

NamPower GROUP ANNUAL FINANCIAL STATEMENT

for the year ended 30 June 2004
STATEMENT BY THE DIRECTORS

The directors are responsible for monitoring the preparation of and the integrity of the Group financial statements and other information contained in this annual report.

In order for the board to discharge its responsibilities, management has developed and continues to maintain a system of internal control. The board has ultimate responsibility for the system of internal controls and reviews its operation, primarily through the audit committee.

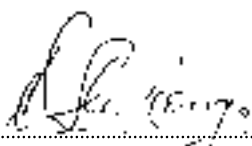
The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Company's policies and procedures. These controls are implemented by trained, skilled personnel with an appropriate segregation of duties; monitored by management and include a comprehensive

budgeting and reporting system operating within strict deadlines and an appropriate control framework.

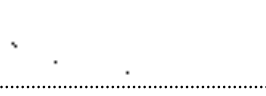
The financial statements are prepared in accordance with Namibian Statements of Generally Accepted Accounting Practice and incorporate responsible disclosure in line with the accounting philosophy of the Company. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors believe that the Group will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the annual financial statements.


The group annual financial statements for the year ended 30 June 2004 set out on pages 31 to 66 were approved by the Board of Directors on 7 October 2004 and signed on its behalf by:



MR. M. K. SHIKONGO
Chairman



DR. L. S. HANGALA
Managing Director



MS. T. T. UWANGA
Company Secretary

NamPower **REPORT OF THE INDEPENDENT AUDITORS**

**TO THE SHAREHOLDER OF
Namibia Power Corporation
(Proprietary) Limited**

We have audited the annual financial statements and group annual financial statements of Namibia Power Corporation (Pty) Ltd set out on pages 31 to 66 for the year ended 30 June 2004. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

We conducted our audit in accordance with statements of Namibian Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures

- in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statements presentation.

We believe that our audit provides a reasonable basis for our opinion.

AUDIT OPINION

In our opinion the financial statements fairly present, in all material respects, the financial position of the Company and the Group at 30 June 2004 and the results of its operations and cash flows for the year then ended in accordance with Statements of Namibian Generally Accepted Accounting Practice, and in the manner required by the Namibian Companies Act.

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KPMG
Registered Accountants and Auditors
Chartered Accountants (Namibia)

8 October 2004

NamPower DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ended 30 June 2004.

1. PRINCIPAL ACTIVITIES

The Company is responsible for the generation, transmission and distribution of electricity in Namibia. The activities of subsidiary and joint venture companies comprise:

- Provision of technical, management and other related services to group companies;
- The sale and distribution of electricity to towns through joint ventures such as Otavi and Oshakati in Namibia; and
- Property investment.

2. OPERATING RESULTS

The operating results of the Group for the year under review are as set out below:

| | GROUP | | COMPANY | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| Total revenue | 956,026 | 787,351 | 890,633 | 731,605 |
| Operating income | 808,314 | 635,283 | 751,675 | 581,000 |
| Sales of electricity | 739,905 | 587,170 | 715,633 | 560,175 |
| Extension charges received | 40,156 | 35,351 | 7,789 | 8,063 |
| Contributions by customers | 28,253 | 12,762 | 28,253 | 12,762 |
| Other income | 5,194 | 1,372 | 0 | 0 |
| Investment income | 142,518 | 150,696 | 138,958 | 150,605 |
| Expenditure | 881,140 | 667,684 | 816,900 | 615,112 |
| Operating and Administrative Expenditure | 622,006 | 465,857 | 559,135 | 414,886 |
| Depreciation | 224,054 | 202,756 | 222,966 | 201,150 |
| - on historical cost | 138,070 | 116,581 | 136,982 | 114,975 |
| - on increase in valuation | 85,984 | 86,175 | 85,984 | 86,175 |
| Loss/(profit) on realisation of assets | 35,080 | (929) | 34,799 | (924) |
| Net income before taxation | 74,886 | 119,667 | 73,733 | 116,493 |
| Taxation | 16,626 | 29,023 | 16,853 | 27,768 |
| Net income after taxation | 58,260 | 90,644 | 56,880 | 88,725 |
| Income from associate | 1,882 | 831 | 1,882 | 831 |
| Net profit for the year | 60,142 | 91,475 | 58,762 | 89,556 |
| Dividend declared | 0 | 6,500 | 0 | 6,500 |
| Retained Income | 60,142 | 84,975 | 58,762 | 83,056 |
| Retained Income for: | 60,142 | 84,975 | 58,762 | 83,056 |
| - Reserve Fund | 26,898 | 69,508 | 28,627 | 69,463 |
| - Development Fund | 33,244 | 15,467 | 30,135 | 13,593 |

| | GROUP | | COMPANY | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2004 Million | 2003 Million | 2004 Million | 2003 Million |
| The net income after taxation decreased from N\$88,7 million to N\$56,9 million for the Company and the Group net income after tax decreased from N\$90,6 million to N\$58,3 million. | | | | |
| Provision for deferred taxation for the Company amounted to N\$16,9 million in respect of the year under review (2003: N\$27,8 million). | | | | |
| Due to the impact of the capital projects the Company has no tax liability for the current and prior year. | | | | |
| Units into the system and sold: | | | | |
| UNITS INTO SYSTEM | | | | |
| Ruacana Hydro Power Station | 1,367 | 1,419 | 1,367 | 1,419 |
| Van Eck Power Station | 10 | 1 | 10 | 1 |
| Eskom | 1,423 | 988 | 1,423 | 988 |
| Zesco | 9 | 21 | 9 | 21 |
| Paratus Power Station | 2 | 1 | 2 | 1 |
| STEM | 47 | 36 | 47 | 36 |
| Zesa | 87 | 0 | 87 | 0 |
| Total units into system | 2,945 | 2,466 | 2,945 | 2,466 |
| UNITS SOLD | | | | |
| To customers in Namibia | 2,301 | 2,117 | 2,301 | 2,117 |
| To Eskom | 3 | 36 | 3 | 36 |
| To Botswana | 8 | 7 | 8 | 7 |
| To Angola | 12 | 10 | 12 | 10 |
| To Skorpion | 471 | 76 | 471 | 76 |
| Total units sold | 2,795 | 2,246 | 2,795 | 2,246 |
| Transmission losses | 5.09% | 8.92% | 5.09% | 8.92% |

Growth

During the year under review there was an increase of 8,7% in units sold to customers in Namibia excluding Skorpion (2003: increase of 1,7%).

The power imported from Eskom during the year under review increased by 435 million units (2003: increase of 67 million units).

3. DIVIDEND

A dividend of N\$4,0 million is recommended in respect of the year under review (2003: N\$6,5 million declared).

4. SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES

Relevant information is disclosed in note 3 to the financial statements.

5. CAPITAL EXPENDITURE

The net expenditure on property, plant and equipment during the financial year amounted to: Group - N\$280,6 million (2003: N\$436,3 million); Company - N\$276,5 million (2003: N\$431,9 million).

This expenditure is mainly attributable to:

5.1 Rural Electrification:

| | |
|--------------------------|---------------------------------|
| Omusati | Caprivi Region |
| Onyati | Swanepoel Blumfelde |
| Witvlei Farmers Scheme | Houmoed Police Training College |
| Kavango Region | Kunene Region |
| Electrification Villages | Otjozondupa Region |
| Oshana Region | Okavango Area |

5.2 Substation Development:

| | |
|----------------------------|-------------------------------|
| Harib Substation (Upgrade) | Van Eck (160 MVA Transformer) |
| Kuiseb Substation | Tamarisk Substation |

5.3 Refurbishment and Upgrading:

| | |
|---------------------------------------|---------------------------------------|
| Upgrading existing protection schemes | Replacement of vehicles and equipment |
| Automation Unit 3 Ruacana | Enterprise Resource Planning |
| Rundu Substation Transformer | Van Eck 66 kV Busbars |
| SAP | |

5.4 Transmission System:

| | |
|--------------------------|----------------------------|
| Van Eck - Kuiseb | Skorpion Project |
| Omaere - Buitepos 132 kV | West Coast Project |
| Harib - Ariamsvlei | Angola Cross Border Supply |

6. FOREIGN ASSETS

The valuation of the diversion weir situated in Angola amounts to N\$47,0 million based on replacement value. This does not include the loan of N\$3,7 million granted in respect of the Gove dam. The recovery of this loan depends on the rehabilitation of the Gove dam by the Angolan Authorities and the implementation of the principles embodied in the 1969 agreement.

The Calueque dam that was erected by NamPower at a cost of N\$28,9 million, is also situated in Angola. The full utilisation of this project still depends on its final completion and the reinstatement of control by NamPower. The Company, thus far, could not derive any benefit from this asset. This asset is currently reflected in your company's books at no value.

7. SHAREHOLDER

The Government of the Republic of Namibia is the sole shareholder of the Company.

8. POST BALANCE SHEET EVENTS

The directors are not aware of any matter or circumstance arising since the end of the financial year, not otherwise dealt with in this report or the group annual financial statements, that would significantly affect the operations of the Company or the results of those operations.

9. BOARD COMMITTEES

In conformity with Corporate Governance, NamPower has the following Board Committees:

9.1 Audit Committee

The members of the Audit Committee are J de La Rey du Toit (Chairman), J F Engelbrecht and Ms E M Iipinge. A total of four Audit Committee meetings were held during the year under review.

9.2 Remuneration Committee

The members M K Shikongo (Chairman), Dr L S Hangala, J de La Rey du Toit and Ms P N Muyunda form the Remuneration Committee.

The Remuneration Committee held three meetings during the year under review.

10. DIRECTORATE

| | |
|--------------------------|------------------------|
| Mr. M. K. Shikongo | (Chairman) |
| Dr. L. S. Hangala | (Managing Director) |
| Mr. P. T. Damaseb | Resigned 16 April 2004 |
| Mr. J. de La Rey Du Toit | |
| Mr. J. F. Engelbrecht | |
| Ms. E. M. Iipinge | |
| Ms. P. N. Muyunda | |
| Mr. G. Narib | Appointed 27 July 2004 |

11. SECRETARY

Ms T. T. Uwanga held office as company secretary for the year under review. The business and postal addresses are shown on page 66.

NamPower BALANCE SHEET

at 30 June 2004

| | Notes | GROUP | | COMPANY | |
|-------------------------------------|-------|------------------|------------------|------------------|------------------|
| | | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Property, plant and equipment | 2 | 4,670,649 | 4,674,206 | 4,661,515 | 4,664,749 |
| Investment in subsidiary companies | 3 | 0 | 0 | 54,998 | 46,591 |
| Investment in associate | 3 | 55,877 | 5,831 | 55,877 | 5,831 |
| Loan to joint venture | 3 | 3,487 | 3,851 | 4,000 | 0 |
| Investments | 4 | 1,074,103 | 1,108,805 | 1,072,007 | 1,106,709 |
| Loans receivable | 6 | 14,022 | 12,387 | 14,022 | 12,387 |
| Current assets | | | | | |
| Inventories | 5 | 181,607 | 166,011 | 181,204 | 165,775 |
| Accounts receivable | 6 | 260,470 | 245,544 | 208,397 | 198,840 |
| Taxation | | 0 | 5,138 | 0 | 5,138 |
| Bank and cash balances | | 87,377 | 20,187 | 78,877 | 15,243 |
| Other financial assets | 12 | 20,600 | 64,407 | 20,600 | 64,407 |
| Total assets | | 6,368,192 | 6,306,367 | 6,351,497 | 6,285,670 |
| EQUITY AND LIABILITIES | | | | | |
| Capital and Reserves | | | | | |
| | | 3,870,631 | 3,767,548 | 3,867,222 | 3,765,519 |
| Non-current liabilities | | | | | |
| Long-term liabilities | 9 | 904,676 | 990,494 | 902,676 | 988,107 |
| Provisions | 13 | 48,342 | 30,833 | 48,342 | 30,833 |
| Deferred taxation | 10 | 1,232,933 | 1,219,656 | 1,232,369 | 1,218,328 |
| Current liabilities | | | | | |
| Accounts payable | 11 | 105,593 | 120,332 | 97,761 | 106,975 |
| Provisions | 13 | 17,489 | 15,285 | 15,133 | 13,689 |
| Taxation | | 534 | 0 | 0 | 0 |
| Short-term liabilities | 9 | 33,134 | 35,348 | 33,134 | 35,348 |
| Shareholders for dividend | | 0 | 6,500 | 0 | 6,500 |
| Other financial liabilities | 12 | 154,860 | 120,371 | 154,860 | 120,371 |
| Total equity and liabilities | | 6,368,192 | 6,306,367 | 6,351,497 | 6,285,670 |

NamPower GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2004

| | Share Capital | Reserve Fund | Development Fund | Capital Revaluation Reserve | Profit for the year | Total |
|---|------------------|-----------------|---------------------|-----------------------------------|------------------------|------------------|
| | N\$'000 | N\$'000 | N\$'000 | N\$'000 | N\$'000 | N\$'000 |
| Balance at 1 July 2003 | 65,000 | 843,356 | 1,068,369 | 1,790,823 | 0 | 3,767,548 |
| Decrease in Capital Revaluation - Assets sold | | | | (5,223) | | (5,223) |
| Share of associate's reserves | | | 35,986 | 12,178 | | 48,164 |
| Profit for the year | | | | | 60,142 | 60,142 |
| Dividend declared | | | | | | 0 |
| Allocation from income | | 26,898 | 33,244 | | (60,142) | 0 |
| Interest earned | | 26,898 | | | (26,898) | 0 |
| Funds for capital expenditure requirements | | | 4,991 | | (4,991) | 0 |
| Contributions by customers | | | 28,253 | | (28,253) | 0 |
| Balance at 30 June 2004 | 65,000 | 870,254 | 1,137,599 | 1,797,778 | 0 | 3,870,631 |
| Balance at 1 July 2002 | 65,000 | 820,101 | 1,118,375 | 1,790,823 | 0 | 3,794,299 |
| Prior year error (refer note 21) | | (46,253) | (3,324) | | | (49,577) |
| Fair value adjustments due to AC133 | | | (62,149) | | | (62,149) |
| Profit for the year | | | | | 91,475 | 91,475 |
| Dividend declared | | | | | (6,500) | (6,500) |
| Allocation from income | | 69,508 | 15,467 | | (84,975) | 0 |
| Interest earned | | 69,508 | | | (69,508) | 0 |
| Funds for capital expenditure requirements | | | 2,705 | | (2,705) | 0 |
| Contributions by customers | | | 12,762 | | (12,762) | 0 |
| Balance at 30 June 2003 | 65,000 | 843,356 | 1,068,369 | 1,790,823 | 0 | 3,767,548 |

NamPower COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2004

| | Share Capital | Reserve Fund | Development Fund | Capital Revaluation Reserve | Profit for the year | Total |
|---|---------------|----------------|------------------|-----------------------------|---------------------|------------------|
| | NS'000 | NS'000 | NS'000 | NS'000 | NS'000 | NS'000 |
| Balance at 1 July 2003 | 65,000 | 843,206 | 1,066,490 | 1,790,823 | 0 | 3,765,519 |
| Decrease in Capital Revaluation - Assets sold | | | | (5,223) | | (5,223) |
| Share of associate's reserves | | | 35,986 | 12,178 | | 48,164 |
| Profit for the year | | | | | 58,762 | 58,762 |
| Dividend declared | | | | | | 0 |
| Allocation from income | | 28,627 | 30,135 | | (58,762) | 0 |
| Interest earned | | 28,627 | | | (28,627) | 0 |
| Funds for capital expenditure requirements | | | 1,882 | | (1,882) | 0 |
| Contributions by customers | | | 28,253 | | (28,253) | 0 |
| Balance at 30 June 2004 | 65,000 | 871,833 | 1,132,611 | 1,797,778 | 0 | 3,867,222 |
| Balance at 1 July 2002 | 65,000 | 819,996 | 1,118,370 | 1,790,823 | 0 | 3,794,189 |
| Prior year error (refer note 21) | | (46,253) | (3,324) | | | (49,577) |
| Fair value adjustments due to AC133 | | | (62,149) | | | (62,149) |
| Profit for the year | | | | | 89,556 | 89,556 |
| Dividend declared | | | | | (6,500) | (6,500) |
| Allocation from income | | 69,463 | 13,593 | | (83,056) | 0 |
| Interest earned | | 69,463 | | | (69,463) | 0 |
| Funds for capital expenditure requirements | | | 831 | | (831) | 0 |
| Contributions by customers | | | 12,762 | | (12,762) | 0 |
| Balance at 30 June 2003 | 65,000 | 843,206 | 1,066,490 | 1,790,823 | 0 | 3,765,519 |

NamPower INCOME STATEMENT

for the year ended 30 June 2004

| | Notes | GROUP | | COMPANY | |
|--------------------------------------|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| Revenue | | 808,314 | 635,283 | 751,675 | 581,000 |
| Other income | | 5,194 | 1,372 | 0 | 0 |
| Interest earned | | 142,518 | 150,696 | 138,958 | 150,605 |
| Gross revenue | | 956,026 | 787,351 | 890,633 | 731,605 |
| Variable operating expenditure | | (224,147) | (134,868) | (213,350) | (125,333) |
| Gross profit | | 731,879 | 652,483 | 677,283 | 606,272 |
| Fixed operating expenditure | | (532,642) | (409,368) | (479,199) | (366,702) |
| Operating profit before finance cost | | 199,237 | 243,115 | 198,084 | 239,570 |
| Finance costs | | (124,351) | (123,448) | (124,351) | (123,077) |
| Operating profit before taxation | 15 | 74,886 | 119,667 | 73,733 | 116,493 |
| Taxation | 7 | (16,626) | (29,023) | (16,853) | (27,768) |
| Profit after taxation | | 58,260 | 90,644 | 56,880 | 88,725 |
| Income from associate | 3 | 1,882 | 831 | 1,882 | 831 |
| Profit for the year | | 60,142 | 91,475 | 58,762 | 89,556 |

NamPower CASH FLOW STATEMENT

for the year ended 30 June 2004

| | Notes | GROUP | | COMPANY | |
|---|-------|------------------|------------------|------------------|------------------|
| | | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| Cash flows from operating activities | | | | | |
| Cash receipts from customers | | 735,499 | 469,485 | 679,035 | 457,241 |
| Cash paid to suppliers and employees | | (424,254) | (285,820) | (356,451) | (247,200) |
| Cash generated by operations | A | 311,245 | 183,665 | 322,584 | 210,041 |
| Interest received | | 142,518 | 150,696 | 138,958 | 150,605 |
| Interest paid | | (124,351) | (123,448) | (124,351) | (123,077) |
| Taxation | B | 5,138 | 56,645 | 5,138 | 56,645 |
| Dividends paid | | (6,500) | (13,000) | (6,500) | (13,000) |
| Net cash from operating activities | | 328,050 | 254,558 | 335,829 | 281,214 |
| Cash flows from investing activities | | | | | |
| Expenditure to maintain operating capacity | | | | | |
| Proceeds from the disposal of property, plant and equipment | | 17,036 | 1,674 | 13,950 | 1,635 |
| Replacement of property, plant and equipment | | (26,739) | (45,810) | (23,602) | (45,353) |
| Extension of property, plant and equipment | | (253,912) | (390,476) | (252,914) | (386,582) |
| Expenditure for expansion | | | | | |
| Investment in associate | C | 0 | (5,000) | 0 | (5,000) |
| Decrease/(increase) in subsidiary indebtedness | | 364 | (1,248) | (12,407) | (33,611) |
| Decrease/(increase) in investments | | 28,975 | (236,891) | 28,975 | (234,795) |
| Increase in loans receivable | | (1,635) | (2,176) | (1,635) | (2,176) |
| Net cash used in investing activities | | (235,911) | (679,927) | (247,633) | (705,882) |
| Cash flows from financing activities | | | | | |
| Loans raised | | 0 | 372,636 | 0 | 372,636 |
| Loans repaid | | (24,949) | (25,577) | (24,562) | (25,577) |
| Net cash used in financing activities | | (24,949) | 347,059 | (24,562) | 347,059 |
| Increase/(decrease) in cash and cash equivalents | | 67,190 | (78,310) | 63,634 | (77,609) |
| Cash and cash equivalents at beginning of the year | | 20,187 | 98,497 | 15,243 | 92,852 |
| Cash and cash equivalents at end of the year | D | 87,377 | 20,187 | 78,877 | 15,243 |

NamPower NOTES TO THE CASH FLOW STATEMENT

for the year ended 30 June 2004

| | GROUP | | COMPANY | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| A. CASH GENERATED BY OPERATIONS | | | | |
| Income before taxation | 74,886 | 119,667 | 73,733 | 116,493 |
| Adjustments for: | | | | |
| - Interest paid | 124,351 | 123,448 | 124,351 | 123,077 |
| - Interest earned | (142,518) | (150,696) | (138,958) | (150,605) |
| - Unrealised foreign exchange gains on long-term liabilities | (52) | (9,154) | (52) | (9,154) |
| - Fair value adjustments on long-term liabilities | (63,031) | (61,629) | (63,031) | (61,629) |
| - Fair value adjustments on derivative contracts | 78,296 | 55,964 | 78,296 | 55,964 |
| - Fair value adjustments on investments | 5,727 | (2,517) | 5,727 | (2,517) |
| - Depreciation | 224,054 | 202,756 | 222,966 | 201,150 |
| - Loss/(profit) on realisation of fixed assets | 35,080 | (929) | 34,799 | (924) |
| Operating profit before working capital changes | <u>336,793</u> | <u>276,910</u> | <u>337,831</u> | <u>271,855</u> |
| Increase in inventories | (15,596) | (44,537) | (15,429) | (44,591) |
| Increase in accounts receivable | (14,926) | (92,941) | (9,557) | (49,535) |
| Increase in accounts payable and provisions | 4,974 | 44,233 | 9,739 | 32,312 |
| | <u>311,245</u> | <u>183,665</u> | <u>322,584</u> | <u>210,041</u> |
| B. TAXATION | | | | |
| Amount due by Receiver of Revenue at beginning of year | 5,138 | 56,645 | 5,138 | 56,645 |
| Income statement charge | 534 | (5,138) | 0 | (5,138) |
| Amount due(to)/by Receiver of Revenue at end of year | (534) | 5,138 | 0 | 5,138 |
| | <u>5,138</u> | <u>56,645</u> | <u>5,138</u> | <u>56,645</u> |
| C. INVESTMENT IN ASSOCIATE | | | | |
| In 2003 the Group acquired a 33.33% interest in Nored Electricity (Pty) Ltd. An equity contribution of N\$5,0 million was made to establish the Company. | | | | |
| D. CASH AND CASH EQUIVALENTS | | | | |
| Cash and cash equivalents consist of cash on hand and cash held at banks. | | | | |

NamPower NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2004

1. PRINCIPAL ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Namibian Statements and Interpretations of Generally Accepted Accounting Practice and the requirements of the Namibian Companies Act.

Basis of Preparation

The financial statements are prepared on the historical cost basis, except for the revaluation of power stations, transmission system and property as detailed below, and incorporate the following principal accounting policies which have consistently been applied by Group enterprises and are consistent with those used in the previous year.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and of its subsidiaries, associate and jointly controlled entities.

Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Jointly Controlled Entities

Jointly controlled enterprises are those enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the enterprises' assets, liabilities, revenue and expenses with items of a similar nature or a line by line basis, from the date that joint control effectively commences until the date that joint control effectively ceases.

Associates

An associate is an enterprise over whose financial and operating policies the Group has the ability to exercise significant influence and which is neither a subsidiary nor a joint venture of the Group.

The equity method of accounting for associates is adopted in the group financial statements. In applying the equity method, account is taken of the Group's share of accumulated retained earnings and movements in reserves from the effective date on which the enterprise became an associate and up to the effective date of disposal.

Goodwill arising on the acquisition of associates is included in the carrying amount of the associate and is treated in accordance with the Group's accounting policy for goodwill.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

1.1 Property, Plant and Equipment

Power stations, the transmission system and property are reflected in the Balance Sheet at valuation and machinery and equipment at historical cost.

Power stations, the transmission system and property are revalued every 5 years at the estimated replacement value thereof as adjusted in relation to the remaining useful lives of these assets. Property are valued at market value or replacement value where no market value exists. Surpluses arising from the valuation are transferred net of deferred tax to the capital revaluation reserve. Deficits on revaluation are charged directly against the capital revaluation reserve to the extent that the decrease does not exceed the amount held in the capital revaluation reserve in respect of that same asset. Other deficits are recognised as expenses.

The carrying amount of an asset is reduced to reflect the consumption of economic benefits through an annual depreciation charge against the Company's operating income.

Depreciation is provided on the straight line basis on the cost or revalued amount of the assets, over the estimated useful lives of the power stations, transmission system, machinery and equipment and buildings.

Depreciation is not provided for in respect of land.

The annual depreciation rates used are:

Category

| | |
|-----------------------|-----------------|
| Ruacana Power Station | 6.25% |
| Van Eck Power Station | 14.30% |
| Paratus Power Station | 4.00% |
| Transmission System | 4.00% |
| Machinery & Equipment | 10.00% - 33.33% |
| Property | 0.00% - 5.00% |

1.2 Investment Property

Investment property is stated at cost less accumulated depreciation. Investment properties are depreciated on the straight line basis at rates considered appropriate to reduce values over the useful lives of the assets, to estimate residual values. Rental income from investment properties are accounted for as described in the accounting policy on revenue recognition.

1.3 Impairment of Assets

The carrying amounts of the Group's assets, other than inventories (refer accounting policy 1.4) and deferred tax assets (refer accounting policy 1.7) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All other impairment losses are recognised in the income statement.

1.4 Inventories

Fuel, maintenance, consumable stores and construction material are valued at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition and is determined using the average cost method.

Obsolete, redundant and slow moving inventories are identified and written down to their estimated net realisable value.

NamPower NOTES TO THE FINANCIAL STATEMENTS

1.5 Investments in Subsidiaries

Investments are stated at cost less any provisions for permanent diminution in value. The directors' valuation of unrealised investments is calculated on a basis of return or net asset value as is deemed appropriate in each case.

Dividends are accounted for when declared.

1.6 Appropriation of Funds

The Company is, for the financing of its fixed and working capital requirements, dependent upon funds generated internally and the raising of long-term loans. Therefore, the Company is compelled to apply funds derived from its activities after provision for taxation, as follows:

Reserve Fund - the Board of Directors have decided that the current level of funding is adequate. The fund will in future only be credited with interest earned, after deduction of income tax, on the monthly balance.

Development Fund - to be utilised for the total or partial financing of capital works and extensions to power stations, transmission and distribution networks. The annual retained income will be transferred to this fund.

1.7 Taxation

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable and the related tax benefit will be realised.

1.8 Revenue Recognition

Revenue comprises net invoiced electricity sales excluding value added tax to customers; extension charges; and contributions by customers. Revenue is recognised at the time customers are invoiced.

Revenue, which excludes value added tax and income between group companies, comprises the invoiced value of goods and services supplied and the value of long term contract work done.

Revenue from services is recognised when the right to receive payment is established.

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

1.9 Research and Development Costs

Research costs are charged to income in the year in which it is incurred. Development costs are deferred and written off over the useful life of the product not exceeding five years where asset recognition criteria have been met. Development costs are deferred only to the extent that they do not exceed the amount, net of anticipated and related expenses, that is probable of recovery from future economic benefits.

1.10 Employee Benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service.

The provisions for employee entitlements to leave and bonuses represent the amount which the Group has a present obligation to pay as a result of employees' services provided to the balance sheet date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates.

Retirement benefits

The Company and its subsidiaries contribute to a defined contribution plan. Contributions to defined contribution funds are charged against income as incurred.

Post-Retirement Medical Benefits

The Company subsidises part of the contributions by retired employees to the medical aid fund. Provision is made to account for the present value of post retirement medical benefits.

1.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

1.12 Capitalisation of Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised up to the date that the asset is substantially completed.

1.13 Financial Instruments

Measurement

Financial instruments are initially measured at cost, which includes transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Investments classified as held-for-trading financial assets are carried at fair market value, which is calculated by reference to stock exchange quoted selling prices at the close of business on the balance sheet date.

Investments that meet the criteria for classification as held-to-maturity financial assets are carried at amortised cost.

NamPower NOTES TO THE FINANCIAL STATEMENTS

Derivative Financial Instruments

The Group uses interest rate swaps and forward exchange contracts to manage its exposure to foreign exchange and interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. The fair value of forward exchange contracts is their quoted market price at the balance sheet date.

Trade and Other Receivables

Trade and other receivables are stated at cost less provision for doubtful debts. Bad debts are written off.

Trade and Other Payables

Trade and other payables are stated at nominal value.

Cash and Cash Equivalents

Cash and cash equivalents are measured at fair value, based on the relevant exchange rates at balance sheet date.

Financial Liabilities

Non-derivative financial liabilities are comprised of original debt less principal payments and amortisations.

Derivative Instruments

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Recognition of any resultant unrealised gain or loss depends on the nature of the item being hedged.

Gains and Losses on Subsequent Measurement

Gains and losses arising from a change in the fair value of financial instruments that are not part of a hedging relationship are included in net profit or loss in the period in which the change arises.

Offset

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when the Company has a legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.14 Foreign Currency Transactions

Transactions in foreign currencies are recorded at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to N\$ at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to N\$ at the foreign exchange rate ruling at the date of the transaction.

2. PROPERTY, PLANT AND EQUIPMENT

| | Ruacana Power Station N\$'000 | Van Eck Power Station N\$'000 | Paratus Power Station N\$'000 |
|--|----------------------------------|----------------------------------|----------------------------------|
| GROUP 2004 | | | |
| Carrying amount at 1 July 2003 | 662,866 | 190,902 | 81,582 |
| - At cost/valuation | 692,404 | 221,755 | 84,981 |
| - Accumulated depreciation | (29,538) | (30,853) | (3,399) |
| Additions | 2,097 | (519) | 36 |
| Disposals | 0 | 0 | 0 |
| - At cost/valuation | 0 | 0 | 0 |
| - Accumulated depreciation | 0 | 0 | 0 |
| Depreciation for the year | (29,862) | (31,599) | (3,400) |
| Carrying amount at 30 June 2004 | 635,101 | 158,784 | 78,218 |
| - At cost/valuation | 694,501 | 221,236 | 85,017 |
| - Accumulated depreciation | (59,400) | (62,452) | (6,799) |
| GROUP 2003 | | | |
| Carrying amount at 1 July 2002 | 683,556 | 232,711 | 85,015 |
| - At cost/valuation | 683,556 | 232,711 | 85,015 |
| - Accumulated depreciation | 0 | 0 | 0 |
| Additions | 8,848 | (10,956) | (34) |
| Disposals | 0 | 0 | 0 |
| - At cost/valuation | 0 | 0 | 0 |
| - Accumulated depreciation | 0 | 0 | 0 |
| Depreciation for the year | (29,538) | (30,853) | (3,399) |
| Carrying amount at 30 June 2003 | 662,866 | 190,902 | 81,582 |
| - At cost/valuation | 692,404 | 221,755 | 84,981 |
| - Accumulated depreciation | (29,538) | (30,853) | (3,399) |

NamPower NOTES TO THE FINANCIAL STATEMENTS

| Transmission System N\$'000 | Machinery And Equipment N\$'000 | Property N\$'000 | Total N\$'000 |
|-----------------------------------|---------------------------------------|---------------------|------------------------|
| 3,428,425 | 126,716 | 183,715 | 4,674,206 |
| 3,539,368 (110,943) | 243,318 (116,602) | 188,681 (4,966) | 4,970,507 (296,301) |
| 244,282 | 30,439 | 4,316 | 280,651 |
| (56,249) | (3,905) | 0 | (60,154) |
| (58,749) 2,500 | (6,556) 2,651 | 0 0 | (65,305) 5,151 |
| (122,467) | (30,485) | (6,241) | (224,054) |
| <u>3,493,991</u> | <u>122,765</u> | <u>181,790</u> | <u>4,670,649</u> |
| 3,724,901 (230,910) | 267,201 (144,436) | 192,997 (11,207) | 5,185,853 (515,204) |
| 3,185,057 | 86,025 | 169,057 | 4,441,421 |
| 3,185,086 (29) | 179,315 (93,290) | 169,323 (266) | 4,535,006 (93,585) |
| 354,282 | 64,788 | 19,358 | 436,286 |
| 0 | (745) | 0 | (745) |
| 0 0 | (785) 40 | 0 0 | (785) 40 |
| (110,914) | (23,352) | (4,700) | (202,756) |
| <u>3,428,425</u> | <u>126,716</u> | <u>183,715</u> | <u>4,674,206</u> |
| 3,539,368 (110,943) | 243,318 (116,602) | 188,681 (4,966) | 4,970,507 (296,301) |

| | Ruacana Power Station N\$'000 | Van Eck Power Station N\$'000 | Paratus Power Station N\$'000 |
|--|----------------------------------|----------------------------------|----------------------------------|
| COMPANY 2004 | | | |
| Carrying amount at 1 July 2003 | 662,866 | 190,902 | 81,582 |
| - At cost/valuation | 692,404 | 221,755 | 84,981 |
| - Accumulated depreciation | (29,538) | (30,853) | (3,399) |
| Additions | 2,097 | (519) | 36 |
| Disposals | 0 | 0 | 0 |
| - At cost/valuation | 0 | 0 | 0 |
| - Accumulated depreciation | 0 | 0 | 0 |
| Depreciation for the year | (29,862) | (31,599) | (3,400) |
| Carrying amount at 30 June 2004 | 635,101 | 158,784 | 78,218 |
| - At cost/valuation | 694,501 | 221,236 | 85,017 |
| - Accumulated depreciation | (59,400) | (62,452) | (6,799) |
| COMPANY 2003 | | | |
| Carrying amount at 1 July 2002 | 683,556 | 232,711 | 85,015 |
| - At cost/valuation | 683,556 | 232,711 | 85,015 |
| - Accumulated depreciation | 0 | 0 | 0 |
| Additions | 8,848 | (10,956) | (34) |
| Disposals | 0 | 0 | 0 |
| - At cost/valuation | 0 | 0 | 0 |
| - Accumulated depreciation | 0 | 0 | 0 |
| Depreciation for the year | (29,538) | (30,853) | (3,399) |
| Carrying amount at 30 June 2003 | 662,866 | 190,902 | 81,582 |
| - At cost/valuation | 692,404 | 221,755 | 84,981 |
| - Accumulated depreciation | (29,538) | (30,853) | (3,399) |

NamPower NOTES TO THE FINANCIAL STATEMENTS

| Transmission System N\$'000 | Machinery And Equipment N\$'000 | Property N\$'000 | Total N\$'000 |
|-----------------------------------|---------------------------------------|---------------------|------------------------|
| 3,427,447 | 120,618 | 181,334 | 4,664,749 |
| 3,538,327 (110,880) | 234,004 (113,386) | 185,989 (4,655) | 4,957,460 (292,711) |
| 243,578 | 27,085 | 4,239 | 276,516 |
| (56,249) | (535) | 0 | (56,784) |
| (58,749) | (2,137) | 0 | (60,886) |
| 2,500 | 1,602 | 0 | 4,102 |
| (122,403) | (29,513) | (6,189) | (222,966) |
| <u>3,492,373</u> | <u>117,655</u> | <u>179,384</u> | <u>4,661,515</u> |
| 3,723,156 (230,783) | 258,952 (141,297) | 190,228 (10,844) | 5,173,090 (511,575) |
| 3,184,422 | 82,257 | 166,714 | 4,434,675 |
| 3,184,422 0 | 173,825 (91,568) | 166,714 0 | 4,526,243 (91,568) |
| 353,905 | 60,897 | 19,275 | 431,935 |
| 0 | (711) | 0 | (711) |
| 0 0 | (718) 7 | 0 0 | (718) 7 |
| (110,880) | (21,825) | (4,655) | (201,150) |
| <u>3,427,447</u> | <u>120,618</u> | <u>181,334</u> | <u>4,664,749</u> |
| 3,538,327 (110,880) | 234,004 (113,386) | 185,989 (4,655) | 4,957,460 (292,711) |

2.1 Property

Details of property registered in the Company's name are available for inspection at the Namibian registered office of the Company.

Houses at Ruacana township are erected on land in the Kunene region for which occupational rights were obtained.

2.2 Transmission System

A number of distribution- and substations are erected or are under construction on land which does not belong to the Company. Occupational rights are secured by agreements between the owners and NamPower.

2.3 Ruacana Power Station

The Ruacana Power Station is erected on land in the Kunene region for which occupational rights were obtained. The Diversion Weir is erected in Angola.

2.4 Valuation of Power Stations and Transmission System

The power stations and transmission system were revalued externally on 30 June 2002 by Saha International, Power Planning Associates and Emcon Namibia on the basis of replacement value as adjusted for the remaining useful lives of the assets.

2.5 Valuation of Property

Holding Company

The property was internally revalued on 30 June 2002 by the General Manager: NamPower Investments. The valuation was performed on the basis of replacement value where no ready market exists or market value as estimated by sworn appraisers.

Subsidiary Company

The land and buildings of Okaomba Investment (Pty) Ltd were revalued on 1 March 2000 by a qualified valuator, F A Frank-Schultz, B.Sc (Town and Regional Planning); National Diploma: Property Valuation.

2.6 Investment Property

Investment property with a cost of N\$13,6 million (2003: N\$13,6 million) and accumulated depreciation of N\$0,2 million (2003: N\$nil) is included in property.

The fair value of the investment property at 30 June 2004 was N\$13,4 million, as determined by the directors.

Rental income and direct operating expenses relating to investment property is disclosed in note 15.

NamPower NOTES TO THE FINANCIAL STATEMENTS

3. INVESTMENT IN SUBSIDIARY COMPANIES, ASSOCIATE AND JOINT VENTURES

3.1 Investment in subsidiary companies

| Name | Nature of Operation | Date of incorporation/ acquisition | Issued Share Capital | Percentage holding | | Shares at Cost | |
|----------------------------------|---------------------|---------------------------------------|----------------------|--------------------|--------|----------------|--------------|
| | | | | 2004 % | 2003 % | 2004 N\$'000 | 2003 N\$'000 |
| | | | N\$ | | | | |
| Directly held | | | | | | | |
| Capricorn Power Supply (Pty) Ltd | Dormant | 25/02/1999 | 2,500 | 100 | 100 | 2 | 2 |
| NamPower International (Pty) Ltd | Dormant | 02/09/2003 | 0 | 100 | 0 | 0 | 0 |
| PowerCom (Pty) Ltd | Dormant | 31/10/2000 | 4,000 | 100 | 100 | 4 | 4 |
| Premier Electric (Pty) Ltd | Service company | 01/07/1999 | 2,500 | 100 | 100 | 5,000 | 5,000 |
| | | | | | | <u>5,006</u> | <u>5,006</u> |
| Indirectly held | | | | | | | |
| Okaomba Investment (Pty) Ltd | Property holding | 01/03/2000 | 100 | 100 | 100 | 0 | 0 |
| | | | | | | <u>5,006</u> | <u>5,006</u> |

| | Subsidiary indebtedness | | Directors' valuation | |
|----------------------------------|-------------------------|---------------|----------------------|---------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| Directly held | | | | |
| Capricorn Power Supply (Pty) Ltd | 0 | 0 | 0 | 0 |
| NamPower International (Pty) Ltd | 0 | 0 | 0 | 0 |
| PowerCom (Pty) Ltd | 0 | 0 | 0 | 0 |
| Premier Electric (Pty) Ltd | 49,992 | 41,585 | 54,992 | 46,585 |
| | <u>49,992</u> | <u>41,585</u> | <u>54,992</u> | <u>46,585</u> |
| Indirectly held | | | | |
| Okaomba Investment (Pty) Ltd | 0 | 0 | 1,773 | 1,773 |
| | <u>49,992</u> | <u>41,585</u> | <u>56,765</u> | <u>48,358</u> |

Loans to subsidiaries are non-interest bearing, unsecured and do not have fixed terms of repayment.

3.2 Associate

Carring amount of associate

Carrying amount at beginning of year
Equity accounted earnings
Shares of associate's reserves
Carrying amount at end of year

| | GROUP | | COMPANY | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| | 5,831 | 5,000 | 5,831 | 5,000 |
| | 1,882 | 831 | 1,882 | 831 |
| | 48,164 | 0 | 48,164 | 0 |
| | <u>55,877</u> | <u>5,831</u> | <u>55,877</u> | <u>5,831</u> |

Post acquisition reserves

Retained earnings

Share of opening retained earnings
Share of current year income

| | | | | |
|--|-------|-----|-------|-----|
| | 2,713 | 831 | 2,713 | 831 |
| | 831 | 0 | 831 | 0 |
| | 1,882 | 831 | 1,882 | 831 |

Non-distributable reserves

Share of opening reserves
Share of current year movements

| | | | | |
|--|---------------|------------|---------------|------------|
| | 48,164 | 0 | 48,164 | 0 |
| | 0 | 0 | 0 | 0 |
| | 48,164 | 0 | 48,164 | 0 |
| | <u>50,877</u> | <u>831</u> | <u>50,877</u> | <u>831</u> |

The Group acquired a 33.33% equity interest in Nored Electricity (Pty) Ltd, a service company on 27 April 2001. The summarised financial statements of the Company is as follows:

Balance Sheet

Property, plant and equipment
Deferred Tax
Current assets
Current liabilities

| | | |
|--|----------------|---------------|
| | 165,634 | 2,265 |
| | 0 | 546 |
| | 35,356 | 40,544 |
| | (11,145) | (25,863) |
| | <u>189,845</u> | <u>17,492</u> |

Income Statement

Revenue
Expenditure
Profit before taxation
Taxation
Profit after taxation

| | | |
|--|--------------|--------------|
| | 94,938 | 82,675 |
| | 86,205 | 78,824 |
| | 8,733 | 3,851 |
| | (3,088) | (1,359) |
| | <u>5,645</u> | <u>2,492</u> |

NamPower NOTES TO THE FINANCIAL STATEMENTS

| | 2004 N\$'000 | 2003 N\$'000 |
|---|-----------------|-----------------|
| Cash Flow | | |
| Cash flow from operating activities | (4,793) | 13,186 |
| Cash flow from investing activities | (4,406) | (3,010) |
| Cash flow from financing activities | 0 | 15,000 |
| Net cash flows | <u>(9,199)</u> | <u>25,176</u> |
| Directors' valuation | <u>55,877</u> | <u>5,831</u> |
| | | |
| 3.3 Joint Ventures | | |
| <p>The audited financial statements of Oshakati Premier Electric (Proprietary) Limited and Otavi Electrical Company (Proprietary) Limited have been incorporated in the consolidated financial statements. The Group acquired a 50% interest in each of these companies to provide electricity to the towns of Oshakati and Otavi in Namibia.</p> | | |
| <p>The Group's proportionate share of assets and liabilities are:</p> | | |
| Property, plant and equipment | 6,210 | 3,731 |
| Investments | 2,096 | 2,096 |
| Long-term liabilities | (8,208) | (2,387) |
| Current assets | 3,658 | 4,031 |
| Current liabilities | (2,207) | (2,644) |
| | <u>1,549</u> | <u>4,827</u> |
| <p>The Group's proportionate share of revenue and expenditure:</p> | | |
| Revenue | 12,379 | 12,439 |
| Expenditure | 11,858 | 11,723 |
| Profit before taxation | 521 | 716 |
| Taxation | (182) | (247) |
| Profit after taxation | <u>339</u> | <u>469</u> |
| <p>The Group's proportionate share of cash flows:</p> | | |
| Cash flow from operating activities | 533 | 1,514 |
| Cash flow from investing activities | (1,520) | (2,807) |
| Cash flow from financing activities | 1,000 | 1,475 |
| Net cash flows | <u>13</u> | <u>182</u> |
| Directors' valuation | <u>6,002</u> | <u>6,002</u> |

- 3.4 The aggregate amount of the holding Company's interest in the subsidiaries' after tax net profit is N\$1,4 million (2003: N\$1,9 million).
- 3.5 The subsidiaries, associate and joint ventures are all incorporated in Namibia, except NamPower International (Pty) Ltd, which is incorporated in Mauritius.
- 3.6 The Group made a loan to a joint venture, Oshakati Premier Electric (Pty) Ltd., of N\$3,5 million (2003: N\$ 3,9 million). The Company made a loan of N\$4,0 million (2003: N\$nil) to the same entity.

4. INVESTMENTS

Fixed deposits and money on call with various financial institutions

Held to Maturity

Held for Trading

With the adoption of AC133 the Group accounts for trading instruments at fair value. Investments with a book value of N\$79,8 million have been encumbered and act as security for long-term loans (refer note 9.1.5)

5. INVENTORIES

Construction, maintenance and consumable stores

Fuel

| | GROUP | | COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| Fixed deposits and money on call with various financial institutions | 1,074,103 | 1,108,805 | 1,072,007 | 1,106,709 |
| Held to Maturity | 942,059 | 1,042,161 | 939,963 | 1,040,065 |
| Held for Trading | 132,044 | 66,644 | 132,044 | 66,644 |
| | <u>1,074,103</u> | <u>1,108,805</u> | <u>1,072,007</u> | <u>1,106,709</u> |
| Construction, maintenance and consumable stores | 168,453 | 156,336 | 168,050 | 156,100 |
| Fuel | 13,154 | 9,675 | 13,154 | 9,675 |
| | <u>181,607</u> | <u>166,011</u> | <u>181,204</u> | <u>165,775</u> |

9. LONG-TERM LIABILITIES

9.1 Secured Loans

9.1.1 Agence Francaise de Developpement

Concessional loan repayable over a period of 20 years with the interest payable semi-annually starting 20 June 1999 and capital repayments commencing on 20 June 2006. A commitment fee of 0.5% per annum is payable in arrears on each due date, the first period being that between the date of signature of the contract and immediately following due date. The interest rate has been fixed at 9.83% from December 2001. This loan is guaranteed by the Government of the Republic of Namibia.

9.1.2 European Investment Bank

Concessional loan repayable over a period of 20 years with the interest payable annually starting 20 June 2000 and capital repayments commencing on 20 June 2002. Ratios are to be maintained throughout the term of the loan 1:4 between own funds and long term borrowings and 1.5:1 for debt service coverage ratio. The interest rate has been fixed at 12.95% from 20 June 2003. This loan is guaranteed by the Government of the Republic of Namibia.

9.1.3 SEK/SIDA

Concessional loan repayable over a period of 15 years with the interest payable semi-annually starting 21 June 1999 and capital repayments commencing on 20 June 2002. A commitment fee is payable at 0.25% per annum on the unutilised portion of the facility semi-annually. A facility fee at 0.25% is payable on the facility within 60 days of receipt of funds. The interest rate has been fixed at 7.82%. This loan is guaranteed by the Government of the Republic of Namibia.

9.1.4 African Development Bank

Floating rate loan with interest rates linked to the South African 3 month JIBAR rate fixed 6 months in advance plus 0.5%. After the grace period of 5 years capital repayment in 30 equal bi-annual instalments have commenced on 28 May 2003. A commitment fee is payable semi-annually at 0.75% per annum on the unutilised portion of the facility. The interest rate has been fixed at 11.17%. This loan is guaranteed by the Government of the Republic of Namibia.

| | GROUP | | COMPANY | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| | 41,560 | 45,960 | 41,560 | 45,960 |
| | 367,520 | 429,555 | 367,520 | 429,555 |
| | 88,281 | 90,586 | 88,281 | 90,586 |
| | 58,837 | 63,039 | 58,837 | 63,039 |

NamPower NOTES TO THE FINANCIAL STATEMENTS

| | GROUP | | COMPANY | |
|--|-----------------|------------------|-----------------|------------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| 9.1.5 Development Bank of Southern Africa | | | | |
| Floating rate loan with interest linked to the South African 3-month JIBAR rate fixed 6 monthly in advance plus 1.05%. Loan is repayable in 3 instalments on the following dates: 31 March 2012 for N\$70,0 million; 31 March 2017 for N\$70,0 million and 31 March 2022 for N\$80,0 million. The interest rate has been fixed at 12.89% for N\$135,0 million and 11.78% for N\$20,0 million. This loan is secured by a pledge of investments with a book value of N\$79,8 million and a nominal value of N\$235,9 million (refer note 4). | 155,000 | 155,000 | 155,000 | 155,000 |
| 9.1.6 European Investment Bank II | | | | |
| Euro35,0 million 20 year loan, with 4 year capital grace period. Repayments will commence on 16 September 2006 in 16 instalments on a constant annuity basis. Interest will be on a fixed rate basis with a minimum rate payable after the subsidy of 3.0%. The interest rate has been fixed at an average of 8.0%. This loan is guaranteed by the Government of the Republic of Namibia. | 224,612 | 239,315 | 224,612 | 239,315 |
| | 935,810 | 1,023,455 | 935,810 | 1,023,455 |
| Less: Instalments payable within one year transferred to current liabilities | 33,134 | 35,348 | 33,134 | 35,348 |
| | 902,676 | 988,107 | 902,676 | 988,107 |
| 9.2 Unsecured Loan | | | | |
| 9.2.1 Oshakati Town Council | 0 | 2,214 | 0 | 0 |
| 9.2.2 Otavi Town Council | 0 | 173 | 0 | 0 |
| 9.2.3 Oshakati Premier Electric (Pty) Ltd | 2,000 | 0 | 0 | 0 |
| The long term loans to the Joint Ventures carry an interest rate of prime less 2% (14.75%) at year end. The loans are unsecured and have no fixed terms of repayment. | | | | |
| | 904,676 | 990,494 | 902,676 | 988,107 |

10. DEFERRED TAXATION

| | GROUP | | COMPANY | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| Balance as previously reported | 1,219,656 | 1,182,170 | 1,218,328 | 1,182,099 |
| Prior period error (refer note 21) | 0 | 3,324 | 0 | 3,324 |
| Balance at the beginning of the year | 1,219,656 | 1,185,494 | 1,218,328 | 1,185,423 |
| Current charge | 16,090 | 34,162 | 16,853 | 32,905 |
| Timing differences | 155,024 | 199,181 | 155,227 | 198,464 |
| Assessed loss utilised to reduce liability | (50,137) | (78,844) | (49,577) | (79,384) |
| Revaluation of property, plant and equipment | (88,797) | (86,175) | (88,797) | (86,175) |
| Reversal of revaluation recognised in equity | (2,813) | 0 | (2,812) | 0 |
| Balance at end of year | 1,232,933 | 1,219,656 | 1,232,369 | 1,218,328 |

The balance comprises:

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Capital allowances | 1,090,190 | 954,453 | 1,089,039 | 953,510 |
| Interest accrued | 30,075 | 32,145 | 30,075 | 32,144 |
| Doubtful debt allowance | (2,363) | (1,838) | (2,363) | (1,838) |
| Assessed loss utilised to reduce liability | (252,007) | (203,234) | (251,420) | (203,618) |
| Fair value adjustments | (6,568) | (30,601) | (6,568) | (30,601) |
| Post Retirement Medical Benefit | (17,423) | (11,095) | (17,423) | (11,095) |
| Revaluation of property, plant and equipment | 391,029 | 479,826 | 391,029 | 479,826 |
| | 1,232,933 | 1,219,656 | 1,232,369 | 1,218,328 |

11. ACCOUNTS PAYABLE

| | | | | |
|---------------------|---------|---------|--------|---------|
| Trade creditors | 99,580 | 83,786 | 91,748 | 70,429 |
| Retention creditors | 6,013 | 36,546 | 6,013 | 36,546 |
| | 105,593 | 120,332 | 97,761 | 106,975 |

12. OTHER FINANCIAL ASSETS AND LIABILITIES

12.1 Other financial assets

Forward exchange contracts:

| | | | | |
|----------------------|--------|--------|--------|--------|
| Interest rate swaps | 17,904 | 41,609 | 17,904 | 41,609 |
| Cross currency swaps | 2,696 | 22,798 | 2,696 | 22,798 |
| | 20,600 | 64,407 | 20,600 | 64,407 |

12.2 Other financial liabilities

Forward exchange contracts:

| | | | | |
|----------------------|---------|---------|---------|---------|
| Interest rate swaps | 71,850 | 80,862 | 71,850 | 80,862 |
| Cross currency swaps | 83,010 | 39,509 | 83,010 | 39,509 |
| | 154,860 | 120,371 | 154,860 | 120,371 |

NamPower NOTES TO THE FINANCIAL STATEMENTS

13. PROVISIONS

Non-Current Provision

Post Retirement Medical Benefits

- Balance at beginning of year
- Utilised during the year
- Provided during the year

Current Provision

Leave and Bonus Provision

- Balance at beginning of year
- Utilised during the year
- Provided during the year

Total Provisions

Post Retirement Medical Benefits

The Company provides for post-employment medical aid benefits in respect of retired employees. The present value of the provision at 30 June 2004, as determined by an actuarial valuation, was N\$48,3 million. This actuarial valuation was performed by Jacques Malan Consultants and Actuaries. The provision is expected to be utilised over 20 years.

Leave and Bonus

The Group provides for leave pay and bonuses for all employees. The value of the provision at 30 June 2004 was determined by reference to the leave days accrued and proportionate annual bonus provision. The provision is expected to be utilised within the following financial year.

14. CAPITAL COMMITMENTS

14.1 Projects for Capital Expenditure

- Approved by Board of Directors
- Less: Expenditure to 30 June 2004
- Amount still to be expended

The capital expenditure will be financed by internally generated funds and non-refundable capital contributions by customers, the Government of Namibia and other parties.

| | GROUP | | COMPANY | |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| 48,342 | | 30,833 | 48,342 | 30,833 |
| 30,833 | 30,833 | 26,486 | 30,833 | 26,486 |
| (571) | (571) | (444) | (571) | (444) |
| 18,080 | 18,080 | 4,791 | 18,080 | 4,791 |
| 17,489 | | 15,285 | 15,133 | 13,689 |
| 15,285 | 15,285 | 12,999 | 13,689 | 12,726 |
| (18,036) | (18,036) | (18,727) | (18,036) | (18,727) |
| 20,240 | 20,240 | 21,013 | 19,480 | 19,690 |
| 65,831 | 65,831 | 46,118 | 63,475 | 44,522 |
| 501,753 | 501,753 | 815,487 | 501,753 | 815,487 |
| 346,130 | 346,130 | 676,812 | 346,130 | 676,812 |
| 155,623 | 155,623 | 138,675 | 155,623 | 138,675 |

| | GROUP | | COMPANY | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| 14.2 Concessional loan agreements | | | | |
| Euro | | | | |
| Approved by Board of Directors | 95,335 | 95,335 | 95,335 | 95,335 |
| Utilised | (60,335) | (60,335) | (60,335) | (60,335) |
| Draw down in GBP | (30,000) | (30,000) | (30,000) | (30,000) |
| Available for future utilisation - Euro | 5,000 | 5,000 | 5,000 | 5,000 |
| Repaid - Euro | 7,816 | 5,132 | 7,816 | 5,132 |
| GBP | | | | |
| Approved by Board of Directors | 0 | 19,339 | 0 | 19,339 |
| Utilised | 0 | (19,339) | 0 | (19,339) |
| Available for future utilisation - GBP | 0 | 0 | 0 | 0 |
| Repaid - GBP | 0 | 0 | 0 | 0 |
| ZAR/NAD | | | | |
| Approved by Board of Directors | 405,000 | 405,000 | 405,000 | 405,000 |
| Utilised | (338,040) | (334,270) | (338,040) | (334,270) |
| Available for future utilisation - ZAR/NAD | 66,960 | 70,730 | 66,960 | 70,730 |
| Repaid - ZAR/NAD | 40,125 | 25,645 | 40,125 | 25,645 |
| 15. OPERATING INCOME | | | | |
| Operating income is stated after charging/(crediting): | | | | |
| Directors' emoluments | | | 1,515 | 1,063 |
| - for services as directors | | | 331 | 140 |
| - for executive services | | | 1,184 | 923 |
| Auditors' remuneration | 647 | 455 | 523 | 342 |
| - audit fee | 622 | 436 | 505 | 330 |
| - other services | 25 | 19 | 18 | 12 |
| Depreciation of fixed assets | 224,054 | 202,756 | 222,966 | 201,150 |
| - on historical cost | 138,070 | 116,581 | 136,982 | 114,975 |
| - on increase in valuation | 85,984 | 86,175 | 85,984 | 86,175 |
| Remuneration other than to employees for | 8,217 | 2,955 | 8,189 | 2,955 |
| - managerial services | 3,123 | 1,123 | 3,112 | 1,123 |
| - technical services | 5,097 | 1,832 | 5,077 | 1,832 |
| Research and development expenditure | 31 | 258 | 31 | 258 |
| Doubtful debts | 2,230 | 0 | 2,000 | 0 |

NamPower NOTES TO THE FINANCIAL STATEMENTS

| | GROUP | | COMPANY | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| Contribution to Social Responsibility Programs | 685 | 656 | 685 | 656 |
| Loss/(profit) on disposal of property, plant and equipment | 35,080 | (929) | 34,799 | (924) |
| Staff costs | 163,561 | 149,268 | 135,738 | 128,213 |
| Salaries | 137,843 | 124,372 | 112,322 | 103,707 |
| Housing subsidies | 7,675 | 9,280 | 7,675 | 9,280 |
| Company contribution: Provident Fund | 18,043 | 15,616 | 15,741 | 15,226 |
| Post retirement medical benefit | 18,080 | 4,791 | 18,080 | 4,791 |
| Operating lease payments | 360 | 800 | 0 | 210 |
| Commission received | 0 | 514 | 0 | 0 |
| Foreign exchange gains | (786) | (17,868) | (786) | (17,868) |
| - realised | (733) | (8,714) | (733) | (8,714) |
| - unrealised | (53) | (9,154) | (53) | (9,154) |
| Foreign exchange losses - realised | 94,749 | 33,987 | 94,749 | 33,987 |
| Capitalised to property, plant and equipment | | | | |
| - borrowing costs (rate varies from 8.00% to 12.89%) | 0 | 8,177 | 0 | 8,177 |
| AC 133 Fair value adjustments | 20,992 | (8,182) | 20,992 | (8,182) |
| - held-for-trading investments | 5,727 | (2,517) | 5,727 | (2,517) |
| - derivative contracts | 78,296 | 55,964 | 78,296 | 55,964 |
| - foreign denominated loans | (63,031) | (61,629) | (63,031) | (61,629) |
| Investment property | (546) | (173) | (546) | (173) |
| - rental income | (831) | (804) | (831) | (804) |
| - direct operating expenses | 285 | 631 | 285 | 631 |

16. CONTINGENT LIABILITIES

The following contingent liability has not been provided for as the Board is of the opinion that the claim against NamPower is unlikely to be successful.

- A claim for N\$8,5 million has been instituted against NamPower for asbestos contamination by the Municipality of Windhoek. This case will possibly be heard in the High Court during 2005.

17. COMPARATIVE FIGURES

Certain comparative figures have been restated to afford improved disclosure.

18. RELATED PARTIES

During the year the Company, in the ordinary course of business, entered into various sale and purchase transactions with its subsidiaries, associate and joint ventures. These transactions occurred under terms that were no less favourable than those arranged with third parties.

The Government of Namibia is the sole shareholder.

Identity of related parties

The subsidiaries, associate and joint ventures are detailed in note 3.

The directors are listed in the Directors' Report.

| | GROUP | | COMPANY | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| Related party transactions | | | | |
| Sales to related parties | | | | |
| - Nored Electricity (Pty) Ltd | 47,714 | 51,352 | 47,714 | 51,352 |
| - Premier Electric (Pty) Ltd | 118,886 | 99,301 | 118,886 | 99,301 |
| - Oshakati Premier Electric (Pty) Ltd | 14,286 | 11,327 | 14,286 | 11,327 |
| Net book value of assets sold to Nored Electricity (Pty) Ltd | 56,249 | 0 | 56,249 | 0 |

Directors' emoluments are disclosed in note 15.

Dividends are disclosed in the Directors' Report.

19. EMPLOYEE INFORMATION

19.1 Retirement benefits

The policy of the Company is to provide retirement benefits for its employees.

The NamPower Provident Fund is a defined contribution fund governed by the Pension Fund Act, and is for all its employees except for those who do not qualify in terms of the rules of the Fund. Of the employees, 97.0% are members of the Fund. Contributions to the Fund are based on a percentage of salaries and are expensed in the period in which they are paid. The Company's contribution to the Fund amounted to N\$15,7 million (2003: N\$15,2 million).

19.2 Staff

The average number of employees employed by the Group for the period under review was 839 and for the Company 726 (2003: Group 818; Company 697).

NamPower NOTES TO THE FINANCIAL STATEMENTS

20. FINANCIAL INSTRUMENTS

Exposure to currency, interest rate and credit risk arises in the normal course of the Group's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. Whilst these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

The principal or contract amounts of derivative financial instruments were:

| | GROUP | | COMPANY | |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2004 N\$'000 | 2003 N\$'000 | 2004 N\$'000 | 2003 N\$'000 |
| Net Interest rate swaps | (53,946) | (39,253) | (53,946) | (39,253) |
| Net Cross currency swaps | (80,314) | (16,711) | (80,314) | (16,711) |

For a more detailed breakdown see note 12

20.1 Currency risk

The Company incurs currency risk as a result of the following transactions which are denominated in a currency other than Namibia Dollar or South African Rand: purchases of equipment, consulting fees and borrowings. The currencies which primarily give rise to currency risk are GBP, USD and EURO.

The Company generally adopts a policy to hedge its foreign currency commitments where possible.

20.2 Credit risk

Potential concentration of credit risk consists of accounts receivable and short-term investments.

Included in accounts receivable is an amount of N\$76,8 million (2003: N\$57,6 million) for electricity sales. The credit risk for the Group is as follows:

| | GROUP | |
|--------------|------------|------------|
| | 2004 % | 2003 % |
| Distributors | 53 | 54 |
| Mining | 39 | 32 |
| Commercial | 1 | 3 |
| Other | 7 | 11 |
| | 100 | 100 |

An amount of N\$85,9 million is included in accounts receivable for interest accrued but not yet received (2003: N\$91,8 million). Reputable financial institutions are used for investing and cash handling purposes.

20.3 Interest rate risk

The Group generally adopts a policy that its exposure in interest rates is on a fixed rate basis. Swaps have been used to convert the interest on floating rates to a fixed rate basis. However, in view of the favourable rates available the following two loans are being managed on a floating rate basis:

- Agence Francaise de Developpement
- African Development Bank

The Group's exposure to interest rate risk and the effective interest rates on financial instruments at year end are:

| | Effective interest rate | Floating interest | Fixed interest rate maturing | | | Non interest bearing | Total |
|---|-------------------------|-------------------|------------------------------|----------------------|------------------|----------------------|------------------|
| | | | 1 year or less | 1 year to five years | After ten years | | |
| | % | N\$'000 | N\$'000 | N\$'000 | N\$'000 | N\$'000 | N\$'000 |
| Financial assets | | | | | | | |
| Bank and cash | 8.00% to 10.00% | 87,377 | | | | | 87,377 |
| Accounts receivable | Prime | 260,470 | | | | | 260,470 |
| Loans receivable | 3.50% to 15.00% | | | 14,022 | | | 14,022 |
| Investments | 9.30% to 14.45% | 1,074,103 | | | | | 1,074,103 |
| Total financial assets | | 1,421,950 | 0 | 14,022 | 0 | 0 | 1,435,972 |
| Financial liabilities | | | | | | | |
| Accounts payable | 0.00% | | | | | 105,593 | 105,593 |
| Provisions | 0.00% | | | | | 65,831 | 65,831 |
| Long-term liabilities | 7.70% to 12.95% | | | | 904,676 | | 904,676 |
| Short-term liabilities | 7.70% to 12.95% | | 33,134 | | | | 33,134 |
| Total financial liabilities | | 0 | 33,134 | 0 | 904,676 | 171,424 | 1,109,234 |
| Net financial assets / (liabilities) | | 1,421,950 | (33,134) | 14,022 | (904,676) | (171,424) | 326,738 |

20.4 Fair Values

The fair values of all financial instruments are substantially identical to carrying amounts reflected in the balance sheet.

21. PRIOR PERIOD ERROR

21.1 Deferred taxation

During the current year, it was discovered that the depreciation charge relating to the revaluation of assets was treated as a permanent difference. The full deferred taxation liability on the revaluation was correctly raised at the time of the revaluation.

The effect of the above on the opening reserves of 30 June 2003 is detailed in the statement of changes in equity. The effect on the deferred taxation and the tax charge is detailed in notes 10 and 7 respectively.

21.2 Concessional interest development fund

The treatment of the call accounts relating to the concessional interest has changed compared to the prior year. The asset is only recognised when NamPower has full control over the funds in terms of the loan agreements.

The effect of the above on the comparatives is as follows:

| | Bank and Cash balances | Interest earned | Finance Cost | Revenue |
|------------------------|---------------------------|--------------------|-----------------|----------------|
| | N\$'000 | N\$'000 | N\$'000 | N\$'000 |
| Group | | | | |
| As previously reported | 79,504 | 156,212 | 107,845 | 572,946 |
| Correction of error | (59,317) | (5,516) | 15,603 | 8,054 |
| Reported in 2004 | <u>20,187</u> | <u>150,696</u> | <u>123,448</u> | <u>581,000</u> |
| Company | | | | |
| As previously reported | 74,560 | 156,121 | 107,474 | 627,229 |
| Correction of error | (59,317) | (5,516) | 15,603 | 8,054 |
| Reported in 2004 | <u>15,243</u> | <u>150,605</u> | <u>123,077</u> | <u>635,283</u> |

The effect of the above on the opening reserves of 30 June 2003 is detailed in the statement of changes in equity.

SECRETARY OF THE GROUP

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