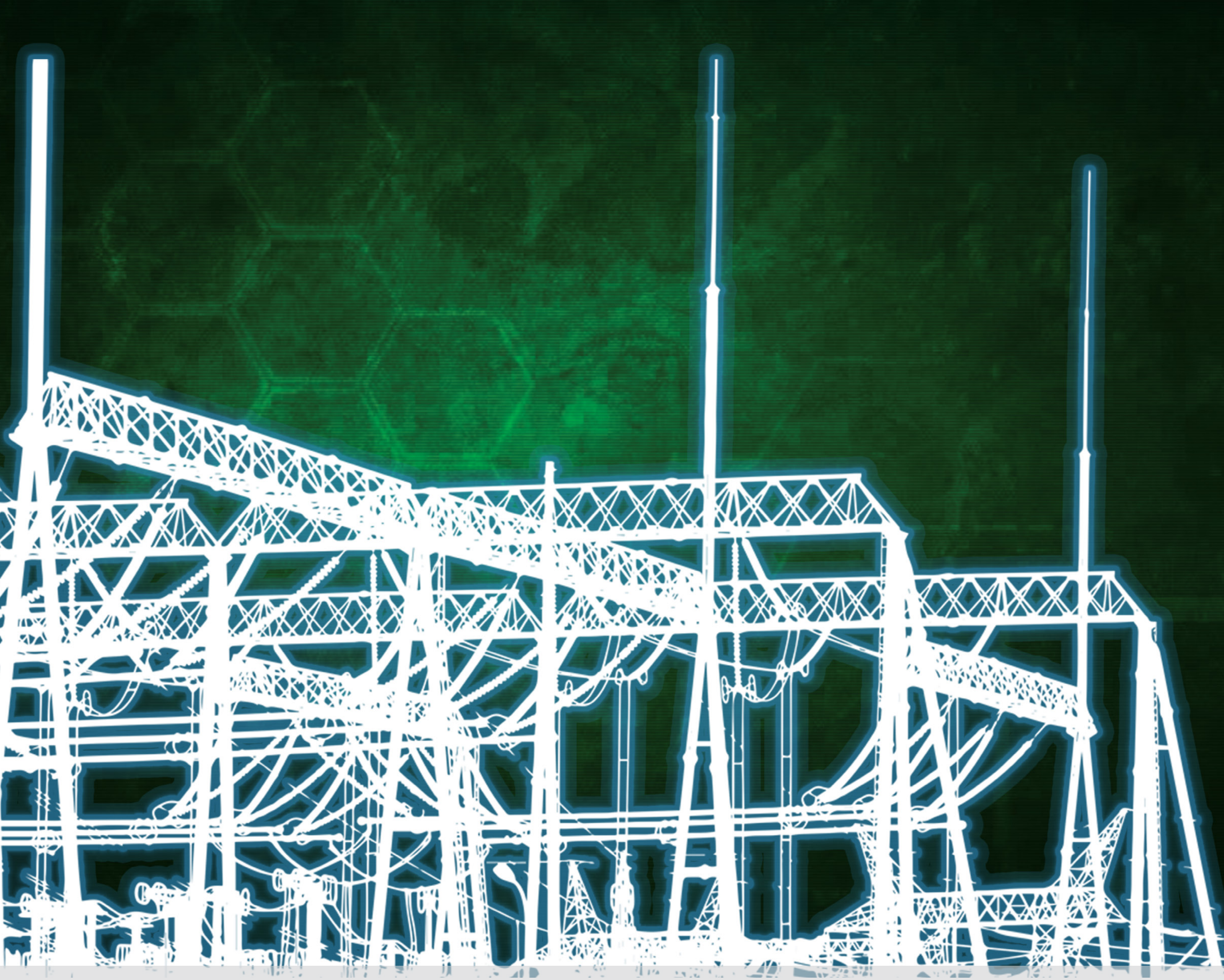

Annual Report 2018

FUTURE DRIVEN TRANSFORMATION

BOTSWANA POWER CORPORATION

MASA 2020

I am for change, wena?

A New Dawn

The sun is rising on the new way of doing things that Botswana Power Corporation is vigorously engaged in.

We call it MASA 2020 – MASA: dawn, 2020: the target year by which to achieve a range of challenging goals that we have set ourselves, so as to better serve our customers and our country.

MASA 2020 rests on three strategic pillars:

1. ***A new Energy mix –*** Our global and future responsibility.
2. ***Bringing Power to all the people –*** Our local and social responsibility.
3. ***Making BPC proud again –*** Our responsibility as an organisation to our people.

- The Corporation is wholeheartedly embracing solar photovoltaic electricity generation and will use the technology as part of an imaginative future energy mix to deliver power efficiently and cost effectively.

- We are committed to employing all the resources available to us, backed by Government, to take the empowering benefits of electricity countrywide – to the most humble household in the most remote village.

- Pride in their work and in their workplace is fundamental to employee morale, efficiency and productivity. A vital enterprise-wide goal is that of promoting and enabling the transformation of how our people view the Corporation, to how they view their Corporation.

BOTSWANA POWER CORPORATION

FUTURE DRIVEN TRANSFORMATION

Contents

Introduction

Power to the People

Flick a switch and the light comes on, the cooking plate heats, the motor turns, the computer hums.

Electricity is the indispensable force that drives every sector of the economy and every facet of daily life.

The ability of a country to generate and supply electric power across the land is a key benchmark of development. Botswana is such a country, and its electrification achievements are the more remarkable because power generation was started, almost from scratch, as late as 1970 with the formation of Botswana Power Corporation. Before then, virtually all electric power had to be imported from neighbouring countries.

The Corporation remains steadfast in its commitment to deliver reliable and affordable electric power countrywide – and to do so with the overriding priority of causing 'zero harm' to the public, to our customers, employees and the environment.

That is our mandate. That is our pledge.

"To generate, transmit and distribute"

Botswana Power Corporation is a state-owned entity created by Act of Parliament in 1970 and is responsible for generating, transmitting and distributing electricity within the country to areas approved by the Ministry of Minerals, Green Technology and Energy Resources.

Electricity generation has developed from a small oil-fired power station in Gaborone, commissioned in 1970 and dismantled in 1989, to two thermal power stations at Morupule, near Palapye. These stations, one of 132 megawatt capacity (Morupule A) and the other of 600MW capacity (Morupule B) were commissioned in 1989 and 2013 respectively. They are fueled with coal from the adjacent Morupule Colliery.

The Corporation also has two small standby diesel-fueled power stations at Orapa (90MW) and Matshelagabedi (70MW) to supplement generation if needed.

From coal face to kitchen

Botswana is fortunate in having very large coal deposits at Morupule.

The coal is mined underground, crushed and delivered by conveyor belts to bunkers at the two power stations.

In a thermal power station fossil fuel (coal, oil or gas) is burned in a furnace, changing water into superheated steam in a boiler. The steam drives a turbine which rotates at high speed in the generator, where the revolving shaft (the rotor) spinning inside massive copper windings (the stator) produces electricity by magnetism.

The electricity is fed from the generator into the national grid through 'step-up' transformers and transmitted at high voltage on power pylons to different parts of the country. It is then reduced in voltage by 'step-down' transformers, which feed sub-stations, from which connection is made to the consumer.

OUR MISSION
is to provide safe, competitive and reliable electricity services

OUR VISION
A leading power distributor in the region.

VALUES
- Valued Citizen
- Zero Harm
- Service Excellence
- Growth
- Ethical Conduct

Operational Highlights

9% — Total Revenue
Increased by 9% to P3.010 billion in 2018 compared to P2.769 billion as at March 2017.

14% — Other Operating Income
Stood at P157.826 million against P138.604 million recorded in 2017

20% — Total Operating Expenditure
Total operating expenditure of P3.467 billion in 2018 reflecting 20% decrease from prior year P4.347 billion.

13% — Tariff Subsidy
Tariff subsidy reduced from P1.668 billion in the prior year to P1.457 billion

52% — Power Purchases
Reduced from P1.514 billion recorded in 2017 to P720 million

1247% — Total Comprehensive Profit
P1.608 billion profit gained compared to P140.247 million loss in 2017.

37% — Current Assets
Increased by 37% from P1.312 billion to P1.796 billion

7% — Non-Current Assets
Increased by 7% (1.331 billion) to P19.136 billion compared to P17.806 billion in 2017.

5% — Non-Current Liabilities
Decreased by 5% to close the year at P7.855 billion against P8.301 billion registered in the prior year.

20% — Current Liabilities
A decline to P3.434 billion compared to P4.266 billion in the prior year

47% — Shareholder's Equity
Increased from P6.551 billion in 2017 to P9.644 billion.

Chairman's Review

> During the year under review, the Corporation made positive progress towards implementing its people-centred transformation strategy under the aegis of MASA 2020. We are gratified to have arrived at various milestones that are pivotal to our journey of change in the better service of our customers and the nation.

On behalf of the Board of Directors, I am pleased to present the Botswana Power Corporation (BPC) Annual Report for the year ended 31 March 2018.

During the year under review, the Corporation made positive progress towards implementing its people-centred transformation strategy under the aegis of MASA 2020. We are gratified to have arrived at various milestones that are pivotal to our journey of change in the better service of our customers and the nation.

FINANCIAL TURNAROUND STRATEGIC OBJECTIVE

The Corporation is firmly focused on achieving a sustainable turnaround of our financial position to reduce the hitherto heavy reliance on Government funding, and release this to benefit other critical aspects of the national development agenda.

While some notable success has been achieved in this regard, the path that is still to be traversed towards financial self-sufficiency remains challenging and requires the continued pursuit of cost and operational efficiencies throughout our value chain.

SECURITY OF POWER SUPPLY STRATEGIC OBJECTIVE

The Corporation's overall business obligation is to safely and optimally meet our national demand requirements. To achieve this, both our Morupule A (132MW capacity) and Morupule B (600MW capacity) power stations are being brought up to optimal and reliable generating capability, while keeping our emergency generation assets at Orapa and Matshelagabedi in ready state as supplementary mitigations.

Major refurbishment work to remedy the historical degradation of Morupule A Power Station and install pollution abatement enhancements was affected by technical problems and delays, which were however resolved with the objective of completing this project by the middle of year 2019.

At Morupule B Power Station, significant progress has been made in addressing a number of construction and equipment defects arising from its main project execution phase. These defects will be remedied as soon as an agreement on them is reached between the Corporation and the contractor. It is expected that the shutdown of the first plant unit for remedial work will take place towards the end of the first quarter of 2019.

RENEWABLE ENERGY

In line with our green energy commitments and in accordance with Government's obligations in this regard, the Corporation is progressing with plans to establish a 100MW solar photovoltaic power plant, which will form the apex of a new renewable energy mix for different parts of the country. This mix will include small photovoltaic power plants, hybrid networks, energy storage facilities, and the development of metering standards to allow participation by private entities in diversifying the country's energy portfolio.

OTHER KEY ACHIEVEMENTS IN 2017/18

The Corporation advanced on several fronts during the year in its multi-faceted programme to progressively implement its strategic vision of 'Future Driven Transformation'.

Zero Harm

As a power utility, we carry an enduring safety duty, both towards our own employees, contractors, as well as the public at large, all of whom are exposed to high risk electrical energy on a 24/7 basis. In recognition of this, the Corporation has elevated people safety as a priority area. While revamping our internal safety structures, systems and processes, significant effort is being made to enhance wider stakeholder and public safety awareness of electrical power safety risks through a comprehensive communications campaign spanning all available platforms.

On the environmental front, we continue to seek means of positioning BPC as a responsible corporate citizen. The plans towards introducing a renewable energy mix are just one aspect of this key strategic focus area. We will be extending this focus to seek means of lowering our own energy and water consumption footprint as we execute our mandate, both very topical subjects in the overall global effort towards sustainable development.

Technical Capacity Improvements

Measures were put in place for a major upgrade of our distribution network, which has been sub- optimal over recent years when the Corporation was compelled to prioritise the allocation of limited funding for generation supply (internally and externally sourced) during Morupule B Power Station's period of intensive availability constraints. This invariably resulted in a significant distribution network maintenance backlog, placing stress on the existing reticulation system.

This is a priority area for BPC and P250 million has been set aside for critical network refurbishment and maintenance interventions in the coming financial year. This investment is intended to reduce the intermittent disruptions in the delivery of power to residential, commercial and other formal sector customers.

In addition, the preliminary work to extend BPC's power supply reach into Botswana's North West areas has commenced.

Accessible Power to Batswana and Citizen Empowerment

Rural electrification continued to grow steadily with new connections being made to 15 additional villages, reducing the number of unelectrified villages from 107 to 92. In addition, network extensions were carried out in 45 villages whose demand requirements had exceeded their respective initial supply installations.

As a national development enabler, we are duty-bound to explore means of delivering power to all citizens in an affordable manner. In addition, our major projects through which this objective is pursued will need to be delivered in a manner that contributes to job creation throughout our operational footprint. Consequently, through our value chain partners, this will be a predominant focus area over the immediate short term.

Talent Reorganisation

Work to reorganise the Corporation's talent base in line with our MASA 2020 aspirations has been largely completed, creating a foundation for enhanced efficiency and quality of competence at all levels. Investing for the future by attracting, developing, retaining and rewarding high performing employees remains a key tenet of our aspiration to create a BPC that is a source pride to the nation.

A primary trajectory in our effort to reinvigorate the collective productivity of our teams has been the adoption of 'Lean Six Sigma' methodology. Through this, we are leveraging collaborative team effort to improve performance by systematically eliminating waste across the business. In support of this, a process re-engineering unit has been established to aggressively drive the streamlining of our organisational processes to become more customer-centric.

THE FUTURE

Innovation shall be a key factor in our bold embrace of 'Future Driven Transformation'. To this end, our vision is contemplating an electrical supply network based on a smart grid infrastructure that brings forth a wholly unparalleled customer experience.

ACKNOWLEDGEMENTS

On behalf of the Board of Directors, I wish to express my gratitude to the Government of the Republic of Botswana, as well as our public and commercial customers for their steadfast support to the Corporation throughout its positive and adverse moments. I further express gratitude to the outgoing board members for their invaluable contribution. I also welcome newly appointed board members.

Not least of all, I thank the Corporation's employees at large for their fortitude in staying the course of our change journey and look forward to an even more vibrant ensuing financial year.

Mr Bonny Thebenyane
Board Chairman

Key Business Terms & Ratios

Borrowings/Debt
All interest bearing liabilities.

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

Total Liabilities
Non-current liabilities and current liabilities.

Current Ratio
Current assets divided by current liabilities.

Cost of borrowing
Finance costs expressed as a percentage of average total debt.

Liquidity Ratio
Current assets less inventory divided by current liabilities.

Gearing Ratio
Total debt as a percentage of capital employed.

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

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

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

Return on property, plant and equipment
Net profit expressed as a percentage of property, plant and equipment.

Earning to irredeemable capital
Net profit expressed as a percentage of irreedeemable capital.

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

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

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

SAPP
Southern African Power Pool.

Return on total average assets employed
Operating profit relative to its total average net assets.

Earnings to irredeemable capital
Operating profit expressed as a percentage of irredeemable capital.

Operating profit/loss to revenue
Operating profit or loss expressed as a percentage of revenue.

Return on revalued property, plant and equipment
Operating profit expressed as a percentage of property, plant and equipment.

Address, Bankers & Attorney's Details

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Fax: (267) 492 0494

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Fax: (267) 241 2877

Selebi-Phikwe
P O Box 170 Selebi -Phikwe Botswana
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Barclays House P O Box 478. Gaborone Botswana

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

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

Stanbic Bank Of Botswana Limited
Private Bag 00168, Gaborone
Botswana

First National Bank (South Africa)
P O Box 1153, Johannesburg 2000, South Africa

ATTORNEYS
Armstrongs
P O Box 1368, Gaborone Botswana

Minchin & Kelly
P O Box 1339, Gaborone Botswana
Collins Newman & Co
P.O Box 882, Gaborone Botswana

Key Annual Statistics

for the year ended 31 March 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total unit sales (GWH)	3,336	3,349	3,479	3,495	3,449	3,310.1	3,1977	3,118	3,151	2,917
Total generation (sent out) and imports	3,844	3,928	3,736	4,024	3,704	3,650.1	3,590.9	3,551	3,414	3,369
Staff Establishment	1,946	2,106	2,117	1,964	1,922	1,977	2,047	2,188	1,841	1,901
Total consumers	434,795	409,925	367,003	367,003	343,050	315,669	291,338	251,773	214,170	196,755
Plant capacity Morupule B (MW)	600	600	600	600	600	-	-	-	-	-
Plant capacity Morupule A (MW)	132	132	132	132	132	132	132	132	132	132
System maximum demand (MW)	610	610	610	610	572	578	542	553	553	503
Average selling price per unit (Thebe/kWh)	90.2	82.7	82.1	72.5	65.5	60	57	48.0	36	36.7
Average cost per unit (Thebe/kWh)	99	126	139	129	104	109	85	68	57	50
Operating Results (P'000)										
Total Revenue	3,009,561	2,768,846	2,857,161	2,533,578	2,260,196	1,984,200	1,815,601	1,512,236	1,135,474	1,069,559
Net Operating Expenses	3,308,743	4,207,982	4,851,042	4,519,671	3,586,058	3,606,721	2,635,037	2,119,262	1,699,047	1,445,989
Operating Profit/(loss) before Revenue Grant	299,182	-1,439,135	-1,993,881	-1,986,093	-1,325,862	-1,622,521	-819,436	-607,026	-563,573	-376,430
Revenue Grant from the Government										
of Botswana	1,457,000	1,667,500	2,321,360	2,326,800	1,488,000	871,000	508,000	454,000	-	-
Operating profit/(loss) after Revenue Grant	1,157,818	228,365	327,479	340,707	162,138	-751,521	-311,436	- 153,026	-563,573	-376,430
Net Profit/(Loss)	674,108	-140,247	-99,613	- 274,905	114,053	-1,254,836	-1,122,872	-796,620	-1,572,169	-133,623
Capitalisation (P'000)										
Long term debt	5,219,490	6,215,308	6,953,734	6,743,406	6,330,541	6,313,407	5,359,783	4,154,439	1,460,764	119,209
Net assets	9,644,289	6,550,883	5,030,983	4,546,958	4,758,887	4,464,695	4,344,744	5,117,891	5,269,867	6,466,499
Capital expenditure and WIP	1,468,046	1,818,737	1,052,189	358,218	423,346	989,467	1,786,583	3,930,033	3,086,888	1,211,301
Electricity (GWh) Source										
Morupule A	25	0	0	0	0	46.3	249.5	437.1	532.1	620.7
Morupule B	2,974	2,616	2,365	2,859	2,213	713.6	0.0	-	-	-
Station usage	465.5	439	307	410	292.2	91.2	29.9	66.0	74.8	71.0
Sent out	2,533.4	2,177.2	2,057.3	2,448.6	1,920.8	668.7	219.6	371.1	457.3	549.7
Purchased	594	1,297	1,679	1,575	1,783	2,981.4	3,371.3	3,180.1	2,984.5	2,748.5
Total sent out and purchased	**4,310**	**4,367**	**4,043**	**4,024**	**3,703.8**	**3,650.1**	**3,590.9**	**3,551.2**	**3,441.8**	**3,369.2**

Key Annual Statistics

for the year ended 31 March 2018

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Sales disposition (GWh)										
Mining	676	837	1,114	1,194	1,197	1,127.6	1,085.7	1,117.1	1,141.2	1,123.2
Commercial	1,149	1,107	1,087	1,059	1,028	982.2	910.1	820.0	830.7	734.6
Domestic	1,065	1,022	955	941	927	918.3	878.8	873.0	829.1	768.7
Government	319	314	323	301	297	282.1	323.2	308.0	307.5	290.4
Southern African Power Pool	127	70								
Total sales	**3,336**	**3,349**	**3,479**	**3,495**	**3,449**	**3,310.1**	**3,197.7**	**3,118.1**	**3,108.5**	**2,916.9**
Transmission and distribution Losses (GWh)	**588.1**	**578.8**	**563.8**	**528.7**	**254.9**	**340.0**	**393.2**	**433.6**	**333.3**	**381.3**
System losses (%)	15.30%	14.73%	15.09%	14.63%	7.47%	10.3%	12.3%	13.9%	10.7%	13.1%
Total consumers	**434,795**	**386,024**	**386,024**	**367,003**	**343,050**	**315,699**	**291,338**	**251,773**	**214,170**	**198,615**
Sales growth (%)										
Mining	**-19%**	**-25%**	**-7%**	**-0.2%**	**6%**	**4%**	**-2.8**	**-2.1**	**1.6**	**-5.0**
Commercial	**4%**	**2%**	**3%**	**3%**	**5%**	**8%**	**11%**	**-1.3**	**13.1**	**7.4**
Domestic	**4%**	**7%**	**2%**	**1%**	**1%**	**4%**	**1%**	**5.3**	**7.9**	**3.1**
Government	**2%**	**-3%**	**7%**	**1%**	**5%**	**-13%**	**5%**	**0.1**	**5.9**	**6.2**
Total sales (decline) growth	**0%**	**-4%**	**0%**	**1%**	**4%**	**4%**	**3%**	**0.3**	**6.6**	**1.0**
Earning ratios (%)										
Net margin	22.4%	-5.1%	-3.5%	-10.9%	5.0%	-63.2%	-61.8%	-52.7%	-138.5%	-12.5%
Earnings to irredeemable capital	14.7%	3.6%	7.0%	8.3%	4.0%	-20.3%	-9.7%	-7.0%	-34.4%	-8.1%
Return on total average assets employed	3.2%	1.2%	1.8%	2.0%	1.0%	-4.6%	-2.1%	-1.0%	-3.8%	-1.8%
Operating Profit/(loss) to revenue	38.5%	8.2%	11.5%	13.4%	7.2%	-37.9%	-17.2%	-10.1%	-49.6%	-35.2%
Return on revalued Property, Plant										
and Equipment (%)	27.9%	1.4%	2.1%	2.3%	1.1%	-4.6%	-2.1%	-1.0%	7.8%	-9.3%

Board Members

Mr Sebetlela Oletile Sebetlela

Board Chairman (Resigned 30 November 2017)

Mr Sebetlela holds a metallurgical engineering qualification from Cambrian College in Canada. He has had extensive work experience at Debswana /De Beers from 1980 to 2008, where among other executive positions he was appointed General Manager of Jwaneng Mine (2003) and General Manager of Orapa and Letlhakane Mines (2005 to 2008). He joined Tati Nickel Mining Company as General Manager and Director in 2009 and later set up his consultancy firm, Sebetlela Holdings. He has also worked as Regional Operations Manager at PPC Aggregate Quaries. He is currently Deputy CEO at the Mineral Development Company of Botswana. He serves as Chairman of both Botswana Chamber of Mines Board and National Human Resources Advisory Council at the Ministry of Minerals Resources, Green Technology and Energy Security.

Mr Bonny Thebenyane

Board Chairman (Appointed 1 December 2017)

Mr Thebenyane holds a Bachelor of Commerce (Accounting) degree from the University of Botswana. He joined Debswana in 1997 and is currently Group Secretary. He is a Fellow and a Director of the Southern African Division of the Institute of Chartered Secretaries and Administrators. In 2006 he was elected President of the Institute, the youngest and first person from outside South Africa to hold the position. He received the Institute's Distinguished Service Award in 2011. He previously served on the Debswana Pension Fund Board of Trustees.

Mr Keith Thomas Blanchard

Member

Mr Blanchard is a member of the MIE Institution of Engineers, London and the South African Council for the Project and Construction Management professions. He started his career in 1971 as a project engineer at the United Kindgom Atomic Energy Authority, moving on to head various large mining sector projects in the United Kingdom, South Africa and Zambia from 1977 to 2006. In 2007 he joined Anglo Platinum as Programme Manager in the Process and Mining Projects division, holding the position until 2012. He is currently Technical Services Director of Debswana Diamond Company.

Mr Bernard Kenosi

Member

Mr Kenosi holds a bachelor's degree in Civil Engineering from the University of Botswana and a master's degree in Engineering Project Management from the University of Pretoria. He started his professional career in 1996 as a Construction Engineer at Bergstan, joining Debswana in 2004 as a Section Engineer at the Orapa, Letlhakane and Damtshaa mines. In 2006 he joined BCL Limited as Manager Projects Management. He was recently appointed Technical Coordinator at Gem Diamonds Botswana at Ghaghoo mine.

Ms Keineetse Lepekoane

Member

Ms Lepekoane started her career with National Development Bank as a Project Officer, later joining the Ministry of Finance and Development Planning as an Economist in 1991. She was promoted to the position of Head of Planning Unit and then to Chief Economist, responsibile for helping Ministries to prepare submissions for the National Development Plans and implementation of their plans. In 2009 she was appointed to her current position of Director Development Programmes at the Ministry.

Professor Baakile Motshegwa

Member (Resigned 16 March 2018)

Professor Motshegwa graduated from the University of Newcastle in 2008 with a Doctor of Philosophy in Management degree. She also holds the degrees of Master of Science in Human Resource Management and Bachelor of Arts in Public Administration. She started her career in 1992 as a personnel officer at the Directorate of Public Service, going on to hold various positions in the human resources field until she joined the University of Botswana in 2001. She is currently an Associate Professor in the Department of Political and Administrative Studies at UB.

Dr. Obolokile Obakeng

Member

Dr Obakeng is an expert in geology, specifically hydrogeology, and has more than 18 years work experience in this field. He previously served as Director Water Affairs and is currently Deputy Permanent Secretary in the Ministry of Minerals, Resources Green Technology & Energy Security, responsible for policy and programme development. He has published extensively on the subject of water resources and environmental management, receiving international awards for his work on sustainability and resource management. He joined the BPC Board in July 2015 and is a Member of the Board Security of Supply Committee and the Board Audit and Risk Committee. He is Deputy Chairman of the Water Utilities Corporation Board of Directors and a Member of the Board of Botswana Environmental Assessors and Practitioners Association. He holds the degrees of BSc in Geology (with Distinction) from the University of Botswana, MSc in Water Resources Management from the Institute for Aerospace Survey and Earth Sciences in The Netherlands and a PhD in Hydrogeology from Vrije Universiteit, Amsterdam.

Ms Tebelelo Pule

Member (Resigned 1 January 2018)

Ms Pule is a finance and procurement specialist with more than 20 years experience. She started her career at Botswana Telecommunications Corporation where she progressed to become General Manager Finance in 2003. After a period as Finance Director at Bokamoso Private Hospital Trust she joined the Botswana Competition Authority in 2011 as Director Corporate Services. She is currently Chief Executive Officer of the Competition Authority, responsible for managing the strategic direction of the organisation. She joined the BPC Board of Directors in July 2015 and is Chairman of the Board Finance and Investment Committee. She holds an MBA degree from the University of Derby and a Bachelor of Commerce degree from the University of Botswana. She is an Associate Member of the Chartered Institute of Management Accountants, a Fellow of the Botswana Institute of Chartered Accountants, and has also undertaken an Executive Management certification programme through the Witwatersrand Business School in Johannesburg.

Ms Mmametsi Setlhare

Member

A Commerce (Accounting) graduate of the University of Botswana, Mrs Setlhare has had varied internal auditing experience for more than 22 years, at Botswana Housing Corporation, BCL Limited, Air Botswana, PricewaterhouseCoopers, Motor Vehicle Accident Fund and BancABC. She is currently Head of Audit Services with Debswana.She is a member of the Chartered Institute of Management Accountants and the Chartered Global Management Accountant, and is a Fellow of the Botswana Institute of Chartered Accountants. She has also completed development programmes of the University of Stellenbosch Business School and the University of Johannesburg. She also served as a member of the board audit and risk committees of Gambling Authority Botswana and Ba Isago University.

Mr Vincent Kinnear

Member (Appointed 1 December 2017)

Mr Kinnear graduated from the University of Botswana with a Bachelor of Engineering (Electrical and Electronics) degree. He holds a Postgraduate Certificate in Enterprise Risk Management and Prince 2 project management certification. A registered engineer, he joined the Department of Water Affairs in 1995, holding various positions in the fields of project management, design, operations and maintenance. He has headed the Electromechanical Division since 2008, and in 2018 was promoted to the position of Deputy Director Project Management in the Ministry of Land Management, Water and Sanitation Services.

Mr Duncan Pie

Co -Opted BPTC Member

An IT and technology executive with 20 years experience, Mr Pie is Managing Director of Dimension Data Botswana. He previously held the position of Head of Wholesale at Botswana Telecommunications Corporation, and Business Development Manager at Microsoft Dynamics. He holds an Economics and Accounting degree from the University of Botswana and a Global Executive Development Programme from the Gordon Institute of Business Science in South Africa. A keen runner, he has competed in several marathons locally and internationally.

Mr Simon Meti

Co -Opted BHRC Member

Mr Meti began his career in human resources in 1977 as a Labour Assistant in the Department of Labour and Social Security, progressing to the position of Principal Labour Officer heading the Law Enforcement Unit. He joined Botswana Development Corporation as Human Resources Development Manager in 1989, successfully transforming the Personnel Unit by implementing the HR strategy and restructuring the organisation. He joined the Botswana Horticultural Market in 2014, retiring in 2018 in the position of Acting Chief Executive Officer.

Chief Executive Officer's Review

"The future shape of the Corporation is emerging as it steadily becomes more efficient in its operations, more effective as an essential service provider, and more self-reliant as an entity."

I am pleased to present the Botswana Power Corporation annual report for the year ended 31 March 2018.

I do so with a sense of satisfaction, gratitude and pride – satisfaction at our achievements during the year, gratitude to the BPC family for making those achievements possible, and pride in what we are doing together as a team.

It has been a year of challenge and change as we move steadily towards the great goals of our MASA 2020 strategy. We are laying the firm foundations today and building the Corporation of tomorrow. Sustainability, efficiency and growth in all areas of our operations and services is the goal that we all share and contribute to.

'Future Driven Transformation' is the compelling vision that guides, motivates and energizes the people

of BPC as we take the Corporation forward into new ways of doing things – to fully realise the objectives of MASA 2020.

The Corporation has adopted the 'Lean Six Sigma' approach in all areas of its operations. This is a methodology that relies on a collaborative team effort to improve performance by systematically eliminating wasteful practices. The system provides the organisation with tools to improve its capabilities, increase performace and decrease process variation. This leads to defect reduction and improvement in revenues, employee morale and quality of service.

FINANCIAL PERFORMANCE

The Total Revenue increased by 9% to P3.010 billion in 2018, compared to P2.769 billion as at March 2017. The increase in Revenue was mainly attributable to the average 12% tariff adjustment awarded for the year under review. Other Operating Income, which incorporates mainly profit on sale of material to Distribution Works Contractors, Consumer Financed Projects recoveries and export of electricity through Southern African Power Pool (SAPP) stood at P157.826 million registering an increase of 14% from P138.604 million in the prior year.

Total operating expenditure for the year amounted to P3.467 billion compared to P4.346 billion in the prior year, reflecting a 20% decrease (P880 million) compared to 2017. The Total Comprehensive Profit recorded for the year, after financing activities and income tax credit was at P1.608 billion compared to P140 million loss in 2017.
The total Non-Current Assets net of depreciation increased by 7% (P1.330 billion) to P 19.136 billion (P17.806 billion in 2017), mainly attributable to:

- P933 million gain on revaluation of Land and Buildings and Generation, Transmission and Distribution and
- P1.468 billion with Additions during the year consisting mainly of work in progress for Morupule A, Northwest and Rakola Projects.
- P681 million reduction on derivative instrument to P418 million compared to P1.099 billion recorded in the previous year. However, the hedge remained favourable to BPC as it was on the asset position.

The Current Assets increased by 37% from P1.311 billion to P1.796 billion for the year under review. The Capital and Reserve (Shareholder's equity) was reported at P9.644 billion, against P 6.55 billion recorded in the prior year, reflecting an improvement of 47% (P3.093 billion) on the prior year position. Non-current liabilities decreased by 5% (P445 million) to close the year at P7.85 billion against P8.3 billion recorded in the prior year. This decrease is mainly accounted for by P 952 million (17%) arising from revaluation on Morupule B borrowing costs and principal payments. Current liabilities recorded a decline of 20% (P833 million) to P3.433 billion compared to a P4.266 billion in the prior year.

ONGOING POWER PROJECTS

Despite reliability concerns and technical challenges at Morupule B power station, the Corporation has been able to satisfy the base load demand of the country from the 600MW generated at this plant.

The national peak demand continued to be affected by the reduced power demand from the mining sector following closure of operations at the BCL and Tati nickel mines. As a result, the recorded peak demand was 549MW against a forecast of 630MW, whereas the base load requirement remained at a level of 350MW.

The total system energy was 3,844,470 MWh, of which 77% was supplied by Morupule B, 1% by other internal sources and 22% imported from the Southern African Power Pool (SAPP) and Eskom.

The chart below shows the energy market share for the main sources of supply.

Main Sources of Supply: Energy Market Share

Morupule B	77%
Imports	22%
Other Internal Sources	1 %

The Corporation's two diesel power stations, at Orapa (90MW) and Matshelagabedi (70MW), were not used during the year and remained on standby, as it is cheaper to import power than it is to generate with a diesel fueled facility.

Morupule B remedial works

Significant progress has been made in remedying construction and equipment defects at Morupule B. A staggering total of 6,867 Engineering, Procurement and Construction contractor defects were identified throughout the various phases (construction, commissioning and operation) of the short lifecycle of the plant.

The graph below shows comparison of Morupule B plant availability between the previous year and the year under review. The performance of the plant has been somewhat stable and predictable, while still requiring much-needed remedial work. This is ongoing and the outstanding defects, about 30% of the original total, still need to be corrected to establish the desired reliability of the plant.

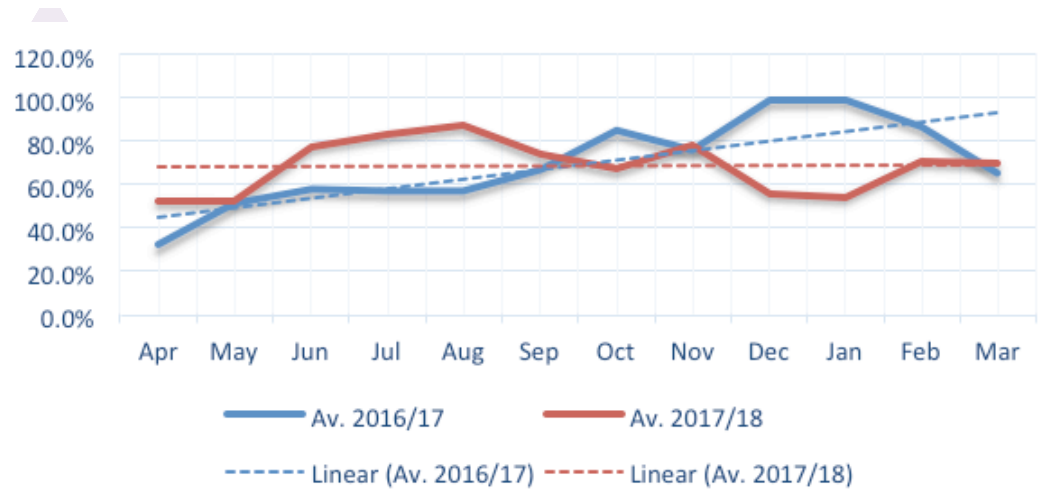
The Corporation is engaged in ensuring that before the start of the remedial works programme an acceptable level of certainty is achieved with regard to the reliability and acceptability of the EPC contractor's proposals. The conclusion of this proposal will determine the revised date upon which the first unit will be shut down to implement the major remedial works – expected to be in the first quarter of 2019 for the first unit.

Morupule A major refurbishment

The Corporation continues to implement its strategic project to recover the degradation of Morupule A power station and abate pollution, to secure 132MW Gross reliable generation capacity at the plant.

The project experienced significant delays during construction, with up to three and a half months lost. Three units were commissioned after refurbishment during the third quarter of the year under review, but had to be shut down again for remedying of the defects identified during commissioning, and these were common across all four units. The revised completion date for the refurbishment project is now the middle of the financial year 2019/20.

Morupule B Availability Comparison 2016/17 vs 2017/18



Renewable energy projects

In line with its green energy commitment and Government's mandate the Corporation is pressing ahead with plans to establish a 100MW solar photovoltaic power plant, which will be the main element of a roll-out programme of a renewable energy mix. The mix will include small (1-4MW) grid-tied photovoltaic power plants, hybrid networks in selected rural areas, energy storage facilities and the development of net metering standards to allow participation by private entities in diversifying the country's energy mix.

Financial, legal and engineering advisers have been appointed to assist the Corporation during the procurement phase of the project and to ensure that BPC achieves its goal of realising the design, procurement, construction, ownership and operation of a 100MW solar power plant by 2021.

The Corporation continues to define the resources needed for all other identified renewable energy initiatives and will follow its tender regulations for their implementation.

TRANSMISSION AND DISTRIBUTION

Infrastructure development

In its effort to provide a reliable, efficient and secure power grid to meet national demand, the Corporation executed nine contracts with three international contractors for the extension of the high voltage transmission grid to the north-west part of the country.

The contractors have completed the detailed engineering designs and are preparing to start site works in the course of the financial year (2018/19).

The Northwest Transmission Grid project, scheduled for commissioning in December 2019, will extend the national grid from Morupule to Orapa, Maun, Toteng, Samochima and Ghanzi.

In the southern part of the country, the Corporation successfully commissioned Rakola 220/132kV substation in October 2017. This is the third bulk supply point in the south and it strengthens bulk in-feed from Segoditshane and Thamaga 220/132kV substations. The reinforcement of the 132kV system for the southern system was advanced during the year and should see the awarding of three contracts for the detailed designs, procurement and construction of 132/33/11kV substations at Mochudi, Ramotswa and Tlokweng.

Network reliability

The performance of the distribution network has been below standard in recent years due to an increasing maintenance backlog, with some network component ratings being exceeded due to demand and insufficient investment .

In the year under review specific measures were put in place, including the restructuring of operations and management, prioritisation of maintenance and investment in the distribution network, and resourcing of network operations. A total of P250 million will be made available in coming financial year for distribution network refurbishment and major maintenance works .

The Corporation's commitment to improving operational efficiency and customer service is reinforced with the establishment of a process re-engineering unit within the strategy department. This important development enables the Corporation to further streamline its processes and become more effective in deploying resources to satisfy its customers.

The customer connections system was among areas prioritised for action, and is already yielding significant results by reducing the connections backlog by half. This impressive performance is accompanied by a 45% improvement in the time taken to provide electric power connections to private customers. It is expected that the connections backlog will be completely cleared in the coming financial year.

The process of providing quotations to customers and carrying out connections has been improved dramatically with the enhanced use of geographic information system (GIS) technology, slashing the time taken to provide quotations from 30 days to about 30 minutes.

The Corporation is investing in strengthening its distribution network to ensure that interruption of supply to customers is minimised, and that where faults occur they are rectified and power is restored in the shortest time possible. In the year under review distribution faults were reduced by 11% and the response time for resolving faults was reduced by 36%, further underlining the Corporation's commitment to customer service.

It is expected that the network performance should be up to the required standard within the next 24 months.

Rural electrification – Power to the People

Fifteen more villages were electrified during the year and network extensions were carried out in another 45 villages that had outgrown their coverage. This reduced the number of un-electrified villages from 107 to 92. In the coming financial year 41 villages will be electrified and network extensions will be carried out in 72 villages to cater for growth in electrified villages.

The target is to have all villages electrified in the next five years, with all households connected to the national electricity grid. To achieve this the Corporation will work with Government to address barriers to household connections, which take the form mainly of the cost of connection (currently subsidised to the value of P5,600 through the National Electricity Standard Cost scheme) coupled with the cost of internal household wiring.

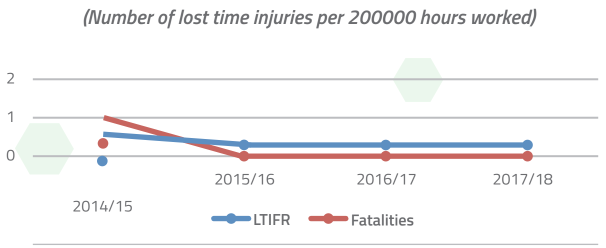
SAFETY, HEALTH, ENVIRONMENT, RISK

The Corporation's commitment to its goal of zero harm and continuous safety performance improvement is paramount and is at the centre of its operational culture.

Safety, health and environmental management systems (SHER) have proven records for sustained improvement through the implementation and adherence of best practice ISO standards.

There has been no work-related fatality at the Corporation for the past three years and the Lost Time Injury Frequency Rate (LTIFR) for the year under review was 0.29 against a target of 0.42. This is far below the industry threshold target of <1. The number of recorded injuries at work dropped by 49%, which is indicative of management's commitment to the implementation of safety programmes and improved recording of leading indicators (nearmiss, unsafe acts and conditions).

Lost Time Injury Frequency Rate (LTIFR) and Fatalities 2014 - 2017/18



PUBLIC SAFETY

The Corporation energetically promotes public safety at home and at the workplace, stressing the lethal dangers of carelessness, tampering with equipment, illegal power connections, and substandard and unapproved installations.

Safety initiatives include:

- Awareness campaigns among various stakeholders, including schools.
- Continuous monitoring of safety programmes to gauge their effectiveness.
- Countrywide joint operations with the police to curb illegal connections.
- Contractor induction to encourage electrical safety at the workplace.

Environmental performance

The SHER policy was revised during the year to ensure that the Corporation's processes and activities are conducted in an environmentally acceptable manner. The main focus of the revision was to strengthen the organisation's commitment to environmental protection and its alignment with the ISO14001:2015 standard.

Reports were produced for environmental management plans at the Morupule A and Morupule B power stations. Deviations observed included excessive levels of sulphur dioxide emissions, remedial works, which include the major overhaul of the limestone conveying system. To monitor ambient air quality BPC successfully operated an air quality station based at Kgaswe Primary School in Palapye.

Other initiatives during the year included tree planting events at Maun, Lerala and Ghanzi, with 200 indigenous and fruit trees planted. The general public and various institutions such as schools, clinics and the Department of Forestry and Range Resources took part.

BPC joined the world to mark Earth Hour, recording a countrywide electricity saving of 11MW per hour.

Waste management

Recycling of waste is encouraged throughout the Corporation. A waste segregation project was launched and efforts were made to recycle other waste material. More than 17,500 litres of used oil and 759 tonnes of scrap metal were collected and taken away for recycling. The management of hazardous waste, including the testing of electrical equipment in line with the Montreal Protocol, is also receiving attention.

Risk management

In its restructuring programme the Corporation adopted an enterprise risk management (ERM) philosophy aimed at identifying and predicting potential and emerging risks before they occur or materialize. A risk management culture is being encouraged and embedded throughout the organisation, with all risk functions combined into one department. Some planned key deliverables include reviewing the current ERM framework in line with ISO31000 and increasing the maturity of the risk management process. On issues relating to risk financing, the Corporation has adequate insurance cover in line with its balance sheet and risk profile.

HUMAN RESOURCES

The Corporation's most valuable asset is of course its people. Human capital is at the very heart of the transformation process that the Corporation is going through. This is in line with MASA 2020 strategy which recognises high performance as a critical success factor. The strategy will be achieved in the most part through our people, who have overwhelmingly embraced it.

Investing in the future by attracting, developing, retaining and rewarding competent and high calibre employees remains of paramount importance.

Key highlights of the year:

Model employer and business reorganisation

Structure – Optimised organisational structure and functions were completed for all levels of the organisation across departments, in line with the approved business model. This will ensure synergies between the different departments of the organisation.

Executive management – A dynamic new executive team came on board, some drawn from the existing Executive, some promoted from senior management positions while others were sourced from the market.

Staff rationalisation – As part of the workforce transformation a total of 402 employees were released through voluntary and involuntary separation processes. The thrust of this exercise was to ensure that the Corporation had the right skill set to execute the MASA 2020 strategy.

Corporate competency framework – Human Resources developed and rolled out a Corporate Competency Framework and Matrix which formed the basis for job analysis, talent profiling, recruitment and selection across all levels of the organisation.

Recruitment – The Corporation has had very low staff attrition levels over the years, resulting in the organisation not being able to renew itself by bringing in new skill sets. As part of the workforce transformation, management decided to:

- Advertise all positions from executive to senior supervisory level so as to bring in the best calibre employees.
- Revamp the recruitment and selection processes by introducing paperless assessments, for efficiency, enhanced transparency and quick turnaround. The assessments help to ensure the recruitment of employees who are the right fit for the job.
- This major reorganisation was carried out using internal resources, so saving the organisation a substantial sum in costly consultancy fees.

Development and careers

The Corporation continues to recruit graduate trainees in various disciplines and develop them to the required standards. To date there are 105 graduate trainees within the Transmission and Distribution, SHER and Generation departments. Of these, 24 have been assessed and declared competent and 81 are still at various stages of training.

The Corporation has started collaborating with Botswana International University of Science and Technology and the University of Botswana with the objective of orientating the curriculum and research activities of institutions of higher learning towards the needs of the industry.

To contribute to the Corporation's financial turnaround strategy, and realizing the value of Valued Citizen and Zero Harm, the Corporation conducts external training for stakeholders as the need arises. A total of 289 trainees have been trained in operational rules for high-voltage switching and overhead lines, generating revenue amounting to P732,000.

The Human Resources department continues to help young people to get industry related experience by taking in fresh graduates as interns. To date there are 47 interns across the enterprise.

CORPORATE SOCIAL RESPONSIBILITY

Botswana Power Corporation is both a servant and a good neighbour. The Corporation is keenly mindful of its social responsibilities and carries out a range of initiatives aimed at helping and empowering the communities in which it operates. In doing so it is responsive to the needs of individuals and organisations, with emphasis on education, community development and social welfare. In addition to regular assistance the programme also includes one-off projects to meet particular needs.

Bakery business

BPC helped communities in the Barolong district by donating an electric bakery to the Gopong Support Group. The P60,000 project included building an ablution block and painting the bakery. Fresh bread is now available locally and is also sent to outlets in other areas.

School adoption

The Corporation has adopted Ngarange Primary School for three years in response to the Government's 'Adopt-a-School' initiative. The programme is supporting the school's administration and teaching departments. The library has been revamped, stationery and educational board games supplied, and the school prizegiving function sponsored.

A house in need

The Corporation's employees responded to the President's national housing appeal by contributing personally to build a two-bedroom house for a needy family in Palapye. The project was initiated by Morupule A and B staff trainees. The house was electrified and furnished before presentation.

Twice-loved clothes

BPC employees pooled enthusiastically to give no-longer-used clothes to needy people in a campaign called 'Let your clothes be loved twice'. The beneficiaries were identified with the help of the local authorities.

THE FUTURE

The Corporation's future shape is emerging after another year of successful transition, and we are well on course to reaching the final destination on our journey to the full realisation of the visionary goals of MASA 2020. We are steadily becoming more efficient our operations, more effective as an essential service provider, and more self-reliant as an entity. In progressing resolutely towards fulfilling our mandate to generate and supply reliable and affordable electric power countrywide, we are also committed to embracing renewable energy, with the main goal of establishing a 100MW photovoltaic solar power plant by 2021.

THANKS

I record my thanks to the Board of Directors for their far-sighted and consistent support given to the Executive team during another exciting and demanding year of challenge and change. I thank the Management team and all members of staff – the BPC Family – for their personal and collective contribution to the new Botswana Power Corporation that we are proudly building together.

Dr. Stefan Schwarzfischer
Chief Executive Officer

Executive Management

Dr. Stefan Schwarzfischer
Chief Executive Officer

Dr Schwarzfischer is an engineer in metallurgy and materials. He has held executive management positions in global consulting companies, and has helped to transform and elevate the performance of organisations in the private and public sectors. He has worked in companies that build, operate and maintain gas and thermal power plants, and has experience in commercial power production from various energy sources. Among his goals at Botswana Power Corporation is the development of renewable power generation to contribute up to 25% of the country's power mix, as part of the Corporation's strategy to increase connection rates and access to affordable electricity, especially in the rural areas.

Mr Cross Kgosidiile
Chief Financial Officer

Mr Kgosidiile started his career in 1992 as a graduate accounts trainee at Cash Bazaar Group. He joined Air Botswana and as Finance Manager was part of the management team that brought about the turnaround of the airline, resulting in the national carrier achieving profitability for seven successive years. He was appointed CEO of Motor Vehicle Accident Fund in 2005, successfully heading the Fund for over ten years. He has served on the boards of Botswana Railways, KYS Investments Holdings Limited, Botswana Building Society and Stanbic Bank, and currently serves on the board of Prime Time Property Holdings Limited. He is a trustee of Botswana Medical Aid Society.

Mr Zwilithini Witbooi
General Manager - Generation

Mr Witbooi joined Botswana Power Corporation in 2017 from Eskom, the South African electricity utility, where he oversaw the turnaround of the big Duvha thermal coal power station, a plant of six 600MW turbines totalling 3 600MW. He has extensive experience in resolving complex problems at brown field projects with challenges similar to Botswana Power Corporation's Morupule A and B power stations. He has led the modernization of a number of power plants where new and old technologies are integrated using a combination of engineering design solutions.

Ms Kamogelo Chiusiwa
General Manager - Human Resources

Ms Chiusiwa has had 20 years postgraduate experience as a human resources professional. She started her career as a graduate trainee at Standard Chartered Bank, becoming Head of Human Resources, and later moved in the same capacity to Botswana Post where she successfully led a transformation agenda that resulted in a 32.6% improvement in the employee engagement score. She also carried out human resources consulting before joining Botswana Power Corporation in 2016 as General Manager Human Resources.

Mr Emmanuel Bakgwane Bopadile
General Manager - Internal Audit

Mr Bopadile has been in the Internal Audit profession since 1994, having started his career as a Performance Auditor in the Office of the Auditor General. In 1998 he moved to Botswana Housing Corporation as a Treasury Accountant before returning to auditing and joining Botswana Telecommunications Corporation in 1999. He has headed the Internal Audit department at UNIGEM, and was also part of the BCL Internal Audit team in 2016.

Mr Edward Rugoyi
General Manager - Transmission and Distribution

Mr Rugoyi is a chartered electrical engineer with more than 25 years of experience in power systems gained in the Southern African electricity supply industry. He has specialized expertise in power utility management at senior and executive level which has given him experience in the transformation of power utilities, strategic planning, strategy implementation, power sector reforms and restructuring. His electrical power utility management experience is backed by several years of technical experience in electrical power system operation and maintenance, transmission and distribution infrastructure development, energy transaction agreements comprising operation and maintenance agreements, power purchase agreements, primary fuel supply agreements and cross-border electricity trade.

Ms Dineo Seleke
Manager Marketing and Communications

Ms Seleke joined the Corporation in 2016 with varied experience in print and broadcast journalism and advertising. She is responsible for managing internal and external communications, networking the Corporation with stakeholders and ensuring brand visibility. She is also responsible for overall media management, public relations and implementation of the corporate social responsibility programme. Before joining BPC she was Executive Coordinator for the Chief Executive Office at National Development Bank of Botswana. She has had experience in photovoltaic solar power projects in the capacity of Regional Manager for the BPC Lesedi-Maun Office, a subsidiary formed by Government to extend alternative electrification to areas that are not connected to the grid – as part of the national rural electrification drive. She was responsible for managing franchisees and technical support, advising the organisation on the regional demands for photovoltaic solutions, and managing regional stakeholders.

Ms Annah Moncho
Safety, Health, Environment, Risk Manager

Ms Moncho joined BPC in 2014 as SHER (Safety, Health, Environment, Risk) Manager responsible for the Generation Business Unit and in 2017 was appointed Corporate SHER Manager for the whole organisation. She has had work experience at Debswana, Gem Diamonds and African Copper and previously managed her own consultancy firm. She has successfully implemented best practice standards such as ISO 14001 and OHSAS 18001 in both green and brown field projects. She holds a bachelor's degree in Public Administration and Environmental Sciences from the University of Botswana and a postgraduate qualification in Enterprise Risk Management from Botswana Accountancy College.

Mr Omphitlhetse Saleshando

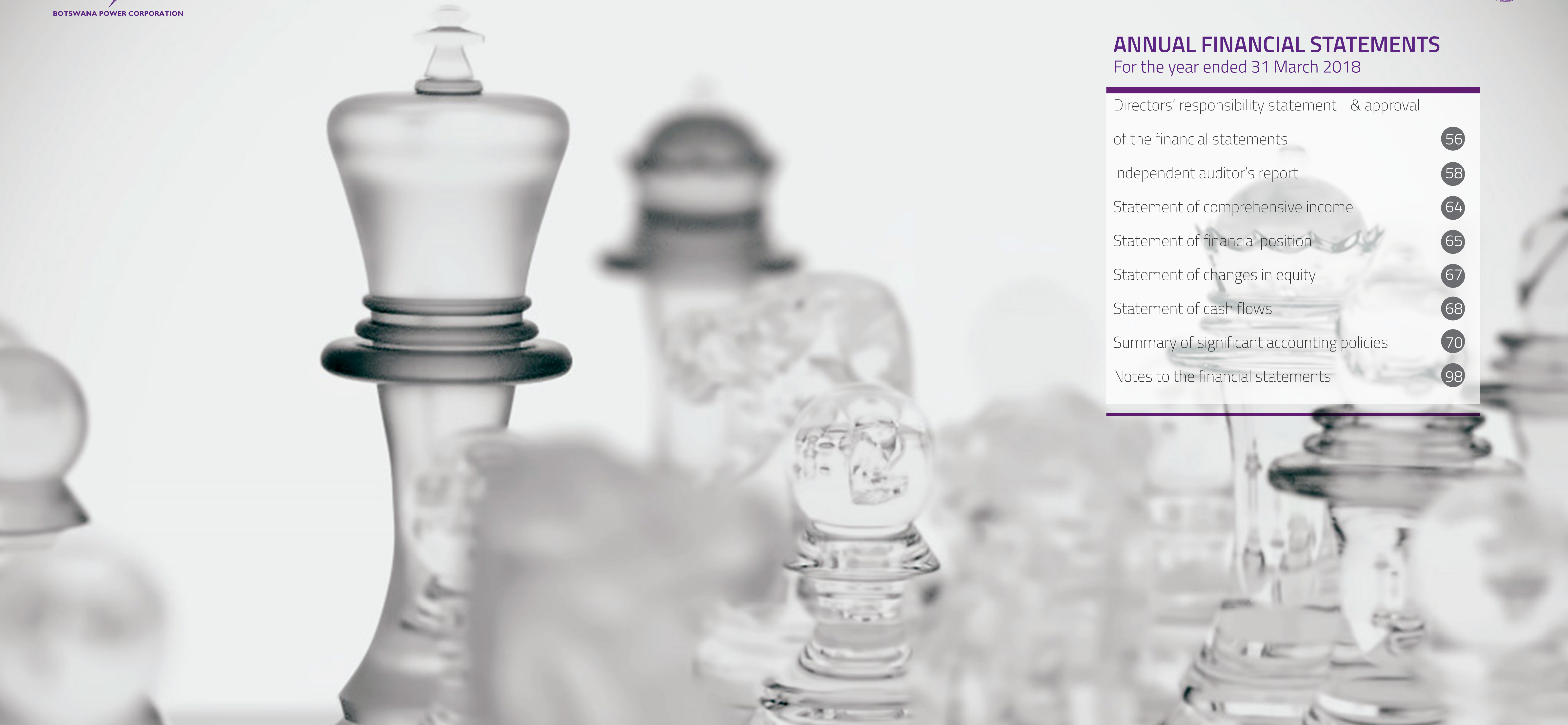
Strategy and Transformation Manager

Mr Saleshando joined BPC in 2017 as Strategy and Transformation Manager, responsible for facilitating the development and execution of the corporate strategy. Before joining the Corporation he worked in the financial services sector and was Strategy and Business Development Manager at Botswana Life Insurance Limited for four years, responsible for strategy implementation as well as project management and product development. He has also had experience in the fast-moving consumer goods sector, working in various managerial roles at Kgalagadi Breweries Limited. He holds a Bachelor of Science degree from the University of Botswana and has also completed an MBA with De Montfort University in the UK. He is a Certified Change Management Practitioner and a Chartered Management Accountant.

Ms Joy Okedi Karabo Norman

General Corporate Counsel

Ms Norman joined Botswana Power Corporation in 2016 from the Local Enterprise Authority where she held the position of Corporate Secretary and Legal Services Manager. Before joining LEA she was a magistrate in Molepolole and Gaborone, presiding over civil, affiliation, criminal and traffic matters. She began her career as a Prosecutions Counsel with the Directorate of Public Prosecutions in Gaborone in 2008 and was admitted to practice as an attorney in the same year. She holds a Bachelor of Law degree from the University of Johannesburg, and is currently pursuing an MBA with the University of St Mark and St John, England. She read for a professional postgraduate qualification in Company Secretarial and Governance Practice with the Institute of Chartered Secretaries Southern Africa.



ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2018

General information

MEMBERS OF THE BOARD

S Sebetlela	(Chairman) Resigned 30 November 2017
B Thebenyane	(Chairman) Appointed 1 December 2017
K Blanchard	
B Kenosi	
K P Lepekoane	
B Motshegwa	Resigned 16 March 2018
O Obakeng	
T Pule	Resigned 1 January 2018
M Setlhare	
V Kinnear	Appointed 1 December 2017

EXECUTIVE MANAGEMENT

S Schwarzfischer	Chief Executive Officer
C Kgosidiile	Chief Financial Officer
J Hosseini	Chief Operations Officer
Z Witbooi	General Manager Generation
K Chiusiwa	General Manager Human Resources
E Bopadile	General Manager Internal Audit
E Rugoyi	General Manager Transmission and Distribution
D Seleke	Marketing and Communication Manager
A Moncho	SHER Manager
O Saleshando	Strategy and Transformation Manager
Joy Norman	General Corporate Counsel/Board Secretary

NATURE OF BUSINESS

Botswana Power Corporation ("the Corporation") was established by the Botswana Power Corporation Act (Cap 74:01) to provide electricity throughout Botswana. The address of its registered office is Motlakase House, Macheng Way, P O Box 48, Gaborone.

AUDITORS

Price Waterhouse Coopers
P O Box 294
Gaborone

BANKERS

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

ATTORNEYS

Armstrongs	Minchin and Kelly
P O Box 1368	P O Box 1339
Gaborone	Gaborone

DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF FINANCIAL STATEMENTS
31 March 2018

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the financial statements of Botswana Power Corporation ("the Corporation"), comprising the statement of financial position as at 31 March 2018, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Botswana Power Corporation Act (Cap 74:01).

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

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with IFRS and in the manner required by the Botswana Power Corporation Act (Cap 74:01) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The financial statements are prepared in accordance with IFRS and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates. The directors' responsibilities also include maintaining adequate accounting records and an effective system of risk management.

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

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

The external auditors are responsible for independently reviewing and reporting on the Corporation's financial statements and their report is presented on pages 58 to 63.

Disclosure of audit information

Each of the directors at the date of approval of this report confirms that:

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

Going Concern

The directors have made an assessment of the Corporation's ability to continue as a going concern and believe that the continued financial support pledged by the shareholder, the Government of the Republic of Botswana, and the revision of the tariffs, together with the ongoing operational efficiency initiatives are critical, and will ensure that the Corporation continues as a going concern in the next twelve months. See note 43.

Directors' approval of the financial statements

The financial statements set out on pages 64 to 139, which have been prepared on the going concern basis, were approved by the board on 31 July 2018 and were signed on its behalf by:

Director	Director

INDEPENDENT AUDITOR'S REPORT
TO THE MINISTER OF MINERAL RESOURCES, GREEN TECHNOLOGY AND ENERGY SECURITY

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Botswana Power Corporation (the "Corporation") as at 31 March 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

Botswana Power Corporation's financial statements set out on pages 64 to 139, which comprise:

- the statement of financial position at 31 March 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Corporation in accordance with the Botswana Institute of Chartered Accountants Code of Ethics (the "BICA Code") and the ethical requirements that are relevant to our audit of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with these requirements and the BICA Code. The BICA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of land and buildings and generation, transmission and distribution assets The Corporation accounts for land and buildings and generation, transmission and distribution assets at fair value, with fair value determined at, at least, five-yearly intervals. The carrying values of land and buildings and generation, transmission and distribution assets of the Corporation at 31 March 2018 were P707,098,000 and P15,206,690,000, respectively. The fair value increases recorded in other comprehensive income in respect of land and buildings and generation, transmission and distribution assets amounted to P100,668,000 and P995,156,000 for the financial year, respectively. At 31 March 2018, the Corporation's valuation of land and buildings and generation, transmission and distribution assets were based on valuations carried out by independent valuers. The fair value of land and buildings was determined based on the market comparable approach, which reflects recent transaction prices for similar properties. Since the comparable property sales are not identical to the subject property, adjustments were made	We assessed the competence and capabilities of the Corporation's independent valuers by assessing their qualifications and past experience. We obtained written confirmations from the valuers that: ▪ all professional staff involved in the valuation process are in good standing with relevant professional bodies; ▪ the valuers are free from any financial interest in the Corporation which may impact on their independence; ▪ the Corporation did not place any restrictions on the valuation processes; and ▪ the valuers are not aware of any information relevant to the valuations which had been withheld by the Corporation. We compared the valuation approaches used by the independent valuers against IFRS requirements and industry norms to determine whether the methodologies were appropriate under the circumstances. The valuation methods were comparable to those typically used for assets of this nature. With respect to valuation of land and buildings: ▪ We compared a sample of comparable market values used by the valuer to supporting data, such as comparable valuations or other available information to assess the accuracy and completeness of these inputs.

for the date of sale, location style, amenities, square meters and site size.

The fair values of generation, transmission and distribution assets were determined using the replacement cost approach, which reflects the cost to a market participant to construct assets of a comparable utility and age, adjusted for obsolescence. The significant inputs to this valuation approach are estimated construction costs and other ancillary expenditure and a depreciation factor applied to the estimated construction cost based on total and elapse useful lives of the assets.

Estimated construction costs at 31 March 2018 were determined by applying appropriate inflation and other adjustments to the base cost of individual assets. The base cost of individual assets was determined as either the estimated replacement cost at the date of the last independent valuation (31 March 2013) or the acquisition cost of generation, transmission and distribution assets acquired since that date to 31 March 2018.

Judgement is required to determine the fair value of land and buildings and generation, transmission and distribution assets, and we therefore considered the valuation of these assets to be a matter of most significance to the current year audit due to the materiality of the balances, combined with the assumptions associated with determining the fair values.
The disclosures relating to fair value assessments are set out in the financial statements in the following notes:

- Note 12 Property, Plant and Equipment

- We also discussed adjustments made to account for differences between comparable properties and the Corporation's properties with the independent valuer, to assess whether the adjustment bases were appropriate and consistently applied.

With respect to the independent valuers' determination of the current estimated replacement cost of generation, transmission and distribution assets, we

- assessed whether all assets per the fixed asset register were included in the valuation report, and whether the base cost of assets in the valuation agreed to the estimated replacement cost per the 31 March 2013 valuation, or historical acquisition costs of assets acquired in the intervening period since that date to 31 March 2018,
- tested the reasonableness of inflation and other adjustments made to the base cost in determining estimated current construction cost - including domestic inflation rates, exchange rates, metal costs and known obsolescence - by comparing these to publicly available information and our knowledge of the condition of the Corporation's assets, and
- checked the mathematical accuracy of the replacement cost calculations, using base costs and adjustment factors

and found no exceptions in our testing.

We observed a confirmation from the independent valuation report that the Corporation's assessment of useful lives of assets per the fixed asset register was in line with industry practice and the valuer's expectations based on the inspection of selected assets.

We tested the mathematical accuracy of the calculation of depreciated replacement cost with reference to current replacement costs determined by the independent valuer, estimated useful lives of assets and the elapsed periods of use by the Corporation, and found no exceptions.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Botswana Power Corporation Annual Financial Statements for the year ended 31 March 2018, including the General Information, Directors' Responsibility Statement and Approval of Financial Statements, but excludes the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

- We have received all the information and explanations which, to the best of our knowledge and belief, were necessary for the performance of our duties as auditors;
- The accounts and related records of the Corporation have been properly kept;
- As set out in Note 42 to the financial statements, the Corporation has complied with all the financial provisions of the Act with which it is the duty of the Corporation to comply; and
- The financial statements prepared by the Corporation were prepared on a basis consistent with that of the preceding year unless otherwise stated in the financial statements.

PricewaterhouseCoopers

Practising member: Rudi Binedell
Membership number: 20040091

17 September 2018
Gaborone

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2018

	Notes	2018 P'000	2017 P'000
Revenue	1	3,009,561	2,768,846
Other operating income	2	157,826	138,604
Consumer tariff subsidy	7	1,457,000	1,667,500
TOTAL OPERATING INCOME		4,624,387	4,574,950
Generation, transmission and distribution expenses	3	(2,875,888)	(3,811,268)
Administration and other expenses	4	(590,681)	(535,318)
TOTAL OPERATING EXPENSES		(3,466,569)	(4,346,586)
OPERATING PROFIT		1,157,818	228,365
Interest income	8	16,539	6,938
Finance costs	9.1	(239,654)	(249,537)
Net exchange gains	9.2	635,072	274,005
Fair value loss on cross currency and interest rate swap	10	(751,264)	(439,120)
PROFIT/(LOSS) BEFORE TAX		818,511	(179,350)
Income tax (charge)/credit	11	(144,403)	39,103
PROFIT/(LOSS) FOR THE YEAR		674,108	(140,247)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss;			
Gains on revaluation of land and buildings and generation,transmission and distribution assets	12	1,095,824	-
Deferred tax effect	28	(161,854)	-
TOTAL OTHER COMPREHENSIVE INCOME		933,970	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		1,608,078	(140,247)

STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	2018 P'000	2017 P'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	18,674,634	16,599,009
Future coal supplies	13	20,030	40,061
Investments held-to-maturity	15	23,993	28,868
Other financial assets	34	418,163	1,099,211
Deferred tax asset	28	-	39,103
		19,136,820	17,806,252
Current assets			
Future coal supplies	13	20,031	20,031
Standard cost recovery - NESC	19	313,825	280,048
Investments held-to-maturity	15	555,087	296,760
Consumer loans - hire purchase scheme	16	7,533	3,303
Consumer loans - NESC	20	10,189	2,162
Inventories	21	367,549	312,482
Trade and other receivables	22	346,778	243,921
Bank balances and cash		175,600	152,805
		1,796,592	1,311,511
TOTAL ASSETS		20,933,412	19,117,764

STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

(continued)

EQUITY AND LIABILITIES		2018	2017
Capital and reserves			
Irredeemable capital	23	7,853,800	6,368,472
Revaluation reserve	24	4,130,624	3,196,654
Other reserves	25	1,803,087	1,803,087
Accumulated loss		(4,143,222)	(4,817,330)
		9,644,289	6,550,883
Non-current liabilities			
Deferred income - consumer financed projects	27	2,726,646	2,485,132
Borrowings	29	4,782,971	5,735,554
Consumer deposits	30	78,967	79,892
Deferred tax liability	28	266,734	-
		7,855,318	8,300,578
Current liabilities			
Bank overdraft	38.8.2	6	34,385
Consumer loans - rural collective scheme	17	83,869	78,416
Standard cost recovery	18	86,672	88,680
Government grants and advances	26	73,194	75,016
Borrowings	29	436,520	479,754
Consumer deposits refunds	30	3,020	5,218
Trade and other payables	31	1,559,401	2,017,891
Advances - consumer financed projects	32	954,040	1,176,801
Provisions	33	237,083	310,142
		3,433,805	4,266,303
TOTAL EQUITY AND LIABILITIES		20,933,412	19,117,764

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2018

	Notes	Irredeemable capital P'000	Revaluation reserve P'000	Other reserves P'000	Accumulated losses P'000	Total P'000
Balance at 31 March 2016		4,708,325	3,196,654	1,803,087	(4,677,083)	5,030,983
Comprehensive loss for the year		-	-	-	(140,247)	(140,247)
Transactions with owners in their capacity as owners						
Irredeemable capital contribution	23	1,660,147	-	-	-	1,660,147
Balance at 31 March 2017		6,368,472	3,196,654	1,803,087	(4,817,330)	6,550,883
Profit for the year		-	-	-	674,108	674,108
Other comprehensive income (net of tax)	12	-	933,970	-	-	933,970
Transactions with owners in their capacity as owners						
Irredeemable capital contribution	23	1,485,328	-	-	-	1,485,328
Balance at 31 March 2018		**7,853,800**	**4,130,624**	**1,803,087**	**(4,143,222)**	**9,644,289**

STATEMENT OF CASH FLOWS

For the year ended 31 March 2018

	Notes	2018 P'000	2017 P'000
CASH FLOWS USED IN OPERATING ACTIVITIES:			
Cash generated from operations	36	942,141	1,115,527
Income tax paid		(420)	-
Net cash used in operating activities		**941,721**	**1,115,527**
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Interest received		16,539	6,938
Decrease in investments held-to-maturity		4,875	4,558
Purchase of property, plant and equipment	12	(1,468,046)	(1,818,737)
Proceeds from disposal of property, plant and equipment		5,429	2,522
Net cash used in investing activities		(1,441,204)	(1,804,719)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings		(360,475)	(483,059)
Interest paid		(239,654)	(249,537)
Net settlements on other financial assets	10	(70,216)	(138,911)
Irredeemable capital contribution from the Government	23	1,485,328	1,660,147
Net cash generated from financing activities		**814,984**	**788,640**
Net increase in cash and cash equivalents		**315,501**	**99,448**
Cash and cash equivalents at beginning of the year		415,180	315,732
Cash and cash equivalents at end of the year		730,681	415,180

STATEMENT OF CASH FLOWS (continued)

For the year ended 31 March 2018

	2018 P'000	2017 P'000
Cash and cash equivalents comprise:		
Investments held-to-maturity	555,087	296,760
Bank balances and cash	175,600	152,805
Bank overdraft	(6)	(34,385)
	730,681	415,180

The consumer tariff subsidy from the Government of the Republic of Botswana had been previously classified under cash flows from financing activities. It has now been classified under cash flows from operating activities as the subsidy is operating nature and considered as part of operating income. Accordingly, the prior year cash flows have been reclassified to reflect this change.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
For the year ended 31 March 2018

STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand Pula unless otherwise stated.

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

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations effective in the current year

In the current year, the entity has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for annual periods beginning on or after 1 April 2017. Adoption of these standards and interpretations have not had any impact significant on the financial statements of the Corporation.

"Amendment to IAS 7 – Cash flow statements: Statement of cash flows on disclosure initiative (effective Annual periods beginning on or after 1 January 2017)"

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
For the year ended 31 March 2018

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

Standards and interpretations effective in the current year

In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

"Amendment to IAS 12 – Income taxes: Recognition of deferred tax assets for unrealised losses (effective annual periods beginning on or after 1 January 2017)"

The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets. The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.

Standards in issue but not yet effective

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

IFRS 15 – Revenue from contracts with customers. (effective Annual periods beginning on or after 1 January 2018)

The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

Standards in issue but not yet effective (continued)

and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.

The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of these areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

IFRS 9 – Financial Instruments (2009 &2010) (effective annual periods beginning on or after 1 January 2018)

This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

"Amendment to IFRS 9 -'Financial instruments', (effective Annual periods beginning on or after 1 January 2018)"

The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39.

IFRS 16 – Leases (effective annual periods beginning on or after 1 January 2019)

This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.

Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

Standards in issue but not yet effective (continued)

a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.

At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

IFRIC 22, 'Foreign currency transactions and advance consideration (effective annual periods beginning on or after 1 January 2018)

This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

PROPERTY, PLANT AND EQUIPMENT

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

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

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

Freehold land is not depreciated.

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

Depreciation is charged so as to write off the cost or valuation of assets, other than freehold land and capital work in progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The following are the rates assessed by management at year end as being reflective for the remaining useful lives of the items of property, plant and equipment.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

IMPAIRMENT OF TANGIBLE ASSETS

At each reporting date, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

IMPAIRMENT OF TANGIBLE ASSETS (continued)

unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

FUTURE COAL SUPPLIES

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

INVENTORIES

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

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

RETIREMENT BENEFITS

The Corporation's contributions are charged to income statement in the year in which they accrue and the Corporation has no further liability.

A defined contribution plan is a pension plan under which the Corporation pays fixed contributions into a separate fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The Corporation pays gratuity to contracted staff in accordance with their respective contracts of employment.

Employees' entitlements to annual leave are recognised when they accrue to employees and a provision is made for the estimated liability as a result of services rendered by employees up to the reporting date.

INVESTMENTS IN JOINT VENTURE

Investments in entities where the Corporation has a joint control are classified as investments in joint venture. These investments are initially recognised at cost using equity method in accordance with IAS 28 Investments in Associates an

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

INVESTMENTS IN JOINT VENTURE (continued)

Joint Ventures. At each reporting date, the directors assess the recoverable amount of the investments and recognise an impairment loss where applicable. Where the fair value is greater than cost, the carrying amount is maintained at the original cost of the investment.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Corporation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

TAXATION (continued)

and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

LEASING (continued)

Operating leases

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

GOVERNMENT GRANTS AND ADVANCES

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

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

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

the period of the loan. The amortisation is determined as the difference between the actual interest payments and the market interest rate on the fair valued loan.

Other Government grants and advances

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

GOVERNMENT GRANTS AND ADVANCES (continued)

Government advances

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

CONSUMER TARIFF SUBSIDY

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

BORROWING COSTS

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

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

FOREIGN CURRENCIES

In preparing the financial statements of the Corporation, transactions in currencies other than the Corporation's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At reporting

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

FOREIGN CURRENCIES (continued)

date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

TRADE AND OTHER PAYABLES

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

PROVISIONS

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

PROVISIONS (continued)

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

RELATED PARTY TRANSACTIONS

Related parties are defined as those parties:
(a) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the entity;
- has an interest in the entity that gives it significant influence over the entity; or

(b) that are members of the key management personnel of the entity or its parent including close members of the family.

FINANCIAL INSTRUMENTS

Financial assets

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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

FINANCIAL INSTRUMENTS (continued)

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.

At fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if expected to be settled within 12 months, otherwise they are classified as non-current.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transactions costs are expensed in the income statement. Financial assets are derecognised when the right to receive cash flows from the

At fair value through profit or loss (FVTPL)

investments have expired or have been transfered and the Corporation has transferred substantially all risks and rewards of ownership. Gains and losses arising from the changes in the fair value of the FVTPL are presented in the income statement in the period in which they arise.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

FINANCIAL INSTRUMENTS (continued)

Held-to-maturity investments

at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

AFS financial assets

Unlisted bonds and listed redeemable bonds held by the Corporation that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 36.9. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

Loans and receivables

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

FINANCIAL INSTRUMENTS (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial

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

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

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)
For the year ended 31 March 2018

FINANCIAL INSTRUMENTS (continued)

Impairment of financial assets (continued)

amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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

Derecognition of financial assets

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

FINANCIAL INSTRUMENTS (continued)

Financial liabilities and equity instruments issued by the Corporation

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

FINANCIAL INSTRUMENTS (continued)

Financial liabilities (continued)

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of comprehensive income. Fair value is determined in the manner described in note 38.9.

Financial liabilities at amortised cost

Financial liabilities at amortised cost, including borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities at amortised cost 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

FINANCIAL INSTRUMENTS (continued)

Derecognition of financial liabilities

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

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps. This has been disclosed as other financial assets on the statement of financial position. Further details of derivative financial instruments are disclosed in note 10 and 34.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

CONSUMER DEPOSITS

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

DEFERRED INCOME CONSUMER FINANCED PROJECTS

Deferred income consumer financed projects comprises the cost of capital projects that are financed by third parties. Deferred income consumer financed projects is recognised on completion of such projects and is amortised to the profit or

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

DEFERRED INCOME CONSUMER FINANCED PROJECTS (continued)

loss over the useful life of the related item of property, plant and equipment on a straight line basis.

ADVANCES ON CONSUMER FINANCED PROJECTS

Advances on consumer financed projects comprise funds received/receivable from customers and the Government of Botswana in advance of capital projects financed by the customers/government. The actual expenditure on these capital projects is netted off against these advances on consumer financed projects as and when it is incurred. The carrying amount is considered to be at fair value as the advances are not utilised during the normal course of the business of the Corporation.

NATIONAL ELECTRIFICATION STANDARD CONNECTION COST (NESC) RECOVERY

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

STANDARD COST RECOVERY/NESC

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

REVENUE

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

Sale of electricity

Sale of electricity is recognised when consumed for account consumers. Invoicing is done monthly on an accrual basis. The Corporation also sells prepaid electricity which consumers key into the meters installed at their premises. As at reporting date, prepaid electricity that has not been utilised by the consumers is recognised as deferred revenue in line with IAS 18 - Revenue. The consumption of the prepaid electricity is measured by the meters installed at the consumers' premises. The Corporation estimates the amount of such prepaid electricity sales utilised at year end based on the current buying patterns. Reconnection charges are recognised when the reconnection services are provided.

Consumer Finance Recoveries

Revenue from consumer financed projects recoveries arise on 5% administration fee charged to cover electricity connection costs from customers.

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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

REVENUE (continued)

Other income

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

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Revenue recognition

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

Held-to-maturity financial assets

The directors have reviewed the Corporation's held-to-maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the Corporation's positive intention and ability to hold those assets to maturity.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Held-to-maturity financial assets

The carrying amount of the held-to-maturity financial assets is P23,993,000 (2017: P28,868,000). Details of these assets are set out in note 15.

KEY SOURCES OF ESTIMATION UNCERTAINITY

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

Useful lives of property, plant and equipment

As described above, the Corporation reviews the estimated useful lives of property, plant and equipment and residual values at the end of each reporting period. During the financial year, the directors determined that the useful life of items of property, plant and equipment should remain the same as in the prior year as there has not been any material change in the condition of the equipment.

Revaluation of property, plant and equipment

The Corporation periodically commissions external experts to value property, plant and equipment. The latest evaluation was carried out at 31 March 2018. Resulting revaluation adjustments have been recognised in the statement of comprehensive income. Market values for land were determined based on the market comparable approach which reflects recent transaction prices for similar properties. Since the comparable property sales are not identical to the subject property, adjustments maybe made for the date of sale, location style, amenities, square meters and site size.

The fair values of buildings and generation transmission and distribution assets was determined using the replacement cost approach which reflects the cost to the market participant to construct assets of a comparable utility and age, adjusted for obsolescence.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

KEY SOURCES OF ESTIMATION UNCERTAINITY (continued)

Revaluation of property, plant and equipment

The significant inputs include estimated construction costs and other ancillary expenditure and a depreciation factor applied to the estimated construction cost.

Fair value of financial instruments

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

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and significance of the inputs to the fair value measurements in its entirety which are described as follows:
Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the Corporation can access at the measurement date;

Fair value of financial instruments

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (prices) or indirectly (that is, derived from prices); and Level 3: Inputs are unobservable inputs for the asset or liability.

Some of the Corporation's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

KEY SOURCES OF ESTIMATION UNCERTAINITY (continued)

Fair value of financial instruments

fair value of an asset or a liability, the Corporation uses market-observable data to the extent available. Where level 1 inputs are not available, the Corporation engages third party qualified valuers, to determine the valuation techniques and inputs for

the fair value measurements. Management of the Corporation work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The valuation findings are reported to the board of directors of the Corporation every quarter to explain the cause of the fluctuations in the fair valuation of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of the assets and liabilities is disclosed in notes 10,32 and 38.9.1.

The estimation of fair value of below market rate of interest government loans includes some assumptions based on current market conditions. Details of the assumptions used and of the results of sensitivity analyses regarding these assumptions are provided in note 38.9.

Provision for bad debts

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

Provision for obsolete inventory

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

Income tax

Significant judgement is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation recognises

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For the year ended 31 March 2018

KEY SOURCES OF ESTIMATION UNCERTAINITY (continued)

Income tax

liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Income Tax Act was amended during February 2016 to bring all parastatal entities and other state-owned enterprises, which had previously been exempted from income tax, to be within the ambit of the Act. The revised Act allows the Minister of Finance and Economic Development to exempt specific parastatal entities and state-owned enterprises from income tax. The Honourable Minister identified those entities which are to be exempted from income tax in the Income Tax (Bodies Corporate Exempt From Tax) Regulation, 2016 of 1 July 2016. The Corporation was not identified as an exempt entity in this regulation and is thus subject to income tax for the first time in the current year.

The Botswana Unified Revenue Services (BURS) has not issued any guidelines as to any transitional arrangements which would apply in the first tax period for the newly taxable entities. Accordingly, the Corporation has estimated the income tax liability for the current year based on management's best interpretation of the Income Tax Act as it may apply to the Corporation. This has required the Corporation to make a number of judgments in the calculation of its current and deferred tax charges and balances.

The most significant of these judgments are:

- the income tax liability has been calculated based on the income for the full financial year (although a possible interpretation of the Income Tax Act may indicate that this should be portion of the financial year)
- capital allowances on property, plant and equipment existing at the beginning of the financial year have been calculated using the accounting book value of such property and equipment as at 31 March 2017 as proxy for cost in accordance with the Income Tax Act.

These judgments maybe challenged by BURS during future financial periods, as and when income tax assessments are submitted, etc. Any changes in the recorded value of current and deferred income tax as a result of different views taken by BURS will be accounted for in the financial statements for the year when such changes occur.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2018

		2018 P'000	2017 P'000
1	REVENUE		
	Sale of electricity:		
	Mining	539,002	596,953
	Commercial	1,159,272	1,013,159
	Domestic	817,877	723,916
	Government	490,994	430,503
		3,007,145	2,764,532
	Interest earned on consumer loans	1,786	3,818
	Reconnection charges	630	497
		3,009,561	2,768,846
2	OTHER OPERATING INCOME		
	Profit on sale of materials	32,620	8,299
	Penalties and late payment fees	8,600	11,872
	Rent receivable	4,938	5,276
	Wheeling revenue	5,913	8,881
	Consumer finance projects recoveries	53,543	44,788
	Sales to Southern African Power Pool (SAPP)	38,494	31,608
	Other sundry income	10,988	25,381
	Profit on disposal of property, plant and equipment	2,732	2,499
		157,826	138,604

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

			2018 P'000	2017 P'000
3	GENERATION, TRANSMISSION AND DISTRIBUTION EXPENSES			
	Fuel, water and chemicals		772,139	920,966
	Power purchases		719,864	1,514,407
	Maintenance	- Generation	454,664	481,924
		- Transmission, Distribution	160,826	103,731
	Amortisation of deferred income - Other		(77,401)	(72,236)
	Staff costs	- Generation	134,793	136,019
		- Transmission, Distribution	250,628	271,421
	Depreciation	- Generation	224,451	224,227
		- Transmission, Distribution	219,846	208,734
	Other expenses	- Transmission, Distribution	16,078	22,075
			2,875,888	3,811,268
4	ADMINISTRATION AND OTHER EXPENSES			
	Staff costs		105,227	118,830
	Depreciation of items of property, plant and equipment		33,153	25,706
	Auditor's remuneration		1,255	2,000
	Board members fees		778	542
	Reversal of Provision for bad debts		(17,970)	(27,325)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

		2018 P'000	2017 P'000
4	ADMINISTRATION AND OTHER EXPENSES (continued)		
	Insurance expenses	29,855	43,661
	Postage and telecommunications costs	10,907	11,957
	Printing and stationery	3,015	2,425
	Rental expense	4,679	4,088
	Fuels and lubricants	12,089	12,784
	Input VAT irrecoverable	-	31,168
	Customs duty, freight charges and price variance	1,756	2,332
	Travel and accommodation costs	9,428	10,222
	Advertising	3,263	3,191
	Commission costs	53,546	42,883
	Security costs	22,605	21,334
	Litigation claims	24,294	1,699
	Bank charges	4,367	4,200
	Consultancy fees	19,490	18,583
	Office cleaning costs	19,327	18,839
	Repairs and maintenance	35,641	40,165
	Provision for early exit packages	183,183	117,929
	Other sundry expenses	30,797	28,105
		590,681	535,318
5	OPERATING PROFIT		
	Operating profit is arrived at after charging/(crediting) the following items:		
	Depreciation of items of property, plant and equipment	477,449	458,667
	Profit on disposal of property, plant and equipment	(2,732)	(2,499)
	Repairs and maintenance of property, plant and equipment	40,165	40,165
	Sale of materials	(271,974)	(140,610)
	Cost of materials sold	239,355	132,311
	Operating lease charges - property rentals	4,679	4,088

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

		2018 P'000	2017 P'000
6	STAFF COSTS		
	Salaries and wages	442,565	473,740
	Gratuities	7,373	6,330
	Pension contributions	40,071	46,200
	Medical retirement packages	638	-
		490,648	526,270
	Staffs costs are included in generation, transmission and distribution and administration expenses a re reconciled below:		
	Staff costs - Generation	134,793	136,019
	Staff costs - Transmission, Distribution	250,628	271,421
	Staff costs - Administration	105,227	118,830
		490,648	526,270

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

		2018 P'000	2017 P'000
7	TARIFF SUBSIDY GRANT	1,457,000	1,667,500

"The Corporation's end user tariffs are lower than the generation cost per unit. Based on the Corporation's long term financial strategy that informs both the required tariff levels and operational subsidy in the medium to long term the Government of the Republic of Botswana paid a grant of P1,457,000,000 (2017:P1,667,500,000) to partially offset the operating losses."

		2018 P'000	2017 P'000
8	INTEREST INCOME		
	Bank balances on call and investments held-to-maturity	16,539	6,938
9.1	FINANCE COSTS		
	Interest on borrowings	239,654	249,537

The interest costs incurred on the Industrial and Commercial Bank of China (ICBC) loan disclosed per Note 29.

		2018 P'000	2017 P'000
9.2	NET EXCHANGE GAINS/ (LOSSES)		
	Exchange (losses) /gains on borrowings	635,343	255,369
	Other exchange gains/(losses)	(271)	18,636
		635,072	274,005

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

		2018 P'000	2017 P'000
10	FAIR VALUE GAIN/(LOSS) ON CROSS CURRENCY AND INTEREST RATE SWAP		
	Realised fair value loss on cross currency and interest rate swap	(70,216)	(138,911)
	Received from Standard Bank Plc.	644,864	698,642
	Payments to Standard Bank Plc.	(715,080)	(837,553)
	Unrealised fair value (loss)/gain on the cross currency and interest rate swap	(681,048)	(300,209)
		(751,264)	(439,120)

As detailed in Note 34, to reduce the risk of changing interest rates and foreign currency exchange rates on the loan from Industrial and Commercial Bank of China (ICBC), the Corporation entered into a pay fixed interest rate and receive floating interest rate hedging arrangement with Standard Bank plc. The nature of the hedge in place is that it effectively converts the USD825 million loan into a notional basket currency which historical trends and forecasts have indicated to be highly correlated to the Botswana Pula. During the year, the resultant cash flows translate to an average effective interest rate of 6.83% (2017:10.8%) which management assessed to be reasonable.

The cross currency interest rate swap is revalued at quarterly intervals and the valuation methodology incorporates among other factors unobservable inputs, methodology incorporating basis risk, and assumptions on estimation of probability of default risk and loss given default risk when incorporating Credit Valuation Adjustment and Debit Valuation Adjustments in line with IFRS 13. The fair valuation results indicated an asset of P418,164,000 (2017: P1,099,211,000). See note 34.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

	2018 P'000	2017 P'000
11 INCOME TAX EXPENSE		
Current tax	420	-
Deferred tax	143,983	(39,103)
	144,403	(39,103)
Income tax reconciliation:		
Profit / (loss) before taxation	818,511	(179,350)
Taxation at 15% (2017: 22%)	122,777	(39,457)
Capital Gains Tax	420	-
Effect of changes in tax rates	12,442	-
Disallowable/non-taxable items	8,765	354
	144,403	(39,103)

The Corporation obtained Manufacturing Development Approval Order from the Ministry of Finance and Economic Development during the year for a reduced tax rate 15%.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

12 PROPERTY, PLANT AND EQUIPMENT	Land & Buildings P'000	Generation, Transmission & Distribution P'000	Other P'000	Capital Work in Progress P'000	Total P'000
2018 Carrying Amount					
Balance at beginning of year	614,013	13,859,570	107,980	2,017,446	16,599,009
Additions	46	353,396	8,258	1,106,347	1,468,046
Disposals cost	(2,500)	-	(4,781)	-	(7,281)
Accumulated depreciation eliminated on disposals	152	-	4,432	-	4,584
Reclassification of maintenance expenses from opening balance	-	-	-	(8,100)	(8,100)
Depreciation	(5,282)	(444,296)	(27,871)	-	(477,449)
Transfers	-	442,864	21,142	(464,006)	-
Revaluation adjustment	100,668	995,156	-	-	1,095,824
Balance at end of year	707,098	15,206,690	109,160	2,651,688	18,674,634
At 31 March 2018					
Cost or valuation	707,098	15,206,690	132,599	2,651,687	18,698,073
Accumulated depreciation and impairment	-	-	(23,439)	-	(23,439)
Carrying amount	707,098	15,206,690	109,160	2,651,687	18,674,634
2017 Carrying Amount					
Balance at beginning of year	619,174	13,841,788	93,698	684,303	15,238,963
Additions	139	453,751	21,718	1,343,129	1,818,737
Disposals cost	-	-	(3,708)	-	(3,708)
Accumulated depreciation adjustment	-	-	3,684	-	3,684
Transfers	-	(3,008)	12,994	(9,986)	-
Depreciation	(5,300)	(432,961)	(20,406)	-	(458,667)
Balance at end of year	614,013	13,859,570	107,980	2,017,446	16,599,009

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

12 PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 March 2017					
Cost or valuation	627,208	20,647,924	443,073	2,017,446	23,735,651
Accumulated depreciation and impairment	(13,195)	(6,788,354)	(335,093)	-	(7,136,642)
Carrying amount	614,013	13,859,570	107,980	2,017,446	16,599,009
At 1 April 2016					
Cost or valuation	627,069	20,197,181	412,069	684,303	21,920,622
Accumulated depreciation and impairment	(7,895)	(6,355,393)	(318,371)	-	(6,681,659)
Carrying amount	619,174	13,841,788	93,698	684,303	15,238,963

FAIR VALUE OF LAND AND BUILDING, GENERATION, TRANSMISSION AND DISTRIBUTION ASSETS

The Corporation's land and buildings and generation transmission and distribution assets are revalued at, atleast five-yearly intervals. As at 31 March 2018, the valuation of the Corporation's land and buildings was performed by Belshane Property Group and the valuation of the generation, transmission and distribution assets was performed by Parsons Brinckerhoff independent valuers.

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

The fair values of generation transmission and distribution assets was determined using the replacement cost approach which reflects the cost to the market participant to construct assets of a comparable utility and age, adjusted for obsolescence. The estimated construction cost at 31 March 2018 were determined by appropiate inflation and other adjustments to the base cost of individual assets. The significant inputs include estimated construction costs and other ancillary expenditure and a depreciation factor applied to the estimated construction cost. A slight increase in the depreciation factor would result in a significant decrease in the fair value of the generation, transmission and distribution assets, and a slight increase in the estimated construction costs would result in a significant increase in the

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

12 PROPERTY, PLANT AND EQUIPMENT (continued)

fair value of the generation, transmission and distribution assets, and vice versa.

There has been no change to the valuation technique during the year.
The following table analyses the non-financial assets carried at fair value, by revaluation method.
The different levels have been defined as follows:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted included within level 1 that are observable for the asset or liability either directly or indirectly (Level 2)
- Inputs for the asset and liability that are not based on observable market-date (Level 3)

Fair value measurement at 31 March 2018

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total fair value P'000
Land and buildings	-	-	707,098	707,098
Generation transmission and distribution assets	-	-	15,206,690	15,206,690

There were no transfers between levels during the year.

Fair value measurement at 31 March 2017

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total fair value P'000
Land and buildings	-	-	614,013	614,013
Generation transmission and distribution assets	-	-	13,859,570	13,859,570

There were no transfers between levels during the year.
The Corporation does not have any property,plant and equipment pledged as security for borrowings.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

	2018 P'000	2017 P'000
13 FUTURE COAL SUPPLIES		
Balance at beginning of year	60,092	80,123
Amortisation during the year	(20,031)	(20,031)
Balance at end of year	**40,061**	**60,092**
Comprising of:		
Current portion	20,031	20,031
Non-current portion	20,030	40,061
	40,061	60,092

The Corporation entered into a revised coal supply agreement with Morupule Coal Mine on 28 April 2010 to align with the coal requirements of the Morupule B Power Station. In accordance with this Coal Supply Agreement, the coal price has three components to the coal charges which are capital charge, fixed charge and variable charge. The capital and fixed charges are payable to the supplier irrespective of the quantity of coal off take by the Corporation. During the period June 2011 to December 2011 the Corporation did not take up any coal due to construction delays experienced at the Morupule B Power Station. Capital and fixed charge payments for this period amounting to P182,985,000 were made and deferred in the statement of financial position within future coal supply. These costs are being amortised over a period of eight years against the cost of coal supplied on the basis of the estimated annual tonnages and actual tonnes delivered.

14 INVESTMENT IN JOINT VENTURE

Botswana Power Corporation (BPC) entered into Joint venture agreement with Liquid Telecommunication Botswana (Pty) Limited (Liquid Telecom) on 18th October, 2016. BPC and Liquid Telecom have negotiated a joint venture to commercialization of the infrastructure. BPC shall provide Liquid telecom with a long term right of use of infrastructure upon terms and condition of this agreement. As at reporting date either of parties have not made investment in this regard.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

	2018 P'000	2017 P'000
15 INVESTMENTS HELD-TO-MATURITY		
Deposits with local banks	555,087	296,760
Deposits with foreign banks	23,993	28,868
	579,080	325,628
Current portion	(555,087)	(296,760)
Long-term portion	**23,993**	**28,868**

Investments held-to-maturity are classified as non-current assets, except for maturities within 12 months of the statement of financial position date which are classified as current assets. The current portion of the investments held-to-maturity comprises fixed deposits with local banks which earn interest at rates ranging from 2% to 6% (2017: 1.15% to 4%). These fixed deposits are invested for periods ranging from 7 to 91 days (2017: 7 to 91 days).

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

The deposits denominated in foreign currency are as follows:

	2018	2017
US dollar ($000)	2,748	2,748

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

		2018 P'000	2017 P'000
16	CONSUMER LOANS - HIRE PURCHASE SCHEME		
16.1	Hire purchase scheme	90,124	103,971
	Less short-term portion	(7,533)	(3,303)
	Less provision for doubtful debts	(82,591)	(100,668)
	Long-term portion	-	-
16.2	Hire purchase short-term portion	7,533	3,303
	Less provision for doubtful debts	-	-
	Short-term portion	7,533	3,303
	Total	7,533	3,303

Consumer loans represent outstanding balances under the deferred repayment scheme for the cost of capital connections payable by consumers in urban areas over periods of up to 180 months. Terms of payment are agreed with each respective customer.

Loans which are repayable within 18 months are interest free. Loans over longer periods bear interest which is linked to the Barclays Bank of Botswana Limited prime lending rate, which at the end of the year was 6.5% (2017:7.5:%).

Movement in the provision for doubtful hire purchase scheme receivables	2018 P'000	2017 P'000
Balance at beginning of year	100,668	95,535
Current year provision	(18,077)	5,133
Balance at end of year	82,591	100,668

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

16 CONSUMER LOANS - HIRE PURCHASE SCHEME (continued)

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

There are no past due but not impaired receivables as at year end (2017: Nil).

		2018 P'000	2017 P'000
17	CONSUMER LOANS - RURAL COLLECTIVE SCHEME		
17.1	Long term Rural Collective Scheme	100,137	100,137
	Less advance from Government	(100,137)	(100,137)
	Long-term portion	-	-
17.2	Short term Rural Collective Scheme	14,921	25,282
	Less advance from Government	(103,698)	(103,698)
	Short-term portion	(88,777)	(78,416)
	Total Government Revolving Fund	**(83,869)**	**(78,416)**

Rural Collective Scheme is a Government revolving fund established to provide rural consumers with access to electricity. The scheme is guaranteed by the Government. Loans which are repayable within a period of 18 months are interest free. Loans over longer periods bear interest which is linked to the Barclays Bank of Botswana Limited prime lending rate which at the end of the year was 6.5% (2017: 7.5%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

		2018 P'000	2017 P'000
18	STANDARD COST RECOVERY		
	Total standard cost	(86,672)	(88,680)

The amount represents an under-recovery of connection costs for customers, within the corridor of standard cost of the Rural Electrification funded by the Government. Ordinarily, this amount is recoverable from connection of future customers who will pay more than the actual cost of the connection due to their proximity to the already set up connection. However, in the past financial years, this balance has been less likely to be recoverable in this manner due to the increasing cost of raw materials not matched by revised standard charges to the customer, which were determined by the Government in the prior years. Pursuant to the recovery of these amounts, management sought reimbursement from the Government in the prior years. The amount paid by Government is now being treated as government revolving fund. Standard cost scheme has now been replaced by NESC as disclosed under note 19 and 20.

		2018 P'000	2017 P'000
19	STANDARD COST RECOVERY - NESC		
	Refunds due from the National Electrification Standard Connection Cost Fund	313,825	280,048

With effect from 1 October 2010, the Government introduced the National Electricity Standard Connection Cost (NESC) in selected rural and semi-urban areas. Participants of this scheme pay a standard charge of P5,000 for a connection. The difference between this standard charge and the actual cost incurred by the Corporation is claimable from the National Electrification Standard Connection Cost Fund. This fund is established from P0.05 (5thebe) levied to customers for every KwH billed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

		2018 P'000	2017 P'000
20	CONSUMER LOANS - NESC		
	Consumer loans - NESC	91,521	88,052
	Less provision for bad debts	(81,332)	(85,890)
		10,189	2,162

This balance comprises amounts owing from customers for their contribution under the NESC Scheme referred to in Note 18. The customer's electricity connection cost is a standard charge of P5,000 and any short fall is funded from the NESC fund. 5% of the P5,000 is payable by the customer up front and the balance is payable over a period of up to 18 months. Balances repayable within 6 months are interest free and loans over longer periods bear interest which is linked to the Barclays Bank of Botswana Limited prime lending rate, which at the end of the year was 6.5% (2017: 7.5%).Provision has been made on all accounts that defaulted on instalments plans after year end as evidence of default.

Movement in provision for doubtful debts for consumer loans NESC

	2018 P'000	2017 P'000
Balance at beginning of year	85,890	53,330
Current year provision	(4,559)	32,560
Balance at end of year	81,332	85,890

		2018 P'000	2017 P'000
21	INVENTORIES		
	Coal and fuel	185,934	177,183
	Maintenance spares and materials	181,615	135,299
	Cost	231,479	169,357
	Allowance for obsolete stock	(49,864)	(34,058)
		367,549	312,482

The cost of inventories recognised as an expense during the year was P211,052,000 (2017: P163,809,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

	2018 P'000	2017 P'000
22 TRADE AND OTHER RECEIVABLES		
Electricity sales receivables:	97,452	96,018
Mining	83,519	42,718
Commercial	147,327	130,619
Domestic	1,646	33,579
Government related entities	83,860	103,337
Impairment of trade receivables	(218,900)	(214,235)
Small works contractors receivables:	118,578	38,893
Gross receivables from small works contractors	131,580	52,660
Impairment of small works contractors	(13,002)	(13,767)
VAT receivable	74,552	29,401
Southern African Power Pool	5,530	51,517
Other receivables	28,246	6,180
Prepayments	22,420	21,912
	346,778	243,921

Balances due from government related entities are from the normal course of business.

The average credit period on sale of electricity is 56 days (2017: 52 days). The Corporation has provided fully for all receivables over 90 days less subsequent payments, because historical experience has shown that receivables that are past due beyond 90 days, are generally not recoverable. Trade receivables between 60 days and 90 days are provided for based on estimated irrecoverable amounts from the sale of electricity, determined by reference to past default experience.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

22 TRADE AND OTHER RECEIVABLES (continued)

The Corporation holds bank guarantees as security against certain of these receivables to the value of P19,275,497 (2017: P22,271,689). 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 the deposits held by the Corporation is disclosed per note 30.

Movement in the provision for doubtful receivables

	Small works contractors		Trade receivables	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
Balance at beginning of year	13,767	10,534	214,235	279,299
Current year (reversal)/provision	(765)	3,233	4,665	(65,064)
Balance at end year	13,002	13,767	218,900	214,235

In determining the recoverability of a trade receivable, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is disclosed as per the breakdown of electricity sales receivables above. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for doubtful debts.

The impairment provision includes P 66.2 Mn (2017: P49.7 Mn) in respect of government related entities and no amounts have been written off during the year.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

22 TRADE AND OTHER RECEIVABLES (continued)

	Small works contractors		Trade receivables	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
Age of receivables that are past due but not impaired				
1 - 180 days	10,380	8,423	-	74,951
181 - 365days	-	-	-	-
>365 days	-	-	-	-
Total	10,380	8,423	-	74,951
Age of impaired receivables				
91 - 180 days	9,615	6,103	83,145	101,344
181 - 365days	3,387	7,664	35,047	54,910
>365 days	-	-	100,708	57,981
Total	13,002	13,767	218,900	214,235

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

		2018 P'000	2017 P'000
23	IRREDEEMABLE CAPITAL		
	Balance at beginning of year	6,368,472	4,708,325
	Contribution received during the year	1,485,328	1,660,147
	Government of Botswana Funding Rakola and Northwest Transmission projects	402,000	481,500
	Government of Botswana Funding Morupule A	878,328	1,145,000
	Village electrification and network extension	205,000	33,647
	Balance at end of year	7,853,801	6,368,472

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).

Morupule A refurbishment is fully funded by the Republic of Botswana as equity injection.

		2018 P'000	2017 P'000
24	REVALUATION RESERVE		
	Balance at beginning of year and end of year	4,130,624	3,196,654

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

		2018 P'000	2017 P'000
25	OTHER RESERVES		
	Balance at beginning and end of year	1,803,087	1,803,087

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

	2018 P'000	2017 P'000
26 GOVERNMENT GRANTS AND ADVANCES		
Advances in respect of North West and Rakola Transmission Project	73,194	75,016
	73,194	75,016
Less short term portion	(73,194)	(75,016)
	-	-

The Benefit of the Government loan at a below-market rate of interest represents the difference between the fair value of Government loans received at below market rate of interest and the proceeds received. The grant is amortised to profit or loss over the period of the loan. The amortisation is determined as the difference between the interest on the fair valued loan at market rates and the interest paid at the actual below market rate of interest. The Government finances several projects through additional equity contribution. In cases where such equity contribution is received in advance, it is disclosed as a liability to the extent that it remains unspent.

	2018 P'000	2017 P'000
27 DEFERRED INCOME - CONSUMER FINANCED PROJECTS		
Balance at beginning of the year	2,485,132	2,155,882
Additions	318,915	401,486
Amortisation	(77,401)	(72,236)
Balance at the end of the year	2,726,646	2,485,132

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

	2018 P'000	2017 P'000
28 DEFERRED TAXATION		
The movement on the deferred tax asset/(liability) is as follows:		
Balance at beginning of the year	39,103	-
(Charge)/credit to the income statement for the year (note 11)	(143,983)	39,103
On gain on revaluation of land and buildings and generation, transmission and distribution assets	(161,854)	
Balance at end of the year	(266,734)	39,103
Deferred tax asset	-	39,103
Deferred tax liability	266,734	-
	266,734	39,103
Comprising:		
Property, plant and equipment	(474,145)	(221,557)
Deferred income - Consumer Financed Projects	85,615	72,435
Fair value loss on currency and interest rate swap	112,690	96,606
Unrealised exchange gain	(95,301)	(60,537)
Others	(5,975)	19,148
Tax losses	110,382	133,007
	(266,734)	39,103

Assessed/assessable tax loss as at 31 March 2018 is P 774 Mn (2017: P 605Mn) and Corporation has recognised deferred tax asset on tax losses as management believes that the Corporation will generate adequate taxable income in future before the tax losses fall away.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

	Current		Non-current	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
29 BORROWINGS				
Borrowings at amortised cost				
Government of the Republic of Botswana (funded by Nordic Development Fund)"	2,258	2,258	30,735	31,613
Industrial and Commercial Bank of China	434,262	477,495	4,752,236	5,703,941
	436,520	479,754	4,782,971	5,735,554
Currency analysis of borrowings				
Foreign denominated			5,219,490	6,215,308
Total borrowings			5,219,490	6,215,308
	Interest Rate per annum	*Interest Rate per annum*		
Government of the Republic of Botswana (funded by Nordic Development Fund)	0.75%	0.75%	32,993	33,871
Industrial and Commercial Bank of China	Libor+ 160bps	Libor+ 160bps	5,186,498	6,181,436
			5,219,490	6,215,308
The borrowings are repayable as follows				
Up to 1 year			436,520	479,754
2 - 5 years			1,746,079	1,919,014
Later than 5 years			3,036,892	3,816,540
Total			5,219,490	6,215,308

The Government of Republic of Botswana (funded by Nordic Development Fund) loan is repayable in biannual instalments with the last payment date in 2031. The loan is matched to foreign deposits placed with foreign banks made by the Corporation as disclosed in note 15. The Industrial and Commercial Bank of China loan is repayable in biannual instalments over a 20 year period. The loan is hedged per the hedging arrangement disclosed in note 34.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

29 BORROWINGS (continued)

Movement during the year is as follows:

	2018 P'000	2017 P'000
Balance at beginning of the year	6,215,308	6,953,736
Repayments	(360,475)	(483,059)
Exchange gains on borrowings	(635,343)	(255,369)
Balance at end of the year	5,219,490	6,215,308
30 CONSUMER DEPOSITS		
Consumer deposits-non current	78,967	79,892
Consumer deposits refunds-current	3,020	5,218
	81,988	85,110

Consumer deposits comprise amounts received from customers held as security against failure to settle accounts. These ordinarily represent two months estimated electricity consumption by customers and are refundable on closing the customer account after applying it to any amount outstanding then.

	2018 P'000	2017 P'000
31 TRADE AND OTHER PAYABLES		
Trade payables and accruals	622,300	1,039,228
National Electricity Standard Cost levy payable to Government of Botswana	105,256	133,554
Deferred revenue on prepaid electricity sales	24,821	21,330
Interest on borrowings	10,674	9,450
Payroll related accruals	49,820	52,320
Retentions	746,530	762,009
	1,559,401	2,017,891

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

31 TRADE AND OTHER PAYABLES (continued)

The average credit period on purchases from most suppliers is 30 days. No interest is charged on the trade payables for the first 60 days from the date of the invoice. Thereafter, interest is charged at varying rates of interest per annum on the outstanding balance. The Corporation has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The directors deem the fair value of the trade and other payables to approximate their carrying amounts.

32 ADVANCES - CONSUMER FINANCED PROJECTS

Advances received from customers	954,040	1,176,801

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.

33 PROVISIONS

	Coal off-take penalty P'000	Litigation claims P'000	Gratuity P'000	Early Exit package P'000	Total P'000
Balance at 1 April 2016	55,572	17,270	13,958	50,000	136,800
Provisions raised	51,132	14,262	6,031	117,929	189,354
Payments made during the year	-	(5,216)	(10,796)	-	(16,012)
Balance at 31 March 2017	106,704	26,315	9,193	167,929	310,142
Provisions raised/reversed	(88,897)	19,726	1,957	184,345	117,131
Payments made during the year	-	(1,578)	(2,818)	(186,903)	(191,299)
Balance at 31 March 2018	**17,807**	**45,573**	**8,332**	**165,371**	**237,083**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

33 PROVISIONS (continued)

Coal off-take penalty

In the current year the Corporation re-negotiated the coal off-take from Morupule Coal Mine Limited for the four year period up to December 2020. In terms of the revised contract, should the Corporation fail to take an average annual delivery to a maximum of 1.8 million metric tonnes of coal during the four year period, penalties would be charged to the Corporation for the difference between the actual off-take and 1.8 million metric tonnes. Management believe that the Corporation may not be able to meet the average maximum off-take requirement by December 2020. The estimated coal offtake penalty may vary as a result of the actual annual performance of the plants.

Litigation claims provision

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

Gratuity provision

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

Early exit package

As part of costs rationalisation, the Corporation has initiated a voluntary early exit exercise which has been approved by the Board of Directors for an amount of P165 million as the estimated cost of separation. It is expected to be utilised in the next financial year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

	2018 P'000	2017 P'000
34 OTHER FINANCIAL ASSETS		
Financial assets carried at fair value through profit or loss (FVTPL)		
Balance at beginning of the year	1,099,211	1,399,420
Unrealised fair value gain on the cross currency and interest rate swap	(681,048)	(300,209)
Balance at end of the year	418,163	1,099,211

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

34 OTHER FINANCIAL ASSETS (continued)

The USD amount hedged is converted to the basket of notional currencies based on the following percentages and also attracts interest at the percentages shown below.

	Fixed interest rate		Basket currency split	
	2018	2017	2018	2017
	%	%	%	%
South African Rands	9.77	13.35	45	65
United States Dollars	4.09	6.47	23	15
Euro	4.87	6.30	17	10
British Pound	4.78	6.67	4	5
Chinese Yuan	4.40	-	7	-
Japanese Yen	4.22	4.07	4	5
			100	100

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

	2018 USD'000	2017 USD'000	2018 P'000	2017 P'000
Notional hedged amount	543,018	588,473	5,703,972	6,181,436
Loan balance (Note 29)	(493,755)	(588,473)	(5,186,498)	(6,181,436)
Over hedged amount	49,264	-	517,475	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

		2018 P'000	2017 P'000
35	COMMITMENTS		
35.1	Capital commitments		
	Authorised but not contracted	2,239,787	3,772,668
	Authorised and contracted	430,367	585,655
		2,670,154	4,358,323

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

35.2 Operating lease commitments

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

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

	2018 P'000	2017 P'000
Within one year	4,439	4,660
Later than one year but not later than 5 years	20,091	15,484
	24,530	20,144

35.3 Operations and maintenance contract

The Corporation entered into a contract for the operations and maintenance of its power station for a period of 4 years.

	2018 P'000	2017 P'000
Within one year	421,729	407,018
Later than one year but not later than 5 years	68,374	814,066
	490,103	1,221,084

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

		2018 P'000	2017 P'000
36	NOTE TO THE STATEMENT OF CASH FLOWS		
	Cash generated from operations:		
	Profit / (loss) for the year	818,511	(179,350)
	Interest received	(16,539)	(6,938)
	Interest paid	239,654	249,537
		1,041,626	63,249
	Adjustments for non-cash items:		
	Depreciation of property, plant and equipment (Note 12)	477,449	458,667
	Reclassification of maintenance expenses from opening balance	8,100	-
	Other gains (Note 10)	751,264	439,120
	Amortisation of Government grant	(1,822)	(43)
	Amortisation of deferred income - consumer finance projects (Note 27)	(77,401)	(72,236)
	Amortisation of future coal supplies (Note 13)	20,031	20,031
	Unrealised exchange gain on borrowings (Note 9.2)	(635,343)	(255,369)
	Movement in provisions	(73,059)	173,344
	Profit on disposal of property, plant and equipment	(2,732)	(2,499)
		1,508,113	824,265
	Cash flows used in /(from) working capital:		
	(Increase)/decrease in standard cost recovery - NESC	(33,777)	40,094
	(Increase)/decrease in consumer loans - NESC	(8,028)	34,947
	(Increase)/decrease in consumer loans - hire purchase scheme	(4,230)	954
	Increase in consumer loans - rural collective scheme	5,453	6,329
	(Increase)/decrease in trade and other receivables	(102,857)	440,469
	Increase in inventories	(55,067)	(19,204)
	(Decrease)/increase in consumer deposits	(3,122)	2,251
	Decrease in trade and other payables	(458,490)	(603,546)
	Increase in advances - consumer financed projects	94,145	388,970
		(565,973)	291,262
	Cash generated from operations	942,141	1,115,527

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

37 RETIREMENT BENEFITS

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

Contract employees who are not members of the defined contribution plan are entitled to gratuities that are calculated on a percentage of the basic salary over the period of their employment. These are accrued for on a time served basis. The contributions recognised as an expense for the defined contribution benefit plan and the gratuity expense are disclosed per Note 6.

38 FINANCIAL INSTRUMENTS

38.1 Capital structure

The Corporation manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Corporation's overall funding strategy remains unchanged during the year ended 31 March 2018.

The capital structure of the Corporation consists of debt, which includes the current and non-current liabilities as disclosed on the statement of financial position, cash and cash equivalents disclosed on the statement of cash flows and equity and reserves comprising irredeemable capital, revaluation reserves, other reserves and accumulated losses as disclosed in Notes 23, 24, 25 and the statement of financial position respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

38 FINANCIAL INSTRUMENTS (continued)

	2018 P'000	2017 P'000
Gearing ratio		
Debt	11,289,123	12,566,881
Cash and cash equivalents	(730,681)	(415,180)
Net debt	10,558,442	12,151,701
Equity	9,644,289	6,550,883
Net debt to equity ratio (%)	(109%)	(185%)

38.2 Categories of financial instruments

	2018 P'000	2017 P'000
Financial assets at amortised cost		
Held-to-maturity investments	579,080	325,628
Loans and receivables (including cash and cash equivalents)	756,953	630,926
	1,336,033	956,554
Financial assets held at fair value through profit or loss	418,163	1,099,211
Financial liabilities at amortised cost	7,985,467	9,696,591
Financial liabilities at fair value through profit or loss	–	–

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

38 FINANCIAL INSTRUMENTS (continued)

38.3 Financial risk management objectives

The Corporation's Corporate Treasury function provides services to the business, co- ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Corporation through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

38.4 Market risk

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

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

38.5 Foreign currency risk management

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

	Liabilities		Assets	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
Denominated in the following currencies:				
United States Dollar	5,186,498	6,181,436	23,993	28,868
South African Rand	-	1,089	404	355
Euro	32,993	33,871	214	218
	5,219,490	6,216,397	24,611	29,441

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

38 FINANCIAL INSTRUMENTS (continued)

38.5.1 Foreign currency sensitivity analysis

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

	2018 P'000	2017 P'000
Increase in loss for the year	(25,974)	(30,929)

38.6 Interest rate risk management

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

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

38.6.1 Interest rate sensitivity analysis

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

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

	2018 P'000	2017 P'000
Loss for the year would increase by	(31,049)	(37,148)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

38 FINANCIAL INSTRUMENTS (continued)

38.7 Credit risk management

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

The concentration of credit risk for consumer loans (hire purchase and NESC) and trade accounts receivable, is disclosed on Note 16, 20 and 22. The most significant credit risk concentration of other financial assets are disclosed as follows.

		2018 P'000	2017 P'000
African Alliance	Non-investment grade	61,634	89,293
Stanbic Investment Management Services	Investment grade	89,453	56,518
Barclays Bank of London	Investment grade	23,993	28,868
Bank ABC	Non-investment grade	150,000	150,949
Barclays Bank of Botswana	Investment grade	74,186	95,145
Stanbic Bank Botswana	Investment grade	152,669	31,325
First National Bank Botswana	Investment grade	66,305	6,054
First National Bank Limited (South Africa)	Investment grade	1,523	-
Standard Chartered Bank	Investment grade	134,935	19,728
Total		754,698	477,879

Investment grade are those financial assets rated in one of the four highest rating categories in line with international rating agencies Non investment grade are those rated in the rest of the rating categories in line with international rating agencies.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

38 FINANCIAL INSTRUMENTS (continued)

38.8 Liquidity risk management

Liquidity risk is the risk of financial loss to the Corporation arising from its inability to fund increase in assets and/or meet obligations as they fall due. The formality and sophistication of the Corporation's liquidity risk management processes reflect the nature, size and complexity of its activities. The Corporation has a thorough understanding of the factors that could give rise to liquidity risk and has put in place mitigating controls. Included in note 38.8.2 is the amount of undrawn facilities that the Corporation has at its disposal to further reduce liquidity risk.

38.8.1 Liquidity risk and interest tables

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

	Up to 1 year P'000	2 to 5 years P'000	more than 5 years P'000	Total P'000
2018				
Variable interest rate	580,951	2,210,028	3,418,777	6,209,755
Non-interest bearing	2,687,004	78,967	-	2,765,971
	3,267,955	2,288,995	3,418,777	8,975,726
2017				
Variable interest rate	686,229	2,471,834	4,271,572	7,429,634
Non-interest bearing	3,367,007	79,892	-	3,446,899
	4,053,236	2,551,726	4,271,572	10,876,533

38.8.2 Facilities

The Corporation has access to the following unutilised financing and overdraft facilities, of P100 million (2017: P65.6 million). The Corporation also has bonds and guarantees amounting to USD10 million, unsecured import letters of credit amounting to USD10 million, commercial standby letters of credit amounting to USD 2.3 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

38 FINANCIAL INSTRUMENTS (continued)

38.9 Fair value measurements

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

38.9.1 Fair value measurements recognised in the statement of financial position

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

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

Some of the Corporation's financial assets and financial liabilities are measured at fair value at the end of each reporting period.

The following table gives information about how the fair values of the financial instruments are determined (in particular, the valuation techniques and the inputs used).

Refer to note 12 for fair value of land and building, generation, transmission and distribution assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

38 FINANCIAL INSTRUMENTS (continued)

Financial assets/liability	Fair value as at		Fair value hierarchy	Valuation tecnique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2018 P000	2017 P000				
Cross currency and interest rate swap	Asset - 418,163	Asset - 1,099,210	Level 3	Discounted cash flow (income approach) valuation technique. Firstly the cross-currency swap is valued on a clean basis excluding credit and debit valuation adjustments (CVA and DVA). The future cash flows of the two legs of the cross currency swap are projected in USD, based on market observable forward exchange rates as far as possible. These cash flows are then discounted using the 3 Month USD Libor swap curve, built from market observable money market instruments, FRA's (forward rate agreements) and swaps. Forward rates are calculated from the USD Libor swap curve to project the expected future 3 Month Libor Rates. Secondly a CVA and DVA adjustment is calculated by applying the default probabilities (PDs), loss-given default (LGDs) estimates and potential future exposures of the deal. The potential future exposure is calculated with the use of Monte-Carlo simulation techniques. The Hull-White single factor model is used to simulate multiple USD interest rate scenarios and Geometric Brownian Motion (GBM) processes are used to simulate multiple exchange rate scenarios.	For the clean valuation: The Botswana pula forward currency rate was unobservable after the four year point requiring an unobservable basis spread adjustment to the interest rate parity relationship used to project the future expected Pula currency rates. For the CVA and DVA valuation adjustment the following inputs were not directly market observable: • The default probabilities and loss given default estimates of the Corporation and Standard Bank plc. • The correlation parameters between the currency pairs and interest rates (short term USD interest rates), • The alpha and sigma parameters in the Hull-White single factor interest rate model.	The higher the Botswana pula currency basis spread the higher the fair value of the asset the higher Standard Bank PLC's default probability and LGD the lower the value of the swap. The higher the Corporation's default probability and LGD the higher the value of the swap. The higher the correlation of the parameters the higher the CVA and DVA adjustments. The higher the alpha parameter the lower the CVA and DVA adjustment. The higher the sigma parameter the higher the CVA and DVA adjustment.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

	2018 P'000	2017 P'000
39 CONTINGENT LIABILITIES		
39.1 Employee Scheme		
The Corporation has guaranteed the obligations of certain employees under its motor vehicle and residential housing schemes in a total amount of	-	2,809
39.2 Public liability		
The Corporation is a defendant in various public liability disputes and has disclaimed these liabilities. No provision in relation to these claims have been recognised in the financial statements, as legal advice indicates that it is not probable that a significant liability will arise. The Corporation has no further contingent liabilities.	45,573	11,372

39.3 Claims for delay liquidated damages made under the EPC contract

Under the Engineering Procurement and Construction (""EPC"") Contract the Corporation is permitted to charge the contractor penalties for breach of contract and vice versa.However, the parties are still to finalise the negotiations of the liquidated damages for the late project completion and claims for time extension and costs as well as non-compliances which cannot be remedied. Based on the project status, and the guiding principles assessment, the EPC Contractor claims will not exceed the Corporation's liquidated damages claims.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2018

	2018 P'000	2017 P'000
40 RELATED PARTY BALANCES AND TRANSACTIONS		
The Corporation is 100% owned by the Government of Botswana. Transactions and account balances with the Government of Botswana and government related entities are disclosed in Note 1, Note 7, Note 22, Note 23 and Note 26.		
Remuneration of key entity personnel:		
Salaries and other short term employee benefits	12,136	6,259
Terminal benefits	1,183	912
Board fees	778	542
	14,097	7,712

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

41 REMEDIAL WORKS - MORUPULE B POWER STATION

The reliability of the Morupule B Power Station continues to be impacted by construction and equipment defects which need to be remedied in order to make the plant operate reliably at full capacity. A root cause and gap analysis were subsequently performed by the Corporation on the power station and the defects were, mainly attributable to the construction and equipment defects, notably in the Boiler Fluidised Bed Heat Exchangers (""FBHE"").

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

41 REMEDIAL WORKS - MORUPULE B POWER STATION (continued)

The signing of the Amendment Agreement with the EPC contractor on 29 August 2016, to carry out remedial works on the plant, was followed up by the engineering design stage. The engineering design phase took longer than was expected on account of Fluidised Bed Heat Exchangers (FBHE) design issues. The FBHE design issues culminated in the Second Amendment Agreement which is yet to be executed. Consequently, the shut down of the first unit for implementation of the remedials was delayed by more than a year. It is expected that the revised shutdown date for the first unit would be in the last quarter of 2018 or first quater of 2019. The whole remedial works are expected to run for a period of about 4 years (from shutdown of the first unit to completion of the last/fourth unit). A two -year Defects Notification Period will follow the completion of the remedial works.

The costs for remedying defects is borne by the EPC contractor. The Corporation currently holds a retention of USD 58 million and performance security of USD 58 million against the Contractor.

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

In terms of section 17 of the Botswana Power Corporation Act (Chapter 74:01), the Corpration is required to conduct its affairs on sound commercial lines and to produce a net operating income by which a reasonable return can be measured. Inclusive of a consumer tariff subsidy provided by the Government of Republic of Botswana amounting to P1,457,000,000 (2017: P1,667,500,000), the Corporation has achived an operating profit of P1,157,818,000 (2017: P228,365,000). Thus it has complied with the requirements of the Act.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2018

43 GOING CONCERN

Inclusive of a consumer tariff subsidy of P1,457,000,000 (2017: P 1,667,500,000) provided by the Government of the Republic of Botswana, the Corporation has recorded an operating profit of P1,157,818,000 (2017: P228,365,000) and profit after tax of P674,108,000 (2017: Loss of 140,247,000). However, the Corporation's current liabilities exceed its current assets by P1,637,213,000.

The Ministry of Mineral Resources, Green Technology and Energy Security has confirmed that it will continue to facilitate and support the Corporations' requests and motivations to Government for cost-efficient tariff as well as, where necessary, support for revenue shortfalls. A consumer tariff subsidy of P800,000,000 has been approved for the 2018/2019 financial year to meet both the loan obligations and other operating costs as per the revenue requirement gap resulting from the less cost reflective tariffs. This amount was partly received in June 2018.

Accordingly, there is no material uncertainty about the corporation's ability to continue as a going concern.

44 EVENTS AFTER THE REPORTING PERIOD

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

BOTSWANA POWER CORPORATION

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