,365)
Less provision for doubtful debts	(49,390)	(40,205)
Long-term portion	7,013	13,647
17.2 Hire purchase short-term portion	41,600	6,365
Less provision for doubtful debts	–	–
Short-term portion	41,600	6,365
Total	48,613	20,012

Consumer loans represent outstanding balances under the deferred repayment scheme for the cost of capital connections payable by consumers over periods of up to 180 months. 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 prime lending rate, which at the end of the year was 10.25% (2011: 10.25%).

18 CONSUMER LOANS - RURAL COLLECTIVE SCHEME

18.1 Long term Rural Collective Scheme	100,137	106,593
Less advance from Government	(100,137)	(100,137)
Long-term portion	–	6,456
18.2 Short term Rural Collective Scheme	65,664	108,462
Less advance from Government	(103,698)	(103,698)
Short-term portion	(38,034)	4,764
Total (Government Revolving Fund)/loan receivable	(38,034)	11,220

Rural Collective Scheme is a Government revolving fund established to provide rural consumers with access to electricity. The scheme is guaranteed by the Government. Loans which are repayable within a period of 18 months are interest free. Loans over longer periods bear interest which is linked to the Barclays Bank of Botswana Limited prime lending rate which at the end of the year was 9.5% (2011: 10.25%). In the prior year, the Government authorised setting off of the dividend payable against the balance of consumer loans-rural collective scheme amounting to P49,640,000. The balance arising from repayments by Government are classified under revolving fund.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
19 STANDARD COST RECOVERY		
Long term portion	(106,888)	196,058
Less impairment	–	(18,119)
	(106,888)	177,939
Current portion	–	239,546
Less impairment	–	(36,909)
	–	202,637
Total standard cost	(106,888)	435,604
Less impairment	–	(55,028)
	(106,888)	380,576
<u>Movement in impairment</u>		
Balance at beginning of year	55,028	100,595
Impairment recognised during the year	–	–
Unwinding of impairment loss on standard cost recovery	(55,028)	(45,567)
Balance at end of year	–	55,028

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 three financial years, this balance has been less likely to be recoverable in this manner due to the increasing cost of raw materials not matched by revised standard charges to the customer, which are determined by the Government. Pursuant to the recovery of these amounts, management sought reimbursement from the Government and a payment plan was agreed, the deficit was scheduled to be recovered in three equal instalments. The first instalment due, amounting to P239 million, was settled as per the plan in the prior financial year. During the current financial year the Government settled the final balance of P479 million. An impairment loss recognised in the prior year was reversed during the current year as the amount was fully settled by Government.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
20 NESC		
Refunds due from the National Electrification Standard Connection Cost Fund	65,905	42,333
<p>With effect from 1 October 2010, the Government introduced the National Electricity Standard Connection Cost (NESC) in selected rural and semi urban areas. Participants of this scheme pay a standard charge of P5,000 for a connection. The difference between this standard charge and the actual cost incurred by the Corporation is claimable from the National Electrification Standard Connection Cost Fund. This fund is established from P0.05 (5thebe) levied to customers for every Kwh billed.</p>		
21 CONSUMER LOANS - NESC	49,429	30,153
<p>This balance comprises amounts owing from customers for their contribution under the NESC Scheme referred to in Note 20. The customer's electricity connection costs 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 loans over longer periods bear interest which is linked to the Barclays Bank of Botswana Limited prime lending rate which at the end of the year was 9.5% (2011: 10.25%).</p>		
22 INVENTORIES		
Coal and fuel	101,591	27,758
Maintenance spares and materials	120,276	71,015
	221,867	98,773

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
23 TRADE AND OTHER RECEIVABLES		
Electricity sales receivables:	221,684	188,342
Mining	31,495	41,115
Commercial	150,025	155,542
Domestic	114,212	98,730
Government	81,793	40,073
Impairment of trade receivables	(155,841)	(147,118)
Small works contractors receivables:	47,069	85,591
Gross receivables from small works contractors	88,156	88,991
Impairment of small works contractors	(41,087)	(3,400)
VAT receivable	104,451	184,957
Other receivables	7,523	2,685
Prepayments	8,258	7,651
	388,985	469,226
<p>The average credit period on sale of electricity is 62 days (2011: 82 days). No interest is charged on the trade receivables. The Corporation has provided fully for all receivables over 120 days, because historical experience has shown that receivables that are past due beyond 120 days, are generally not recoverable. Trade receivables between 60 days and 120 days are provided for based on estimated irrecoverable amounts from the sale of electricity, determined by reference to past default experience.</p> <p>The Corporation holds bank guarantees as security against certain of these receivables to the value of P10,663,484 (2011: P14,524,568). 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.</p>		
<u>Movement in the provision for doubtful trade receivables</u>		
Balance at beginning of year	147,118	36,964
Current year provision	8,723	110,154
Balance at end year	155,841	147,118

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.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
24 IRREDEEMABLE CAPITAL		
Balance at beginning of year	2,321,281	1,676,637
Contribution received during the year	879,388	639,144
Government of Botswana own funds - Morupule B Funding	434,032	553,654
Transfer to emergency power funds	(78,600)	
Government of Botswana via funds borrowed from International Bank for Reconstruction and Development of the World Bank Group ("IBRD") - Morupule B Funding	163,821	75,680
Government of Botswana via funds borrowed from African Development Bank - Morupule B Funding	257,099	-
Village electrification and network extension	103,036	-
Prior year transfer	-	9,810
Contribution for acquisition of investment in subsidiary (note 14)	-	5,500
Balance at end of year	3,200,669	2,321,281

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.

The Funds received by the Corporation on behalf of the Government of Botswana from World Bank and African Development Bank for the construction of the Morupule B Power station are shown on next page:

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
24 IRREDEEMABLE CAPITAL (continued)		
Government of Botswana Funding through IBRD - World Bank Advances		
Balance at beginning of year	68,951	–
Funds received during the year	142,788	144,631
Utilised during the year and capitalised to equity	(163,821)	(75,680)
Balance at the end of the year (Note 27)	47,918	68,951

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

	2012 USD'000	2011 USD'000
Morupule generation expansion	190 653	48 125
Alternative energy development	–	–
Institutional and capacity building	723	–
	191 376	48 125

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

Total cumulative disbursements under the International Bank For Reconstruction and Development Loan Agreement amounted to at USD43,266,389 as at 31st March 2012.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 EUR'000	2011 EUR'000	2012 P'000	2011 P'000
24 IRREDEEMABLE CAPITAL (continued)				
Government of Botswana Funding through African Development Bank funds				
Balance at beginning of year	–	–	–	–
Funds received during the year	25,862	–	257,099	–
Utilised during the year	(25,862)	–	(257,099)	–
Balance at the end of the year	–	–	–	–
Disbursement under the African Development Bank Loan Agreement are effected under the direct payment method under which suppliers are paid directly by the bank. The funds received in the current year were utilised in the construction of the following:				
3x50mvz 400kv shant reactors	2 676	–		
Isang 400/220 substation	8 210	–		
Morupule Isang 400kv transmission line	14 976	–		
	25 862	–		

	2012 P'000	2011 P'000
25 REVALUATION RESERVES		
Balance at beginning of year	3,033,157	3,033,157
Impairment recognised during the year	(529,663)	–
Balance at end of year	2,503,494	3,033,157

The properties revaluation reserve arises on the revaluation of land and buildings, generation, transmission and distribution plant and equipment. During the year the Corporation performed impairment testing for Morupule A station and an impairment loss of P529 million was incurred. Where revalued items are sold, the related portion of the revaluation reserve is effectively realised and is transferred directly to retained earnings.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
26 OTHER RESERVES		
Balance at beginning of year	1,765,535	1,716,976
Transfer from retained earnings	23,009	48,559
Balance at end of year	1,788,544	1,765,535
<p>Other reserves comprise amounts transferred annually from accumulated losses. The annual transfers represent the interest received on the Corporation's investments during the year. The purpose of this reserve is to complement the funding requirements for capital expenditure for the Corporation's expansion program.</p>		
27 GOVERNMENT GRANTS AND ADVANCES		
Benefit of the government loan at a below-market rate of interest	1,173	1,644
Emergency power grants 70MW and 90MW	54,322	80,064
Other emergency power grants (Seronga, Energia and Eltel)	8,825	17,797
Advances in respect of Morupule B Power Plant capital expenditure	47,918	68,951
	112,238	168,456
Less short term portion	(111,065)	(166,812)
	1,173	1,644

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

Emergency power grants represent the balance of emergency power funds disbursed to the Corporation at reporting date. The Government funds any power purchased at a premium above normal prevailing prices as well as any capital works aimed at providing energy on an emergency basis. P344.6 million was received during the year (2011: P610 million). On Note 4, the funds received have been reconciled to the statement of comprehensive income.

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

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
28 DEFERRED INCOME - CONSUMER FINANCED PROJECTS		
Deferred income - consumer financed projects	1,586,419	1,458,428

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

	Current		Non Current	
	2012 P'000	2011 P'000	2012 P'000	2011 P'000
29 BORROWINGS				
<u>Borrowings at amortised cost</u>				
Government of the Republic of Botswana				
Debt Participation Capital Fund	–	495	–	–
Debt Participation Capital Fund	873	804	–	873
Debt Participation Capital Fund	1,702	1,581	2,799	4,501
Government of the Republic of Botswana (funded by Japanese Overseas Economic Cooperation Fund)	1,182	1,063	5,297	6,480
- Loan Balance	1,591	1,534	6,061	7,653
- Fair value adjustments transferred to government grant)	(409)	(471)	(764)	(1,173)
Debt Participation Capital Fund	1,612	1,612	2,652	4,264
Nordic Investment Bank	4,335	3,883	–	3,883
Government of the Republic of Botswana (funded by Nordic Development Fund)	1,957	933	37,185	37,156
European Investment Bank	–	2,202	–	–
Industrial and Commercial Bank of China	–	–	5,300,189	4,084,823
	11,661	12,573	5,348,122	4,141,980

	2012 P'000	2011 P'000
<u>Currency analysis of borrowings</u>		
Pula denominated	16,117	21,673
Foreign denominated	5,343,666	4,132,880
Total borrowings	5,359,783	4,154,553

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	Security	Interest rate per annum	2012 P'000	2011 P'000
29 BORROWINGS (continued)				
Government of Republic of Botswana				
Debt Participation Capital Fund	On-lent	8.50%	–	495
Debt Participation Capital Fund	On-lent	8.50%	873	1,677
Debt Participation Capital Fund	On-lent	7.50%	4,501	6,082
Government of Republic of Botswana (funded by Japanese Overseas Economic Cooperation Fund)	On-lent	3.75%	6,479	7,543
Debt Participation Capital Fund	On-lent	7.50%	4,264	5,762
Nordic Investment Bank	Government of the Republic of Botswana		4,335	7,766
Government of Republic of Botswana (funded by Nordic Development Fund)	Government of the Republic Botswana	3.00-5.00%	39,142	38,089
European Investment Bank	Government of the Republic of Botswana	3.47%	–	2,202
Industrial and Commercial Bank of China	Government of the Republic of Botswana	Libor + 160bps	5,300,189	4,084,823
			5,359,783	4,154,439
The borrowings are repayable as follows				
Up to 1 year			11,661	12,573
2 - 5 years			8,791	19,068
Later than 5 years			5,339,331	4,122,912
Total			5,359,783	4,154,553
30 CONSUMER DEPOSITS				
Consumer deposits			95,504	80,639

Consumer deposits comprise amounts received from customers held as security against failure to settle accounts. These ordinarily represents two months estimated electricity sales to the customer and are refundable on closing the customer account.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
31 TRADE AND OTHER PAYABLES		
Trade and other payables	690,925	552,837
Refund due to Government	–	270,000
Interest on borrowings	5,828	4,342
Staff costs	36,780	35,391
Retentions	525,338	426,108
	1,258,871	1,288,678
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.		
32 ADVANCES - CONSUMER FINANCED PROJECTS		
Advances received from customers	731,213	920,397
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.		
<u>Movement in provision for impairment of unrecovered CFP balances</u>		
Balance at beginning of year	(118,223)	–
Current year reversal/(provision)	87,676	(118,223)
Balance at end year	(30,547)	(118,223)

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	Legal provision P'000	Gratuity P'000	Decommissioning costs P'000	Total P'000
33 PROVISIONS				
Balance at 1 April 2011	2,954	7,644	888	11,486
Additional provisions raised	10,712	7,532	–	18,244
Reductions due to case withdrawals/payments	–	(4,588)	–	(4,588)
Balance at 31 March 2012	13,666	10,588	888	25,142

(a) Legal provision

The provision represents claims under employee disputes and claims for public liability.

(b) Gratuity provision

Gratuity provision is recognised in respect of contractual obligations with contract employees, to pay a certain percentage of their basic pay as a lump sum at the end of their contracts.

(c) Decommissioning costs

The provision for decommissioning costs represents the present value of the directors' estimate to dismantle the idle Selebi Phikwe substation.

	2012 P'000	2011 P'000
34 OTHER FINANCIAL LIABILITIES		
Financial liabilities carried at fair value through profit or loss (FVTPL)		
Balance at beginning of year	1,439,482	1,010,001
Fair value loss for the year	480,273	744,679
Realised loss (payments)	(448,364)	(315,198)
Balance at end of year	1,471,391	1,439,482
<u>Comprising:</u>		
Total fair value loss	2,234,953	1,767,317
Total realised fair value loss	(763,562)	(327,835)
	1,471,391	1,439,482

To reduce the fair value risk of changing interest rates and foreign currency exchange rates on the loan from Industrial and Commercial Bank of China (ICBC), the Corporation has entered into a pay fixed interest rates and receive floating interest rate hedging arrangement with Standard Bank plc. The swap matures every six months starting on 15 January 2010. The swap is made up of a basket of notional currency on which interest is calculated on the predetermined notional currency amounts at a fixed interest rate and converted to Botswana pula on 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 its 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

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	Fixed interest rate		Basket currency split	
	2012 %	2011 %	2012 %	2011 %
34 OTHER FINANCIAL LIABILITIES (continued)				
South African Rands	13.35	13.35	65	65
United States Dollars	6.47	6.47	15	15
Euro	6.30	6.30	10	10
British Pound	6.67	6.67	5	5
Japanese Yen	4.07	4.07	5	5
			100	100

The hedged amount is pegged in USD for the hedging bank, Standard Bank plc. This amount is determined at the beginning of every six months based on the estimated 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.

	2012 USD'000	2011 USD'000	2012 P'000	2011 P'000
Notional hedged amount	754,110	692,987	4,912,771	4,514,573
Loan drawdown (Note 29)	(813,579)	(627,020)	(5,300,189)	(4,084,823)
(Under)/Over hedged amount	(59,469)	65,967	(387,418)	429,750

	2012 P'000	2011 P'000
35 COMMITMENTS		
35.1 Capital commitments		
Authorised but not contracted	600,000	221
Authorised and contracted	3,507,350	5,834,954
	4,107,350	5,835,175
The Corporation will finance the above expenditure through internal funds and external borrowings.		
35.2 Operating lease commitments		
The future aggregate minimum lease payments under operating lease agreements are as follows:		
Within one year	392	392
Later than one year but not later than 5 years	8,730	9,123
	9,122	9,515

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
36 NOTES TO THE STATEMENT OF CASH FLOWS		
36.1 Cash generated used in operations:		
Loss for the year	(1,122,872)	(796,620)
Tariff subsidy grant	(508,000)	(454,000)
Interest received	(23,009)	(48,559)
Interest paid	2,359	2,171
	(1,651,522)	(1,297,008)
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	282,283	274,368
Other gains and losses (Note 11)	480,273	744,679
Fair value adjustment on standard cost recovery	(55,028)	(45,567)
Impairment provision: BPC Lesedi	–	5,500
Amortisation of Government grant	(409)	(471)
Unrealised exchange losses/(gains) on borrowings	565,188	(141,172)
Profit on disposal of property, plant and equipment	(1,175)	–
	(380,390)	(459,671)
Cash flows (used in)/generated from working capital changes:		
Increase in standard cost recovery - NESC	(23,572)	(42,333)
Increase in future coal supplies	(176,814)	–
(Increase)/decrease in inventories	(123,094)	9,060
Decrease/(increase) in trade and other receivables	80,241	(106,779)
(Decrease)/increase in trade and other payables	(29,807)	616,296
Increase in provisions	13,656	1,934
Increase in consumer loans - NESC	(19,276)	(30,153)
Increase in advances - consumer financed projects	(189,184)	139,737
	(467,850)	587,762
Cash generated (used in)/generated from operations	(848,240)	128,091
36.2 Dividend paid		
Amounts unpaid at beginning of the year	–	53,112
Amounts unpaid at end of the year	–	–
Dividend paid	–	53,112

In the prior year, the Government allowed the Corporation to offset the dividend payable against the amounts due from the Consumer Loans - Rural Collective Schemes detailed in Note 18 amounting to P49,640,000, the balance was settled to the Government in cash.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

37 RETIREMENT BENEFITS

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

Contract employees that are not members of the retirement benefit plan are entitled to gratuities that are a percentage of the basic salary over the period of their employment contracts.

The contributions recognised as an expense for the retirement benefit plan and the gratuity expense are disclosed per Note 8.

38 FINANCIAL INSTRUMENTS

38.1 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 strategy remains unchanged from 2012.

The capital structure of the Corporation consists of debt, which includes the current and non current liabilities as disclosed on the statement of financial position, cash and cash equivalents disclosed on the statement of cash flows and equity and reserves comprising irredeemable capital, revaluation reserves, other reserves and accumulated losses as disclosed in Notes 24, 25, 26 and the statement of financial position respectively.

	2012 P'000	2011 P'000
Gearing ratio		
Debt	10,785,483	9,337,048
Cash and cash equivalents	(767,588)	(1,150,020)
Net debt	10,017,895	8,187,028
Equity	4,344,744	5,117,891
Net debt to equity ratio (%)	231%	160%

38.2 Categories of financial instruments

Financial assets at amortised cost:		
Held-to-maturity investments	401,390	266,274
Loans and receivables (including cash and cash equivalents)	836,423	1,675,805
Available-for-sale financial assets	3,000	3,000
	1,240,813	1,945,079
Financial liabilities at amortised cost	9,312,919	9,323,918
Financial liabilities at fair value	1,472,564	1,441,126

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

38 FINANCIAL INSTRUMENTS (continued)

38.3 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.

38.4 Market risk

The Corporation's activities expose it primarily to the financial risk of changes in foreign exchange rates (see 38.5 below) and interest rates (see 38.6) below. The risk of movements in foreign exchange rates is mitigated through:

- maintaining money market investments in currencies that match the foreign loan obligations;
- maintaining foreign currency bank accounts to settle foreign currency obligations; and
- cross currency swaps per note 34.

38.5 Foreign currency risk management

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

	Liabilities		Assets	
	2012 P'000	2011 P'000	2012 P'000	2011 P'000
Denominated in the following currencies:				
United States Dollar	5,348,053	4,310,876	30,093	75,958
Japanese Yen	3,651	-	-	-
South African Rand	292,001	94,426	18,220	9,812
Euro	67	688	-	-
	5,643,772	4,405,990	48,313	85,770

38.5.1 Foreign currency sensitivity analysis

The following table shows the effect of a 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.

	2012 P'000	2011 P'000
Increase in loss for the year	(279,773)	(216,011)

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

38 FINANCIAL INSTRUMENTS (continued)

38.6 Interest rate risk management

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

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

38.6.1 Interest rate sensitivity analysis

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

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

	2012 P'000	2011 P'000
Loss for the year would (decrease)/increase by	50,157	38,006

38.7 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 trade accounts receivables is disclosed on Note 23. The most significant credit risk concentration of other financial assets are disclosed as follows.

	2012 P'000	2011 P'000
African Alliance	1,353	23,047
African Banking Corporation (Proprietary) Limited	133,000	125,406
First National Bank Limited	100,000	–
Stanbic Investment Management Services	197	35,866
Standard Chartered Bank of Botswana (Proprietary) Limited	–	3,108
Bank Gaborone (Proprietary) Limited	135,000	50,700
Barclays Bank of Botswana Plc London	30,002	31,147
Total	399,552	269,274

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

38 FINANCIAL INSTRUMENTS (continued)

38.8 Liquidity risk management

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

38.8.1 Liquidity risk and interest tables

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

	Up to 1 year P'000	2 to 5 years P'000	+5 years P'000	Total P'000
2012				
Fixed interest rate	11,661	8,791	–	20,452
Variable interest rate	–	–	5,300,189	5,300,189
Non interest bearing	2,015,226	–	–	2,015,226
	2,026,887	8,791	5,300,189	7,335,867
2011				
Fixed interest rate	12,459	19,068	–	31,527
Variable interest rate	–	–	4,084,823	4,084,823
Non interest bearing	2,035,604	–	–	2,035,604
	2,048,063	19,068	4,084,823	6,151,954

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.

	Up to 1 year P'000	2 to 5 years P'000	+5 years P'000	Total P'000
2012				
Variable interest rate	–	3,000	–	3,000
Non interest bearing	284,534	–	–	284,534
Fixed interest rate	371,388	30,002	–	401,390
	655,922	33,002	–	688,924
2011				
Variable interest rate	–	–	3,000	3,000
Non interest bearing	284,269	–	–	284,269
Fixed interest rate	235,127	31,147	–	266,274
	519,396	31,147	3,000	553,543

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

38 FINANCIAL INSTRUMENTS (continued)

38.8 Liquidity risk management (continued)

38.8.2 Facilities

The Corporation has access to financing facilities, the total unused amount which is P100 million (2011: P40 million) as at the date the statement of financial position. The Corporation expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

38.9 Fair Value

The directors of the Corporation believe that all the carrying amounts of all financial instruments approximate fair value. 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% (2011: 11%) to discount the future cash flows on settlement of the Government loan.

38.9.1 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 P'000	Level 2 P'000	Level 3 P'000	31/03/12 Total P'000
Available-for-sale financial assets				
Quoted bonds	3,000	–	–	3,000
Financial liabilities at FVTPL				
Derivative financial liabilities	–	–	1,471,391	1,471,391

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

39 CONTINGENT LIABILITIES

	2012 P'000	2011 P'000
(a) The Corporation has guaranteed the obligation of certain employees under its motor vehicle and residential housing schemes in a total amount of	9,528	12,729

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

	2012 P'000	2011 P'000
39 CONTINGENT LIABILITIES (continued)		
(b) Public liability		
Legal claims against the corporation	39,829	4,914
40 RELATED PARTY BALANCES AND TRANSACTIONS		
<u>Amounts due (from)/to:</u>		
Botswana Unified Revenue Service (Value added tax)	104,428	179,047
Botswana Unified Revenue Service (Withholding Tax)	3,497	1,282
Botswana Unified Revenue Service (Import Value added tax)	74,191	58,936
	182,116	239,265
<u>Remuneration of key entity personnel:</u>		
Salaries and other short term employee benefits	8,666	9,436
Terminal benefits	1,338	534
	10,004	9,970

Trade receivables due from the Governments disclosed in Note 23. Electricity sales to the Government of the Republic of Botswana during the year ended 31 March 2012 are disclosed per Note 1. Borrowings from the Government are disclosed in Note 29. Note 27 Details the balance of advances received from the Government for emergency power purchases.

41 SUBSEQUENT EVENTS

Subsequent to year end the Board resolved to refurbish Morupule A in line with the Japan International Cooperation Agency (JICA) Study. Management has since taken the decision to put the Morupule A Power station under care and maintenance whilst funding is being sought from Government.

The construction of Morupule B Power Station has experienced some delays which includes among others, the strikes in South Africa, typhoons at sea, inclement weather at site and provision of commissioning power.

This has necessitated the revision of the takeover schedule from the contractual dates as follows;

	Original Dates	Revised Dates
Unit 1	January 2012	November 2012
Unit 2	April 2012	December 2012
Unit 3	July 2012	January 2013
Unit 4	October 2012	May 2013

The Commissioning of 1.3MW Photovoltaic Power Plant solar power at Phakalane was integrated to the Botswana Power Corporation grid in August 2012 The project was completed and commissioned under the cool earth partnership. The power generated by the plant is adequate to supply about 800 low cost houses, and it started to feed into the grid from 4th August 2012.

Notes to the Annual Financial Statements (continued)

for the year ended 31 March 2012

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

The Corporation has not complied with the requirements of Section 17 of the Botswana Power Corporation Act (Chapter 74:01) which requires the Corporation to conduct its affairs on sound commercial lines and to produce a net operating income by which a reasonable return can be measured. An operational loss of P311,436,000 (2011: P153,026,000) was incurred after a tariff subsidy of P508,000,000 (2011: P454,000,000) received from the Government of the Republic of Botswana, mainly due to high unit cost of production compared to unit selling price.

43 GOING CONCERN

The Corporation has incurred a loss for the year of P1,122,872,000 (2011: P796,620,000). This condition, indicates the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern. The Board considers the going concern of the Corporation to be at risk and is dependant on the following:

- (a) Approval of tariff increases - the third adjustment based on the 2010 Interim Tariff Plan is going through the Government approval process, with the first adjustment and the second implemented in May 2010 and June 2011 respectively at 30% each.
- (b) Reimbursement of the cost of emergency power purchases incurred by the Corporation.
- (c) The successful commissioning of Morupule B generation unit as indicated in Note 41.
- (d) Financial support on infrastructure development as well as the refurbishment of Morupule A plant in order to meet the national demand.





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