BOTSWANA POWER CORPORATION

ANNUAL REPORT 2010

ACHIEVING BUSINESS EXCELLENCE THROUGH QUALITY SERVICE AND OPERATIONAL EFFICIENCIES

Botswana Power Corporation

BOTSWANA POWER CORPORATION

ANNUAL REPORT

2010

MISSION

As a service organisation, we facilitate sustainable and diversified development of our country by rendering a quality electrical energy services that are affordable, efficient, safe and environmentally prudent.

VISION

A leading competitive commercial electricity utility in the region.

VALUES

Business Excellence
Service Excellence
Performance Excellence
Personal growth
Ethical Business Conduct
A valued citizen

BOTSWANA POWER CORPORATION

CONTENTS

Botswana Power Corporation

Chairman's Review

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

Pursuant to Section 23(1) of Botswana Power Corporation Act (CAP 74:01) it is my honour to present on behalf of the Board the Annual Report for the 2009/10 Financial Year.

The year under review saw the Corporation continuing to operate under great pressure from the various challenges within the industry. The global economic crisis which had an impact in most economies from mid 2008 exacerbated an impending challenge of supply shortage in the electricity market not only in the region but across the globe.

The trend in economic conditions which prevailed up to the end of the year under review continued to have a negative impact on the Corporation's profitability, which reflected a further decline due to a less significant growth in revenues against the escalating cost of supply.

Revenue growth was at 6%

This is mainly attributable to an 8% growth in unit sales.

For the year under review, average unit sales remained at 36 thebe against an average unit cost of 57 thebe per kWh, primarily due to import power costs which went up by up to 35%. The net effect was that the operating cost went up by 19% on average against 6% growth in revenue. This led to the Corporation registering a net operating loss of P564 million against P376 million in the prior year.

The comprehensive loss for the year was however reported at P1,226 billion mainly attributable to the recognition of the hedge instrument fair value loss of P1,022 billion recorded for the year under review for the Morupule B loan of USD825 million. In line with the Corporation risk management policies all loans are hedged against market exposure (currency and interest rate) and the instruments are reviewed from time to time.

To deliver on its mandate of providing affordable and efficient electricity services to the nation, in the face of a difficult business landscape, the Corporation put in place a number of strategic initiatives, which among others included the following:

(i) **The implementation of the 600MW Morupule B expansion project in pursuit of power self sufficiency in the short to medium term**
A major accomplishment for the Corporation during the year was reaching financial close on the funding for Morupule 'B' project and the commencement of construction.

The project involves construction of the plant and its associated infrastructure which includes Transmission Lines, Substations and Water Pipe Lines.

The funding for the project, estimated at USD 1.7 billion (P11.2 billion), has been secured through a 50% Corporate loan from Industrial and Commercial Bank of China (ICBC) which became effective in September 2009 and 50% Government equity, with participation of the International Bank for Reconstruction and Development (IBRD of the World Bank Group) and African Development Bank.

The civil and the equipment design work for the project advanced considerably during the year with significant milestones being achieved to deliver the plant for full commissioning in 2012 as scheduled.

(ii) Sourcing sufficient power supply from limited sources at least cost to meet the current national demand

The power supply during the period continued to be outstripped by demand, leading to load curtailment during peak periods. The phenomenon was however contained within tolerable levels through regional cooperation of the Southern African Power Pool utilities, which continued to offer both firm and non-firm supply. The Corporation also embarked on Demand Side Management initiatives to educate and sensitize consumers on efficient use of electricity and load management.

Through Government subsidy and support construction of two emergency power facilities commenced during the year, with the 70MW in Matshelagabedi, 25 km east of Francistown commissioned in January 2010. A 90MW generator in Orapa is planned for commissioning in early 2011.

(iii) Jointly working with the Shareholder to have a regulatory framework on the tariff structure

The Government's efforts to establish a Water and Electricity Regulator comes at an opportune time, the industry landscape has recently been deregulated allowing independent players to participate in the power generation market. The regulator is expected to be in place in eighteen months.

The existence of the Regulator will no doubt help in sustaining the national utility by entrenching cost reflective tariffs which will boost operational efficiency as well as build consumer confidence on the cost of supply.

(iv) Promotion of renewable energy

Another major initiative through Government is the development of renewable energy to augment the grid sources. The establishment of a subsidiary BPC Lesedi (Pty) Ltd to offer off-grid alternative energy solutions was indeed a landmark.

The renewable energy market will go a long way in diversifying the industry as well as poverty alleviation as the rural community will not only be served with alternative supply but shall also participate in providing the alternative products.

(v) Operational efficiency towards Improving customer service

During the year, the Corporation embarked on a technology transformation exercise to implement a SAP Enterprise Resource Planning system which includes financial reporting, human resources, billing and revenue management as a driver to improve customer satisfaction. The project went live in April 2010 and shall integrate processes for improvement in customer service.

During the reporting period efforts to increase and invest in customer satisfaction were demonstrated by the opening of one-stop service centers to allow customers to access most of the Corporation's services under one roof. New centers were built in Nata, Charleshill, Lobatse and Ramotswa while prepaid electricity vending points were increased countrywide.

(vi) Review of electricity connection standard cost

To enhance the Rural Electrification Scheme introduced in 1984, the Corporation worked with the Government on the establishment of a National Electricity Standard Cost fund, this led to a uniform connection cost countrywide from October 2010. The initiative is indeed a breakthrough in the continuing efforts to increase access to electricity, particularly by the rural community. Contributions to the National Electricity Standard Connection (NESC) cost fund is through an electricity levy, which came into effect in April 2010.

In conclusion, I wish to first thank our valued customers for their support and loyalty during this period. I wish to assure them of our commitment to serve to the best of our ability.

I, on behalf of the Board and employees, thank the Government for their continuing support for the Corporation's endeavors to close the supply gap to meet the national demand.

May I take this opportunity to also thank my colleagues in the Board for their dedication and support during these uncertain times. Last but not least I would like to thank all BPC employees for their tireless efforts in providing a very necessary service despite the prevailing adverse conditions.

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

Members of the Board







MEMBERS OF THE BOARD

1. E T Rakhudu *(Chairman)*
2. F Motlhatlehedi *(Vice Chairman)*
3. P M Mogatle - Kanedi
4. G Ndlovu
5. A Kgosidintsi
6. B Bonyongo
7. B Paya

EXECUTIVE MANAGEMENT TEAM

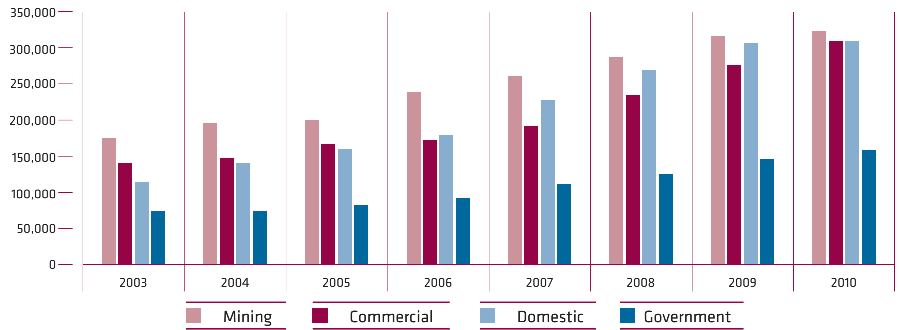
1. N J Raleru *(Chief Executive Officer)*
2. A K Joseph *(Generation Director)*
3. E Rugoyi *(Transmission Director)*
4. G Mmola *(Acting Customer Service and Supply Director)*
5. A Motsepe *(Acting Corporate Services Director)*
6. P Dhafana *(Acting Rural Director)*
7. R Mgadla *(Chief Financial Officer)*
8. J Dick *(Acting General Manager Human Resources)*
9. D Makepe *(Corporate Secretary)*
10. M Tibe *(General Manager Strategy and Performance)*
11. K M Mokobi *(General Manager – Internal Audit)*

Financial and Operational Highlights

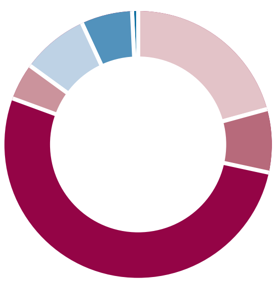
Unit Sales by Sector 2010

Mining	29%
Commercial	28%
Domestic	28%
Government	15%

Sales Revenue by Category

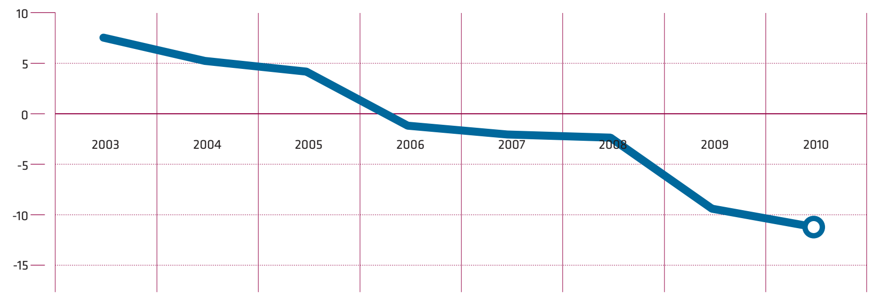


Analysis of costs 2010



Staff Costs	21%
Other	8%
Energy Imports	52%
Maintenance	4%
Depreciation	8%
Fuel	6%
Financial Costs	1%

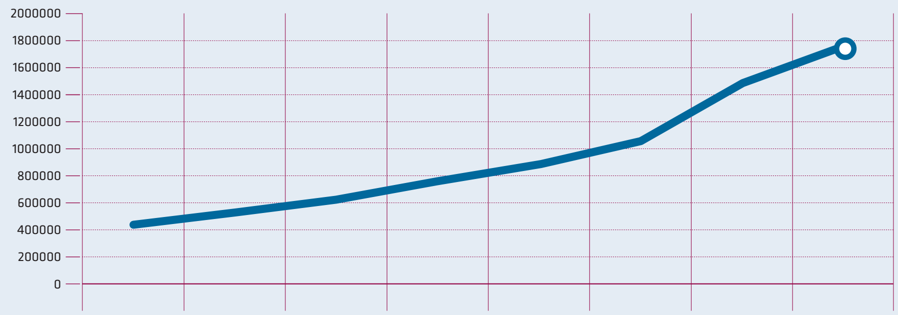
Return on Revalued Assets



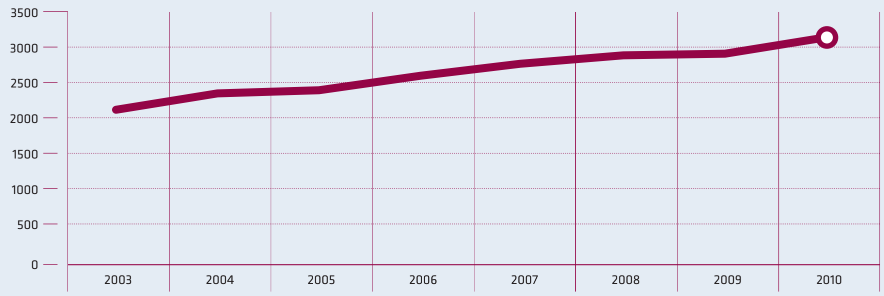
Financial and Operational Highlights

Operating Income/loss (P'000)

Operating Expenditure



Sales Trends - GWh Sold



Vital Statistics

Operational Statistic	2010	2009	2008	2007	2006
Revenue (P'000)	1,135,474	1,069,559	938,555	819,680	714,809
Net profit/(Loss) (P'000)	(1,572,169)	(133,623)	111,143	101,305	120,718
Return on revalued fixed assets (%)	(11.04)	(9.25)	(2.27)	(1.9)	(1.0)
Total unit sales (GWh)	3,151	2,917	2,889	2,777	2,626
Total generation (sent out) and imports (GWh)	3,414	3,369	3,210	3,120	2,917
Head count	1,841	1,901	2,010	2,015	2,091
Total consumers	214,170	198,615	196,755	166,651	151,800
Plant capacity (MW)	132	132	132	132	132
System maximum demand (MW)	553	503	493	473	434
Average selling price per unit (Thebe/kWh)	36	36	31.7	28.7	26.3

NATIONAL ELECTRICITY EFFICIENCY CAMPAIGN

SAVE POWER!

Managing power the smart way!

Hot Water Load Control (HWLC) project

BOTSWANA POWER CORPORATION

committed to serve

Managing Power the Smart way!

As part of its commitment to manage the power supply in the Country, Botswana Power Corporation (BPC) will soon launch the Hot Water Load Control (HWLC) project. The HWLC project is one of the short term strategies aimed at alleviating the power supply problem. It is envisaged that through implementation of the HWLC project a reduction of up to 40MW can be achieved.

Brief Description of the System

The HWLC system consists of a Central system at SPC offices, Data Concentrators installed at transformers and Smart meters and geyser contactors which will be installed in customer's houses. The smart meters will communicate with the Central System located at SPC offices through a hybrid communication channel (GPRS and PLC).

How Does The System Work?

The HWLC system will control system load through the execution of three load control measures.

Stage 1: Remote Geyser Control

In order to control the hot water load, the installed system will enable remote switching OFF of geysers for selected customer load groups (supplied from the same transformer). Geysers for customers in the same load groups will be switched OFF at the same time. It is anticipated that geysers are likely to be switched OFF during peak periods whenever demand exceeds supply.

Stage 2: Load Curtailment

If switching OFF of geysers is not sufficient to address the supply deficiency, the next step is load curtailment. The smart meters installed have a facility to be remotely configured to limit load to required levels. The level of load limit will be determined by the extent of supply constraint being experienced.

Stage 3: Remote Disconnect/Reconnect Of Supply To Selected Customer Groups

The third stage is switching OFF supply to selected areas. Switching OFF supply will only be implemented under extreme cases when severe supply constraints are being experienced i.e. situations that can not be addressed by switching OFF geysers and load curtailment only. Once the situation has normalised, supply can then be restored remotely.

Annual Statistics

for the year ended 31 March 2010

	2009/10	2008/09	2007/08	2006/07	2005/06
Revenue (P'000)	1,135,474	1,069,559	938,555	819,680	714,809
Operating profit/(loss)	(563,573)	(376,430)	(85,767)	(63,414)	(27,098)
Net profit/(loss)	(1,572,169)	(133,623)	111,143	101,305	120,718
Capitalisation (P'000)					
Long term debt	1,460,764	119,209	135,803	130,163	135,822
Net assets	6,371,232	6,466,499	5,069,837	4,720,903	4,582,454
Capital expenditure and WIP	3,086,888	1,211,301	628,114	168,888	226,778
Electricity (GWh)					
Source					
Morupule	532.1	620.7	697.0	821.5	977.1
Station usage	74.8	71.0	66.5	95.4	110.8
Sent out	457.3	549.7	630.5	726.1	866.3
Purchased	2,954.5	2,748.5	2,585	2,393.6	2,050.4
Total sent out and purchased	3,452.5	3,369.2	3,215.8	3,119.7	2,916.7
Sales disposition (GWh)					
Mining	1,149.3	1,123.2	1186.2	1,199.0	1,184.3
Commercial	864.7	734.6	683.9	634.0	631.1
Domestic	829.1	768.7	745.1	681.7	584.4
Government	307.5	290.4	273.5	262.0	226.6
Total sales	3,150.6	2,916.9	2,888.7	2,776.7	2,626.4
Transmission and distribution losses (GWh)	261.2	381.0	327.1	343.0	290.3
System losses (%)	7.5	11.6	10.2	11.0	10.0
Total consumers	214,170	198,615	196,755	166,651	151,800
			112.0		
Sales growth (%)					
Mining	2.3	-5.0	-1.07	1.24	13.16
Commercial	17.7	7.4	7.9	0.5	2.9
Domestic	7.9	3.1	9.3	16.6	8.4
Government	5.9	6.2	4.39	15.62	4.47
Total sales growth	8.0	1.0	4.0	5.7	8.7
Average selling price (thebe)	36.0	36.0	31.7	30.5	26.3
Earning ratios (%)					
Net margin	(38.7)	(12.2)	11.8	12.4	16.9
Earnings to irredeemable capital	(26.2)	(8.1)	76.3	69.6	82.9
Return on total average assets employed	(3.8)	(1.8)	1.81	1.83	2.6
Operating profit to revenue	(48.8)	(35.2)	(9.1)	(7.7)	(3.8)
Return on revalued property, plant and equipment	(7.8)	(9.25)	(2.27)	(1.86)	(1.0)

Mr. N J Raleru, Chief Executive Officer
Botswana Power Corporation

Chief Executive's Review on Operations

Generation - Morupule Power Station

During the year under review, the current Morupule Power Station continued to play a key role in supplying a portion of the base load despite experiencing various operational and maintenance challenges which negatively affected plant availability.

Cost per unit generated for the year

72.07 thebe per KWh

Compared to the budgeted 41.3 thebe per KWh, mainly due to escalation of maintenance and fuel cost, driven by both the market and the prevailing plant efficiency level relative to the plant age.

The plant has been under operation for 24 years out of an anticipated life span of 25-30. Based on the residual life assessment done on the plant in 2009, its remaining life can be extended by a further fifteen years if an extensive refurbishment is conducted.

The plant overall performance has declined mainly due to aging and obsolescence of plant equipment and the Corporation has since embarked on a plant refurbishment project which is being implemented in phases.

Completed projects include Control and Instrumentation system replacement and focus shall now be on optimisation and training of Operators and Maintenance team on the system.

Ongoing projects include refurbishment of Electrostatic Precipitators which was carried out on Unit 1 and two units shall be covered in the next financial year. Projects planned include boiler re-tubing which requires a significant amount of capital investment and is envisaged to commence in the next year.

Statutory inspections continued to be carried out as planned and for the period under review Unit 1 was taken out and major overhaul of the Turbo Generator set had to be conducted.

On system performance, the Power Station produced a total of 532.1 GWh with 457.3 GWh sent out to the National Grid. This output compared with 620.7 GWh generated and 549.7 GWh sent out last year, represents a decrease of 11.4%.

Cost per unit generated for the year was recorded at 72.07 thebe per KWh compared to the budgeted 41.3 thebe per KWh, mainly due to escalation of maintenance and fuel cost, driven by both the market and the prevailing plant efficiency level relative to the plant age.

Waste management control remains one of the key aspects in operating the plant. The contract with a local cement supplier on the fly ash remains in force, with an uptake of 37 137 tonnes for the year under review.

As part of Morupule B power station implementation an ash dump site has been identified near the existing one, and it is expected that the integration of the current disposal system to a new site would assist the operations and allow for the old site rehabilitation.

Emission levels were at 648 623 mg/Nm3 of Carbon Dioxide and 4134 mg/Nm3 of Sulphur Dioxide. The Sulphur Dioxide levels are however within the limit of statutory requirements. To mitigate against exceeding the limits an Environmental Management Plan (EMP) was concluded in March 2010 which is due for implementation in the next review period.

The replacement of Electrostatic Precipitators to mitigate dust pollution has been completed in one Unit (Boiler 1), with the rest of the units to be covered.

The total raw water usage for the 2009/10 financial year totalled 393 188 m^3 and out of this usage, a total of 232 939 m^3 was demineralised for steam generation.

The 2009 Paje Wellfields and Morupule Power Station annual monitoring reports were duly completed and submitted to the relevant authorities.

Chief Executive's Review on Operations *(continued)*

Transmission

The supply situation remained tight during the year under review, in particular the high demand winter season resulted in narrow power supply reserve margins during peak load hours.

Total electrical energy sent out in 2010 was

3 414 GWh

Representing a 7.2% positive growth when compared to the energy sent out in 2009

The security of supply in Botswana is set to remain tight until commissioning of Morupule B coal fired 600MW power station in 2012. In the interim, measures to secure additional power supply from the Southern African Power (SAPP) continue to be pursued to minimise the supply deficit.

The 70MW diesel fired emergency power facility at Matshelagabedi (25km east of Francistown) commissioned in January 2010 effectively supported efforts to reduce load shedding to a bare minimum when supply from Morupule and imported power could not meet the demand. Conservation publicity campaigns were constantly carried out to reduce instances of supply – demand imbalance and the support and cooperation from customers and other stakeholders was commendable.

The power import sources remained dominated by Eskom (South Africa) and supplemented with imports from NamPower of Namibia and Electricidade de Mocambique (EDM) of Mozambique.

In regard to capacity and energy delivered during the period, gradual recovery of the mining sector in the last half of calendar year 2009 from the global economic down turn resulted in higher than anticipated energy consumption for the financial year under review. The total electrical energy sent out in 2010 was 3 414 GWh, representing a 7.2% positive growth when compared to the energy sent out in 2009. Imports from South Africa (in the main) and other Southern African Power Pool Members constituted 87% of the energy sent out, with the balance 13% being sourced from Morupule Power Station.

The total energy delivered at bulk supply points was 3 290 GWh with the transmission technical losses at 3.6% of total energy sent out. Chart 1 shows the market share of the various sources of supply.

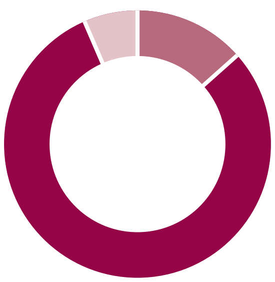
The system maximum demand for the year under review was 553 MW representing an increase of 9.9% over the previous year's system maximum demand of 503 MW. Load shedding on account of supply shortfall resulted in loss of 3.146GWh sales which is 47% of the previous' year load shedding.

Electricity dispatch from the grid is accounted for under three customer categories of mines, rural areas (Rural Business) as well as the urban and peri-urban areas (Customer Services and Supply).

Sales to the mining sector registered a positive growth of 3.4% as the mines gradually recovered from the global economic downturn during the financial year under review. The overall sales growth for the Transmission Business unit was 7.1%.

The Corporation continues to invest in the existing infrastructure towards increasing transformation capacity, transmission reliability as well as supply firmness. Major projects commissioned during the year include 315MVA at Phokoje and a new 220kV bus bar and a line to Hydromet.

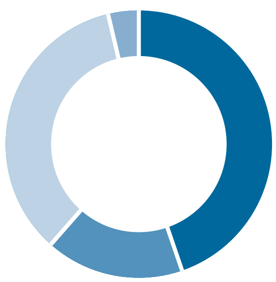
Chart 1: Source of Supply Market Share 2010



Morupule	13%
Eskom	80%
Other SAPP	7%

Projects which are ongoing include the Airport Road as well as Molepolole, Segoditshane and Woodhall substations whose firm capacity would otherwise be exhausted. Construction of a new 132/11kV substation at Kgale View to meet load growth was also advanced in the period under review. All the five projects should be completed in the next review period with a total investment of BWP 139 million being funded from the Corporation's own resources.

Chart 4: Transmission Sales Statistics for 2010



CSS	45%
Rural	17%
Mining	34%
Losses	4%

On Regional Co-operation, the Corporation continued to actively participate in the Southern African Power Pool (SAPP) with a view to contribute to the development of the SAPP and to jointly seek strategies of managing the prevailing supply deficit.

Major activities in SAPP during the period under review included:

- Resolution of the inter-control area inadvertent energy;
- Hosting the SAPP Sub-Committee and Management Committee meetings in September 2009;
- A study for power system oscillations that caused interconnector tripping was carried out but could not be conclusive. A consultant has been engaged by SAPP to assist in this regard; and
- Revision of the Operating Guidelines which is ongoing.
- Hosting a workshop on the Commercial & Operational Performance Assessment of selected utilities.

Chief Executive's Review on Operations *(continued)*

Customer Services & Supply

During the period under review the Corporation undertook some projects which are geared towards bringing services closer to its customers. Construction work commenced on five service centres in Nata, Charleshill, Lobatse, Gumare and Ramotswa. Gumare, Nata and Ramotswa were completed during the period.

Overall customer base increased to

214,170

Representing 7.8% growth on the 198,615 at the beginning of the financial year.

An interim call centre for faults which operates from 6am to 10pm has been implemented. This has ensured that customer calls for reporting faults are answered. Additional fault crews were engaged to be able to cope with the increased answered calls and the increased fault numbers which are due to an ever growing network.

Demand Side Management Initiatives:

Hot Water Load Control Project (Smart Meters), which commenced in the prior period, has seen a successfully run pilot implementation. The smart meters will be fully implemented by March 2011. The project, when fully operational will reduce the effects of load shedding by switching off geysers as a first option during periods of power shortage and furthermore enabling the remote management of meters.

A Memorandum of Understanding has also been signed with Water Utilities Corporation to shift major pumping activities to off-peak periods, this has freed up some much needed power during peak periods. A load shedding schedule has been published to inform customers of the times and days of service interruption during power shortages.

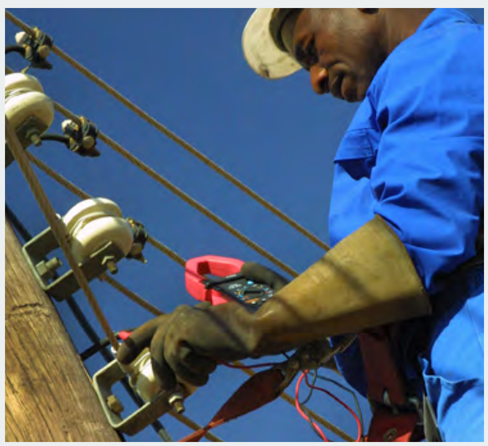
Networks and Supply:

Funding for the urban distribution network capacity and reinforcement was approximately P15million with a focus on achieving continuity of supply and safety. Quality of supply issues such as reliability and flexibility of supply continued to be addressed.

In line with Government Policy and Citizen Economic Empowerment, the Corporation uses outsourced consultants and contractors to implement projects financed by both the Corporation and its customers. The total number of consultants increased from six to seven this financial year with all of them majority citizen owned. There were a total of twenty-three contractors engaged for the distribution infrastructure development work. Eighty percent (80%) of the contractors are citizen owned and controlled.

New Connections:

The number of new connections in the period under review totalled 15 555. This is an 11% decline when compared to the previous year's new connection which amounted to 17 480. The domestic demand accounts for 97% of new connections. The total customer base has increased to 214,170 representing 7.8% growth on the 198,615 at the beginning of the financial year.



Chief Executive's Review on Operations *(continued)*

Rural Electrification

The Corporation continued to implement a number of projects under National Development Plan 9 (NDP9), with a target of electrifying 130 villages by the end of the planning period as a social obligation to increase electricity access to Batswana. The major projects include:

Rural access to electricity increased by

3.73%

from 46.82% (excluding businesses) in the previous year to 50.55% by March 2010.

(a) The 100 villages project, funded by the Government through loans from Norwegian and Swedish banks for USD89 million had 47 villages electrified during the period bringing the total to 77.

(b) The 30 villages electrification project funded by the Government from the National Budget for P115 million was completed in June 2009, with 3 villages being completed during the period.

(c) In addition, the 20 villages network extension project funded by the Government for P75 million was completed in April 2010, with 2 villages being completed during the period.

(d) The 12 villages network extension project funded by BPC for P10 million was completed in February 2010.

As a step towards energy diversification and to ensure access to electricity for the community, Botswana Power Corporation through its subsidiary BPC Lesedi (Pty) Ltd started on its quest to offer off-grid alternative energy solutions. The project started with 4 villages in the Kweneng District, namely, Kgope, Lentsweletau, Dikgatlhong and Medie.

Products offered are solar electric systems, efficient wood stoves and heat retention bags (hot bags), rechargeable lanterns and small batteries. Services offered are recharging of lanterns, small batteries and cell phones from the recharging stations in the villages. This milestone was achieved through a partnership arrangement with Botswana Post with a memorandum of understanding for revenue collection.

During the period under review, rural access to electricity increased by 3.73% from 46.82% (excluding businesses) in the previous year to 50.55% by March 2010. Figure 1 shows the electricity access levels per district as at March 2008/9 and 2009/10. Consistent with prior years South East District has the highest electricity access rate at 86.48% with Southern District having the lowest at 40.54%.

Figure 2 shows the electricity connection patterns per district, and Central District has the highest number of connections, followed by Kweneng with the lowest being Chobe District.

Rural Collective Scheme:

Through the Government supported Rural Collection Scheme (RCS) which is administered by BPC Rural Business Unit, customers continue to connect electricity through flexible instalment plans. During the period under review, the total number of customers connected through this scheme was 8,903 bringing the total rural customer base connected through this scheme to 123,248.

The average connection cost was P6,317 by March 2010 with the highest being P17,000. In order to have affordable and uniform connection cost across the country Government approved the establishment of the National Electrification Standard Cost (NESC) at P5,000 per household connection in electrified villages, towns, and cities.

To sustain the NESC initiative a National Electrification Fund was established which derives its proceeds from the electricity levy on consumption at 5 thebe per unit. The electricity levy was approved to commence on the 1st April 2010. The initiative will among others mitigate against the exposure the Corporation has been carrying as a deficit resulting from connection costs above different standard costs.

Figure 1: Electricity access Levels per District as at March 2008/9 and 2009/10

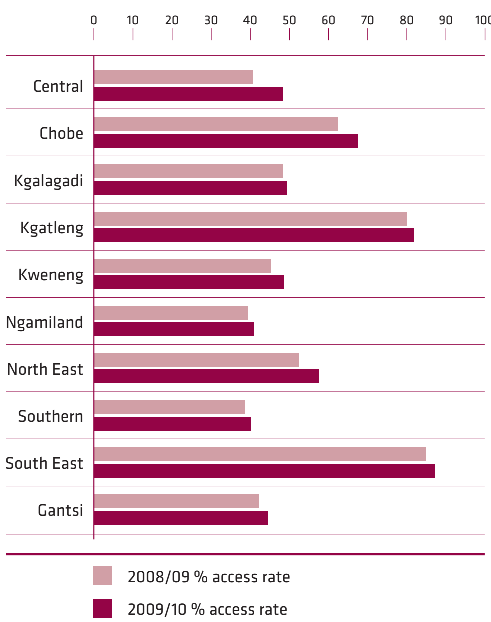
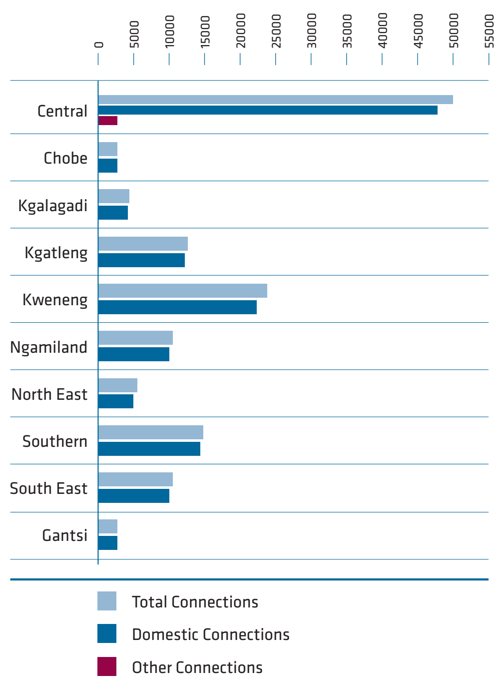


Figure 2: Electricity connection levels per District as at March 2010



Chief Executive's Review on Operations *(continued)*

Corporate Services

The Corporation continued to improve its service delivery, health and safety standards and its social responsibility stance through a number of initiatives including:

INFORMATION AND COMMUNICATION TECHNOLOGY SYSTEMS DEVELOPMENT

The Corporation recognises technology as an enabler to meet its strategic priorities particularly that of improving customer satisfaction. During the year under review the Corporation implemented a number of projects including:

SAP Enterprise Resource Planning (ERP) System:

The Corporation went live with an SAP ERP system that integrated and replaced at least 7 legacy systems. Key objectives included: improved operating efficiencies, human capital utilisation, information quality, customer service, and revenue collection.

Optimisation of Corporation ICT Infrastructure:

The Corporation's ICT Infrastructure environment has been optimised for it to be able to meet future business requirements. Reduction of support costs due to varying configuration standards and lack of a guiding architecture, as well as centralising management, were key drivers for the project. The business requirements for additional functionality in collaborative MS Project Systems, Web Services, Portals and Access Security have been redressed. Formal Microsoft Certification and hands-on knowledge transfer to IT staff on the products was undertaken during the project implementation.

Network Re-enforcement and Expansion:

The implementation of an integrated business solution required that the general IT hardware be upgraded to appropriately dimensioned servers and Storage Area Networks (SAN) systems. These technologies allow for on-demand upgrades, flexibility, enhanced availability and more efficient use of available resources through virtualisation technologies. The bandwidth requirements for optimal applications operation was achieved through upgrades on leased lines.

Optic Fibre Optimisation on Data and Voice Networks:

The Corporation installed fibre on the backbone transmission lines for use in system operations and control. In order to save costs on Corporation Data and Voice Communications it was agreed to leverage the Corporation's current investment in its fibre networks. Sites that are now linked with the fibre include Lobatse, Kanye, Morupule, Phikwe, Francistown and two of the Corporation's facilities namely the Training School and National Control Centre. To achieve optimum utilisation more sites shall be coming on stream including Serowe, Mahalapye and Ramotswa.

WHY SWITCH TO ENERGY SAVING BULBS (CFLs)

COMPACT FLUORESCENT LAMPS (CFLs)

- Save you **P4.40** per bulb per month every month
- Use up to **80%** less electricity
- Last up to **10** times longer than incandescent bulbs (can last up to 3 years)
- Difference in costs of purchase is paid for within **3 months** of use
- Emit less quantities of harmful gases into the atmosphere **(76% less mercury emissions)**

COMPACT FLUORESCENT LAMPS (CFLs) FACT SHEET

GOVERNANCE OF CFLs

The technology and manufacturing of CFLs is not new and is governed by international Safety, Health and Environment (SHE) standards. CFL brands being distributed by BPC are fully compliant. Fluorescent lighting has been with us in our kitchens, garages, schools, offices and other buildings for decades.

MERCURY CONTENT IN CFLs

- CFLs contain an average of below 5milligrams of mercury; about the amount that would cover the tip of a ball point pen. This is less than half of the mercury content in a standard 1.2m fluorescent tube.
- Many household items we use in our day to day lives contain some amount of mercury such as thermometers, dental fillings, topical antiseptics, stimulant laxatives, diaper rash ointments, eyedrops and nasal sprays.
- It should be noted that there is no risk of exposure unless the CFL is broken.
- Most manufacturers continue to take steps to reduce CFL mercury content to meet standards set by International Bureau of Standards.

PRECAUTIONS TO TAKE WHEN USING CFLs

BPC IS SINCERELY CONCERNED ABOUT ANY DANGER FOR OUR CUSTOMERS AND THE GENERAL PUBLIC.

- As with all potentially harmful products present in many forms in our daily lives, precaution should be exercised in the use of CFLs.
- CFLs are made of glass and can therefore break if dropped or handled roughly. Be careful when removing the CFL from its packaging and when you are installing it.
- Always hold a CFL at its base when screwing/unscrewing it. Never forcefully twist the CFL into a light socket.

ACTION TO TAKE WHEN A CFL BREAKS

1. Open the windows and leave the room for fifteen (15) minutes or more.
2. Carefully scoop up broken glass and powder with stiff paper/cardboard and place them in a sealed plastic bag. DO NOT USE BARE HANDS, A BROOM NOR A VACUUM.
3. Place the sealed plastic in a second plastic bag and seal.
4. Wipe the area clean with a damp disposable material.
5. Place the sealed plastic bag in an outdoor trash container or any protected outdoor area for the next normal trash disposal.
6. Wash your hands thoroughly after disposing of the bag.

Chief Executive's Review on Operations *(continued)*

SAFETY, HEALTH, ENVIRONMENT AND RISK (SHER)

The Corporation considers safety issues as key to its operations and as such maintains high standards of safety. To maintain compliance to best practice and recognised standards, the Corporation subscribes to the NOSA Safety Standards.

For the year under review Management Teams conducted Safety, Health Environmental Audit at Shakawe, Gumare and Maun Customers Services Canters.

In its endeavour to mitigate against occupationally induced risks, the Corporation sourced the services of an external Occupational Hygienist to conduct a hygiene risk assessment at Werda, Kang and Hukuntsi from the 9 to 11 September 2009. This assessment applied quantitative methods on the aspects of, noise survey, ergonomics, ventilation study, dust survey as well as lighting or illumination survey.

Various training initiatives to promote general risk awareness were conducted across the Corporation.

SHE Training and Education

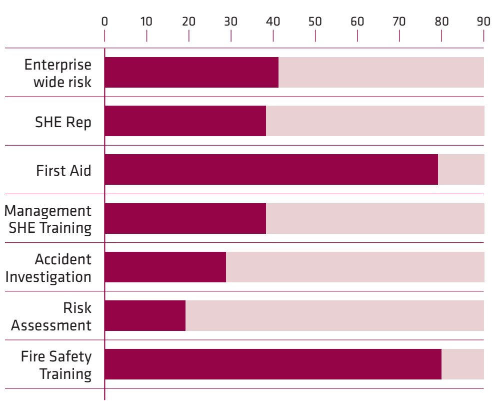


Figure 4: Quarterly Review of non lost time injuries and disabling April 09 – March 2010

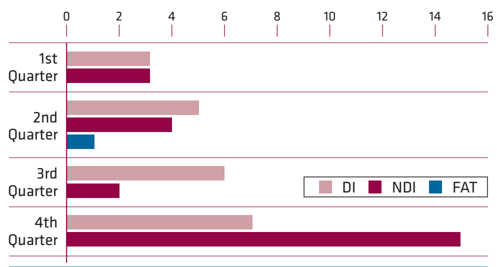
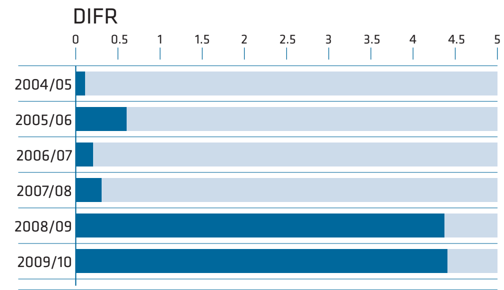


Figure 5: Disabling injury frequency rate comparison 09/10 and last four years:



To assess the level of safety, various statistical information is kept in line with safety standards. The table below depicts the level of injuries registered during the period;

Figure 3: Total Injuries April 09 – March 2010

	1st Quarter **09**	2nd Quarter **09**	3rd Quarter **09**	4th Quarter **10**	TOTAL
Lost Time Injuries	3	5	6	7	21
Non Lost Time Injuries	3	4	2	15	24
Fatalities	0	1	0	0	1
Public Injuries	0	1	1	10	12
Public Fatalities	1		1	1	3
TOTAL INJURIES	7	11	10	33	61
DIFR = 4.4					

The Corporation continues to incur losses on its network infrastructure due to vandalism & meter fraud incidents.

For the year under review a total of 331 incidents were registered compared to 267 incidents during 2008/2009. Vandalism of equipment which has been the major contributor in prior years has significantly decreased and instead the current increase has been mainly influenced by incidents of meter fraud, illegal connections and illegal supply of electricity. Most of the incidents were experienced in the Southern region. To curb the phenomenon, collaborative efforts with other affected stakeholders like the Botswana Police Service, Gaborone City Council, Botswana Housing Corporation and the community became quite effective and a joint exercise to prevent more occurrences is on-going.

Below is a statistical representation of different incidents reported over the year under review against the previous year by the three main regions:

	Vandalism		Meter Fraud		Illegal Connection		Illegal Supply		Damage by 3rd Party	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Southern region	17	69	10	41	2	22	12	62	3	23
Central region	102	43	32	23	13	13	10	11	9	10
Northern region	8	4	6	1	26	1	16	8	1	0

Chief Executive's Review on Operations *(continued)*

CORPORATE SOCIAL RESPONSIBILITY

During the year under review the Corporation contributed to the development and improvement of the lives of communities that it conducts its business in and also to enhance its image as a caring corporate citizen, through participation in community activities.

The Corporation maintains its support for the Government's Vision 2016 pillar of "providing a safe and secure nation" by continuing to participate in the road safety activities of manning strategic points during public holidays. The Nationwide road safety educational campaigns were held at the following centres, Moatle, Ghanzi, Sehithwa, Nata, Sefophe, Topisi and Palla Road. The Corporation also donated umbrellas and soft drinks to all sites.

The Corporation also uses this opportunity to distribute literature on its services as well as energy conservation.

The deserving charitable organisations supported through donations and sponsorships during the year under review were the Botswana Red Cross, Sponsor a Child Trust Fund, the Cheshire Foundation of Botswana, the House of Hope. Other institutions that also benefited are the Motlakase Club and the Botswana Institute of Engineers.

The Corporation Drama Theatre interventions continue to take center stage during various events to provide both entertainment and communicating key aspects of societal issues.

The Corporation's Francistown based Drama Group performed at the September 2009 World Tourism Day Celebrations held under the theme "Tourism Celebrating Diversity".

The Corporation showed the spirit of humanity arising from the Morupule B expansion project resettlement plan by building two houses for the affected family. The family had been staying in the Corporation's undeveloped site and had to be relocated when the project commenced and have since adjusted in their new environment which has all the social amenities.

HUMAN RESOURCES

During the year under review, the Corporation had a complement of 1,885. A total of 81 employees were taken aboard during the year to replace the skills lost through attrition.

The Corporation successfully implemented its Early Exit Policy resulting in 77 employees retired through the initiative. The purpose of this exercise was to create space for new skills and pursue the drive to right size the organisation.

In line with its Learning and Growth perspective the Corporation places a lot of importance in talent attraction, development and retention. In maintaining these aspects various development programmes were conducted to equip employees with skills and to enable them to discharge their duties efficiently and effectively.

Such programmes included technical training such as Linesman Development, Artisan Programmes covering Trade Test for Artisans, Competency Based Recruitment and Leadership Development Programmes.

During the period under review, the Corporation Training Centers at Morupule and Gaborone were accredited under the Botswana Training Authority (BOTA) in a bid to raise and maintain the quality and standard of training programs. Furthermore, in keeping with the requirements of BOTA, several instructors and training officers were certified by BOTA. One other milestone which was indeed worth celebrating was that the two training centres were also accredited by the London City and Guilds.

The Corporation continues to implement the HIV/AIDS and ill Health policy to manage the risk of chronic diseases in the business. At end of financial year, 498 employees had enrolled into the Special Benefit Fund to access treatment and care for chronic conditions. This represents 83% of potential cases as per the 2003 prevalence survey.

Through the Corporation's health assurance policies, nine (9) employees were retired from employment due to ill health during the period. Of these, two (2) were boarded through a Lump Sum Internal Package, while seven (7) were boarded through Insurance Disability Benefit.

Chief Executive's Review on Operations *(continued)*

Strategic Projects - Morupule B

Morupule B Power Station Project development and implementation which commenced during the last review period progressed within schedule during the year. The plant is a coal fired, air-cooled power station with a total capacity of 600MW (4 x 150MW units). The project is expected to be completed in the last quarter of 2012.

Estimated cost of Morupule B Power Station

US$1.7 billion

The estimated cost of the Morupule B Power Station Project, and the associated projects (Transmission Lines, Isang Substation, Water Infrastructure) and other owner's, tax and related costs total is approximately USD1.7 billion (P11.2 billion).

Financing of the Project

The Morupule B Power Station Project is financed through 50% equity injection from the Government of Botswana (GoB) and the remaining 50% through debt financing.

The estimated cost of the Morupule B Power Station Project, and the associated projects (Transmission Lines, Isang Substation, Water Infrastructure) and other owner's, tax and related costs total is approximately USD1.7 billion (P11.2 billion).

On the 15th June 2009 the Corporation signed the Export Credit Facility Agreement (Term loan Agreement) with The Industrial and Commercial Bank of China and Standard Bank (ICBC/SB) Consortium amounting to USD 825.0 million (P5.6 billion).

The loan facility has been guaranteed by Botswana Government and is also supported by World Bank (IBRD) through their Partial Credit Guarantee to extend the term of the loan from 15 years to 20 years.

The Government of Botswana have also arranged part of equity funding through World Bank (IBRD) and African Development Bank (AfDB), and the loans with these two Institutions were approved by their respective Boards at the end of October 2009.

The IBRD loan specifically funds the Water Infrastructure, Morupule - Phokoje 400 kV Transmission line and associated equipments, while AfDB will be funding the Morupule – Isang 400 kV Transmission line together with the Isang 400/220 kV Substation and other associated equipments/works.

Engineering Procurement and Construction (EPC) Contract

The official contract commencement date with the China National Electric Equipment Corporation and Shenyang Blower Works Electro-Mechanics Import and Export Consortium (CNEEC-SBW) was the 29th April 2009. Shortly after this date, on the 11th May a design contract was signed between CNEEC-SBW and the Central Southern Electricity Power Design Institute (CSEPDI) in Wuhan, China, which initiated the Basic Design process.

Fichtner, a German consulting firm are the owner's engineers providing technical support on the project.

Site and contractor's camp accommodation facilities bush clearing activities started in early June 2009 and were effectively completed by the end of July 2009. This facilitated CNEEC-SBW to undertake Topographical Survey and Geotechnical Investigation to confirm the design parameters associated with the in-situ ground geological data at the site area.

The erection of the contractor's camp facilities started in November 2009, and the camp which is now fully functional has the capacity to accommodate approximately 1,500 staff.

The procurement of all major equipment remains on schedule, with the contracts for the Boilers, Turbines, Generator and Air Cooling Condensers all placed before the end of November 2009. Quality Assurance Plans for all major equipment has been received by BPC and subsequently reviewed by Fichtner, and an Independent Contract for Third Party Quality Inspection Services is also in place. The first inspection of the main Boiler No. 1 is scheduled for early May 2010.

Planning permission to progress the site excavation work was received on the 27th January 2010, and excavation activity started immediately. The excavation of the Boilers and Turbine House which is the heart of the facility are on the project critical path and therefore progress in this area is being closely monitored.

Water Infrastructure Projects

Morupule B Power Station will require 1.5 million m^3 / annum to operate efficiently. The primary source of supply is considered to be from the North South Carrier (NSC). However, a secondary supply is required to ensure the smooth running of the power station in the event of a failure in the NSC.

Therefore, there are two large Water Infrastructure Projects associated with the Morupule B project. The first is a five (5) kilometre pipeline from Morupule Colliery Reservoirs linking the Power Station with the NSC.

The second project is the development of a wellfield and the equipping of 21 boreholes and associated infrastructure in the Mmashoro area. This wellfield is designed as a supplementary supply for Morupule B, and is capable of delivering 1,5 million m^3 / annum. The wellfield will be linked to Morupule B by an 80 kilometre header pipeline. The design of this project is being discussed with the World Bank.

Transmission Infrastructure Projects

The Morupule B Power Station is required to evacuate the 600 MW of power via two newly installed 400kV transmission lines. The first line which is 105 kilometres long is going to Phojoke in the north, and the second line which is 215 kilometres long is going to Isang in the south. The project also included the building of a new substation at Isang to distribute the power.

Operational Readiness

Preparations for the onset of the operational phase of the project are currently underway, and a plan to recruit 40 “Key Staff” required for an intense training programme in China later in 2010 is underway. These staff will undergo a structured training programme throughout 2010 and 2011 with a view to operating the station with CNEEC-SBW on an Operation and Maintenance (O&M) contract for the first two years of commercial operation.

Corporate Governance Statement

Botswana Power Corporation has an ongoing commitment to sound corporate governance principles. The Corporation employs these corporate governance principles in discharging its mandate under the BPC Act, its dealings with the shareholder (the Botswana Government) and other key stakeholders.

The Board of Directors

BPC has a diverse and experienced Board of Directors, which is appointed by the Minister of Minerals Energy and Water Resources. The Board's role is to provide strategic leadership within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Corporation's strategic goals, ensures that the necessary financial and human resources are in place for the corporation to meet its objectives.

The Board meets at least four (4) times a year to consider matters reserved for the Board, which include but are not limited to the following;

- Setting the Corporation's Strategy and approving annual budgets;
- Reviewing operational and financial performance;
- Reviewing the Corporation's systems of financial control and risk management;
- Ensuring that appropriate human resource policies are in place;
- Reviewing matters relating to corporate social responsibility, including the safety, health and environmental performance of the Corporation;

Integrity in Financial Reporting

The Board is committed to the quality, integrity and transparency of the Corporation's financial statements. This commitment is reflected through good corporate governance procedures such as having an independent Board Finance and Audit Committee overseeing this function.

Board Committees

Section 12 of the Botswana Power Corporation Act provides that the Board may delegate the exercise of any of its powers to Board sub-committees. The BPC Board currently has the following Committees;

a) The Board Audit Committee
This Committee is responsible for all audit functions and the risk control strategy of the organisation. The Board Audit Committee ensures the integrity of financial reporting and audit processes and the maintenance of a sound internal control and risk management system.

b) The Board Procurement and Tender Committee
The BPTC considers 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 (P 2 500 000.00).

c) The Board Finance Committee
The Board Finance Committee is mandated to consider and advise the Board on all finance matters including, but not limited to, investment of surplus funds generated by the Corporation.

d) The Board Executive Committee
The Board Executive Committee considers all matters of policy and strategy as may be determined by the Board.


HAVE YOU SEEN THE NEW ELECTRICITY BILL
AND STATEMENTS YET?

Financial Review

Revenue and Profitability

The Corporation's profitability during the year was adversely affected by the prevailing economic climate as well as the business environment in the electricity industry with market forces putting pressure on the cost of operations against fairly depressed sales revenue, which led to a further decline in profitability.

The Corporation's Asset base increased by 27% to

P10.6 billion

Mainly due to Property, Plant and Equipment which increased from P5,4 billion to P8,6 billion. The overall growth was however set off against a significant decline in Financial Assets Available for Sale (P60 million) and Investments held to maturity (P1.28 billion).

Revenue generated from energy sales for the year was recorded at P1.132 million, registering a 6% growth for the year under review, from P1,069 million recorded in 2009. This growth is wholly attributable to the 5.7% increase recorded in unit sales as there was no tariff adjustment during the year.

Average selling prices remained at 36 thebe per kWh against the average cost per unit of 57 thebe thus resulting in an operating loss of P535.6 million for the year compared to P376.4 million recorded in 2009 when average unit cost was 49 thebe.

The Corporation recorded a total comprehensive loss for the year of P1,226 billion mainly attributable to a hedge instrument fair value loss of P1,022 billion recorded for the year under review. To manage 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 rate and receive floating interest rate' swap. However, the envisaged strengthening of the United States Dollar currency against other currencies and the rise in USD Libor did not occur. This has led to an over effective hedged position translating into a significant fair value loss on the hedge which has been recognised in the Statement of Comprehensive Income.

To manage the market influenced volatility the hedging policy allows for a periodic review for possible re-profiling and/or restructuring. The first review of the structure of the hedge has been planned to be executed in 2010/11 financial year.

Gross Revenue for the year, which also includes income from wheeling charges, sale of material to contractors, interest on consumer scheme loans and reconnection fees registered a declining growth of 9% compared to 14% reported in the prior year.

Finance income declined by 52% from P268.1 million registered in 2009 to P128.7 million. This decline was mainly attributed to two main factors, being the reduced interest rates earned on fixed deposits which averaged at below 7% compared to an average of 11.1% in the previous year and a significant reduction on cash reserves due to its application towards operating losses as well as the infrastructure development. The Corporation's cash reserve balances decreased from P1.9 billion held as at March 2009 to P816.5 million at March 2010.

The operating costs for the year were at P1,76 billion representing a 19% increase from the previous year. Generation, transmission and distribution costs accounted for 85% of the total operating cost. In aggregate the cost of imported electricity went up by 35% from the P681.3 million spent in 2009 to P919.9 million at end of the year. Electricity imports accounted for 53% of the Corporation's total expenditure for the year and 81% of total revenue from electricity sales. Eskom Holdings of South Africa remained the main supplier having supplied up to 86% of imported electricity during the year.

The variable cost of internal generation which is predominantly fuel and chemicals went up by 57% from P69.1 million in 2009. Such an increase in input costs is attributable to both the price and usage which is influenced by the fixed terms of the prevailing contracts. The Maintenance costs on Generation, Transmission and Distribution infrastructure experienced a 69% increase during the year from P45.0 million in 2009, which is influenced mainly by both the age and growth of the infrastructure.

Financial Position

The Corporation's asset base increased by 27% to P10.6 billion mainly due to Property, Plant and Equipment which increased from P5.4 billion to P8.6 billion. The overall growth was however set off against a significant decline in Financial Assets Available for Sale (P60 million) and Investments held to maturity (P1.28 billion).

The Increase in Property, Plant and Equipment is largely attributable to the P2.1 billion increase in Work In Progress mainly as a result of the Morupule B Power station which is currently under construction.

Offshore Investments held to Maturity to match foreign exchange exposure on foreign currency denominated loans decreased from P71.4 million to P35.6 million due to loans repaid from the said investments during the year.

Inventories decreased from P139.3 million to P107.7 million as projects for which stocks were held as at March 2009 continued to be implemented during the year. Trade and other receivables increased from P150 million to P210 million as at March 2010 and debtor days increased from last year's average of 47 days to 57 for 2010, depicting a negative impact from the economic downturn as the Corporation recorded an increased debtors default rate.

Total equity recorded a decline of 18% from P6,467 billion to P5,270 billion as the P504.3 million increases in irredeemable capital and reserves could not fully offset the loss for the year, which was also significantly increased by the fair value loss on the hedging instrument.

Long term liabilities increased significantly from P825.6 million to P2,921 billion during the year. The increase is mainly attributable to new loan drawn down under the ICBC loan for funding Morupule 'B' Power station. A total of P1,379 billion was drawn down under this facility as at March 2010. There has also been P731.9 million (109%) increase in deferred income resulting from capitalised consumer financed projects.

Current liabilities experienced an increase of 121% from P1,083.0 million to P2,398.8 million. This increase is mainly due to the recognition of the ICBC loan hedge instrument fair value liability as well as an increase in retentions for the Morupule 'B' plant construction and advances from the Consumer financed projects.

Value Added Statements

for the year ended 31 March 2010

This statement reflects the wealth which the Corporation and its employees have created through the generation, transmission and distribution of electricity, and its sale thereof.

The statement further reflects the distribution to those contributing to that wealth creation, and the portion retained for the replacement and expansion of the Corporation assets.

	2010 P'000	2009 P'000
Value created		
Revenue	1,135,474	1,069,558
Less: Primary costs & services	(1,242,339)	(956,704)
Value created from operations	(106,865)	112,854
Add: Interest received & other income	185,169	293,290
Total value created	78,304	406,144
Value distributed		
To employees	368,560	334,361
Finance costs on borrowings	14,116	25,269
	382,676	359,630
Value retained		
Retained earnings	(1,691,275)	(401,700)
Capital replacement reserve	128,753	268,075
Depreciation	144,564	180,140
	(1,417,958)	46,515
	(1,035,282)	406,145
Head count	1,841	1,901
Value created per employee	43	214

Annual Financial Statements

for the year ended 31 March 2010

March 2010 Ratios

0.98

Current Ratio

13.8%

Gearing Ratio

(48%)

Gross Margin

(1.03)

Net Margin

(6.4%)

Return on Revalued Assets


M+
6,750
6,500
6,250
6,000

General Information

for the year ended 31 March 2010

MEMBERS OF THE BOARD

E T Rakhudu	*Chairman*
F Motlhatlehedi	*Vice Chairman*
P M Mogatl - Kanedi	
G Ndlovu	
A Kgosidintsi	
B Bonyongo	
B Paya	

EXECUTIVE MANAGEMENT

N J Raleru	*Chief Executive Officer*
A K Joseph	*Generation Director*
E Rugoyi	*Transmission Director*
G Mmola	*Acting Customer Service and Supply Director*
A Motsepe	*Acting Corporate Services Director*
P Dhafana	*Acting Rural Director*
R Mgadla	*Chief Financial Officer*
J Dick	*Acting General Manager Human Resources*
D Makepe	*Corporation Secretary*
M Tibe	*General Manager Strategy and Performance*
K M Mokobi	*General Manager - Internal Audit*

NATURE OF BUSINESS

Botswana Power Corporation 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
Botswana

BANKERS

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

ATTORNEYS

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

AUDITORS

Deloitte and Touche
P O Box 778
Gaborone

Directors' Responsibility Statement and Approval of Annual Financial Statements

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 2010, 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, and the directors' report, 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 judgments and estimates.

The directors' responsibility also includes maintaining adequate accounting records 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 International Financial Reporting Standards.

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 page 32.

Directors' approval of the annual financial statements

The annual financial statements set out on pages 33 to 72, which have been prepared on the going concern basis, were approved by the board on 19 November 2010 and were signed on its behalf by:

P M Mogatle Kanedi
Audit Committee Chairman

E T Rakhudu
Board Chairman

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Botswana Power Corporation, set out on pages 33 to 72, which comprise the statement of financial position as at 31 March 2010, 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 notes.

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 compliance with the Botswana Power Corporation Act (Cap 74:01).

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

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 judgment, 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 of 31 March 2010, and of its financial performance, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion on the basis of the matter set out on Note 38, we draw attention to the fact that the Corporation has incurred a loss for the year of P1,572,169,000 (2009:P133,623,000) after adjusting for a hedge fair value loss of P1,022,638,000 as per Note 9. Operational losses for the year were P563,573,000 (2009:P376,430,000).

The Board believes that the Corporation will continue to receive ongoing support from the Government of the Republic of Botswana as disclosed in Note 38 of these annual financial statements.

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 statement 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 37 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 P563,573,000 (2009: P376,430,000) for the year.

Deloitte & Touche

30 November 2010
Gaborone

Statement of Comprehensive Income

for the year ended 31 March 2010

	Notes	2010 P'000	2009 P'000
Revenue	1	1,135,474	1,069,559
Other operating income	2	56,416	25,215
TOTAL OPERATING INCOME		1,191,890	1,094,774
Generation, transmission and distribution expenses	3	(1,477,887)	(1,237,437)
Administration and other expenses	4	(277,576)	(233,767)
TOTAL OPERATING EXPENSES		(1,755,463)	(1,471,204)
OPERATING LOSS	5	(563,573)	(376,430)
Finance income	7	128,753	268,075
Finance costs	8	(14,116)	(25,268)
Other gains and losses	9	(1,022,638)	–
Impairment of standard cost recovery	16	(100,595)	–
LOSS FOR THE YEAR		(1,572,169)	(133,623)
Other comprehensive income:			
Surplus on revaluation of property, plant and equipment	10	344,537	30,285
Total other comprehensive income		344,537	30,285
TOTAL COMPREHENSIVE LOSS		(1,227,632)	(103,338)

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 2010

	Notes	2010 P'000	2009 P'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	8,757,851	5,454,218
Investment in associate	11	–	537
Available-for-sale investments	12	3,000	3,000
Investments held-to-maturity	13	38,860	71,414
Consumer loans - hire purchase scheme	14	8,284	35,892
Consumer loans - rural collective scheme	15	36,656	36,433
Standard cost recovery	16	389,335	479,617
		9,233,716	6,081,111
Current assets			
Standard cost recovery	16	228,709	–
Available-for-sale investments	12	–	60,000
Investments held-to-maturity	13	646,584	1,924,352
Consumer loans - hire purchase scheme	14	2,658	6,824
Consumer loans - rural collective scheme	15	22,733	13,208
Inventories	17	107,833	139,266
Trade and other receivables	18	177,490	149,968
Cash and cash equivalents		169,938	324
		1,355,945	2,293,942
TOTAL ASSETS		10,589,661	8,375,053
EQUITY AND LIABILITIES			
Capital and reserves			
Irredeemable capital	19	1,676,637	1,645,637
Revaluation reserves	20	3,033,157	2,688,620
Other reserves	21	1,716,976	1,588,223
(Accumulated loss)/ retained earnings		(1,156,903)	544,019
		5,269,867	6,466,499
Non-current liabilities			
Government grant	22	2,167	2,733
Deferred income - consumer financed projects	23	1,402,631	670,684
Long term borrowings	24	1,448,101	91,196
Consumer deposits	25	68,106	60,938
		2,921,005	825,551
Current liabilities			
Current portion of long term borrowings	24	12,663	28,013
Trade and other payables	26	532,801	292,387
Advances - consumer financed projects	27	780,660	695,475
Provisions	28	9,552	14,016
Dividends	31.2	53,112	53,112
Other financial liabilities	29	1,010,001	–
		2,398,789	1,083,003
		5,319,794	1,908,554
TOTAL EQUITY AND LIABILITIES		10,589,661	8,375,053

Statement of Changes in Equity

for the year ended 31 March 2010

	Notes	Irredeemable capital P'000	Revaluation reserves P'000	Other reserves P'000	(Accumulated loss)/ Retained earnings P'000	Total P'000
Balance at 1 April 2008		145,637	2,658,335	1,320,148	945,717	5,069,837
Total other comprehensive income		–	30,285	–	–	30,285
Loss for the year		–	–	–	(133,623)	(133,623)
Transfers	21	–	–	268,075	(268,075)	–
Irredeemable capital contribution		1,500,000	–	–	–	–
Balance at 31 March 2009		1,645,637	2,688,620	1,588,223	544,019	6,466,499
Total other comprehensive income		–	344,537	–	–	344,537
Loss for the year		–	–	–	(1,572,169)	(1,572,169)
Transfers	21	–	–	128,753	(128,753)	–
Irredeemable capital contribution		31,000	–	–	–	31,000
Balance at 31 March 2010		1,676,637	3,033,157	1,716,976	(1,156,903)	5,269,867

Statement of Cash Flows

for the year ended 31 March 2010

	Notes	2010 P'000	2009 P'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash used in operations	31.1	(216,221)	(135,844)
Interest paid		(5,359)	(5,743)
Net cash used in operating activities		**(221,580)**	**(141,587)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received		128,753	268,075
Proceeds from disposal of property, plant and equipment		2,101	1,425
Purchase of property, plant and equipment	10	(3,105,251)	(1,381,494)
Net cash used in investing activities		**(2,974,397)**	**(1,111,994)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of long term borrowings		(37,038)	(13,861)
Proceeds of long term borrowings		1,378,593	–
Decrease in consumer loans - hire purchase scheme		31,774	3,025
Increase in consumer loans - rural collective scheme		(9,748)	(8,163)
Increase in consumer deposits		7,168	4,230
Increase in standard cost recovery		(138,427)	(226,702)
Increase in deferred income - consumer financed projects		731,947	22,407
Decrease/(increase) in investments held-to-maturity		32,554	(2,572)
Decrease in available-for-sale investments		60,000	4,500
Irredeemable capital contribution from the Government of the Republic of Botswana	19	–	1,500,000
Net cash generated from financing activities		**2,087,823**	**1,282,864**
Net (decrease)/increase in cash and cash equivalents		**(1,108,154)**	**29,283**
Cash and cash equivalents at beginning of the year		**1,924,676**	**1,895,393**
Cash and cash equivalents at end of the year	**31.3**	**816,522**	**1,924,676**

Summary of Significant Accounting Policies

for the year ended 31 March 2010

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and Interpretations affecting amounts reported in the current and prior year

The following revised standard has been adopted in the current period and has affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in the next paragraph.

IAS 1 (as revised in 2007) - Presentation of Financial Statements	IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. Prior year information has been reclassified to comply with these amendments.
Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)	The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. Refer to Note 33.10.1.

Standards and Interpretations adopted with no effect on the annual financial statements

IFRS 8 Operating Segments	The requirements of the IFRS are based on the information about the components of the entity that management uses to make decisions about operating matters. The IFRS requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.
Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*	The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRSs for the first time and with the recognition of dividend income from subsidiaries in a parent's separate financial statements.
Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations	The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.
IAS 23 (as revised in 2007) Borrowing Costs	The principal change to the standard was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements because the Corporation capitalises interest on qualifying assets.
Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Standards and Interpretations adopted with no effect on the annual financial statements *(continued)*

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)	The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted by the October 2008 amendments to IAS 39 *Financial Instruments: Recognition and Measurement (see above).*
IFRIC 15 *Agreements for the Construction of Real Estate*	The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction of real estate should be recognised. The requirements have not affected the accounting for the Corporation as it does not have construction activities.
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

Standards and interpretations in issue but not yet effective

New/Revised International Financial Reporting Standards	Effective Date
IFRS 1 - First-time Adoption of International Financial Reporting Standards - Revised and restructured	Annual periods beginning on or after 1 July 2009
IFRS 1 - First-time Adoption of International Financial Reporting Standards - Amendments relating to oil and gas assets and determining whether an arrangement contains a lease	Annual periods beginning on or after 1 January 2010
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 2 - Share-based Payment - Amendments resulting from April 2009 Annual Improvements to IFRSs	Annual periods beginning on or after 1 July 2009

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

Standards and interpretations in issue but not yet effective

New/Revised International Financial Reporting Standards	Effective Date
IFRS 2 - Share-based Payment - Amendments relating to group cash-settled share-based payment transactions	Annual periods beginning on or after 1 January 2010
IFRS 3 - Business Combinations - Comprehensive revision on applying the acquisition method	Annual periods beginning on or after 1 July 2009
IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 July 2009
IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from April 2009 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2010
IFRS 8 - Operating Segments - Amendments resulting from April 2009 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2010
IFRS 9 - Financial Instruments - Classification and Measurement	Annual periods beginning on or after 1 January 2013

IFRIC Interpretation	Effective Date
IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	November 2009 amendment with respect to voluntary prepaid contributions is effective for annual periods beginning on or after 1 January 2011
IFRIC 17 - Distributions of Non-cash Assets to Owners	Annual periods beginning on or after 1 July 2009
IFRIC 18 - Transfers of Assets from Customers	Transfers received on or after 1 July 2009
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	Annual periods beginning on or after 1 July 2010

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Standards and interpretations in issue but not yet effective *(continued)*

Revised International Accounting Standards	Effective Date
IAS 1 - Presentation of Financial Statements - Amendments resulting from April 2009 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2010
IAS 7 - Statement of Cash Flows - Amendments resulting from April 2009 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2010
IAS 17 – Leases - Amendments resulting from April 2009 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2010
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 - Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 28 - Investments in Associates - Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 31 - Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 32 - Financial Instruments: Presentation - Amendments relating to classification of rights issues	Annual periods beginning on or after 1 February 2010
IAS 36 - Impairment of Assets - Amendments resulting from April 2009 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2010
IAS 38 - Intangible Assets - Amendments resulting from April 2009 Annual Improvements to IFRSs	Annual periods beginning on or after 1 July 2009
IAS 39 - Financial Instruments: Recognition and Measurement - Amendments for eligible hedged items	Annual periods beginning on or after 1 July 2009
IAS 39 - Financial Instruments: Recognition and Measurement - Amendments for embedded derivatives when reclassifying financial instruments	Annual periods ending on or after 30 June 2009
IAS 39 - Financial Instruments: Recognition and Measurement - Amendments resulting from April 2009 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2010

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

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 balance sheet 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 balance sheet 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 2010

IMPAIRMENT

At each balance sheet 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.

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 contact employees over the period of their employment contracts are expensed over the period of such contracts.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, investments in associates are carried in the Corporation's balance sheet at cost as adjusted for post-acquisition changes in the Corporation's share of the net assets of the associate, less any impairment in the value of the investment. Losses of an associate in excess of the Corporation's interest in that associate (which includes any long-term interests that, in substance, form part of the Corporation's net investment in the associate) are recognised only to the extent that the Corporation has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Corporation's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Corporation's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where the Corporation transacts with an associate, profits and losses are eliminated to the extent of the Corporation's interest in the relevant associate.

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

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

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.

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

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 each balance sheet 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.

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

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 balance sheet 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 'at fair value through profit or loss (FVTPL).

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

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

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

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

Financial assets ***(continued)***

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 32.7. 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 balance sheet 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 balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the Estimated future cash flows of the investment have been impacted.

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered 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.

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

Financial assets *(continued)*

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
- 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 33.10.

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.

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

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 the Republic Botswana in advance of capital projects financed by the customers/Government of the Republic of Botswana. The actual expenditure on thee 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.

STANDARD COST RECOVERY

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 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, due to rising cost of materials which cannot be matched by a revision of the standard levy, the standard cost recovery has not been recoverable. In this regard management is in the process of engaging the government to assist in recovering this amount. Refer to note 16 for information on the recovery plan.

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.

Summary of Significant Accounting Policies *(continued)*

for the year ended 31 March 2010

CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

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

Revenue recognition

The Corporation sells prepaid electricity 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 has not utilised at year end.

In making their judgement, the directors considered the detailed criteria for the recognition of revenue from the sale of goods set out in IAS 18 *Revenue and, in particular, whether the Corporation can measure the revenue reliably.* Following this consideration management has concluded that the entire prepaid electricity sales should be recognised in revenue in the year that consumers purchase the electricity vouchers.

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 P685,444 (2009: P1,995,766). Details of these assets are set out in note 13.

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 above, the Group 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 certain items of equipment should be shortened, due to developments in technology.

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 P8,497 million (2009:P9,356 million). Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 33.10.

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 key assumption in this regard is that 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 2010

			2010 P'000	2009 P'000
1	**Revenue**			
	Sale of electricity:			
	Mining		323,773	312,885
	Commercial		315,515	279,345
	Domestic		315,623	306,283
	Government		161,357	147,812
			1,113,245	1,046,325
	Interest earned on consumer loans		20,568	21,450
	Reconnection charges		1,661	1,784
			1,135,474	1,069,559
2	**OTHER OPERATING INCOME**			
	Profit on consumer financed projects		–	398
	Profit on sale of materials		41,200	11,369
	Other income		15,216	13,448
			56,416	25,215
3	**GENERATION, TRANSMISSION AND DISTRIBUTION EXPENSES**			
	Fuel, water and chemicals		108,421	69,063
	Purchased power		922,164	681,370
	Maintenance	– Generation	36,372	21,589
		– Transmission and CSS (Distribution)	39,914	21,894
		– Other	–	1,553
	Staff costs	– Generation	58,862	63,019
		– Transmission, distribution	175,083	174,809
	Depreciation	– Generation	54,553	69,297
		– Transmission, distribution	60,313	105,260
	Other expenses	– Generation	6,074	5,216
		– Transmission, distribution	16,131	24,367
			1,477,887	1,237,437
4	**ADMINISTRATION AND OTHER EXPENSES**			
	Staff costs		134,615	96,533
	Depreciation		29,698	25,081
	Auditors' remuneration		1,353	803
	Board members' fees		120	215
	Other expenses		111,790	111,135
			277,576	233,767

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

		2010 P'000	2009 P'000
5	**OPERATING LOSS**		
	Operating loss is arrived at after charging/(crediting) the following items.		
	Depreciation of property, plant and equipment	144,334	199,638
	Profit/(loss) on disposal of property, plant and equipment	10	(585)
	Repairs and maintenance of property, plant and equipment	10,452	13,698
	Provision for bad debts	8,231	11,093
	Foreign exchange losses	7,737	21,231
	Cost of materials sold	136,324	161,218
	Operating lease charges - property rentals	3,393	3,526
6	**STAFF COSTS**		
	Salaries and wages	298,083	298,441
	Gratuities	3,654	4,296
	Pension contributions	30,573	29,056
	Early exit package	36,113	1,168
	Medical retirement package	137	1,400
		368,560	334,361
7	**FINANCE INCOME**		
	Interest on investments	128,753	268,075
8	**FINANCE COSTS**		
	Interest on borrowings	5,359	5,743
	Exchange losses on foreign payments/investments	7,737	21,231
	Unrealised (losses)/gains on the revaluation of deposits held with foreign banks	2,737	(1,706)
		15,833	25,268
	Less interest capitalised to property, plant and equipment	(1,717)	–
		14,116	25,268

	2010 P'000	2009 P'000
9 OTHER GAINS AND LOSSES		
Other gains and losses comprise the following in respect of the Financial liabilities carried at fair value through profit or loss disclosed per Note 29.		
Net interest paid on cross currency and interest rate swap	12,637	–
Fair value loss on the cross currency and interest rate swap	1,010,001	–
	1,022,638	–
	1,022,638	–

As detailed in Note 29, 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. The nature of the place is that it effectively converts the USD825 million loans 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%.

As at March 31 2010, the fair valuation results indicated a significant liability of P1 010 001 000 which was among others influenced by the fact that the envisaged strengthening of the United States Dollar currency against other currencies as well as a rise in USD Libor had not occurred. Further, the loan drawdown plan, as originally informed by a forecast EPC Contractor's milestone payment schedule was not fully executed as at year end, resulting in the notional hedged amounts being significantly higher than the actual loan drawdown.

In light of the significant market influenced liability, Management has further taken steps to engage a professional advisory firm and, after performing a detailed analysis of the derivative instrument confirmed that the hedge was economically appropriate and forecast to remain so in the future.

The hedging policy in place permits for a bi-annual restructuring and re-profiling of the hedge which among other aspects focuses on re-aligning the hedged notional amounts with the actual loan drawn down as well as swapping additional capital amounts into the Botswana Pula as may be permitted by prevailing market conditions. The first hedge restructuring and re-profiling are at an advanced stage for implementation in the third quarter of 2010/11 financial year.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

10 PROPERTY, PLANT AND EQUIPMENT

2009	Land & Buildings P'000	Generation Transmission & Distribution P'000	Other P'000	Capital Work in Progress P'000	Total P'000
Balance at beginning of year	152,345	3,860,480	57,136	172,956	4,242,917
Additions	576	6,362	17,300	1,357,256	1,381,494
Disposals			(1,832)		(1,832)
Transfers	–	42,775	–	(42,775)	–
Revaluation	30,285	–	–	–	30,285
Depreciation	(11,387)	(171,529)	(16,722)	–	(199,638)
Accumulated depreciation on disposal	–	–	992	–	992
Balance at end of year	**171,819**	**3,738,088**	**56,874**	**1,487,437**	**5,454,218**
At 31 March 2009					
Cost or valuation	313,487	7,125,827	174,609	1,487,437	9,101,360
Accumulated depreciation	(141,668)	(3,387,739)	(117,735)	–	(3,647,142)
Carrying amount	**171,819**	**3,738,088**	**56,874**	**1,487,437**	**5,454,218**
2010					
Balance at beginning of year	171,819	3,738,088	56,874	1,487,437	5,454,218
Additions	24,271	31,979	24,773	3,024,228	3,105,251
Cost of disposals	–	–	(5,427)	–	(5,427)
Transfers	3,163	854,854	(101)	(857,916)	–
Revaluation - cost	37,631	263,831	–	–	301,462
Depreciation on revalued assets	152,545	(109,470)	–	–	43,075
Depreciation	(11,095)	(112,470)	(20,769)	–	(144,334)
Accumulated depreciation on disposals	–	–	3,336	–	3,336
Balance at end year	**378,334**	**4,666,812**	**58,686**	**3,653,749**	**8,757,581**
At 31 March 2010					
Cost or valuation	378,552	8,276,491	193,854	3,653,749	12,502,646
Accumulated depreciation	(218)	(3,609,679)	(135,168)	–	(3,745,065)
Carrying amount	**378,334**	**4,666,812**	**58,686**	**3,653,749**	**8,757,581**

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

10 PROPERTY, PLANT AND EQUIPMENT *(continued)*

In accordance with accounting policy, the Corporation's property, generation, transmission and distribution plant and equipment were valued on a replacement cost basis at 31 March 2010 by independent professionally qualified valuers. The valuation of land and Buildings was performed by Willie Kathurima and Associates whereas valuation of Electrical Assets including the Power Generation plant was done by PB Power, energy consultants. If the property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

	2010 P'000	2009 P'000
Cost	3,252,862	2,488,508
Accumulated depreciation	(1,111,503)	(817,411)
Net book amount	2,141,359	1,671,097

The details of land and buildings are available at the Corporation's head office. The Corporation intends to update and obtain copies of all title deeds over the properties owned by the Corporation as a number of title deeds over the Corporation's properties are not available or reflect historical ownership data.

11 INVESTMENT IN ASSOCIATE

	2010 P'000	2009 P'000
Western Power Corridor (Proprietary) Limited	–	537

In 2003, Western Power Corridor (Proprietary) Ltd ("Westcor") was incorporated in the Republic of Botswana. Westcor was formed under the auspices of the Southern African Power Pool to develop the Western Power Corridor with source at Inga 3 in the Democratic Republic of Congo (DRC). Five utility Corporations are participating in the project, namely, SNEL (Democratic Republic of Congo), ENE (Angola), NamPower (Namibia), BPC (Botswana) and Eskom (South Africa). Each utility owns 20% of the stated capital of Westcor. Each utility has so far contributed USD 100 000 as stated capital to fund the first phase of the studies. In May 2010 the Board of Directors took a decision to discontinue the operations of Westcor and hence the investment in the associate by the Corporation was fully impaired.

12 AVAILABLE-FOR-SALE INVESTMENTS

	2010 P'000	2009 P'000
Barclays Bank of Botswana Limited Bond (12.44% - 13.25% - 2014)	3,000	3,000
Government of Botswana Bond (11.10% - 2009)	–	50,000
Barclays Merchant Bank Limited Bond (10.50% - 2009)	–	10,000
	3,000	63,000
Current portion	–	(60,000)
Long-term portion	3,000	3,000

Available-for-sale investments, comprises Barclays Bank of Botswana bonds valued at the close of business on 31 March 2010. Fair value is estimated by reference to the current market value of similar instruments. The current market value of the bonds largely agrees to the carrying value. In 2010 Government of Botswana Bonds (P50 million) and Barclays Merchant Bank Bonds (P10 million) matured. Available-for-sale investments are classified as non-current assets, unless they are expected to be realised within twelve months of the balance sheet date or unless they will need to be sold to raise operating capital.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

		2010 P'000	2009 P'000
11	**INVESTMENTS HELD-TO-MATURITY**		
	Deposits with local banks	646,584	1,924,352
	Deposits with foreign banks	38,860	71,414
		685,444	1,995,766
	Current portion	(646,584)	(1,924,352)
	Long-term portion	38,860	71,414

Investments held-to-maturity are classified as non current assets, except for maturities within 12 months which are classified as current assets. The current portion of the held-to-maturity comprises fixed deposits with local banks which earn interest at rates ranging from 6.3% to 7.0% (2009: 10.15% to 12%). These fixed deposits are invested for periods ranging from 28 to 91 days (2009: 35 to 91 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 26.

The following are the foreign currency deposits:			
US dollar	$'000	5,728	7,092
South African Rand	ZAR'000	–	21,181

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 capital replacement reserve.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

		2010 P'000	2009 P'000
14	**CONSUMER LOANS - HIRE PURCHASE SCHEME**		
14.1	Hire purchase scheme	43,162	62,833
	Less short-term portion	(17,157)	(23,248)
	Less provision for impairment - bad and doubtful debts	(17,721)	(3,693)
	Long-term portion	8,284	35,892
14.2	Hire purchase short-term portion (note 14.1)	17,157	23,248
	Less provision for impairment - bad and doubtful debts	(14,499)	(16,424)
	Short-term portion	2,658	6,824
	Total	10,942	42,716

Consumer loans represents 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 period 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 11.5% (2009:13%).

		2010 P'000	2009 P'000
15	**CONSUMER LOANS - RURAL COLLECTIVE SCHEME**		
15.1	Long term Rural Collective Scheme	136,793	136,570
	Less advance from Government	(100,137)	(100,137)
	Long-term portion	36,656	36,433
15.2	Short term Rural Collective Scheme	76,791	67,266
	Less advance from Government	(54,058)	(54,058)
	Short-term portion	22,733	13,208
	Total	59,389	49,641

Rural Collective Scheme is a Government funded scheme established to provide rural consumers with access to electricity. The scheme is guaranteed by the Government of the Republic of Botswana. Loans which are repayable within a period of 18 months period 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 11.5% (2009:13%). Subsequent to year end, the Government of Republic of Botswana has authorised the Corporation to offset a significant part of the amount due as at 31 March 2010 against the dividend payable of P53 million per note 31.1.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

		2010 P'000	2009 P'000
16	**STANDARD COST RECOVERY**		
	Long term portion	479,093	479,617
	Less Impairment	(89,758)	–
		389,335	479,617
	Current portion	239,546	–
	Less impairment	(10,837)	–
		228,709	–
	Total standard cost	718,639	479,617
	Less impairment	(100,595)	–
		618,044	479,617

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 of the Republic Of Botswana. Ordinarily, this amount is recoverable from connection of future customers who will pay more than the standard 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 due to the increasing cost of raw materials not matched by revised standard charges to the customer, which are determined by the Government of the Republic of Botswana. Pursuant to the recovery of these amounts, management has sought reimbursement from the Government of the Republic of Botswana. A payment plan has been agreed with the Government of the Republic of Botswana, that the deficit will be recovered in three equal instalments. An impairment has been recognised in respect of the loss in time value of money because of delays in settlement of the deficit. Refer to subsequent events note 36.

		2010 P'000	2009 P'000
17	**INVENTORIES**		
	Coal and fuel	14,207	15,884
	Maintenance spares and materials	93,626	123,382
		107,833	139,266

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

		2010 P'000	2009 P'000
18	**TRADE AND OTHER RECEIVABLES**		
	Electricity sales receivables:		
	Mining	29,064	10,060
	Commercial	64,060	49,770
	Domestic	35,982	35,439
	Government of the Republic of Botswana	35,811	39,828
	Total trade receivables	164,917	135,097
	Impairment of trade receivables	(36,964)	(28,733)
		127,953	106,364
	Other receivables	48,364	38,598
	Prepayments	1,173	5,006
		177,490	149,968

The average credit period on sale of electricity is 45 days (2009: 45 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.

The Corporation holds bank guarantees as security against certain of these receivables to the value of P13,179,875 (2009: P12,257,739). 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 25.

Included in the Corporation's trade receivable balance are debtors with a carrying amount of P30,968,000 (2009: P17,282,000) which are past due at the reporting date for which the Corporation has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Corporation has a combination of bank guarantee letters and deposits held for these accounts. The average age of these receivables is 90 days (2009: 90 days).

Ageing of past due but not impaired

	2010	2009
60-90 days	15,972	11,719
91-120 days	14,996	5,563
Total	30,968	17,282

Movement in the allowance for doubtful trade receivables

	2010	2009
Balance at beginning of year	28,733	17,640
Current year provision	8,231	11,093
Balance at end year	36,964	28,733

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

	2010 P'000	2009 P'000

18 TRADE AND OTHER RECEIVABLES *(continued)*

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 allowance for doubtful debts.

19 IRREDEEMABLE CAPITAL

	2010 P'000	2009 P'000
Balance at beginning of year	1,645,637	145,637
Contribution received during the year	31,000	1,500,000
Balance at end of year	1,676,637	1,645,637

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).

20 REVALUATION RESERVES

	2010 P'000	2009 P'000
Balance at beginning of year	2,688,620	2,658,335
Revaluation during the year	344,537	30,285
Balance at end of year	3,033,157	2,688,620

The properties revaluation reserve arises on the revaluation of property, generation, transmission and distribution plant and equipment. Where revalued items are sold, the portion of the properties revaluation reserve that relates to that asset, and is effectively realised, is transferred directly to retained earnings.

21 OTHER RESERVES

	2010 P'000	2009 P'000
Balance at beginning of year	1,588,223	1,320,148
Transfer from retained earnings	128,753	268,075
Balance at end of year	1,716,976	1,588,223

Other reserves comprise amounts transferred annually from retained earnings. 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.

22 GOVERNMENT GRANT

	2010 P'000	2009 P'000
Benefit of a government loan at a below-market rate of interest	2,167	2,733

The Government grant 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 the profit and 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.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

		2010 P'000	2009 P'000
23	**DEFERRED INCOME - CONSUMER FINANCED PROJECTS**		
	Deferred income - consumer financed projects	1,402,631	670,684

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.

24 LONG TERM BORROWINGS

	Current		Non Current	
	2010 P'000	**2009 P'000**	**2010 P'000**	**2009 P'000**
Borrowings at amortised cost				
Government of the Republic of Botswana				
Debt Participation Capital Fund	–	1,287	–	–
Debt Participation Capital Fund	930	855	495	1,425
Debt Participation Capital Fund	739	680	1,677	2,417
Debt Participation Capital Fund	1,469	1,364	6,082	7,551
Government of the Republic of Botswana				
(funded by Japanese Overseas Economic Cooperation Fund)	956	858	7,542	8,498
- Loan Balance	1,478	1,424	9,187	10,665
- Fair value adjustments transferred to Government grant)	(522)	(566)	(1,645)	(2,167)
Debt Participation Capital Fund	1,391	1,293	5,762	7,153
Nordic Investment Bank	4,043	2,293	8,090	16,052
Government of the Republic of Botswana				
(funded by Nordic Development Fund)	916	1,023	37,564	42,982
European Investment Bank	2,219	2,433	2,295	5,118
European Investment Bank		15,927	–	
Industrial and Commercial Bank of China	–	–	1,378,594	–
	12,663	28,013	1,448,101	91,196

Currency analysis of borrowings	2010 P'000	2009 P'000
Pula denominated	27,043	33,381
Foreign denominated	1,433,721	85,828
Total borrowings	1,460,764	119,209

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

		Security	Interest rate per annum	2010 P'000	2009 P'000
24	**LONG TERM BORROWINGS** *(continued)*				
	Government of Republic of Botswana				
	Debt Participation Capital Fund	On-lent	10.00%	–	1,287
	Debt Participation Capital Fund	On-lent	8.50%	1,425	2,280
	Debt Participation Capital Fund	On-lent	8.50%	2,416	3,097
	Debt Participation Capital Fund	On-lent	7.50%	7,551	8,915
	Government of the Republic of Botswana (funded by Japanese Overseas Economic Cooperation Fund)	On-lent	3.75%	8,498	9,356
	Debt Participation Capital Fund	On-lent	7.50%	7,153	8,446
	Nordic Investment Bank	Government of the Republic of Botswana		12,133	18,345
	Government of the Republic of Botswana (funded by Nordic Development Fund)	Government of the Republic Botswana	3.00-5.00%	38,480	44,005
	European Investment Bank	Government of the Republic of Botswana	3.47%	4,514	7,551
	European Investment Bank	Government of the Republic of Botswana	3.25%	–	15,927
	Industrial and Commercial Bank of China	Government of the Republic of Botswana	Libor + 160bps	1,378,594	–
				1,460,764	119,209
	The borrowings are repayable as follows				
	Up to 1 year			12,663	28,013
	2 - 5 years			10,862	–
	Later than 5 years			1,437,239	91,196
	Total			1,460,764	119,209
25	**CONSUMER DEPOSITS**				
	Consumer deposits			68,106	60,938

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 2010

		2010 P'000	2009 P'000
26	**TRADE AND OTHER PAYABLES**		
	Trade payables and accruals	256,279	177,503
	Power purchases advance from Government of Republic of Botswana	45,376	–
	Interest on borrowings	1,472	2,616
	Staff costs	39,935	41,031
	Retentions	189,739	71,237
		532,801	292,387

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.

27	**ADVANCES - CONSUMER FINANCED PROJECTS**		
	Advances received from customers	780,660	695,475

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.

		Legal provision P'000	Gratuity P'000	Decommissioning costs P'000	Total P'000
28	**PROVISIONS**				
	Balance at 1 April 2008	7,373	5,755	888	14,016
	Additional provisions raised	1,554	3,654	–	5,208
	Reductions due to payments	(7,373)	(2,299)	–	(9,672)
	Balance at 31 March 200	1,554	7,110	888	9,552

(a) Legal provision

The Provision represents claims under employee disputes.

(b) Gratuity provision

Gratuity provision is recognised in respect of contractual obligations with contract employees, to pay a certain percentage of the 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.

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

	2010 P'000	2009 P'000
29 OTHER FINANCIAL LIABILITIES		
Financial liabilities carried at fair value through profit or loss (FVTPL)		
Held for trading derivatives not designated in hedge accounting relationships	1,010,001	–

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. 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 then 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 percentages and swap rates shown below.

	Fixed swap interest rate		Basket currency split	
	2010 %	2009 %	2010 %	2009 %
South African rands	13.35	–	65	–
United States dollars	6.47	–	15	–
Euro	6.30	–	10	–
British pound	6.67	–	5	–
Japanese yen	4.07	–	5	–
			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.

	2010 USD'000	2009 USD'000	2010 P'000	2009 P'000
Notional hedged amount	444,174	–	3,013,392	–
Loan draw down (Note 24)	(203,205)	–	(1,378,594)	–
Over hedged amount	240,969	–	1,634,798	–

		2010 P'000	2009 P'000
30	**COMMITMENTS**		
30.1	Capital commitments		
	Authorised but not contracted	437	589
	Authorised and contracted	9,749,024	8,131,714
		9,749,461	8,132,303

The Corporation will finance the above expenditure through internal funds and external borrowings. Refer to Note 35 for details of funding for the capital commitments.

30.2	Operating lease commitments		
	The future aggregate minimum lease payments under operating lease agreements are as follows:		
	Within one year	413	4,363
	Later than one year but not later than 5 years	10,137	2,980
		10,550	7,343
31	**NOTES TO THE CASHFLOW STATEMENT**		
31.1	Cash generated from operations:		
	Loss for the year	(1,572,169)	(133,623)
	Interest received	(128,753)	(268,075)
	Interest paid	5,359	5,743
		(1,695,563)	(395,955)
	Adjustments for non-cash items:		
	Depreciation of property, plant and equipment	144,334	199,638
	Other gains and losses (note 10)	1,010,001	
	Write off of investment in associate	537	–
	Armotisation of Government Grant	(566)	–
	Profit on disposal of property, plant and equipment	(10)	(585)
		(541,267)	(196,902)
	Cash flows from working capital changes:		
	Decrease/(increase) in inventories	31,433	(63,726)
	(Increase)/decrease in trade and other receivables	(27,522)	4,561
	Increase in trade and other payables	240,414	49,234
	Increase in provisions	(4,464)	9,645
	Increase in advances - consumer financed projects	85,185	61,344
		325,046	61,058
	Cash used in operations	(216,221)	(135,844)

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

		2010 P'000	2009 P'000
31	**NOTES TO THE CASHFLOW STATEMENT** *(continued)*		
31.2	Dividend paid		
	Amounts unpaid at beginning of the year	53,112	53,112
	Amounts unpaid at end of the year	(53,112)	(53,112)
	Dividend paid	–	–

Subsequent to year end, the Government has allowed the Corporation to offset the amounts due against the amounts due on the Consumer Loans - Rural Collective Schemes detailed in Note 15.

		2010 P'000	2009 P'000
31.3	Cash and cash equivalents at end of the year		
	Bank and cash	169,938	324
	Deposits with local banks	646,584	1,924,352
		816,522	1,924,676

32 RETIREMENT BENEFITS

All permanent citizen employees of the Corporation are members of a retirement benefit plan operated by the 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 6.

33 FINANCIAL INSTRUMENTS

33.1 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 2009.

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 note 31.3 and equity attributable to equity holders of the parent, comprising irredeemable capital, revaluation reserves, other reserves and retained earnings as disclosed in notes 19, 20, 21 and the statement of financial position respectively.

	2010 P'000	2009 P'000
Gearing ratio		
Debt	5,319,794	1,908,554
Cash and cash equivalents	(816,522)	(1,924,676)
Net debt/(cash and cash equivalents)	4,503,272	(16,122)
Equity	5,269,867	6,466,499
Net debt to equity ratio (%)	85%	0%
33.2 Categories of financial instruments		
Financial assets at amortised cost		
Held-to-maturity investments	685,444	1,995,766
Loans and receivables (including cash and cash equivalents)	371,646	165,318
Available-for-sale financial assets	3,000	63,000
	1,060,090	2,224,084
Financial liabilities at amortised cost		
Other liabilities	5,308,075	1,891,805

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

33 FINANCIAL INSTRUMENTS *(continued)*

33.3 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.

33.4 Market risk

The Corporations activities expose it primarily to the financial risk of changes in foreign exchange rates (see 33.5 below) and interest rates (see 33.6) 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

33.5 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 utilising 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	
	2010 P'000	2009 P'000	2010 P'000	2009 P'000
Denominated in the following currencies:				
United States Dollar	1,505,092	103	96,289	–
Japanese Yen	145	25,971	–	60,366
South African Rand	150,857	63,476	4,575	30,254
Euro denominated	–	44,005	–	–
	1,656,094	133,555	100,864	90,620

33 FINANCIAL INSTRUMENTS *(continued)*

33.5.1 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.

	2010 P'000	2009 P'000
Increase in loss for the year	(77,762)	(2,147)

33.6 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.

33.6.1 Interest rate risk management

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet 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:

	2010 P'000	2009 P'000
Loss for the year would (decrease)/increase by	12,011	21

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

33 FINANCIAL INSTRUMENTS *(continued)*

33.7 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 book that are reviewed and approved by the risk management committee annually. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing 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 18. The most significant credit risk concentration of other financial assets are disclosed as follows.

	2010 P'000	2009 P'000
Barclays Bank of Botswana Limited	164,300	991,328
African Alliance	46,379	–
African Banking Corporation (Proprietary) Limited	136,533	160,947
Stanbic Bank Botswana Limited	30,145	442,784
First National Bank of Botswana Limited	–	102,949
Standard Chartered Bank of Botswana (Proprietary) Limited	152,227	–
Bank Gaborone (Proprietary) Limited	120,000	202,986
Barclays Bank of Botswana Plc London	38,860	–
Total	688,444	1,900,994

33 FINANCIAL INSTRUMENTS *(continued)*

33.8 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 33.9 is the amount of undrawn facilities that the Corporation has at its disposal to further reduce liquidity risk.

33.8.1 Liquidity risk and interest tables

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

2010	Up to 1 year P'000	2 to 5 years P'000	5+ year P'000	Total P'000
Fixed interest rate	12,663	10,862	–	23,525
Variable interest rate	–	–	1,378,594	1,378,594
Non interest bearing	1,376,125	–	–	1,376,125
	1,388,788	10,862	1,378,594	2,778,244
2009				
Fixed interest rate	31,861	46,282	25,634	103,777
Variable interest rate	4,586	13,759	–	18,345
Non interest bearing	1,040,094	–	–	1,040,094
	1,076,541	60,041	25,634	1,162,216

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 will receive cash settlement. The table includes principal cash flows only.

2010	Up to 1 year	2 to 5 years	5+ year	Total
Variable interest rate	–	–	3,000	3,000
Non interest bearing	177,490	–	–	177,490
Fixed interest rate	646,584	38,860	–	685,444
	824,074	38,860	3,000	865,934
2009				
Variable interest rate	324	–	3,000	3,324
Non interest bearing	149,968	–	–	149,968
Fixed interest rate	1,984,352	71,414	–	2,055,766
	2,134,644	71,414	3,000	2,209,058

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

33 FINANCIAL INSTRUMENTS *(continued)*

33.9 Liquidity risk management *(continued)*

The Corporation has access to financing facilities, the total unused amount which is P20 million (2009: P20 million) at the balance sheet date. The Corporation expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

33.10 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 11% (2009: 11%) to discount the future cash flows on settlement of the government loan.

33.10.1 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).

				03/31/10
	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Available-for-sale financial assets				
Quoted bonds	3,000	–	–	3,000
Financial liabilities at FVTPL				
Derivative financial liabilities	–	–	1,010,001	1,010,001

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

		2010 P'000	2009 P'000
34	**CONTINGENT LIABILITIES**		
	(a) The Corporation has guaranteed the obligation of certain employees under its motor vehicle and residential housing schemes in a total amount of	15,982	14,112
	(b) Italswana Construction (Proprietary) Limited vs the Corporation		
	The Corporation is a defendant in a claim brought by Italswana Construction (Proprietary) Limited wherein the respondent seeks claim for P4,914,335 inclusive of interest for costs suffered, occasion by various delays caused by the Corporation in a construction project. The matter is being decided by an Arbitrator.		
	(c) Public liability		
	Legal claims against the Corporation	11,200	1,036
35	**RELATED PARTY BALANCES AND TRANSACTIONS**		
	Amounts due to/(from):		
	Botswana Unified Revenue Service (Value added tax)	(54,680)	9,677
	Botswana Unified Revenue Service (Withholding Tax)	2,694	2,204
	Botswana Unified Revenue Service (Import Value added tax)	56,149	4,394
		4,163	11,881
	Remuneration of key entity personnel:		
	Salaries and other short term employee benefits	6,001	4,497
	Terminal benefits	–	121
		6,001	4,618

Amounts due from the Government of the Republic of Botswana is disclosed in Note 18. Electricity sales to the Government of the Republic of Botswana during the year ended 31 March 2010 is disclosed per Note 1. Borrowings from the Government of the Republic of Botswana are disclosed in Note 24. Note 26 Details the balance of the advance received from the Government of the Republic of Botswana for power purchases

Notes to the Annual Financial Statements *(continued)*

for the year ended 31 March 2010

36 SUBSEQUENT EVENTS

Subsequent to year end the Government of the Republic of Botswana has injected P610 million and P534 million as support for the Emergency Power Projects and Equity contribution for the Morupule B project respectively.

The Corporation's energy tariffs were revised upwards by up to 30% (15% for any usage less than 200kWh per month).

Management, together with their financial advisors, KPMG Services (Proprietary) Limited have been engaging Standard Bank Plc in a process of restructuring the terms of the hedge detailed in note 29 in light of the latest turn of events in global currency and interest rate markets which had not been anticipated at the time of entering into the hedge agreement.

On 20 October 2010, the Government of the Republic of Botswana settled the first instalment of P239,544,950 due to the Corporation under the Standard Cost Recovery plan.

37 BOTSWANA POWER CORPORATION ACT

The cost of imported power and other supplies and material requirements for the operations of the Corporation have increased significantly over the years in part due to currency depreciation. In addition, there have been substantial increases in commodity prices in the global markets, which resulted in a significant increase in cost of inputs of the Corporation. The Corporation has been unable to obtain an adjustment of the electricity tariffs sufficient to recoup these substantial cost increases from the consumers. This has resulted in an operating loss for the year of P563,573,000 (2009: P376,430,000). Section 17 of the Botswana Power Corporation Act (Chapter 74:01) 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. Accordingly, the requirements of Section 17 of the Botswana Power Corporation Act have not been met.

38 GOING CONCERN

The Corporation has incurred a loss for the year of P1,572,169,000 (2009: P133,623,000) after adjusting for a hedge fair value loss of P1,022,638,000 as per Note 9. The Board considers the financial sustainability of the Corporation in the medium to long term to be at a very serious level of risk and the viability of the Corporation is subject to the implementation of the revised end user electricity tariffs, the continued recovery of the Rural Collective Scheme and Standard Cost debit balances from the Government of the Republic of Botswana, as well as the continued financial support from the Government of the Republic of Botswana. Refer to note 36 for subsequent events impacting on going concern.

Customer Service Centres

BOTSWANA POWER CORPORATION
HEAD OFFICE: Tel: 3603000
Motlakase House, Macheng Way, Industrial Sites
P O Box 48, Gaborone.
Website: www.bpc.bw
Fax Line: 3973563/3908674
Faults: 3603483/3953541

Customer Service Centre:
Tel: 3607000, Fax: 3607074

Bus Rank:
Tel: 3164360, Fax: 3163806

Kagiso Centre:
Tel: 3954019

Training School:
Tel: 3906044, Fax: 3906057

FRANCISTOWN
P O Box 815, Francistown
Enquiries
Tel: (267) 2412794
Fax: (267) 2414534
Faults
Tel: (267) 2413939
Fax: (267) 2401026

GANTSI
Private Bag 017, Gantsi
Enquiries
Tel: (267) 6597088
Fax: (267) 6597308
Faults
Tel: (267) 6596693
Fax: (267) 6596695

JWANENG
P O Box 27, Jwaneng
Enquiries
Tel: (267) 5880480
Fax: (267) 5880722
Faults
Tel: (267) 5880251
Fax: (267) 5880913

KANYE
Private Bag MK9, Kanye
Tel: (267) 5480218
Fax: (267) 5480219
Faults
Tel: (267) 54802 18
Fax: (267) 5480220

KASANE
P O Box, 207 Kasane
Tel: (267) 6250 111
Fax: (267) 6250120
Faults
Tel: (267) 6250279
Fax: (267) 6250479

LOBATSE
P O Box 161, Lobatse
Enquiries
Tel: (267) 5330284
Fax: (267) 5332720
Faults
Tel: (267) 5330542
Fax: (267) 5332926

LETLHAKANE
Private Bag 23, Letlhakane
Enquiries
Tel: (267) 2978277
Fax: (267) 2978546
Faults
Tel: (267) 2978277
Fax: (267) 2978546

MAHALAPYE
P O Box 274, Mahalapye
Enquiries
Tel: (267) 4710118
Fax: (267) 4711089
Faults
Tel: (267) 4710446
Fax: (267) 4710735

MAUN
P O Box 295, Maun
Enquiries
Tel: (267) 6860324
Fax: (267) 6862939
Faults
Tel: (267) 6860324
Fax: (267) 6862555

MOCHUDI
P O Box 91, Mochudi
Enquiries
Tel: (267) 5728203/4
Fax: (267) 5728202
Faults
Tel: (267) 5729288
Fax: (267) 5728202

MOLEPOLOLE
Private Bag 0058, Molepolole
Tel: (267) 5921053
Fax: (267) 5920618
Faults
Tel: (267) 5921053
Fax: (267) 5920618

PALAPYE
P O Box 41, Palapye
Enquiries
Tel: (267) 4930500
Fax: (267) 4922133
Faults
Tel: (267) 4920338
Fax: (267) 4920545

MORUPULE POWER STATION
Private Bag 007, Palapye
Tel: (267) 4920200
Tel: (267) 4920378
Fax: (267) 4920494

SELIBE-PHIKWE
P O Box 170, Selibe-Phikwe
Enquiries
Tel: (267) 2610422
Fax: (267) 2615994
Faults
Tel: (267) 2610557
Fax: (267) 2611137

SEROWE
P O Box 1002, Serowe
Enquiries
Tel: (267) 4630372
Fax: (267) 4631152
Faults
Tel: (267) 4630372
Fax: (267) 4632154

TSABONG
Private Bag 0017, Tsabong
Enquiries
Tel: (267) 6540006
Tel: (267) 6540929
Fax: (267) 6540005
Faults
Tel: (267) 6540006
Fax: (267) 6540005

DISTRIBUTION SERVICE CENTRES

BOBONONG
P O Box 1514, Bobonong
Tel: (267) 2619417
Fax: (267) 2619308

CHARLESHILL
Private Bag 003, Charleshill
Tel: (267) 6592268
Tel: (267) 6592018
Fax: (267) 6592267

GUMARE
P O Box 278, Gumare
Tel: (267) 6874449
Tel: (267) 6874445
Fax: (267) 6874439

HUKUNTSI
P O Box 419, Hukuntsi
Tel: (267) 6510088
Tel: (267) 6510216
Fax: (267) 6510220

KANG
P O Box 335, Kang
Tel: (267) 6517299
Tel: (267) 6517301
Fax: (267) 6517300

LERALA
P O Box 53, Lerala
Tel: (267) 4954445
Fax: (267) 4954447

Customer Service Centres

DISTRIBUTION SERVICE CENTRES

MASUNGA
P O Box 214, Masunga
Tel: (267) 2489339
Fax: (267) 2489372
Fax: (267) 2489746

NATA
Private Bag N005, Nata
Tel: (267) 6211456
Fax: (267) 6211457

RAMOTSWA
P O Box 10, Ramotswa
Tel: (267) 5390282
Fax: (267) 5390379

SHAKAWE
P O Box 379, Shakawe
Tel: (267) 6875013
Tel: (267) 6875072
Fax: (267) 6875071
Fax: (267) 6875124

SOWA
Private Bag 13, Sowa
Tel: (267) 6213390
Fax: (267) 6213390

TUTUME
P O Box 884, Tutume
Tel: (267) 2987817
Fax: (267) 2987814

WERDA
P O Box 221, Werda
Tel: (267) 6875013
Fax: (267) 6875071

KEY BUSINESS TERMS

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
The sum of all interest and non-interest bearing 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
Interest bearing liabilities divided by equity.

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 of the average capital employed.

Return on property, plant and equipment
Operating profit after depreciation expressed as a percentage of the average fixed assets.

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.

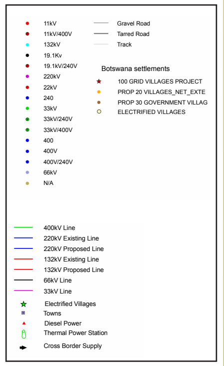
Return on operating assets
Operating profit expressed as a percentage of fixed assets and net working capital.

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.

National Electricity Grid of Botswana

LEGEND



General Notes

Botswana Power Corporation

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