

# INDEPENDENT AUDITOR'S REPORT

## To the shareholder of Namibia Power Corporation (Proprietary) Limited

We have audited the consolidated and separate annual financial statements of Namibia Power Corporation (Proprietary) Limited, which comprise the consolidated and separate statements of financial position at 30 June 2012, and the consolidated and separate 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, and directors' report, as set out on pages 44 to 127.

### *Directors' Responsibility for the Financial Statements*

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Namibian Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Namibia Power Corporation (Proprietary) Limited at 30 June 2012, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Namibian Companies Act.



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**KPMG**  
**Registered Accountants and Auditors**  
**Chartered Accountants (Namibia)**  
**Robert Grant**  
**Partner**

Windhoek, 23 October 2012  
30 Schanzen Road, Klein Windhoek, Windhoek, Namibia

# DIRECTORS' REPORT

The directors have pleasure in presenting their report for the year ended 30 June 2012.

## 1. Principal Activities

The Company is responsible for generation, transmission, energy trading and to a lesser extent the distribution of electricity in Namibia.

The activities of the subsidiaries and associates comprise:

- The provision of technical, management and other related services;
- The sale and distribution of electricity and
- Property investment.

## 2. Operating Results

The operating results of the Group and Company for the year under review are set out in the Statements of Comprehensive Income.

### Units into the system and sold:

#### Units into system and sold:

Ruacana Hydro Power Station  
Van Eck Power Station  
Paratus Power Station  
Anixas Power Station  
Eskom  
ZESCO  
EDM  
ZESA

#### Total units into system

To customers in Namibia  
Exports  
Orange River  
To Skorpion Zinc Mine<sup>^</sup>  
Total units sold

### GROUP AND COMPANY

2012 GWh	2011 GWh
1,607	1,404
15	20
-	4
21	2
1,645	1,522
378	319
-	2
496	637
<b>4,162</b>	<b>3,910</b>
2,840	2,650
91	76
133	127
662	690
<b>3,726</b>	<b>3,543</b>

<sup>^</sup> Skorpion Zinc Mine is a customer situated in the Republic of Namibia but is supplied directly by Eskom via a back to back agreement whereby Eskom bills NamPower for the units consumed by Skorpion, then NamPower bills Skorpion for those units sold by Eskom.

Transmission losses 11.7% 10.4%

### Growth

During the year under review there was an increase of 7.1% in units sold to customers in Namibia excluding Skorpion (2011: increase of 3.9%). The power imported by the Company during the year under review increased by 39 million units (2011: increase of 18 million units).

## 3. Dividend

No dividend was declared in respect of the year under review and the prior year.

## 4. Subsidiaries and Associates

Relevant information is disclosed in notes 7 & 11 to the financial statements.

# DIRECTORS' REPORT (continued)

## 5. Capital Expenditure

The expenditure on property, plant and equipment during the financial year amounted to: Group N\$346 million (2011: N\$909 million), Company N\$346 million (2011: N\$909 million). The expenditure on intangible assets during the financial year amounted to: Group N\$64 thousand (2011: N\$299 thousand), Company N\$64 thousand (2011: N\$299 thousand).

This cumulative expenditure is mainly attributable to:

### 5.1 Electrification:

- Namibia Nature Foundation/NamPower Wildlife Conflict Project
- NamPower Performance Agreement: LV and MV Grid
- Plot 1 Groot Aub
- Desert Lodge Oasis
- Derm Police Station
- Southern Region: Pre-paid Meters
- Farm Yakandah No.77
- Police Road Block NRSC
- NPPA: Makanga Extension
- NPPA: Otjiwarongo Police Road Block
- NPPA: Omaheke Region Rural Electrification
- NPPA: Namalubi Village
- NPPA: Ekaha Village
- NPPA: Ondiamande Village
- NPPA: Oshitudha Village
- Oviumbo Recloser

### 5.2 Substation Development:

- Caprivi Link Interconnector Project
- West Coast Uranium Project
- Omuthiya Substation
- Naruchas Substation
- Efundja Substation
- Baobab Substation
- Finke Substation
- Kunene Substation
- Omatando Substation
- Efundja Substation
- Poultry Substation
- Kapako Substation

### 5.3 Refurbishment and Upgrading:

- Indoor Substations: SERGI transformer protection
- Omburu Transmission Station: Transformer 12 66/22kV 10MVA
- Matemba + Ombika: Upgrade reclosers
- Otjikoto Substation: Communication upgrade
- Ruacana Power Station: 90MVA Transformer SERGI
- Anixas Integration

### 5.4 Transmission System:

- Regen Station 1 - Asis OPGW Line
- Walmund - Swakopmund 66kV OPGW Retrofit
- Omburu - Gerus 220kV OPGW Retrofit
- Van Eck - Auas 3 220kV Transmission Line Capacity Upgrade
- Rössing - Walmund Line
- Onuno - Ondjiva 132kV Line

### 5.5 Power Station Development:

- Anixas Power Station-Walvis Bay
- Ruacana Power Station-Unit No.4

## 6. Foreign Assets

The valuation of the diversion weir situated in Angola amounts to N\$47.0 million based on replacement value. NamPower has granted a N\$3.7 million loan in respect of the Gove dam to the Angolan authorities. 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 assets and the loan granted are currently reflected in the company's books at nil carrying amount. These assets and the loan were initially recognised in the books of NamPower and then subsequently impaired to nil during the 2003 financial year.

# DIRECTORS' REPORT (continued)

## 7. Shareholder

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

## 8. Subsequent events

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

## 9. Corporate Governance

NamPower is committed to achieving high standards of corporate governance. The Board has developed self-governance principles over the years which are applied transparently and consistently. The Board also recognises that compliance with legislation is an important component of good governance. In this regard, the directors are satisfied with actions that management has taken to ensure compliance with all relevant legislation. Full compliance has not been practically possible with respect to certain provisions of the State-Owned Enterprises Governance (SOEG) Act of 2006. Management has and continues to engage the SOEG Council with the aim of achieving full compliance. The discussions are aimed at ensuring that full compliance does not negate achievements already attained prior to the Act becoming effective.

The Group continues to apply and comply with the provisions of the Companies Act and its internal governance procedures in directing and managing the business. Certain exceptions as provided within the SOEG Act were also processed. The matters dealt with through the Company's internal governance procedures and subject to the board's approval include development and implementation of the Company's strategic and financial plan, determination and approval of the remuneration of the board and senior management and management of the Company's investment portfolio. The SOEG Act does not apply to the subsidiaries and associates, but only to the Company.

### 9.1 Directorate

LA Hungamo	Chairman
PI Shilamba	Managing Director
G Narib	
PA Kiiyala	
PJ Maritz	
MMN Nakale	
ST Hawala	

### 9.2 Board Committees

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

#### 9.2.1 Audit and Risk Management Committee

The members of the Audit and Risk Management Committee for the year under review were:

MMN Nakale	Chairperson
ST Hawala	
G Narib	

#### 9.2.2 Remuneration and Nomination Committee

The members of the Remuneration and Nomination Committee for the year under review were:

PJ Maritz	Chairman
PI Shilamba	Managing Director
PA Kiiyala	
MMN Nakale	

# DIRECTORS' REPORT (continued)

## 9.2.3 Board Tender Committee

The members of the Board Tender Committee for the year under review were:

G Narib                                      Chairman  
PJ Maritz  
ST Hawala

## 9.2.4 Investment Committee

The members of the Investment Committee for the year under review were:

PA Kiiyala                                      Chairman  
MMN Nakale  
ST Hawala

## 9.3 Board and board committee meetings

Board of Directors	Board	Audit and Risk Management Committee	Remuneration and Nomination Committee	Board Tender Committee	Investment Committee
Meetings held:	14	5	5	4	4
<b>Attendance:</b>					
LA Hungamo	12	n/a	n/a	n/a	n/a
PI Shilamba	11	n/a	4	n/a	n/a
G Narib	12	5	n/a	4	n/a
PA Kiiyala	13	4	5	n/a	4
PJ Maritz	13	n/a	5	3	n/a
MMN Nakale	13	4	4	n/a	3
ST Hawala	11	4	n/a	4	4

## 10. Secretary

Ms S Mavulu held office as Company Secretary for the year under review. The business and postal addresses are shown on page 128.

## 11. Going Concern

The directors have made an assessment of the ability of the Group and Company to continue as a going concern in the foreseeable future and are satisfied that the Group and Company have access to adequate resources and facilities to be able to continue operations for the foreseeable future. Accordingly the board have continued to adopt the going-concern basis in preparing the financial statements.

## 12. Registered address

Namibia Power Corporation (Proprietary) Limited  
(Reg no 2051)  
NamPower Centre  
15 Luther Street  
PO Box 2864  
WINDHOEK  
Namibia

# STATEMENTS OF FINANCIAL POSITION

at 30 June 2012

	NOTE	GROUP		COMPANY	
		2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>Assets</b>					
<b>Total non-current assets</b>		<b>16,938,273</b>	<b>16,963,861</b>	<b>16,659,868</b>	<b>16,748,084</b>
Property, plant and equipment	6	15,011,078	15,391,213	15,000,168	15,380,233
Investment properties	8	10,657	15,479	10,657	15,479
Intangible assets	9.1	8,242	12,449	8,242	12,449
Interest in subsidiaries	7.1	-	-	7,377	7,377
Investment in associates	7.2	448,104	385,406	173,232	173,232
Investments	12	1,227,474	894,019	1,227,474	894,019
Derivative assets	22.1	174,697	142,377	174,697	142,377
Loans receivable	10	58,021	122,918	58,021	122,918
<b>Total current assets</b>		<b>4,639,492</b>	<b>3,501,734</b>	<b>4,639,492</b>	<b>3,501,815</b>
Inventories	13	151,067	168,931	151,067	168,931
Trade and other receivables	14	631,010	485,997	631,010	485,997
Investments	12	2,477,901	1,705,696	2,477,901	1,705,696
Cash and cash equivalents	15	1,292,659	1,067,962	1,292,659	1,067,962
Loans receivable	10	86,855	72,883	86,855	72,883
Assets held for sale	11	-	265	-	346
<b>Total assets</b>		<b>21,577,765</b>	<b>20,465,595</b>	<b>21,299,360</b>	<b>20,249,899</b>
<b>Equity</b>					
<b>Total equity attributable to equity holders</b>		<b>12,111,427</b>	<b>11,906,789</b>	<b>11,830,069</b>	<b>11,688,404</b>
Issued share capital	17.2	165,000	165,000	165,000	165,000
Share premium	17.3	900,000	900,000	900,000	900,000
Reserve fund		1,369,093	1,321,591	1,369,093	1,321,591
Development fund		2,502,892	2,399,891	2,437,220	2,343,263
Capital revaluation reserve		7,110,050	7,056,121	6,894,364	6,894,364
Strategic inventory revaluation reserve		63,856	63,856	63,856	63,856
Available for sale fair value adjustment reserve		536	330	536	330
<b>Total equity</b>		<b>12,111,427</b>	<b>11,906,789</b>	<b>11,830,069</b>	<b>11,688,404</b>
<b>Liabilities</b>					
<b>Total non-current liabilities</b>		<b>8,101,920</b>	<b>7,626,432</b>	<b>8,098,483</b>	<b>7,622,593</b>
Interest bearing loans and borrowings	18	2,753,381	2,591,523	2,753,381	2,591,523
Deferred revenue liabilities	19	725,385	569,640	725,385	569,640
Provisions	23	166,116	150,339	166,116	150,339
Retention creditors	21.3	8,283	7,047	8,283	7,047
Derivative liabilities	22.2	162,643	97,906	162,643	97,906
Deferred tax liabilities	20	4,286,112	4,209,977	4,282,675	4,206,138
<b>Total current liabilities</b>		<b>1,364,418</b>	<b>932,374</b>	<b>1,370,808</b>	<b>938,902</b>
Trade and other payables	21	935,403	621,424	935,409	621,568
Loans due to subsidiaries	7.1	-	-	6,384	6,384
Derivative liabilities	22.2	-	8,744	-	8,744
Interest bearing loans and borrowings	18	255,913	100,644	255,913	100,644
Deferred revenue liabilities	19	173,102	201,562	173,102	201,562
<b>Total liabilities</b>		<b>9,466,338</b>	<b>8,558,806</b>	<b>9,469,291</b>	<b>8,561,495</b>
<b>Total equity and liabilities</b>		<b>21,577,765</b>	<b>20,465,595</b>	<b>21,299,360</b>	<b>20,249,899</b>

# STATEMENTS OF COMPREHENSIVE INCOME

## for the year ended 30 June 2012

	NOTE	GROUP		COMPANY	
		2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>Continuing operations</b>					
Revenue	26	2,555,559	2,309,164	2,555,559	2,309,164
Cost of Electricity		(1,117,369)	(1,009,909)	(1,117,369)	(1,009,909)
<b>Gross profit</b>		<b>1,438,190</b>	<b>1,299,255</b>	<b>1,438,190</b>	<b>1,299,255</b>
Foreign exchange gains		324,366	290,340	324,366	290,340
Foreign exchange losses		(207,478)	(274,697)	(207,478)	(274,697)
Depreciation and amortisation	6.1, 9.1	(695,791)	(665,970)	(695,721)	(665,900)
Impairment of property, plant and equipment		-	(119,546)	-	(119,546)
Other operating expenditure		(650,354)	(520,252)	(650,296)	(520,252)
Other income		60,575	61,747	62,059	61,747
<b>Operating profit before net fair value adjustments and net finance income</b>		<b>269,508</b>	<b>70,877</b>	<b>271,120</b>	<b>70,947</b>
Fair value loss on derivatives and foreign loans through profit or loss		(58,356)	(79,329)	(58,356)	(79,329)
Fair value gain on embedded derivatives		107,656	310,134	107,656	310,134
Fair value loss on embedded derivatives		(186,903)	(225,459)	(186,903)	(225,459)
Fair value gain/(loss) on firm commitments		3,444	(37,835)	3,444	(37,835)
<b>Operating profit before net finance income</b>		<b>135,349</b>	<b>38,388</b>	<b>136,961</b>	<b>38,458</b>
<b>Net finance income</b>		<b>81,035</b>	<b>71,126</b>	<b>81,035</b>	<b>71,126</b>
Finance income	25	336,281	275,691	336,281	275,691
Finance costs	25	(255,246)	(204,565)	(255,246)	(204,565)
Share of profit of associates net of tax	7.2	10,254	13,562	-	-
<b>Profit before taxation</b>	27	<b>226,638</b>	<b>123,076</b>	<b>217,996</b>	<b>109,584</b>
Taxation	16	(76,135)	53,474	(76,537)	53,852
<b>Profit for the year from continuing operations</b>		<b>150,503</b>	<b>176,550</b>	<b>141,459</b>	<b>163,436</b>
<b>Discontinued operations</b>					
Loss for the year from discontinued operations	11	-	(38)	-	-
<b>Profit for the year</b>		<b>150,503</b>	<b>176,512</b>	<b>141,459</b>	<b>163,436</b>
<b>Profit attributable to:</b>					
Owners of the Company		150,503	176,512	141,459	163,436
<b>Other comprehensive income</b>					
Net change in fair value of available-for-sale financial assets		206	105	206	105
Revaluation of property, plant and equipment		-	5,507,702	-	5,499,055
Revaluation of strategic inventory		-	53,369	-	53,369
Share of other comprehensive income of associates, net of taxation		81,711	142,902	-	-
Taxation on other comprehensive income		(27,782)	(1,921,205)	-	(1,869,679)
<b>Other comprehensive income for the year, net of taxation</b>		<b>54,135</b>	<b>3,782,873</b>	<b>206</b>	<b>3,682,850</b>
<b>Total comprehensive income for the year</b>		<b>204,638</b>	<b>3,959,385</b>	<b>141,665</b>	<b>3,846,286</b>
<b>Total comprehensive income attributable to:</b>					
Owners of the Company		204,638	3,959,385	141,665	3,846,286

# STATEMENTS OF CHANGES IN EQUITY

for the year ended 30 June 2012

GROUP	Share Capital	Share Premium	Reserve Fund
	N\$'000	N\$'000	N\$'000
<b>Balance at 1 July 2011</b>	165,000	900,000	1,321,591
<b>Total comprehensive income for the year</b>			
Profit for the year	-	-	-
<b>Other comprehensive income</b>			
Net changes in fair value of available-for sale financial assets	-	-	-
Share of other comprehensive income of associates, net of taxation	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
<b>Allocation from retained income</b>	-	-	47,502
Transfer to reserve fund	-	-	47,502
Funds for capital expenditure requirements	-	-	-
<b>Balance at 30 June 2012</b>	165,000	900,000	1,369,093

## GROUP

<b>Balance at 1 July 2010</b>	165,000	900,000	1,273,885
<b>Total comprehensive income for the year</b>			
Profit for the year	-	-	-
<b>Other comprehensive income</b>			
Revaluation of property plant and equipment, net of taxation	-	-	-
Revaluation of strategic inventory	-	-	-
Net changes in fair value of available-for sale financial assets	-	-	-
Share of other comprehensive income of associates, net of taxation	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
<b>Allocation from retained income</b>	-	-	47,706
Transfer to reserve fund	-	-	47,706
Funds for capital expenditure requirements	-	-	-
<b>Balance at 30 June 2011</b>	165,000	900,000	1,321,591



Development Fund N\$'000	Capital Revaluation Reserve N\$'000	Strategic Inventory Revaluation Reserve N\$'000	Available for sale Fair value adjustment Reserve N\$'000	Retained earnings N\$'000	Total equity N\$'000
2,399,891	7,056,121	63,856	330	-	11,906,789
-	-	-	-	150,503	150,503
-	-	-	206	-	206
-	53,929	-	-	-	53,929
-	53,929	-	206	150,503	54,135
-	53,929	-	206	-	204,638
103,001	-	-	-	(150,503)	-
-	-	-	-	(47,502)	-
103,001	-	-	-	(103,001)	-
2,502,892	7,110,050	63,856	536	-	12,111,427
2,271,085	3,326,952	10,487	225	-	7,947,634
-	-	-	-	176,512	176,512
-	3,634,853	-	-	-	3,634,853
-	-	53,369	-	-	53,369
-	-	-	105	-	105
-	94,316	-	-	-	94,316
-	3,729,169	53,369	105	-	3,782,643
-	3,729,169	53,369	105	176,512	3,959,155
128,806	-	-	-	(176,512)	-
-	-	-	-	(47,706)	-
128,806	-	-	-	(128,806)	-
2,399,891	7,056,121	63,856	330	-	11,906,789

# STATEMENTS OF CHANGES IN EQUITY (continued)

for the year ended 30 June 2012

COMPANY	Share Capital	Share Premium	Reserve Fund
	N\$'000	N\$'000	N\$'000
<b>Balance at 1 July 2011</b>	165,000	900,000	1,321,591
<b>Total comprehensive income for the year</b>			
Profit for the year	-	-	-
<b>Other comprehensive income</b>			
Net changes in fair value of available-for sale financial assets	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
<b>Allocation from retained income</b>	-	-	47,502
Transfer to reserve fund	-	-	47,502
Funds for capital expenditure requirements	-	-	-
<b>Balance at 30 June 2012</b>	<b>165,000</b>	<b>900,000</b>	<b>1,369,093</b>

## COMPANY

<b>Balance at 1 July 2010</b>	165,000	900,000	1,273,885
<b>Total comprehensive income for the year</b>			
Profit for the year	-	-	-
<b>Other comprehensive income</b>			
Revaluation of property plant and equipment, net of tax	-	-	-
Revaluation of strategic inventory	-	-	-
Net changes in fair value of available-for sale financial assets	-	-	-
Total other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
<b>Allocation from retained income</b>	-	-	47,706
Transfer to reserve fund	-	-	47,706
Funds for capital expenditure requirements	-	-	-
<b>Balance at 30 June 2011</b>	<b>165,000</b>	<b>900,000</b>	<b>1,321,591</b>

Development Fund N\$'000	Capital Revaluation Reserve N\$'000	Strategic Inventory Revaluation Reserve N\$'000	Available for sale Fair value adjustment Reserve N\$'000	Retained earnings N\$'000	Total equity N\$'000
2,343,263	6,894,364	63,856	330	-	11,688,404
-	-	-	-	141,459	141,459
-	-	-	206	-	206
-	-	-	206	-	206
-	-	-	206	141,459	141,665
93,957	-	-	-	(141,459)	-
-	-	-	-	(47,502)	-
93,957	-	-	-	(93,957)	-
2,437,220	6,894,364	63,856	536	-	11,830,069
2,227,533	3,264,988	10,487	225	-	7,842,118
-	-	-	-	163,436	163,436
-	3,629,376	-	-	-	3,629,376
-	-	53,369	-	-	53,369
-	-	-	105	-	105
-	3,629,376	53,369	105	-	3,682,850
-	3,629,376	53,369	105	163,436	3,846,286
115,730	-	-	-	(163,436)	-
-	-	-	-	(47,706)	-
115,730	-	-	-	(115,730)	-
2,343,263	6,894,364	63,856	330	-	11,688,404

# STATEMENTS OF CASH FLOWS

for the year ended 30 June 2012

	NOTE	GROUP		COMPANY	
		2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>Cash flows from operating activities</b>					
Cash receipts from customers		2,688,529	3,062,925	2,688,486	3,062,925
Cash paid to suppliers and employees		(1,546,700)	(2,254,725)	(1,546,657)	(2,254,184)
Cash generated from operations	A	1,141,829	808,200	1,141,829	808,741
Increase/(decrease) in retention creditors		1,236	(39,665)	1,236	(39,665)
Interest received		216,993	211,742	216,993	211,742
Interest paid		(164,773)	(121,448)	(164,773)	(121,448)
Government grant received		-	50,000	-	50,000
Discontinued operations	11	-	(46)	-	-
<b>Net cash from operating activities</b>		<b>1,195,285</b>	<b>908,783</b>	<b>1,195,285</b>	<b>909,370</b>
<b>Cash flows from investing activities</b>					
Proceeds from the sale of property, plant and equipment		55	3,461	55	3,461
Acquisitions of intangible assets	9.1	(64)	(299)	(64)	(299)
Extension and replacement of property, plant and equipment to maintain operations	6.1	(346,455)	(909,302)	(346,455)	(909,302)
Dividend received	7.2	1,485	-	1,485	-
Government grant received		190,000	50,000	190,000	50,000
Increase in loans to subsidiaries		-	-	-	(587)
Proceeds from the de-registration of subsidiary	B	-	141	-	141
Proceeds from the de-registration of joint venture	D	249	-	249	-
Increase in investments		(333,248)	(318,966)	(333,248)	(318,966)
(Increase)/decrease in short term investments		(772,205)	1,179,895	(772,205)	1,179,895
Decrease in loans receivable		50,923	51,317	50,923	51,317
<b>Net cash generated (used in)/by investing activities</b>		<b>(1,209,260)</b>	<b>56,247</b>	<b>(1,209,260)</b>	<b>55,660</b>
<b>Cash flows from financing activities</b>					
Loans raised		342,436	-	342,436	-
Settlement of derivative contracts		-	(6,956)	-	(6,956)
Repayment of interest bearing loans and borrowings		(103,764)	(79,364)	(103,764)	(79,364)
<b>Net cash generated from/(used in) financing activities</b>		<b>238,672</b>	<b>(86,320)</b>	<b>238,672</b>	<b>(86,320)</b>
Net increase in cash and cash equivalents		240,295	870,205	240,295	870,205
Cash and cash equivalents at 1 July		1,067,962	189,252	1,067,962	189,252
Effect of exchange rate fluctuations on cash held		(15,598)	8,505	(15,598)	8,505
<b>Cash and cash equivalents at 30 June</b>	C, 15	<b>1,292,659</b>	<b>1,067,962</b>	<b>1,292,659</b>	<b>1,067,962</b>

# NOTES TO THE STATEMENTS OF CASH FLOWS

## for the year ended 30 June 2012

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>A. CASH GENERATED FROM OPERATIONS</b>				
Profit before taxation and interest	135,349	38,388	136,961	38,458
Adjustments for:				
- Dividend received	-	-	(1,485)	-
- Net accrued interest	25,859	(22,616)	25,859	(22,616)
- Fair value movements of financial liabilities at fair value through profit or loss	81,413	2,544	81,413	2,544
- Fair value movements on derivative contracts	(52,130)	(7,620)	(52,130)	(7,620)
- Fair value movements on firm commitments	(3,444)	37,835	(3,444)	37,835
- Fair value movements on embedded derivative - Power Purchase Agreement (PPA)	186,903	(22,723)	186,903	(22,723)
- Fair value movements on embedded derivative - Power Sales Agreement (PSA)	(107,656)	(54,996)	(107,656)	(54,996)
- Coal survey adjustment	8,373	(12,176)	8,373	(12,176)
- Fair value movements on investment properties	(500)	(5,435)	(500)	(5,435)
- Depreciation on property, plant and equipment	692,656	662,752	692,586	662,682
- Gain on price variance - strategic inventory	(3,183)	-	(3,183)	-
- Amortisation on intangible assets	3,135	3,217	3,135	3,217
- Impairment of property, plant and equipment	-	119,546	-	119,546
- Strategic inventory items issued	50,044	15,531	50,044	15,531
- Loss/(gain) on de-registration of subsidiary	-	(141)	-	254
- Loss on de-registration of joint venture	16	-	97	-
- Government grant recognised in income	(218,460)	(64,808)	(218,460)	(64,808)
- Movement in deferred revenue liability	155,745	461,244	155,745	461,244
- Property, plant and equipment donated	-	(441,605)	-	(441,605)
- Transfer to operating project from machinery and equipment	3,878	-	3,878	17
- Transfer to strategic inventory from inventory	(10,471)	(38,317)	(10,471)	(38,317)
- Employee benefits - defined benefit obligation	2,098	1,992	2,098	1,992
- Increase in provisions	13,679	10,607	13,679	10,607
- Loss/(gain) on realisation of property, plant and equipment	68	(3,170)	68	(3,170)
Operating profit before working capital changes	963,372	680,049	963,510	680,461
Decrease in inventories	9,491	13,155	9,491	13,155
Increase in trade and other receivables	(145,013)	(3,167)	(145,013)	(3,187)
Increase in trade payables	313,979	118,163	313,841	118,312
	1,141,829	808,200	1,141,829	808,741
<b>B. DISPOSAL OF INTEREST IN SUBSIDIARY - NAMPOWER INTERNATIONAL</b>				
Cost of investment - shares at cost	-	-	-	66
Loan to subsidiary	-	-	-	330
Net interest in subsidiary at date of disposal	-	-	-	396
Proceeds received on disposal	-	141	-	141
Profit / (loss) on disposal of subsidiary	-	141	-	(255)
<b>C. CASH AND CASH EQUIVALENTS</b>				
Cash and cash equivalents consist of cash on hand and cash held at banks. (Refer to note 15).				
<b>D. DISPOSAL OF JOINT VENTURE - OTAVI ELECTRICAL COMPANY (PTY) LTD</b>				
Cost of investment - shares at cost	-	-	-	-
Asset held for sale	265	-	346	-
Net interest in joint venture at date of disposal	265	-	346	-
Proceeds received on disposal	249	-	249	-
Loss on disposal of joint venture	(16)	-	(97)	-

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 1. REPORTING ENTITY

Namibia Power Corporation (Proprietary) Limited is the holding company of the Group and is incorporated and domiciled in Namibia. The consolidated financial statements for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

The separate and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations issued by the International Accounting Standards Board (IASB) and the requirements of the Namibian Companies Act.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements.

The accounting policies have been applied consistently by all Group entities.

### (b) Basis of measurement

The financial statements are prepared on the historical cost basis, except for the following material items in the statement of financial position:

- derivative financial instruments;
- non-derivative financial instruments;
- available-for-sale financial assets;
- held-to-maturity investments;
- loans and receivables;
- financial assets and financial liabilities at fair value through profit or loss;
- property, plant and equipment and
- investment properties which are measured at fair value.

### (c) Functional and presentation currency

These consolidated and separate financial statements are presented in Namibia Dollars (N\$), which is the Company's functional and presentation currency and are rounded to the nearest thousand.

### (d) Use of estimates and judgements

The preparation of the separate and consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated

assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect in the amounts recognised in the financial statements is included in the following note:

Note 30 - valuation of financial instruments - loans and derivatives

In particular, information about assumptions and estimation uncertainties in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

Note 6 - revaluation of property, plant and equipment;

Note 8 - valuation of investment property;

Note 13 - inventories;

Note 20 - utilisation of tax losses and

Note 23 - provisions.

### (e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Executive Committee (EXCO).

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's results are reviewed regularly by EXCO to make decisions about resources to be allocated to the segment and assess performance, and for which separate financial information is available.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, its subsidiaries and associates. The Company measures its investments in subsidiaries and associates at cost less accumulated impairment in its separate financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### (i) Subsidiaries

Subsidiaries are those entities 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 existence and effect of potential voting rights that are currently exercisable or convertible, are considered when assessing whether the Group controls another entity. 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.

### Loss of control

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of any equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

### (ii) Investments in equity-accounted investees

#### Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Company's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

The Group's share of its associates post-acquisition profits or losses is recognised within share of profit of equity-accounted investees, and its share of post-acquisition movement in reserve is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

### (iii) 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 associates 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.

### (iv) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are recognised in profit or loss as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, which is the date that control is transferred to the Group. The excess of the cost of acquisition over fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase gain.

### (b) Property, plant and equipment

#### (i) Owned assets

Property, plant and equipment is initially recognised at cost. Cost includes any costs directly attributable to bringing the asset to the location and condition necessary to be capable of operating in the manner intended by management, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequently property, plant and equipment is measured at revalued amounts less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy 3 (e)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment. Plant and equipment is revalued at the estimated replacement cost thereof as adjusted in relation to the remaining useful lives of these assets. Property is revalued to its market value. Valuations of property, plant and equipment are determined from market-based evidence by appraisals undertaken by professional valuers. Revaluations are performed every five years such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Between formal valuations, the revalued amounts are reassessed at each reporting date by professional valuers.

Any revaluation increase arising on the revaluation of such property, plant and equipment is recognised in other comprehensive income and presented in equity in the capital revaluation reserve, except to the extent that it reverses a revaluation decrease for the same assets previously recognised as an expense, 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

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### (b) Property, plant and equipment (continued)

#### (i) Owned assets (continued)

arising on the revaluation of such property, plant and equipment is recognised in other comprehensive income, but charged as an expense to the extent that it exceeds the balance, if any, held in the capital revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of an item of revalued property, plant and equipment, the attributable revaluation surplus remaining in the capital revaluation reserve is transferred directly to retained earnings.

Assets under construction are not revalued as the cost of construction is assumed as the fair value.

#### (ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as incurred.

#### (iii) Strategic inventory

Spares that would normally have been classified as inventory but are major spare parts and/or stand-by equipment are classified as strategic inventory and included as property, plant and equipment, as the entity expects to use them during more than one period. Spare parts and servicing equipment that can be used only in connection with an item of property, plant and equipment are also included in property, plant and equipment. This asset class is accounted for in terms of the accounting policy for property, plant and equipment and is revalued every five years.

#### (iv) Assets under construction

Assets under construction are measured at cost which includes costs of materials and direct labour and any cost incurred in bringing it to its present location and condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Materials used in the construction of property, plant and equipment are valued at weighted average cost.

#### (v) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, to its residual value.

Leased assets are depreciated over the shorter of the lease term and their useful lives if there is no reasonable certainty

that the Group will obtain ownership by the end of the lease term.

Land and assets under construction are not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

#### Category

- Power Stations
  - Ruacana Power Station (Plant and Civil Works) 1 - 120 years
  - Van Eck Power Station 1 - 35 years
  - Paratus Power Station - Plant 1 - 35 years
  - Anixas Power Station - Plant 1 - 35 years
- Transmission System 8 - 60 years
- Machinery and Equipment 1 - 35 years
- Buildings 23 - 50 years

The depreciation methods, useful lives and residual values are reassessed annually.

#### Strategic Inventory

The Company depreciates strategic inventory if the stock is unique and specific to items of property, plant and equipment. The strategic inventory is depreciated at the same rate as the main item of property, plant and equipment as these assets will be simultaneously retired with the main asset. Interchangeable strategic inventory items are not depreciated.

#### Disposal

Gains or losses are determined by comparing proceeds with the carrying amount. The gains or losses are included in profit or loss.

#### (vi) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses (see accounting policy 3(e)). The property held under finance leases and leased out under operating lease is classified as investment property and is measured using the fair value model. Lease payments are accounted for as described in the accounting policy on expenses (see accounting policy 3(p)). Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property-by-property basis. If it is, such investment property interest is accounted for as if it were a finance lease and the recognised asset is measured using the fair value model.



# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### (b) Property, plant and equipment (continued)

#### (vii) Reclassification to investment property

If an owner-occupied property becomes an investment property that will be carried at fair value, any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value is treated in the same way as a revaluation in accordance with IAS 16.

### (c) Intangible assets

#### (i) Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new technical or scientific knowledge and understanding, is recognised in profit or loss as an expense when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in profit or loss as an expense when incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy 3(e)).

Costs that are directly associated with development of identifiable and unique software products controlled by the Group and that it will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets and amortised as below. Costs include employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

#### (ii) Computer software

Acquired computer software is capitalised on the basis of costs incurred to acquire and bring to use a specific software. These costs are amortised over their estimated useful lives. If software is integral to the functionality of related equipment, then it is capitalised as part of the equipment.

#### (iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### (iv) Amortisation

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible assets unless such lives are indefinite. Intangible assets are mortised from the date they are available for use. The estimated useful life for the current and comparative periods is as follows:

- Computer software 5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (d) Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation purposes but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes. Investment properties are measured initially at cost and subsequently at fair value with any change therein recognised in profit or loss. Cost includes expenditure that is directly attributable to acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour and other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property is recognised in profit or loss. When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

When the use of the investment property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

### (e) Impairment of assets

#### (i) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories, deferred tax assets and investment properties are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

#### Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit (CGU). For an asset that does not generate

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### (e) Impairment of assets (continued)

#### (i) Non-financial assets (continued)

largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses, except for property, plant and equipment accounted for under the revaluation model, are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated to:

- first to reduce the carrying amount of any goodwill allocated to the cash-generating units,
- and then to reduce the carrying amounts of other assets in the cash-generating unit (group of cash-generating units) on a pro rata basis.

#### Reversals of impairment

In respect of non-financial assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (ii) Financial assets

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The recoverable amount of the Group's investment in held-to-maturity securities and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest

rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short maturity are not discounted.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

#### (iii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security or loans and receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is reversed through other comprehensive income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

#### (f) Inventories

Fuel, coal, maintenance spares and consumable stores are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated cost necessary to make the sale. 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 weighted average cost method.

#### (g) 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 to settle the obligation, and where a reliable estimate can be made of the amount of the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as finance cost. Provisions are not recognised for future operating losses.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### (i) Decommissioning

The Group recognises decommissioning obligations raised only on notification to the Electricity Control Board of a planned decommissioning. When a decommissioning notification is given by the Group five years prior to the plant decommissioning, the decommissioning plan is approved and consequently the arising of the obligation. No decommissioning notifications have been given by the Group to date and therefore no provision for decommissioning has been raised.

### (ii) Site restoration

The Group has no legal or constructive obligation to restore contaminated land or related expenses and thus recognised no provision for site restoration.

### (iii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

### (h) 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. The capitalisation rates applied are the weighted averages of the borrowing costs applicable to the borrowings of the respective entities in the Group unless an asset is financed by a specific loan, in which case the specific rate is used.

### (i) Financial Instruments

#### (i) Initial recognition

Financial instruments are recognised when, and only when, the Group becomes party to the contractual provisions of the particular instrument at trade date. The Group recognises loans and receivables and deposits, on the date that it originated.

#### (ii) Derecognition

A financial asset is derecognised when, and only when:

- the contractual rights to the cash flows arising from the financial asset have expired or been forfeited by the Group; or
- The Group transfers the financial asset including substantially all risks and rewards of ownership of the asset; or
- The Group transfers the financial asset, neither retaining

nor transferring substantially all risks and rewards of ownership of the asset, but no longer retains control of the asset. Any interest in the transferred financial assets that is created or retained is recognised as a separate asset or liability.

The difference between the carrying amount of a financial asset (or part thereof) derecognised and consideration received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

A financial liability is derecognised when, and only when:

- the liability is extinguished, that is, when the obligation specified in the contract is discharged,
- cancelled;
- or has expired.

The difference between the carrying amount of a financial liability (or part thereof) derecognised and consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

#### (iii) Offset

Financial assets and liabilities are offset against each other only when a legally enforceable right exists to set off the recognised amounts, and the Group intends to either settle on a net basis, or to realise the assets and settle the liability simultaneously.

#### (iv) Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. Held-to-maturity investments comprise Namibian government bonds and treasury bills, Namibian commercial banks bonds and South African zero coupon bonds. Held-to-maturity investments are classified as investments on the statement of financial position.

#### (v) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### (i) Financial Instruments (continued)

#### (v) Available-for-sale financial assets (continued)

The Group initially recognise the financial asset at fair value plus transaction cost that are directly attributable to the acquisition of the financial asset. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(e)) and foreign currency differences on available-for-sale monetary items, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss. Available-for-sale financial assets comprise investments in listed equity. Available-for-sale financial assets are classified as investments on the statement of financial position.

#### (vi) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market, such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, trade and other receivables and other loans and receivables. Cash and cash equivalents comprises cash balances, call and fixed deposits with original maturities of three months or less.

#### (vii) Financial assets and financial liabilities at fair value through profit or loss

A financial asset or financial liability is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial assets and financial liabilities are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss (see note 30).

#### (viii) Non-derivative financial liabilities

Other financial liabilities comprises loans and borrowings, trade and other payables and retention creditors.

Non-derivative financial liabilities are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

### (ix) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks 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. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value, attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, any resultant gain or loss is recognised in terms of the hedging policy (see (x) below).

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to those of a standalone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, or other variable. The hybrid contract is the entire contract and the host contract is the main body of the contract excluding the embedded derivative.

An embedded derivative is separated from the host contract and accounted for as a derivative if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and
- the combined instrument is not measured at fair value with changes in fair value recognised in profit or loss.

The determination of the value of the host contract of a hybrid electricity contract (which includes an embedded derivative) is based on the standard electricity tariff specified in the contract and where no standard tariff is specified, the tariff that would normally apply to such a customer.

The changes in fair value are included in net fair value gain/(loss) on embedded derivatives in profit or loss. The impact of the fair value gains or losses is taken into account in the calculation of current and deferred taxation.

Embedded derivatives that are not separated are effectively accounted for as part of the hybrid instrument. The value at initial recognition is adjusted for cash flows since inception. The value of the embedded derivatives which involve a foreign currency is first determined by calculating the future cash.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### (i) Financial Instruments (continued)

#### (ix) Derivative financial instruments (continued)

flows and then discounting the cash flows by using the relevant interest rate curve and only then is the net present value of the cash flows converted at the relevant Namibia dollar/foreign currency spot rate to the reporting currency.

The fair value of the embedded derivative is determined on the basis of its terms and conditions. If this is not possible, then the value of the embedded derivative is determined by fair valuing the whole contract and deducting from it the fair value of the host contract. If the Group is unable to determine the fair value of the embedded derivative using this method then the entire hybrid contract is designated as at fair value through profit or loss.

Where there is no active market for the embedded derivatives, valuation techniques are used to ascertain their fair values. Financial models are developed incorporating valuation methods, formulae and assumptions. The valuation methods include the following:

- forwards: electricity tariff or other revenue or expenditure is based on the foreign currency.

The fair value of embedded derivatives is adjusted, where applicable, to take into account the inherent uncertainty relating to the future cash flows of embedded derivatives such as liquidity, model risk and other economic factors

#### (x) Hedging

The Group holds derivative financial instruments to hedge its foreign currency and interest rate exposures.

On the initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

The Group designates certain derivatives as a hedge of the exposure in the fair value of recognised assets or liabilities or unrecognised firm commitments as fair value hedges.

#### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss,

together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The Group derecognises the fair value hedge if the hedge no longer meets the criteria for hedge accounting, or the hedging instrument is sold, terminated or exercised or the entity revokes the designation.

#### (j) Foreign currency transactions

Transactions in foreign currencies of Group entities are translated to Namibia dollars (N\$) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Namibia dollars (N\$) at the exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Namibia dollars (N\$) at the exchange rates ruling at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in profit or loss, except for the following differences which are recognised in other comprehensive income arising on the retranslation of:

- available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss)

#### (k) Non-current Assets held for Sale and Discontinued Operations

Non-current assets or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than continuing use, are classified as held for sale.

Immediately before classification as held for sale, the measurement of the assets (or all assets and liabilities in a disposal group) is brought up-to-date in accordance with the Group's accounting policies. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell, with the exception of the following assets whose carrying amounts are determined in terms of their individual standard:

- deferred taxation asset;
- financial assets within the scope of IAS 39 - Financial instruments: Recognition and Measurement;
- employee benefits; and
- investment property.

Impairment losses on initial classification as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## (k) Non-current Assets held for Sale and Discontinued Operations (continued)

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resell. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income and statement of cash flows are represented as if the operation had been discontinued from the start of the comparative period.

## (l) Deferred income

### (i) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Government grants received relating to the creation of electricity as sets are included in non current liabilities as deferred income and are credited to profit or loss on a systematic basis over the useful lives of the assets. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

### (ii) Payments received in advance

Payments received in advance consists mainly of upfront capital contributions for the construction of assets. Upfront capital contributions are recognised in profit or loss when all performance obligations have been performed by the Group e.g. when the customer is energised (see accounting policy 3(o)).

### (iii) Transfers of assets from customers

The Group recognises assets transferred by customers as an item of property, plant and equipment in accordance with IAS 16 at the fair value of the asset transferred on the date of transfer. The fair value of the asset transferred is initially recognised as deferred revenue and recognised as income in profit or loss over the useful life of the asset transferred in accordance with IFRIC 18.

## (m) Appropriation of Funds

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

- Reserve Fund - to be utilised to fund costs associated with potential energy crises. 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. The interest earned is calculated on the outstanding balance of the reserve fund at a monthly average interest rate earned on the current account.
- 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 profit after the interest allocation to the reserve fund is transferred to this fund.
- Share Capital - Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

## (n) Taxation

Tax expense comprises current and deferred tax. Taxation is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income, in which case it is recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of 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: taxable temporary differences arising from the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries and associate to the extent that they will probably not reverse in the foreseeable future. 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 substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and it is the Group's intention to settle on a net basis or to realise their tax assets and settle their tax liabilities simultaneously.

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.



# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### (o) Revenue

#### (i) Electricity Sales

Revenue comprises electricity sales, STEM sales, Paratus contribution, extension charges and contributions received or receivable excluding value added tax. Paratus contribution comprises of a monthly contribution by the municipality of Walvis Bay as per take over contract of the Enclave. Electricity revenue is recognised when the electricity is consumed by the customer.

Capital contribution constitutes cash transferred by a customer to the company for the construction of power supply.

#### (ii) Finance income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, increases in the fair value of financial assets at fair value through profit or loss, and gains on hedging instruments that are recognised in profit or loss and gains on hedged items that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

### (p) Expenses

#### (i) Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense on a systematic basis.

#### (ii) Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### (iii) Finance expenses

Finance costs comprise interest expense on borrowings, decreases in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss and losses on hedged items that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss

using the effective interest method. Foreign currency gains and losses are reported on a net basis and recognised in profit or loss.

### (q) Employee benefits

#### (i) Short-term employee benefits

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

The accruals 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 reporting date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

#### (ii) Retirement Benefits

The Group contributes to a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

#### (iii) Post-Retirement Medical Benefits

The Group subsidises part of the contributions by retired employees to the medical aid fund. An obligation is recognised for the present value of post retirement medical benefits.

The net obligation in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation is done by a qualified actuary using the projected unit credit method. The discount rate is the yield of the 186 South African government bond as at 31 May 2012.

When benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss. Unrecognised actuarial gains and losses are recognised immediately in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### (q) Employee benefits (continued)

#### (iv) Other long-term employee benefits

##### Severance Pay Retirement Benefits

The Group recognises an obligation for statutory severance benefits, in accordance with the Namibia Labour Act 2007. The liability is discounted to account for the present value of the future benefits payable on resignation or retirement of employees on reaching the age of 65. The cost of providing the benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. The movement for the year including actuarial gains and losses is recognised in profit or loss in the year in which it occurs. The discount rate is the yield of the 186 South African government bond as at 31 May 2012.

#### (v) Housing subsidy

The company subsidises interest on home loans at a rate of prime rate minus 3.5% to employees who joined the Company before 1 March 2005. The home loan amount is limited to 5 times the annual basic salary of the employee.

## 4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The more important assumptions, which include the following, are obtained either with reference to the contractual provisions of the relevant contracts or from independent market sources where appropriate:

- spot and forward foreign currency exchange rates;
- forecast sales volume purchases;
- spot and forward consumer and foreign production price indices (PPI's);
- spot and forward electricity prices and
- liquidity, model risk and other economic factors.

#### (i) Property, plant and equipment

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant and equipment, is based on the market approach and cost approaches using market prices for similar items when available and depreciated replacement cost when appropriate.

Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

#### (ii) Investment property

An external, independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

#### (iii) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only. The investments in unlisted equity are measured at cost.

#### (iv) Trade and other receivables

The fair value of both foreign and local denominated trade and other receivables are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The carrying value of trade and other receivables is assumed as the fair value due to the short-term nature of the instruments.

#### (v) Derivatives

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the reporting date, being the present value of the quoted forward price.

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Fair values of interest rate swaps reflect the credit risk of



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 4. DETERMINATION OF FAIR VALUES (continued)

### (v) Derivatives (continued)

the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

### (vi) Non-derivative financial liabilities

Fair value which is determined for disclosure purposes is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The carrying value of short-term non-derivative financial instruments is assumed as the fair value due to the short-term nature of the instruments. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.



# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 5. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

At the date of authorisation of the financial statements of NamPower (Pty) Ltd and the Group for the year ended 30 June 2012, the following Standards and Interpretations which affects the Group and Company were in issue but not yet effective:

<i>Standards/Interpretations not early adopted</i>	<i>Effective date*</i>
IAS 1: Presentation of Financial Statements: Presentation of Items of Other comprehensive Income	Annual periods beginning on or after 1 July 2012
IAS 12: Deferred Tax: Recovery of Underlying Assets	Annual periods beginning on or after 1 January 2012
IAS 19: Employee Benefits: Defined benefit plans	Annual periods beginning on or after 1 January 2013
IAS 27: Separate Financial Statements (2011)	Annual periods beginning on or after 1 January 2013
IAS 28: Investments in Associates and Joint Ventures (2011)	Annual periods beginning on or after 1 January 2013
IAS 32: Offsetting Financial Assets and Financial Liabilities	Annual periods beginning on or after 1 January 2014
IFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	Annual periods beginning on or after 1 January 2013
IFRS 9: Financial instruments - Classification and Measurement	Annual periods beginning on or after 1 January 2015
IFRS 9: (2010) Financial instruments	Annual periods beginning on or after 1 January 2015
IFRS 10: Consolidated Financial Statements	Annual periods beginning on or after 1 January 2013
IFRS 11: Joint Arrangements	Annual periods beginning on or after 1 January 2013
IFRS 12: Disclosure of Interests in Other Entities	Annual periods beginning on or after 1 January 2013
IFRS 13: Fair Value Measurement	Annual periods beginning on or after 1 January 2013

\* All standards will be adopted at their effective date.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 5. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE (continued)

The directors are of the opinion that the impact of the application of the standards will be as follows:

### IAS 1: Presentation of financial statements: Presentation of Items of Other comprehensive Income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss; do not change the existing option to present profit or loss and other comprehensive income in two statements; and change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The Group is still determining the impact of the standard on the financial statements.

### IAS 12: Income taxes

The amendment to IAS 12 introduces a rebuttable presumption that an investment property measured at fair value will be recovered in its entirety through sale. The Group expects to recover the carrying amount of its investment property through use and thus do not expect the standard to have an impact on the Group's financial statements.

### IAS 19: Employee Benefits: Defined benefit plans

The amended IAS 19 includes the following requirements: actuarial gains and losses are recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendment is expected to change the Group's accounting policy from recognizing actuarial gains and losses in profit or loss to recognize it in other comprehensive income.

### IAS 27: Separate Financial Statements (2011)

IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. IAS 27 (2011) supersedes IAS 27 (2008). The impact on the Company's financial statements for 30 June 2014 cannot be reasonably estimated as at 30 June 2012.

### IAS 28: Investments in Associates and Joint Ventures (2011)

IAS 28 (2011) makes the following amendments: IFRS 5 applies to an investment, or a portion of an investment, in an associate

or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest. The amendment is not expected to have a significant impact on the Group's financial statements.

### IAS 32: Offsetting Financial Assets and Financial Liabilities

This amendment will be adopted by NamPower for the first time for its financial reporting period ending 30 June 2015. This amendment provides clarity on the application of the offsetting criteria listed in the current standard. The impact on the financial statements for 30 June 2015 cannot be reasonably estimated as at 30 June 2012.

### IFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities

This amendment will be adopted by NamPower for the first time for its financial reporting period ending 30 June 2014. This amendment sets out the additional disclosure requirements resulting from the IAS 32 offsetting amendment. The impact on the financial statements for 30 June 2014 cannot be reasonably estimated as at 30 June 2012.

### IFRS 9: Financial Instruments

IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The Group is still determining the impact of the standard on the financial statements.

### IFRS 9 (2010): Financial Instruments

IFRS 9 (2010), the classification and measurement requirements of financial liabilities are the same as per IAS 39, except for the following two aspects:

- fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, that are attributable to the changes in the credit risk of the liability will be presented in other comprehensive income. The remaining amount of the fair value change is recognised in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. The determination as to whether such presentation would create or enlarge an accounting mismatch is made on initial recognition and is not subsequently reassessed.
- Under IFRS 9 (2010) derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are measured at fair value.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 5. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE (continued)

### IFRS 9 (2010): Financial Instruments (continued)

IFRS 9 (2010) incorporates the guidance in IAS 39 dealing with fair value measurement and accounting for derivatives embedded in a host contract that is not a financial asset, as well as the requirements of IFRIC 9 "Reassessment of Embedded Derivatives". The impact on the financial statements for 30 June 2016 cannot be reasonably estimated as at 30 June 2012.

### IFRS 10: Consolidated Financial Statements

IFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when it is exposed or has rights to variable returns from its involvement with that investee; it has the ability to affect those returns through its power over that investee; and there is a link between power and returns. Control is reassessed as facts and circumstances change. The Group is still determining the impact of the standard on the financial statements.

### IFRS 11: Joint Arrangements

IFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It distinguishes joint arrangements between joint operations and joint ventures; and always requires the equity method for jointly controlled entities that are now called

joint ventures; they are stripped of the free choice of using the equity method or proportionate consolidation. The Group is still determining the impact of the standard on the financial statements.

### IFRS 12: Disclosure of Interests in Other Entities

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows. The Group is still determining the impact of the standard on the financial statements.

### IFRS 13: Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRS's with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRS's. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The impact on the financial statements for 30 June 2014 cannot be reasonably estimated as at 30 June 2012.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 6. PROPERTY, PLANT AND EQUIPMENT

GROUP	Revalued/cost N\$'000	Accumulated depreciation N\$'000	Accumulated impairment N\$'000	Carrying amount N\$'000
<b>2012</b>				
Ruacana Power Station	2,254,164	(496,521)	-	1,757,643
Van Eck Power Station	275,040	(54,953)	-	220,087
Paratus Power Station	61,345	(11,726)	(2,406)	47,213
Anixas Power Station	261,677	(7,309)	-	254,368
Transmission systems	13,080,404	(709,502)	(511,308)	11,859,594
Machinery and equipment	332,182	(229,416)	(6,866)	95,900
Land and Buildings	285,775	(11,885)	(4,691)	269,199
Assets under construction	167,020	-	-	167,020
Strategic inventory	341,690	(1,636)	-	340,054
<b>Total</b>	<b>17,059,297</b>	<b>(1,522,948)</b>	<b>(525,271)</b>	<b>15,011,078</b>

2011

Ruacana Power Station	1,635,824	(246,002)	-	1,389,822
Van Eck Power Station	274,871	(27,470)	-	247,401
Paratus Power Station	61,007	(5,860)	(2,406)	52,741
Transmission systems	13,005,024	(345,940)	(511,308)	12,147,776
Machinery and equipment	304,427	(197,464)	(6,866)	100,097
Land and Buildings	275,613	(6,127)	(4,691)	264,795
Assets under construction	828,131	-	-	828,131
Strategic inventory	362,086	(1,636)	-	360,450
<b>Total</b>	<b>16,746,983</b>	<b>(830,499)</b>	<b>(525,271)</b>	<b>15,391,213</b>

## COMPANY

**2012**

Ruacana Power Station	2,254,164	(496,521)	-	1,757,643
Van Eck Power Station	275,040	(54,953)	-	220,087
Paratus Power Station	61,345	(11,726)	(2,406)	47,213
Anixas Power Station	261,677	(7,309)	-	254,368
Transmission systems	13,080,277	(709,375)	(511,308)	11,859,594
Machinery and equipment	329,684	(226,918)	(6,866)	95,900
Land and Buildings	274,198	(11,218)	(4,691)	258,289
Assets under construction	167,020	-	-	167,020
Strategic inventory	341,690	(1,636)	-	340,054
<b>Total</b>	<b>17,045,095</b>	<b>(1,519,656)</b>	<b>(525,271)</b>	<b>15,000,168</b>

2011

Ruacana Power Station	1,635,824	(246,002)	-	1,389,822
Van Eck Power Station	274,871	(27,470)	-	247,401
Paratus Power Station	61,007	(5,860)	(2,406)	52,741
Transmission systems	13,004,897	(345,813)	(511,308)	12,147,776
Machinery and equipment	301,929	(194,966)	(6,866)	100,097
Land and Buildings	264,036	(5,530)	(4,691)	253,815
Assets under construction	828,131	-	-	828,131
Strategic inventory	362,086	(1,636)	-	360,450
<b>Total</b>	<b>16,732,781</b>	<b>(827,277)</b>	<b>(525,271)</b>	<b>15,380,233</b>

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 6. PROPERTY, PLANT AND EQUIPMENT (continued)

6.1 Property, plant and equipment	Ruacana Power Station N\$'000	Van Eck Power Station N\$'000	Paratus Power Station N\$'000	Anixas Power Station N\$'000
<b>GROUP</b>				
<b>2012</b>				
Carrying amount at 1 July 2011	1,389,822	247,401	52,741	-
- At cost/valuation	1,635,824	274,871	61,007	-
- Accumulated impairment	-	-	(2,406)	-
- Accumulated depreciation	(246,002)	(27,470)	(5,860)	-
Additions	-	-	-	-
Transfer from inventory	-	-	-	-
Assets under construction completed	618,340	169	338	261,677
Transfer from assets under construction	-	-	-	-
Strategic inventory items issued	-	-	-	-
Transfer to intangible assets	-	-	-	-
Transfer to investment property	-	-	-	-
Transfer from investment property	-	-	-	-
Gain on price variance	-	-	-	-
Disposals	-	-	-	-
- At cost/valuation	-	-	-	-
- Accumulated depreciation	-	-	-	-
Depreciation for the year	(250,519)	(27,483)	(5,866)	(7,309)
<b>Carrying amount at 30 June 2012</b>	<b>1,757,643</b>	<b>220,087</b>	<b>47,213</b>	<b>254,368</b>
- At cost/valuation	2,254,164	275,040	61,345	261,677
- Accumulated impairment	-	-	(2,406)	-
- Accumulated depreciation	(496,521)	(54,953)	(11,726)	(7,309)

Included in additions are borrowing costs capitalised of N\$19 million (2011: N\$28 million).

The interest expense capitalised as borrowing cost is calculated using the NamPower Bond NMP20N interest rate of 9.35% and the NMP19N interest rate of 10% respectively.

The carrying amount that would have been recognised had the assets been measured under the cost model, for each revalued class of property, plant and equipment was not disclosed because it is impracticable. The Group and Company's core assets have always been carried at the revalued amount before the implementation of IFRS and the historical values were not separately disclosed and are therefore not available.

Transmission systems N\$'000	Machinery and equipment N\$'000	Land and Buildings N\$'000	Assets under construction N\$'000	Strategic inventory N\$'000	Total N\$'000
12,147,776	100,097	264,795	828,131	360,450	15,391,213
13,005,024 (511,308) (345,940)	304,427 (6,866) (197,464)	275,613 (4,691) (6,127)	828,131 - -	362,086 - (1,636)	16,746,983 (525,271) (830,499)
11,009 - 64,371 - - - - -	22,922 - 7,756 - - (2,742) - -	- - 4,990 - - - (4) 5,326 -	298,779 - (957,641) (2,249) - - - -	13,745 10,471 - 2,249 (50,044) - - -	346,455 10,471 - - (50,044) (2,742) (4) 5,326 3,183
- - -	- (181) 181	(124) (150) 26	- - -	- - -	(124) (331) 207
(363,562)	(32,133)	(5,784)	-	-	(692,656)
11,859,594	95,900	269,199	167,020	340,054	15,011,078
13,080,404 (511,308) (709,502)	332,182 (6,866) (229,416)	285,775 (4,691) (11,885)	167,020 - -	341,690 - (1,636)	17,059,297 (525,271) (1,522,948)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 6. PROPERTY, PLANT AND EQUIPMENT (continued)

### 6.1 Property, plant and equipment (continued)

#### GROUP

#### 2011

#### Carrying amount at 1 July 2010

- At cost/valuation
- Accumulated impairment
- Accumulated depreciation

	Ruacana Power Station N\$'000	Van Eck Power Station N\$'000	Paratus Power Station N\$'000
Carrying amount at 1 July 2010	1,036,662	7,015	36,382
- At cost/valuation	1,189,943	241,593	85,069
- Accumulated impairment	-	(71,781)	(20,318)
- Accumulated depreciation	(153,281)	(162,797)	(28,369)

#### Additions

- Transfer of property, plant and equipment by customers
- Transfer from inventory
- Assets under construction completed
- Transfer from assets under construction
- Strategic inventory items issued
- Transfer to intangible assets
- Transfer to investment property

Additions	-	-	-
Transfer of property, plant and equipment by customers	-	-	-
Transfer from inventory	-	-	-
Assets under construction completed	1,365	669	-
Transfer from assets under construction	-	-	-
Strategic inventory items issued	-	-	-
Transfer to intangible assets	-	-	-
Transfer to investment property	-	-	-

#### Transfer from Transmission system

- At cost/valuation
- Accumulated depreciation

Transfer from Transmission system	-	-	-
- At cost/valuation	-	-	-
- Accumulated depreciation	-	-	-

#### Transfer to Operating Projects

- At cost/valuation
- Accumulated depreciation

Transfer to Operating Projects	-	-	-
- At cost/valuation	-	-	-
- Accumulated depreciation	-	-	-

#### Reversal of accumulated impairment on revaluation against the cost

#### Reversal of accumulated impairment on revaluation against the accumulated impairment

#### Reversal of accumulated depreciation on revaluation against accumulated depreciation

#### Reversal of accumulated depreciation on revaluation against cost

#### Revaluation

#### Impairment<sup>1</sup>

Reversal of accumulated impairment on revaluation against the cost	-	(71,781)	(20,318)
Reversal of accumulated impairment on revaluation against the accumulated impairment	-	71,781	20,318
Reversal of accumulated depreciation on revaluation against accumulated depreciation	153,281	162,797	28,369
Reversal of accumulated depreciation on revaluation against cost	(153,281)	(162,797)	(28,369)
Revaluation	597,797	267,187	24,625
Impairment <sup>1</sup>	-	-	(2,406)

#### Disposals

- At cost/valuation
- Accumulated depreciation

Disposals	-	-	-
- At cost/valuation	-	-	-
- Accumulated depreciation	-	-	-

#### Depreciation for the year

#### Carrying amount at 30 June 2011

- At cost/valuation
- Accumulated impairment
- Accumulated depreciation

Depreciation for the year	(246,002)	(27,470)	(5,860)
Carrying amount at 30 June 2011	1,389,822	247,401	52,741
- At cost/valuation	1,635,824	274,871	61,007
- Accumulated impairment	-	-	(2,406)
- Accumulated depreciation	(246,002)	(27,470)	(5,860)

Included in additions are borrowing costs capitalised of N\$28 million (2010: N\$57million).

The interest expense capitalised as borrowing cost is calculated using the NamPower Bond NMP20N interest rate of 9.35% and the NMP19N interest rate of 10% respectively.

<sup>1</sup> The impairment relates to a decrease in the carrying amount arising on the revaluation of such property, plant and equipment. The decrease was recognised in other comprehensive income,

to the extent of any credit balance that existed in the capital revaluation reserve in respect of that asset.

The carrying amount that would have been recognised had the assets been measured under the cost model, for each revalued class of property, plant and equipment was not disclosed because it is impracticable. The Group and Company's core assets have always been carried at the revalued amount before the implementation of IFRS and the historical values were not separately disclosed and are therefore not available.



Transmission systems N\$'000	Machinery and equipment N\$'000	Land and Buildings N\$'000	Assets under construction N\$'000	Strategic inventory N\$'000	Total N\$'000
5,550,780	99,612	167,294	2,184,070	166,220	9,248,035
6,307,821 (6,731) (750,310)	281,244 - (181,632)	211,902 (9,222) (35,386)	2,184,070 - -	166,220 - -	10,667,862 (108,052) (1,311,775)
5,223 441,605 -	29,650 - -	- - -	867,814 - -	6,615 - 38,317	909,302 441,605 38,317
2,108,509 - - - -	9,681 - - (8,628) -	1,416 - - - (4)	(2,121,640) (102,113) - - -	- 102,113 (15,531) - -	- - (15,531) (8,628) (4)
(9,347) (10,983) 1,636	- - -	- - -	- - -	9,347 10,983 (1,636)	- - -
- - -	(17) (17) -	- - -	- - -	- - -	(17) (17) -
(6,731)	-	(9,222)	-	-	(108,052)
6,731	-	9,222	-	-	108,052
748,730	7,307	34,859	-	-	1,135,343
(748,730)	(7,307)	(34,859)	-	-	(1,135,343)
4,908,709 (511,308)	8,381 (6,866)	106,380 (4,691)	- -	53,369 -	5,966,448 (525,271)
(287) (399) 112	(4) (8,577) 8,573	- - -	- - -	- - -	(291) (8,976) 8,685
(346,108)	(31,712)	(5,600)	-	-	(662,752)
12,147,776	100,097	264,795	828,131	360,450	15,391,213
13,005,024 (511,308) (345,940)	304,427 (6,866) (197,464)	275,613 (4,691) (6,127)	828,131 - -	362,086 - (1,636)	16,746,983 (525,271) (830,499)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 6. PROPERTY, PLANT AND EQUIPMENT (continued)

6.1 Property, plant and equipment (continued) COMPANY	Ruacana Power Station N\$'000	Van Eck Power Station N\$'000	Paratus Power Station N\$'000	Anixas Power Station N\$'000
<b>2012</b>				
Carrying amount at 1 July 2011	1,389,822	247,401	52,741	-
- At cost/valuation	1,635,824	274,871	61,007	-
- Accumulated impairment	-	-	(2,406)	-
- Accumulated depreciation	(246,002)	(27,470)	(5,860)	-
Additions	-	-	-	-
Transfer from inventory	-	-	-	-
Assets under construction completed	618,340	169	338	261,677
Transfer from assets under construction	-	-	-	-
Strategic inventory items issued	-	-	-	-
Transfer to intangible assets	-	-	-	-
Transfer to investment property	-	-	-	-
Transfer from investment property	-	-	-	-
Gain on price variance	-	-	-	-
Disposals	-	-	-	-
- At cost/valuation	-	-	-	-
- Accumulated depreciation	-	-	-	-
Depreciation for the year	(250,519)	(27,483)	(5,866)	(7,309)
<b>Carrying amount at 30 June 2012</b>	<b>1,757,643</b>	<b>220,087</b>	<b>47,213</b>	<b>254,368</b>
- At cost/valuation	2,254,164	275,040	61,345	261,677
- Accumulated impairment	-	-	(2,406)	-
- Accumulated depreciation	(496,521)	(54,953)	(11,726)	(7,309)

Included in additions are borrowing costs capitalised of N\$19 million (2011: N\$28 million).

The interest expense capitalised as borrowing cost is calculated using the NamPower Bond NMP20N interest rate of 9.35% and the NMP19N interest rate of 10% respectively.

The carrying amount that would have been recognised had the assets been measured under the cost model, for each revalued class of property, plant and equipment was not disclosed because it is impracticable. The Company's core assets have always been carried at the revalued amount before the implementation of IFRS and the historical values were not separately disclosed and are therefore not available.

Transmission systems N\$'000	Machinery and equipment N\$'000	Land and Buildings N\$'000	Assets under construction N\$'000	Strategic inventory N\$'000	Total N\$'000
12,147,776	100,097	253,815	828,131	360,450	15,380,233
13,004,897 (511,308) (345,813)	301,929 (6,866) (194,966)	264,036 (4,691) (5,530)	828,131 - -	362,086 - (1,636)	16,732,781 (525,271) (827,277)
11,009 - 64,371 - - - - - -	22,922 - 7,756 - - (2,742) - - -	- - 4,990 - - - (4) 5,326 -	298,779 - (957,641) (2,249) - - - -	13,745 10,471 - 2,249 (50,044) - - -	346,455 10,471 - - (50,044) (2,742) (4) 5,326 3,183
- - -	- (181) 181	(124) (150) 26	- - -	- - -	(124) (331) 207
(363,562)	(32,133)	(5,714)	-	-	(692,586)
11,859,594	95,900	258,289	167,020	340,054	15,000,168
13,080,277 (511,308) (709,375)	329,684 (6,866) (226,918)	274,198 (4,691) (11,218)	167,020 - -	341,690 - (1,636)	17,045,095 (525,271) (1,519,656)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 6. PROPERTY, PLANT AND EQUIPMENT (continued)

### 6.1 Property, plant and equipment (continued)

#### COMPANY

#### 2011

	Ruacana Power Station N\$'000	Van Eck Power Station N\$'000	Paratus Power Station N\$'000
<b>Carrying amount at 1 July 2010</b>	1,036,662	7,015	36,382
- At cost/valuation	1,189,943	241,593	85,069
- Accumulated impairment	-	(71,781)	(20,318)
- Accumulated depreciation	(153,281)	(162,797)	(28,369)
Additions	-	-	-
Transfer of property, plant and equipment by customers	-	-	-
Transfer from inventory	-	-	-
Assets under construction completed	1,365	669	-
Transfer from assets under construction	-	-	-
Strategic inventory items issued	-	-	-
Transfer to intangible assets	-	-	-
Transfer to investment property	-	-	-
Transfer from Transmission system	-	-	-
- At cost/valuation	-	-	-
- Accumulated depreciation	-	-	-
Transfer to Operating Projects	-	-	-
- At cost/valuation	-	-	-
- Accumulated depreciation	-	-	-
Reversal of accumulated impairment on revaluation against the cost	-	(71,781)	(20,318)
Reversal of accumulated impairment on revaluation against the accumulated impairment	-	71,781	20,318
Reversal of accumulated depreciation on revaluation against accumulated depreciation	153,281	162,797	28,369
Reversal of accumulated depreciation on revaluation against cost	(153,281)	(162,797)	(28,369)
Revaluation	597,797	267,187	24,625
Impairment <sup>1</sup>	-	-	(2,406)
Disposals	-	-	-
- At cost/valuation	-	-	-
- Accumulated depreciation	-	-	-
Depreciation for the year	(246,002)	(27,470)	(5,860)
<b>Carrying amount at 30 June 2011</b>	<b>1,389,822</b>	<b>247,401</b>	<b>52,741</b>
- At cost/valuation	1,635,824	274,871	61,007
- Accumulated impairment	-	-	(2,406)
- Accumulated depreciation	(246,002)	(27,470)	(5,860)

Included in additions are borrowing costs capitalised of N\$28 million (2011: N\$57 million).

The interest expense capitalised as borrowing cost is calculated using the NamPower Bond NMP20N interest rate of 9.35% and the NMP19N interest rate of 10% respectively.

<sup>1</sup> The impairment relates to a decrease in the carrying amount arising on the revaluation of such property, plant and equipment. The decrease was recognised in other comprehensive income,

to the extent of any credit balance that existed in the capital revaluation reserve in respect of that asset.

The carrying amount that would have been recognised had the assets been measured under the cost model, for each revalued class of property, plant and equipment was not disclosed because it is impracticable. The Company's core assets have always been carried at the revalued amount before the implementation of IFRS and the historical values were not separately disclosed and are therefore not available.

Transmission systems N\$'000	Machinery and equipment N\$'000	Land and Buildings N\$'000	Assets under construction N\$'000	Strategic inventory N\$'000	Total N\$'000
5,550,780	99,612	164,543	2,184,070	166,220	9,245,284
6,307,694 (6,731) (750,183)	278,746 - (179,134)	208,624 (9,222) (34,859)	2,184,070 - -	166,220 - -	10,661,959 (108,052) (1,308,623)
5,223 441,605 - 2,108,509 - - -	29,650 - - 9,681 - (8,628) -	- - - 1,416 - - (4)	867,814 - - (2,121,640) (102,113) - -	6,615 - 38,317 - 102,113 (15,531) -	909,302 441,605 38,317 - - (15,531) (8,628) (4)
(9,347) (10,983) 1,636	- - -	- - -	- - -	9,347 10,983 (1,636)	- - -
- - -	(17) (17) -	- - -	- - -	- - -	(17) (17) -
(6,731) 6,731	- -	(9,222) 9,222	- -	- -	(108,052) 108,052
748,730 (748,730)	7,307 (7,307)	34,859 (34,859)	- -	- -	1,135,343 (1,135,343)
4,908,709 (511,308)	8,381 (6,866)	98,081 (4,691)	- -	53,369 -	5,958,149 (525,271)
(287) (399) 112	(4) (8,577) 8,573	- - -	- - -	- - -	(291) (8,976) 8,685
(346,108) 12,147,776	(31,712) 100,097	(5,530) 253,815	- 828,131	- 360,450	(662,682) 15,380,233
13,004,897 (511,308) (345,813)	301,929 (6,866) (194,966)	264,036 (4,691) (5,530)	828,131 - -	362,086 - (1,636)	16,732,781 (525,271) (827,277)

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 6. PROPERTY, PLANT AND EQUIPMENT (continued)

6.2 Property, plant and equipment under construction	Power Stations N\$'000	Transmission systems N\$'000	Machinery and equipment N\$'000	Land and Buildings N\$'000	Total N\$'000
------------------------------------------------------	---------------------------	---------------------------------	------------------------------------	-------------------------------	------------------

### GROUP AND COMPANY

#### 2012

Opening balance	320,703	56,858	17,279	433,291	828,131
Reclassification	424,544	-	-	(424,544)	-
Additions	149,362	126,861	8,106	14,450	298,779
Transfer to strategic inventory	-	(2,249)	-	-	(2,249)
Property, plant and equipment capitalised	(880,524)	(64,371)	(7,756)	(4,990)	(957,641)
Closing balance	14,085	117,099	17,629	18,207	167,020

#### 2011

Opening balance	204,638	1,805,013	20,932	153,487	2,184,070
Additions	118,099	462,467	6,028	281,220	867,814
Transfer to strategic inventory	-	(102,113)	-	-	(102,113)
Property, plant and equipment capitalised	(2,034)	(2,108,509)	(1,053)	(1,416)	(2,113,012)
Transfer to intangible assets	-	-	(8,628)	-	(8,628)
Closing balance	320,703	56,858	17,279	433,291	828,131

### 6.3 Land and buildings

Land and buildings were revalued externally effective 1 July 2010 by independent valuers, Gert Hamman Property Valuers CC. The valuations were performed on the basis of replacement value where no ready market exists or market value as estimated by sworn appraisers.

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

Houses at Ruacana township are erected on land in the Kunene region for which occupational rights were obtained. Occupational rights means the Company has ownership of the building but not of the land. Permission to occupy (PTO) agreements are available at the Company's premises for inspection.

### 6.4 Transmission Systems

A number of distribution and substations are erected on or are under construction on land which does not belong to the Company. Occupational rights are secured by agreements between the owners and Namibia Power Corporation (Proprietary) Limited. Servitudes in favour of Namibia Power

Corporation (Proprietary) Limited in respect of these occupational rights are registered with the registrar of deeds and are available at the Company's premises for inspection.

### 6.5 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 and acts as water storage for Ruacana Power Station.

### 6.6 Valuation of power stations, transmission system and machinery and equipment

The power stations, transmission systems and machinery and equipment were revalued externally effective 1 July 2010 by independent valuers namely, Merz and McLellan South Africa, on the basis of their replacement value as adjusted for the remaining useful lives of the assets.

Assumptions used:

- plant parameters and costs for modern equivalent assets (MEAs), based on valuator's in-house databases;
- total output from an MEA, using either the same or an

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 6. PROPERTY, PLANT AND EQUIPMENT (continued)

### 6.6 Valuation of power stations, transmission system and machinery and equipment (continued)

alternative technology, equivalent to the particular Nampower power station;

- efficiency of an MEA as currently available on the international market;
- plant life, which varied depending on technology and
- construction financing costs factors for each type of power station.

The valuers have extensive experience in the valuation of generation, transmission and distribution assets.

### 6.7 Valuation of owner-occupied properties

The properties were externally revalued effective 1 July 2010 by an independent valuer, Gert Hamman Property Valuers CC. The valuations were performed on the basis of replacement value where no ready market exists or market value as estimated by sworn appraisers.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 7. INTERESTS IN SUBSIDIARIES AND ASSOCIATES

### 7.1 Subsidiary companies

Name	Nature of operation	Date of incorporation	Issued Share Capital N\$	Percentage holding 2012 %
<b>Directly held</b>				
Capricorn Power Supply (Pty) Ltd	Dormant	25/02/1999	2,500	100
Less: impairment of investment	-	-	-	-
Premier Electric (Pty) Ltd	Service company	31/10/2000	2,500	100
Okaomba Investment (Pty) Ltd	Property holding	01/03/2000	100	100

#### Loans due from:

Premier Electric (Pty) Ltd  
 Okaomba Investment (Pty) Ltd  
 Total interest in subsidiaries (shares at cost plus loans from subsidiaries)

#### Loans payable to:

Premier Electric (Pty) Ltd

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

Trade and other receivables/payables to the associates are disclosed in note 28.



Percentage holding 2011 %	Shares at Cost 2012 N\$'000	Shares at Cost 2011 N\$'000	Total Investment 2012 N\$'000	Total Investment 2011 N\$'000	Directors' valuation 2012 N\$'000	Directors' valuation 2011 N\$'000
100	2	2	2	2	-	-
-	(2)	(2)	(2)	(2)	-	-
100	5,000	5,000	5,000	5,000	6,389	6,389
100	944	944	944	944	11,551	9,564
	<b>5,944</b>	<b>5,944</b>	<b>5,944</b>	<b>5,944</b>	<b>17,940</b>	<b>15,953</b>

Due by subsidiaries 2012 N\$'000	Due by subsidiaries 2011 N\$'000
2	2
1,431	1,431
<b>1,433</b>	<b>1,433</b>
<b>7,377</b>	<b>7,377</b>
<b>(6,384)</b>	<b>(6,384)</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 7. INTERESTS IN SUBSIDIARIES AND ASSOCIATES (continued)

### 7.2 Associates

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>Carrying amount of associates</b>				
Carrying amount at beginning of year	385,406	277,528	173,232	173,232
Equity accounted earnings	10,254	13,562	-	-
Dividend received	(1,485)	-	-	-
Share of other comprehensive income of associates, net of taxation	53,929	94,316	-	-
	<b>448,104</b>	<b>385,406</b>	<b>173,232</b>	<b>173,232</b>
<b>Directors' valuation</b>	<b>448,104</b>	<b>385,406</b>		
<b>Post-acquisition reserves</b>				
Retained earnings	38,973	30,204		
Share of opening retained earnings	30,204	16,642		
Dividends declared	(1,485)	-		
Share of current year income	10,254	13,562		
Non-distributable reserves	409,131	355,202		
Share of opening revaluation and development reserve	355,202	260,886		
Share of other comprehensive income of associates, net of taxation	53,929	94,316		
	<b>448,104</b>	<b>385,406</b>		

The Group holds a 33.33% equity interest in Nored Electricity (Pty) Ltd.

The Group holds a 45.05% equity interest in Central-North Electricity Distribution Company (Pty) Ltd (Cenored).

The summarised financial statements of the associate companies are as follows:

#### Consolidated statement of financial position

Non current assets	1,472,306	1,284,261
Current assets	205,718	173,408
Non current liabilities	(467,278)	(379,078)
Current liabilities	(114,733)	(125,604)
	<b>1,096,013</b>	<b>952,987</b>

#### Consolidated statement of comprehensive income

Revenue	696,991	610,057
Expenditure	(660,961)	(559,408)
Profit before taxation	36,030	50,649
Taxation	(10,626)	(10,535)
Profit for the year	<b>25,404</b>	<b>40,114</b>

#### Cash Flow

Cash generated in operating activities	70,093	67,073
Cash utilised in investing activities	(71,708)	(63,219)
Cash generated from financing activities	24,345	1,130
Net cash flows	<b>22,730</b>	<b>4,984</b>

The Company has no obligation to recognise contingent liabilities of its subsidiaries and associates.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 8. INVESTMENT PROPERTIES

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Opening balance	15,479	10,040	15,479	10,040
Fair value adjustment	500	5,435	500	5,435
Transfer from property, plant and equipment	4	4	4	4
Transfer to land and buildings	(5,326)	-	(5,326)	-
Closing balance	10,657	15,479	10,657	15,479

Investment properties comprise a number of commercial properties that are leased to third parties and vacant land held for capital appreciation. No contingent rentals are charged.

Rental income and direct operating expenses relating to the investment properties are disclosed in note 27.

During June 2012 the fair value of all investment properties was determined by an independent qualified property valuer (Gert Hamman Property valuers) who has extensive experience in the Namibian property market.

The commercial properties' fair values were based on the market value determined by means of the Income Capitalisation Method. This method involves the determining of the net income of the property that will be capitalised at a rate sought by prudent investors to determine the capitalised value of the subject property.

The fair values of the residential properties which are classified as investment property were determined based on market values of comparable properties by means of applying the direct sales comparison method.

Details of the properties registered in the Group and Company's name are available for inspection at the registered office of the Group.

## 9. INTANGIBLE ASSETS

### 9.1 Computer software

Cost	69,650	70,722	69,650	70,722
Accumulated amortisation	(61,408)	(58,273)	(61,408)	(58,273)
	8,242	12,449	8,242	12,449
Opening carrying amount - 1 July	12,449	6,739	12,449	6,739
Additions	64	299	64	299
Impairment	(3,878)	-	(3,878)	-
Transfer from property, plant and equipment	2,742	8,628	2,742	8,628
Amortisation	(3,135)	(3,217)	(3,135)	(3,217)
Closing carrying amount - 30 June	8,242	12,449	8,242	12,449

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 10. LOANS RECEIVABLE

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Employee loans	232	397	232	397
Loan to ZESA Holdings (Pvt) Ltd	103,907	148,053	103,907	148,053
Loan to Angolan authorities	3,670	3,670	3,670	3,670
Impairment of loan to Angolan authorities	(3,670)	(3,670)	(3,670)	(3,670)
Loan to Ohorongo Cement (Pty) Ltd	17,165	19,708	17,165	19,708
Loan to City of Windhoek	23,572	25,196	23,572	25,196
Loan to Erongored-Hentiesbay	-	2,447	-	2,447
	<b>144,876</b>	<b>195,801</b>	<b>144,876</b>	<b>195,801</b>
Less: Instalments receivable within one year transferred to current assets.	<b>(86,855)</b>	<b>(72,883)</b>	<b>(86,855)</b>	<b>(72,883)</b>
	<b>58,021</b>	<b>122,918</b>	<b>58,021</b>	<b>122,918</b>

### Employee loans comprise of:

Employee study loans and computer loans.

Employee study loans are interest free and repayable over the duration of the study period.

Computer loans are repayable over 3 years bearing interest of 5% per annum.

### Loan to Zimbabwe Electricity Supply Authority Holdings (Pvt) Ltd (ZESA)

During the 2007 financial year, the Company signed a Power Purchase Agreement with the Zimbabwe Electricity Transmission Company (Pvt) Ltd (a subsidiary of ZESA). Under the agreement it was agreed that the Company would assist its counterparty to the agreement with financing the refurbishment of the Hwange Power Station, a coal fired power station situated in South-West Zimbabwe.

The NamPower board ear-marked an amount of U\$40 million for the refurbishment. NamPower contracted Lahmeyer International, an international consulting firm together with NamPower staff to oversee the refurbishment process on site at the power station. The loan advanced bears interest at LIBOR 6-months plus 1%.

As from 1 July 2010, and until 30 November 2013, a fixed monthly payment in the amount of USD800 000 is being deducted by NamPower from the capacity payment due to ZETDC as the monthly loan repayment instalment due to NamPower by ZESA. The monthly instalment is recalculated on 1 January and 1 July each year. The loan has been fully utilised.

The short term portion of the ZESA loan was based on the following assumptions: That NamPower will receive an amount of USD800 000 for the following twelve months translated at an exchange rate of U\$1=N\$8.3 at 30 June 2012.

### Loan to Ohorongo Cement (Pty) Ltd

The Company approved a loan to Ohorongo Cement (Pty) Ltd amounting to N\$22.2 million for the additional capital

contribution for the power supply to Ohorongo Cement factory. The loan was advanced in two phases in the form of project pre-financing by NamPower during the construction of the supply to Ohorongo Cement (Pty) Ltd as follows:

- Phase 1 - Temporary Supply (4 MVA) - N\$10.7 million
- Phase 2 - Main Supply (25 MVA) - N\$11.5 million

The loan is repayable by monthly instalments over a period of ten years at a variable interest rate of prime less 2%.

### Loan to the City of Windhoek

The Company approved a loan to the City of Windhoek amounting to N\$24.8 million for the upgrade of the power supply infrastructure at Van Eck Coupling Transformer 2. The loan is payable by monthly instalments over a period of ten years at a variable interest rate of prime plus 2%.

### Loan to Erongo Regional Electricity Distribution Company (Erongo Red)- Henties Bay

The Company approved a loan to Erongo Red amounting N\$5.1 million to increase the capacity supply to Henties Bay. The loan is payable by monthly instalments over a period of five years at a variable interest rate of prime plus 2%.

There was no movement in impairment loss on loans receivable.

The Group's exposure to credit, currency and interest rate risks related to loans receivable is disclosed in note 30.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 11. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Shareholder's loan and net current assets				
- Otavi Electrical Company (Pty) Ltd	-	265	-	346
	-	265	-	346

The joint venture was disposed of during the year under review and the formal deregistration process is still in progress.

### Results of discontinued operations

Revenue	-	-	-	-
Operating expenses including net finance costs	-	(38)	-	-
Loss before taxation	-	(38)	-	-
Taxation	-	-	-	-
Loss for the year from discontinued operations	-	(38)	-	-

### Cash flows from discontinued operation

Net cash utilised in operating activities	-	(46)	-	-
Net cash utilised in activities	-	(46)	-	-

## 12. INVESTMENTS

	1,227,474	894,019	1,227,474	894,019
<b>Non-current investments</b>				
Held-to-maturity debt instruments at amortised cost	1,204,398	870,943	1,204,398	870,943
Investment in unlisted equities				
Erongored (Pty) Ltd	23,076	23,076	23,076	23,076
- Cost	25,232	25,232	25,232	25,232
- Accumulated impairment	(2,156)	(2,156)	(2,156)	(2,156)
Westcor (Pty) Ltd	-	-	-	-
- Cost	642	642	642	642
- Accumulated impairment	(642)	(642)	(642)	(642)
<b>Current investments</b>	2,477,901	1,705,696	2,477,901	1,705,696
Available-for-sale:				
- listed equity	901	696	901	696
Fixed deposits	2,477,000	1,705,000	2,477,000	1,705,000
<b>Total investments</b>	<b>3,705,375</b>	<b>2,599,715</b>	<b>3,705,375</b>	<b>2,599,715</b>

Held to maturity investments with a carrying value of N\$145 million (2011: N\$136 million) have been encumbered and act as security for long-term loans (refer note 18.1.5).

The Group's exposure to credit, currency and interest rate risks related to investments is disclosed in note 30.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 13. INVENTORIES

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Maintenance spares and consumables	93,850	92,840	93,850	92,840
Fuel and coal	57,539	76,142	57,539	76,142
Obsolete stock recognised in SOCI	(322)	(51)	(322)	(51)
	<b>151,067</b>	<b>168,931</b>	<b>151,067</b>	<b>168,931</b>

No inventory was pledged as security.

There are no items of inventory that are stated at net realisable value.

## 14. TRADE AND OTHER RECEIVABLES

Trade receivables	394,073	349,658	394,073	349,658
- Gross receivables	412,151	371,074	412,151	371,074
- Provision for doubtful debts	(18,078)	(21,416)	(18,078)	(21,416)
External project receivables	120,035	74,370	120,035	74,370
Prepayments	1,219	1,133	1,219	1,133
Project and other advances	662	446	662	446
Other receivables	18,830	21,475	18,830	21,475
Accrued interest	96,191	38,915	96,191	38,915
	<b>631,010</b>	<b>485,997</b>	<b>631,010</b>	<b>485,997</b>

An impairment loss of N\$1.3 million (2011: N\$3.2 million) in respect of trade receivables was recognised in profit or loss.

The Group's exposure to credit and currency risks related to trade and other receivables are disclosed in note 30.

### Related party receivables

Included in trade and other receivables are amounts due from related parties for Group and Company. These have been disclosed in note 28.

## 15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	17	91	17	91
Petty cash received - outsourcing of Eha Lodge	(92)	-	(92)	-
Bank balances	387,865	301,302	387,865	301,302
Short term deposits	904,869	766,569	904,869	766,569
	<b>1,292,659</b>	<b>1,067,962</b>	<b>1,292,659</b>	<b>1,067,962</b>

The Group's exposure to credit, currency and interest rate risks related to cash and cash equivalents is disclosed in note 30.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 16. TAXATION

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>Namibian company tax</b>				
Current taxation	-	-	-	-
Deferred taxation - current year	<b>76,135</b>	(31,232)	<b>76,537</b>	(31,610)
Deferred taxation - prior year	-	(22,242)	-	(22,242)
	<b>76,135</b>	(53,474)	<b>76,537</b>	(53,852)
<i>Tax rate reconciliation</i>	%	%	%	%
Standard Tax Rate	<b>34.00</b>	34.00	<b>34.00</b>	34.00
Adjusted for:				
Items not deductible for tax purposes	<b>11.41</b>	4.35	<b>11.86</b>	4.88
Exempt income	<b>(11.82)</b>	(63.73)	<b>(10.75)</b>	(67.72)
Prior year charge	-	(18.07)	-	(20.30)
Effective tax rate	<b>33.59</b>	(43.45)	<b>35.11</b>	(49.14)

### Taxation recognised in other comprehensive income

2012

	GROUP			COMPANY		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Available-for-sale financial assets	206	-	206	206	-	206
Share of other comprehensive income of associates	<b>81,711</b>	<b>(27,782)</b>	<b>53,929</b>	-	-	-
	<b>81,917</b>	<b>(27,782)</b>	<b>54,135</b>	<b>206</b>	-	<b>206</b>

2011

Available-for-sale financial assets	105	-	105	105	-	105
Revaluation of property, plant and equipment and strategic inventory	5,561,071	(1,872,619)	3,688,452	5,552,424	(1,869,679)	3,682,745
Share of other comprehensive income of associates	<b>142,902</b>	<b>(48,586)</b>	<b>94,316</b>	-	-	-
	<b>5,704,078</b>	<b>(1,921,205)</b>	<b>3,782,873</b>	<b>5,552,529</b>	<b>(1,869,679)</b>	<b>3,682,850</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 17. SHARE CAPITAL AND RESERVES

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>17.1 Authorised</b>				
365 000 000 ordinary shares at N\$1	365,000	365,000	365,000	365,000
<b>17.2 Issued share capital</b>				
165 000 000 (2011: 165 000 000) ordinary shares at N\$1	165,000	165,000	165,000	165,000
<b>17.3 Share premium</b>				
Share premium arising on shares issued	900,000	900,000	900,000	900,000
100 000 000 Ordinary shares of N\$1 each and share premium of N\$9. (2011: 100 000 000 Ordinary shares of N\$1 each and share premium of N\$9.)				

### 17.4 Capital revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment.

There are no restrictions on the distribution of the balance of the capital revaluation reserve to the shareholders.

### 17.5 Strategic inventory revaluation reserve

The revaluation reserve relates to the revaluation of strategic inventory items. The revaluation is performed in line with the Group's property, plant and equipment policy.

### 17.6 Available for sale fair value adjustment reserve

The reserve consists of all fair value movements relating to financial instruments classified as available-for-sale. The fair value adjustment relates to 25 249 shares held in Sanlam Ltd.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 18. INTEREST BEARING LOANS AND BORROWINGS (GROUP AND COMPANY)

Terms and conditions of outstanding loans were as follows:

### Interest bearing borrowings

	Currency	Coupon interest rate	Effective interest rate	Year of maturity	30 June 2012		30 June 2011	
					Carrying amount	Face value	Carrying amount	Face value
					N\$'000	N\$'000	N\$'000	N\$'000
18.1.1								
Agence Francaise de Development *	EUR	3.00%	9.39%	2019	32,150	19,392	31,973	21,978
18.1.2								
European Investment Bank - loan I *	EUR	3.81%	13.89%	2018	259,556	152,622	265,192	175,555
18.1.3								
AB Svensk Exportkrediet *	ZAR	7.62%	7.62%	2015	24,077	24,077	32,102	32,102
18.1.4								
African Development Bank *	ZAR	Jibar6m+.50	10.30%	2018	25,216	25,216	29,419	29,419
18.1.5								
Development Bank of Southern Africa ^	ZAR	9.82%	9.82%	2022	220,000	220,000	220,000	220,000
18.1.6								
European Investment Bank - loan II *	GBP	3.00%	7.62%	2021	184,176	215,738	155,620	234,002
18.1.7								
NMP20N Bonds issued - Caprivi Link Interconnector <sup>1</sup>	ZAR	9.35%	9.35%	2020	500,000	500,000	500,000	500,000
18.1.8								
Development Bank of Namibia <sup>1</sup>	NAD	Prime less 4.5%	Prime less 4.5%	2024	53,734	53,734	56,861	56,861
18.1.9								
NMP19N Bonds issued - Ruacana 4th unit <sup>1</sup>	NAD	10.00%	10.00%	2019	250,000	250,000	250,000	250,000
18.1.10								
European Investment Bank - loan III <sup>1</sup>	ZAR	9.26%	9.26%	2029	384,736	384,736	395,729	395,729
18.1.11								
Agence Francaise de Development II <sup>1</sup>	ZAR	6.10%	6.10%	2027	341,912	341,912	363,971	363,971
18.1.12								
KFW Bankengruppe <sup>1</sup>	ZAR	5.29%	5.29%	2020	391,300	391,300	391,300	391,300
18.1.13								
KFW Bankengruppe <sup>2</sup>	ZAR	6.98%	6.98%	2021	342,437	342,437	-	-
					<b>3,009,294</b>	<b>2,921,164</b>	<b>2,692,167</b>	<b>2,670,917</b>
Less: Instalments payable within one year transferred to current liabilities					<b>255,913</b>	<b>236,868</b>	<b>100,644</b>	<b>96,355</b>
					<b>2,753,381</b>	<b>2,684,296</b>	<b>2,591,523</b>	<b>2,574,562</b>

\* The loans are guaranteed by the Government of the Republic of Namibia.

^ The loan is secured by a pledge of investments with a carrying value of N\$145 million and a nominal value of N\$220 million.

<sup>1</sup> The loans are unsecured.

Refer to note 30.1 (classification of financial instrument classes into IAS 39 categories).

The Group's exposure to liquidity and currency risks related to interest bearing loans and borrowings is disclosed in note 30.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 19. DEFERRED REVENUE LIABILITIES

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>Non-current liability</b>				
Deferred revenue government grant: generation assets	229,833	50,000	229,833	50,000
Nam Zinc (Pty) Ltd	22,871	31,188	22,871	31,188
Deferred revenue: Transfer of assets from customers	427,697	437,470	427,697	437,470
Interest rate subsidy - EIB Loan III	44,984	50,982	44,984	50,982
	<b>725,385</b>	<b>569,640</b>	<b>725,385</b>	<b>569,640</b>
<b>Current liability</b>				
Deferred revenue government grant: generation expenditure	142,156	177,473	142,156	177,473
Short-term portion Nam Zinc (Pty) Ltd	8,317	8,317	8,317	8,317
Short-term portion Deferred revenue: Transfer of assets from customers	9,774	9,774	9,774	9,774
Short-term portion Interest rate subsidy - EIB Loan III	5,998	5,998	5,998	5,998
Short-term portion Anixas powerstation	6,857	-	6,857	-
	<b>173,102</b>	<b>201,562</b>	<b>173,102</b>	<b>201,562</b>

### 19.1 Deferred revenue - NamZinc (Pty) Ltd

The Company received N\$80 million in respect of extension fees in terms of the electricity supply contract between the Company and Skorpion Zinc Corporation. In terms of the contract the extension fees were due and payable over a 14 year period. The entire amount was received during the 2006 financial year when only 4 years had lapsed. The amount is being recognised over the remaining 10 year period since 2006 in terms of the agreement with Skorpion Zinc Corporation.

### 19.2 Deferred revenue - Government Grants

#### 19.2.1 Government Grant - generation expenditure

A government grant of Nil (2011: N\$50 million) was received during the year under review. The grant was in respect of subsidising the Company's power generation expenditure.

#### Reconciliation of deferred revenue - Government grant

Opening balance	177,473	151,688	177,473	151,688
New grant	-	50,000	-	50,000
Recognised in profit or loss	(35,317)	(24,215)	(35,317)	(24,215)
Closing balance	<b>142,156</b>	<b>177,473</b>	<b>142,156</b>	<b>177,473</b>

Of this grant N\$35.3 million (2011: N\$24.2 million) was recognised as income during the current year while the N\$142.2 million (2011: N\$177.5 million) represents deferred income and will be recognised on a systematic basis over the periods in which the entity recognises the related costs in profit or loss as electricity generation expenditure is incurred. The grant is classified as a current asset, due to uncertain trading conditions in the energy market.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 19. DEFERRED REVENUE LIABILITIES (continued)

#### 19.2.2 Government Grant - generation assets

##### Reconciliation of deferred revenue - Government grant

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Opening balance	50,000	-	50,000	-
New grant	190,000	50,000	190,000	50,000
Recognised in profit or loss	(3,310)	-	(3,310)	-
Closing balance	236,690	50,000	236,690	50,000

A government grant of N\$190 million (2011: N\$50 million) was received during the year under review. The grant was received in respect of subsidising the construction of the 22.5 megawatt (MW) emergency power plant at Walvis Bay to serve as a back-up energy supply to prevent power black outs that may be experienced during peak hours. Of this grant N\$3.1 million (2011: N\$0 million) was recognised as income during the current year while the N\$236.7 million (2011: N\$50 million) represents deferred income and will be recognised on a systematic basis over the useful life of the power plant.

#### 19.3 Interest rate subsidy - EIB Loan III

An interest rate subsidy of N\$65.9 million was received during the financial year ended 30 June 2010. EU-Africa Infrastructure Trust Fund ("ITF") approved, inter alia, the provision of an interest rate subsidy for an amount of €5million (five million euros), equivalent to N\$65.9 million to enable EIB to make available finance to NamPower at reduced interest rates. The parties have agreed that the interest rate subsidy be applied upfront in order to reduce the interest payable. Of this grant N\$5.9 million (2011: N\$5.9 million) was recognised as income during the current year whilst the remaining N\$53.7 million (2011: N\$56.9 million) represents deferred income and will be recognised over the life span of the loan of 20 years.

#### 19.4 Deferred revenue: Transfers of assets from customers

A donation of items of property, plant and equipment with a fair value of Nil (2011: N\$447.2 million) was received from customers. The items comprise N\$436.9 million transmission assets from Areva Resources Namibia and N\$4.7 million distribution assets from distribution customers. The donation will be recognised as income over the useful life of the donated assets.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 20. DEFERRED TAX LIABILITIES

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Balance at the beginning of the year	4,209,977	2,390,952	4,206,138	2,390,312
Current charge recognised in profit or loss	76,135	(53,474)	76,537	(53,852)
Current year	76,135	(31,232)	76,537	(31,610)
Temporary differences	60,451	312,350	60,853	311,972
Calculated tax loss utilised to reduce liability	15,684	(343,582)	15,684	(343,582)
Prior year	-	(22,242)	-	(22,242)
Revaluation of property, plant and equipment through equity	-	1,872,499	-	1,869,678
Balance at end of year	<b>4,286,112</b>	<b>4,209,977</b>	<b>4,282,675</b>	<b>4,206,138</b>
The balance comprises:				
Deferred tax asset (calculated tax loss)	(384,434)	(400,118)	(384,434)	(400,118)
Property, plant and equipment	4,715,336	3,998,485	4,711,899	3,994,646
Deferred tax recognised in other comprehensive income	-	635,691	-	635,691
Inventory	51,363	58,137	51,363	58,137
Interest accrued	30,222	36,486	30,222	36,486
Doubtful debt allowance	(1,783)	(5,461)	(1,783)	(5,461)
Severance pay liability	(12,792)	(11,340)	(12,792)	(11,340)
Fair value swaps, loans and unrealised foreign exchange losses	(46,581)	(65,017)	(46,581)	(65,017)
Strategic inventory	4,602	-	4,602	-
Post retirement medical benefit	(43,577)	(39,775)	(43,577)	(39,775)
Power purchase and power sales agreement- embedded derivative	(8,802)	18,142	(8,802)	18,142
Provisions and advance payments	(17,442)	(15,253)	(17,442)	(15,253)
	<b>4,286,112</b>	<b>4,209,977</b>	<b>4,282,675</b>	<b>4,206,138</b>
Deferred tax asset	(515,411)	(518,822)	(515,411)	(518,822)
Deferred tax liability	4,801,523	4,728,799	4,798,086	4,724,960
	<b>4,286,112</b>	<b>4,209,977</b>	<b>4,282,675</b>	<b>4,206,138</b>

A deferred tax asset amounting to N\$384.4 million (2011: N\$400.1 million) relating to unused tax losses has been recognised as it is probable that future taxable profits will be available against which the unused tax losses can be used.

## 21. TRADE AND OTHER PAYABLES

Trade payables	809,099	470,897	809,105	471,041
Leave and bonus accruals	52,528	45,954	52,528	45,954
Swap and loan interest payable	69,399	63,049	69,399	63,049
Retention creditors	4,377	41,524	4,377	41,524
	<b>935,403</b>	<b>621,424</b>	<b>935,409</b>	<b>621,568</b>

The Group's exposure to liquidity and currency risks related to trade and other payables are disclosed in note 30.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 21. TRADE AND OTHER PAYABLES (continued)

#### 21.1 Leave and bonus accruals

The Group accrues for leave pay and bonuses for all employees. The value of the accrual at 30 June 2012 was determined by reference to the leave days accrued and proportionate annual bonus accrual. The bonus accrual is expected to be utilised within the following financial year.

#### 21.2 Related party payables

Trade and other payables due to related parties have been disclosed in note 28.

#### 21.3 Retention creditors

Non-Current  
Current (included in trade payables)

GROUP		COMPANY	
2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
8,283	7,047	8,283	7,047
4,377	41,524	4,377	41,524
<b>12,660</b>	<b>48,571</b>	<b>12,660</b>	<b>48,571</b>

This represents retentions held by the Company in respect of defect clauses in contracts with suppliers.

## 22. DERIVATIVES

### 22.1 Derivative assets

Forward exchange contract assets  
Interest rate and cross currency swaps  
Embedded Derivatives - Power Purchase/Sale Agreements (PPA/PSA)

2,707	-	2,707	-
80,429	65,968	80,429	65,968
91,561	76,409	91,561	76,409
<b>174,697</b>	<b>142,377</b>	<b>174,697</b>	<b>142,377</b>

The electricity purchase and selling price in terms of the PPA and PSA with ZETCO and Namzinc (Pty) Ltd is linked to the movements of the US Dollar currency and the US Producer Price Index. The variables above give rise to foreign currency and inflation-linked embedded derivatives.

### 22.2 Derivative liabilities

Forward exchange contract liabilities  
Firm commitments  
Interest rate and cross currency swaps  
Embedded derivative Power Purchase/Sale Agreements (PPA/PSA)

-	8,744	-	8,744
1,724	5,169	1,724	5,169
50,425	76,642	50,425	76,642
110,494	16,095	110,494	16,095
<b>162,643</b>	<b>97,906</b>	<b>162,643</b>	<b>97,906</b>

The Company hedges its risk to interest rate and currency risks in terms of the foreign loans by entering into interest rate and cross currency swaps. Changes in the fair value of the swaps that are designated and qualify as fair value hedges are recorded in the profit and loss component of the statement of comprehensive income, together with any changes

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 22. DERIVATIVES (continued)

#### 22.2 Derivative liabilities (continued)

in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The swap agreements have been entered into with Standard Bank Limited. The cross currency swaps are denominated in NAD, EUR and GBP.

The swap agreements have termination days ranging from 20 June 2018 to 15 September 2022. Refer to note 18 for the hedged loan repayment dates.

### 23. PROVISIONS

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Post Retirement Medical Benefits	128,492	116,985	128,492	116,985
Severance pay liability	37,624	33,354	37,624	33,354
	<b>166,116</b>	<b>150,339</b>	<b>166,116</b>	<b>150,339</b>

#### 23.1 Post Retirement Medical Benefits

Amounts for the current and previous four periods for Group & Company are as follows:

in thousands of Namibia Dollar	2012	2011	2010	2009	2008
Present value of obligations	(128,492)	(116,985)	(111,959)	(86,790)	(78,659)
Fair value of plan assets	-	-	-	-	-
Deficit	<b>(128,492)</b>	<b>(116,985)</b>	<b>(111,959)</b>	<b>(86,790)</b>	<b>(78,659)</b>
Experience adjustments on plan liabilities	(1,931)	(8,656)	12,394	(4,009)	2,620
Experience adjustments on plan assets	-	-	-	-	-

##### 23.1.1 Actuarial assumptions

The Group makes contributions to two defined benefit plans that provide medical benefits for current employees. The Group makes contributions to three defined benefit plans that provide medical benefits for pensioners. The benefit plans are provided by Namibia Medical Care (NMC), which is administered by Methealth Namibia Administrators.

The present value of the provision at 30 June 2012, as determined by an actuarial valuation, was N\$128.5 million. This actuarial valuation was performed by Jacques Malan Consultants and Actuaries. The liability is expected to be settled over 20 years.

The Group expects to pay N\$75.2 million in contributions to the defined benefit plans in 2013.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 23. PROVISIONS (continued)

### 23.1.1 Actuarial assumptions (continued)

#### Liability for defined benefit obligations

Principal actuarial assumptions at the reporting date:

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Discount rate at 30 June (%)	8.38	8.51	8.38	8.51
Medical cost trend rate (%)	6.38	6.51	6.38	6.51

Should the medical cost trend increase or decrease by 1% the defined medical benefit liability would be as follows:

1% increase in medical cost trend	129,777	118,155	129,777	118,155
1% decrease in medical cost trend	(127,207)	(115,815)	(127,207)	(115,815)

### 23.1.2 Movements in the net liability for defined benefit obligations recognised in the statement of financial position

Net liability for defined obligations as at 1 July	116,985	111,959	116,985	111,959
Interest cost	9,950	10,121	9,950	10,121
Current service costs	5,586	5,553	5,586	5,553
Benefits paid	(2,098)	(1,992)	(2,098)	(1,992)
Actuarial gain on obligation	(1,931)	(8,656)	(1,931)	(8,656)
Net liability for defined obligations as at 30 June	128,492	116,985	128,492	116,985

1% increase in current service + interest rate cost trend	15,691	15,831	15,691	15,831
1% decrease in current service + interest rate cost trend	(15,381)	(15,517)	(15,381)	(15,517)

### 23.1.3 Expense recognised in profit or loss

Current service costs	5,586	5,553	5,586	5,553
Interest cost	9,950	10,121	9,950	10,121
Actuarial gain on obligation	(1,931)	(8,656)	(1,931)	(8,656)
	13,605	7,018	13,605	7,018

The expense is included in the administrative expenses in profit or loss.

## 23.2 Severance pay liability

Present value of net obligations	37,624	33,354	37,624	33,354
Present value of unfunded obligations	37,624	33,354	37,624	33,354
Recognised liability for defined benefit obligations	37,624	33,354	37,624	33,354

Severance pay liability is recognised for employees retiring on reaching the age of 65 years.

### 23.2.1 Liability for severance pay obligations

Principal actuarial assumptions at the reporting date:

Discount rate at 30 June (%)	8.38	8.51	8.38	8.51
Salary inflation rate at 30 June (%)	6.88	7.01	6.88	7.01

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 23. PROVISIONS (continued)

### 23.2 Severance pay liability (continued)

23.2.2 Movements in the net liability for defined benefit obligations recognised in the Group and Company statements of financial position.

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Net liability for defined obligations as at 1 July	33,354	25,781	33,354	25,781
Interest cost	2,838	2,746	2,838	2,746
Current service costs	1,242	1,027	1,242	1,027
Benefits paid	(624)	(431)	(624)	(431)
Actuarial loss on obligation	814	4,231	814	4,231
Net liability for defined obligations as at 30 June	37,624	33,354	37,624	33,354

### 23.2.3 Expense recognised in the Group and Company statements of comprehensive income

Current service costs	1,242	1,027	1,242	1,027
Interest on obligation	2,838	2,746	2,838	2,746
Expected return on plan assets	-	-	-	-
Actuarial loss on obligation	814	4,231	814	4,231
	4,894	8,004	4,894	8,004

The expense is included in the administrative expenses in profit or loss.

## 24. CAPITAL COMMITMENTS

### Projects for Capital Expenditure

Approved by Board of Directors	786,894	3,995,732	786,894	3,995,732
Less: Expenditure to 30 June	(635,741)	(3,109,236)	(635,741)	(3,109,236)
Amount still to be expended	151,152	886,496	151,152	886,496
Amounts contracted at year end	44,458	89,319	44,458	89,319
	44,458	89,319	44,458	89,319

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

## 25. NET FINANCING INCOME

### Recognised in profit or loss

Interest income on:	336,281	275,691	336,281	275,691
-Financial assets at amortised cost	314,368	256,827	314,368	256,827
-Financial assets at amortised cost derecognised	4,164	-	4,164	-
-Financial assets held for trading	17,749	18,864	17,749	18,864
Interest costs on:	(255,246)	(204,565)	(255,246)	(204,565)
-Financial liabilities designated at fair value through profit or loss	(147,978)	(111,562)	(147,978)	(111,562)
-Financial liabilities held for trading	(45,891)	(50,904)	(45,891)	(50,904)
-Financial liabilities at amortised cost derecognised	(3,356)	-	(3,356)	-
-Financial liabilities at amortised cost	(58,021)	(42,099)	(58,021)	(42,099)
	81,035	71,126	81,035	71,126



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 26. REVENUE

Revenue comprises:

- Sales of electricity
- Extension charges
- STEM sales
- Contribution Paratus
- Contributions by customers

GROUP		COMPANY	
2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
2,449,145	2,003,949	2,449,145	2,003,949
57,316	44,648	57,316	44,648
44,547	84,774	44,547	84,774
619	607	619	607
3,932	175,186	3,932	175,186
<b>2,555,559</b>	<b>2,309,164</b>	<b>2,555,559</b>	<b>2,309,164</b>

Sales of electricity relates to income derived from maximum demand charges paid by large power users, units sold at cents/kWh and income derived from the monthly basic charge payable by all power users.

Extension charges relates to income derived from monthly rental as per contract of each power user.

STEM sales: Electricity sales on the short term energy market to other South African Power Pool (SAPP) utilities.

Paratus contribution comprises of a monthly contribution by the municipality of Walvis Bay as per take over contract of the Enclave.

Contributions made by customers towards the costs to be incurred to make a power supply available to the customer.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 27. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging / (crediting):

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Directors' emoluments paid by Company fees for services as directors	3,302	2,986	3,302	2,986
- paid to non-executive directors	606	482	606	482
- paid to executive directors	2,696	2,504	2,696	2,504
Auditors' remuneration				
- audit fee	2,502	1,821	2,502	1,821
Depreciation of property, plant and equipment	692,656	662,752	692,586	662,682
Impairment of property, plant and equipment	-	119,546	-	119,546
Amortisation of intangible asset	3,135	3,217	3,135	3,217
Remuneration other than to employees for	9,853	4,628	9,853	4,628
- managerial services	3,421	615	3,421	615
- technical services	5,920	818	5,920	818
- other professional services	512	3,195	512	3,195
Research and development expenditure	9,676	10,371	9,676	10,371
Movement in provision for doubtful debts	1,315	3,241	1,315	3,242
Bad debts written off	-	105	-	105
Bad debts recovered	(3,378)	(133)	(3,378)	(133)
Contribution to Social Responsibility Programs	5,731	2,770	5,731	2,770
Loss/(gain) on disposal of property, plant and equipment	68	(3,170)	68	(3,170)
(Gain)/loss on sale of interest in subsidiary	-	(141)	-	255
Loss on sale of interest in joint venture	16	-	97	-
Staff costs	406,156	404,620	406,156	355,327
Salaries and wages	374,717	374,538	374,717	325,245
Housing subsidies	(32)	11	(32)	11
Company contribution: Provident Fund	33,247	30,316	33,247	30,316
Others	(1,776)	(245)	(1,776)	(245)
Severance Pay	4,464	7,652	4,464	7,652
- Liability	4,894	8,004	4,894	8,004
- Benefits paid	(430)	(352)	(430)	(352)
Post retirement medical benefit	13,605	7,018	13,605	7,018
Foreign exchange gains on foreign exchange contracts				
- unrealised	(6,147)	(1,449)	(6,147)	(1,449)
Foreign exchange losses on foreign exchange contracts				
- unrealised	4,046	45,447	4,046	45,447
Foreign exchange gains on trade payables/receivables, bank balances and loans payable	(143,268)	(86,985)	(143,268)	(86,985)
- realised	(90,159)	(73,441)	(90,159)	(73,441)
- unrealised	(53,109)	(13,544)	(53,109)	(13,544)
Foreign exchange losses on trade payables/receivables, bank balances and loans payable	57,193	149,029	57,193	149,029
- realised	49,904	149,029	49,904	149,029
- unrealised	7,289	-	7,289	-

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 27. PROFIT BEFORE TAXATION (continued)

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
IAS 39 Fair value adjustments	105,447	(89,198)	105,447	(89,198)
- derivative contracts	(40,679)	9,978	(40,679)	9,978
- foreign denominated loans	66,879	(14,501)	66,879	(14,501)
-Unrealised loss/(gain) on embedded derivative Power Purchase Agreement (PPA) and Power Sales Agreement (PSA)	79,247	(77,719)	79,247	(77,719)
-Realised loss on embedded derivative Power Purchase Agreement (PPA) and Power Sales Agreement (PSA)	-	225,459	-	225,459
-Realised gain on embedded derivative Power Purchase Agreement (PPA) and Power Sales Agreement (PSA)	-	(232,415)	-	(232,415)
Government grants recognised in profit or loss	(32,008)	(24,216)	(32,008)	(24,216)
Income generating Investment Property				
- rental income	(3,240)	(3,428)	(3,240)	(3,428)
- direct operating expenses	323	84	323	84
Non-income generating Investment Property				
- direct operating expenses	49	47	49	47
Fair value adjustment on investment properties	(500)	(5,435)	(500)	(5,435)

## 28. RELATED PARTIES

### Identity of related parties

The Company has related party relationships with its subsidiaries (see note 7.1), associates (see note 7.4) and key management personnel. Key management personnel comprise directors and executive management.

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

The directors are listed in the directors' report.

### Transactions with key management personnel

The key management personnel compensations are as follows:

Short-term employee benefits	9,187	8,409	9,187	8,409
Post-retirement employment benefits	901	772	901	772
Other long-term employment benefits	78	76	78	76
	<b>10,166</b>	<b>9,257</b>	<b>10,166</b>	<b>9,257</b>

Total remuneration is included in 'staff costs' (see note 27)

Directors' emoluments are disclosed in note 27.

During the year the Company, in the ordinary course of business, entered into various sale and purchase transactions with its subsidiaries, fellow government owned entities and associates.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 28. RELATED PARTIES (continued)

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>Associates</b>				
Cenored (Pty) Ltd	67,431	54,528	149,679	121,040
- Electricity sales	66,916	53,798	148,536	119,419
- Service level agreement and technical support	515	730	1,143	1,621
Nored Electricity (Pty) Ltd	73,253	59,092	219,784	177,293
- Electricity sales	73,132	58,774	219,419	176,339
- Rental income	18	20	55	59
- Service level agreement and technical support	103	298	310	895
Municipal services from related parties	1,844	636	5,252	1,868
- Nored Electricity (Pty) Ltd	1,485	587	4,454	1,760
- Cenored (Pty) Ltd	359	49	798	108
Guarantees received	4,610	4,591	11,849	11,806
- Nored Electricity (Pty) Ltd	2,068	2,068	6,205	6,205
- Cenored (Pty) Ltd	2,542	2,523	5,644	5,601

### Fellow government owned entities

The individually significant sales transactions with fellow government owned entities are listed below:

Electricity Sales	167,568	96,767	167,568	96,767
- Namibia Water Corporation	73,153	55,704	73,153	55,704
- Namibian Broadcasting Corporation (Pty) Ltd	1,209	1,134	1,209	1,134
- Namdeb Diamond Corporation (Pty) Ltd	85,374	33,325	85,374	33,325
- Namibia Airports Company Ltd	4,132	3,246	4,132	3,246
- Telecom Namibia Ltd	3,700	3,358	3,700	3,358

### Subsidiary

Okaomba (Pty) Ltd	-	-	102	70
- Rent paid	-	-	102	70

### Fellow government owned entities

Other individually significant transactions with fellow government owned entities are listed below:

Telecommunication, Transport services & related services	5,957	5,192	5,957	5,192
- Telecom Namibia Limited	3,013	2,815	3,013	2,815
- Air Namibia (Pty) Ltd	35	269	35	269
- Namibia Water Corporation (Pty) Ltd	444	92	444	92
- Namibia Airports Company	126	168	126	168
- Road Fund Administrators	1,177	967	1,177	967
- National Housing Enterprises	3	210	3	210
- Social Security Commission	1,159	671	1,159	671

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 28. RELATED PARTIES (continued)

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
<b>Related party balances</b>				
Due from / (due to)				
<b>Associates</b>	<b>16,033</b>	<b>22,182</b>	<b>42,170</b>	<b>54,971</b>
- Cenored (Pty) Ltd	7,602	14,836	16,874	32,933
- Cenored (Pty) Ltd	(2)	-	(4)	-
- Nored Electricity (Pty) Ltd	8,433	7,358	25,300	22,075
- Nored Electricity (Pty) Ltd	-	(12)	-	(37)
<b>Fellow government owned entities</b>	<b>22,862</b>	<b>9,418</b>	<b>22,862</b>	<b>9,418</b>
- Telecom Namibia Limited	277	271	277	271
- TransNamib (Pty) Ltd	48	48	48	48
- Namdeb Diamond Corporation (Pty) Ltd	12,810	3,666	12,810	3,666
- Namibia Water Corporation (Pty) Ltd	8,791	5,002	8,791	5,002
- Namibia Airports Company (Pty) Ltd	809	321	809	321
- Namibian Broadcasting Corporation (Pty) Ltd	98	94	98	94
- Roads Authority	29	16	29	16
<b>Guarantees received</b>	<b>8,895</b>	<b>8,895</b>	<b>8,895</b>	<b>8,895</b>
- Telecom Namibia Ltd	422	422	422	422
- TransNamib (Pty) Ltd	73	73	73	73
- Namdeb Diamond Corporation (Pty) Ltd	4,809	4,809	4,809	4,809
- Namibia Water Corporation (Pty) Ltd	3,456	3,456	3,456	3,456
- Namibia Airports Company (Pty) Ltd	2	2	2	2
- Namibian Broadcasting Corporation (Pty) Ltd	121	121	121	121
- Roads Authority	12	12	12	12

The Company does not have any significant commitments with its related parties.

During the year under review N\$825 (2011: N\$Nil) was written off against the bad debt provision for Nored Electricity (Pty) Ltd

Goods and services are bought from and sold to related parties on an arm's length basis at market-related prices.

## 29. EMPLOYEE INFORMATION

### 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, 98% 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\$33.2 million (2011: N\$30.3 million).

The Company's contribution paid to Fund for the key management amounted to N\$901 thousand.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS

#### 30.1 Classification of the statement of financial position classes into IAS 39 categories

The values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

GROUP	Reference notes	Loans and receivables	Held-for-trading	Held-to-maturity	Available-for-sale	Designated / Fair value through profit or loss	Other financial liabilities at amortised cost	Total
<b>2012</b>								
<b>Financial Assets</b>								
Non-current investments	12, 30.4	-	-	1,204,398	23,076	-	-	1,227,474
Derivative assets	22.1, 30.4	-	174,697	-	-	-	-	174,697
Loans receivable	10, 30.4	144,876	-	-	-	-	-	144,876
Trade and other receivables	14, 30.4	629,129	-	-	-	-	-	629,129
Current investments	12, 30.4	2,477,000	-	-	901	-	-	2,477,901
Cash and cash equivalents	15, 30.4	1,292,659	-	-	-	-	-	1,292,659
		<u>4,543,664</u>	<u>174,697</u>	<u>1,204,398</u>	<u>23,977</u>	<u>-</u>	<u>-</u>	<u>5,946,736</u>

#### Financial liabilities

Non-current interest bearing loans and borrowings	18	-	-	-	-	(3,009,294)	-	(3,009,294)
Derivative liabilities	22.2	-	(162,643)	-	-	-	-	(162,643)
Non-current retention creditors	21.3	-	-	-	-	-	(8,283)	(8,283)
Trade payables	21	-	-	-	-	-	(935,403)	(935,403)
Current interest bearing loans and borrowings	18	-	-	-	-	(255,913)	-	(255,913)
		<u>-</u>	<u>(162,643)</u>	<u>-</u>	<u>-</u>	<u>(3,265,207)</u>	<u>(943,686)</u>	<u>(4,371,536)</u>

#### 2011

#### Financial Assets

Non-current investments	12, 30.4	-	-	870,943	23,076	-	-	894,019
Derivative assets	22.1, 30.4	-	142,377	-	-	-	-	142,377
Loans receivable	10, 30.4	195,801	-	-	-	-	-	195,801
Trade and other receivables	14, 30.4	484,418	-	-	-	-	-	484,418
Current investments	12, 30.4	1,705,000	-	-	696	-	-	1,705,696
Cash and cash equivalents	15, 30.4	1,067,962	-	-	-	-	-	1,067,962
		<u>3,453,181</u>	<u>142,377</u>	<u>870,943</u>	<u>23,772</u>	<u>-</u>	<u>-</u>	<u>4,490,273</u>

#### Financial liabilities

Non-current interest bearing loans and borrowings	18	-	-	-	-	(2,692,167)	-	(2,692,167)
Derivative liabilities	22.2	-	(106,650)	-	-	-	-	(106,650)
Non-current retention creditors	21.3	-	-	-	-	-	(7,047)	(7,047)
Trade payables	21	-	-	-	-	-	(621,424)	(621,424)
Current interest bearing loans and borrowings	18	-	-	-	-	(100,644)	-	(100,644)
		<u>-</u>	<u>(106,650)</u>	<u>-</u>	<u>-</u>	<u>(2,792,811)</u>	<u>(628,471)</u>	<u>(3,527,932)</u>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 30. FINANCIAL INSTRUMENTS (continued)

### 30.1 Classification of the statement of financial position classes into IAS 39 categories (continued)

The values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

COMPANY	Reference notes	Loans and receivables	Held-for-trading	Held-to-maturity	Available-for-sale	Designated / Fair value through profit or loss	Other financial liabilities at amortised cost	Total
<b>2012</b>								
<b>Financial Assets</b>								
Non-current investments	12, 30.4	-	-	1,204,398	23,076	-	-	1,227,474
Derivative assets	22.1, 30.4	-	174,697	-	-	-	-	174,697
Loans receivable	10, 30.4	144,876	-	-	-	-	-	144,876
Trade and other receivables	14, 30.4	629,129	-	-	-	-	-	629,129
Current investments	12, 30.4	2,477,000	-	-	901	-	-	2,477,901
Cash and cash equivalents	15, 30.4	1,292,659	-	-	-	-	-	1,292,659
Interest in subsidiaries	7.1	7,377	-	-	-	-	-	7,377
		<b>4,551,041</b>	<b>174,697</b>	<b>1,204,398</b>	<b>23,977</b>	<b>-</b>	<b>-</b>	<b>5,954,113</b>

#### Financial liabilities

Non-current interest bearing loans and borrowings	18	-	-	-	-	(3,009,294)	-	(3,009,294)
Derivative liabilities	22.2	-	(162,643)	-	-	-	-	(162,643)
Non-current retention creditors	21.3	-	-	-	-	-	(8,283)	(8,283)
Trade payables	21	-	-	-	-	-	(935,409)	(935,409)
Current interest bearing loans and borrowings	18	-	-	-	-	(255,913)	-	(255,913)
Loans due to subsidiaries	7.1	-	-	-	-	-	(6,384)	(6,384)
		<b>-</b>	<b>(162,643)</b>	<b>-</b>	<b>-</b>	<b>(3,265,207)</b>	<b>(950,076)</b>	<b>(4,377,926)</b>

### 2011

#### Financial Assets

Non-current investments	12, 30.4	-	-	870,943	23,076	-	-	894,019
Derivative assets	22.1, 30.4	-	142,377	-	-	-	-	142,377
Loans receivable	10, 30.4	195,801	-	-	-	-	-	195,801
Trade and other receivables	14, 30.4	484,418	-	-	-	-	-	484,418
Current investments	12, 30.4	1,705,000	-	-	696	-	-	1,705,696
Cash and cash equivalents	15, 30.4	1,067,962	-	-	-	-	-	1,067,962
Interest in subsidiaries	7.1	7,377	-	-	-	-	-	7,377
		<b>3,460,558</b>	<b>142,377</b>	<b>870,943</b>	<b>23,772</b>	<b>-</b>	<b>-</b>	<b>4,497,650</b>

#### Financial liabilities

Non-current interest bearing loans and borrowings	18	-	-	-	-	(2,692,167)	-	(2,692,167)
Derivative liabilities	22.2	-	(106,650)	-	-	-	-	(106,650)
Non-current retention creditors	21.3	-	-	-	-	-	(7,047)	(7,047)
Trade and other payables	21	-	-	-	-	-	(621,568)	(621,568)
Current interest bearing loans and borrowings	18	-	-	-	-	(100,644)	-	(100,644)
Loans due to subsidiaries	7.1	-	-	-	-	-	(6,384)	(6,384)
		<b>-</b>	<b>(106,650)</b>	<b>-</b>	<b>-</b>	<b>(2,792,811)</b>	<b>(634,999)</b>	<b>(3,534,460)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.2 Financial risk management

##### Overview

The Group and Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk and
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group and Company's management of capital. Further quantitative disclosures are included throughout the Group and Company financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Audit and Risk Management Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Group's Risk Management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit and Risk Management Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

#### 30.3 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Counterparty risk is the risk that a counterparty is unable to meet its financial and/or contractual obligations during the period of a transaction. Delivery or settlement risk is the risk that a counterparty does not deliver on its contractual commitment on maturity date (including the settlement of money and delivery of securities).

The carrying amount of financial assets represents the maximum credit exposure. The potential concentration of credit risk consists mainly of loans and receivables, trade and other receivables and the investment portfolio.

##### 30.3.1 Management of credit risk

Financial instruments are managed by the treasury function. Credit risk arises from cash and cash equivalents, investment in securities, derivatives held for risk management, financial trading assets, deposits made with counterparties, loans receivable, trade and other receivables. Processes are in place to identify, measure, monitor, control and report credit risk. The objective of NamPower's credit risk management framework is firstly to protect cash and investments and, secondly to protect and maximise the rate of return of financial market instruments.

##### Responsibility and governance

The Asset and Liability Committee (ALCO), manages counterparty credit risk which arises from the treasury activities in the financial markets. This committee is chaired by the Managing Director and reports on a quarterly basis to the Investment Committee. The activities of the ALCO committee are guided by the terms of reference that are updated and approved by the Investment Committee.

The terms of reference set out the minimum acceptable standards to be adhered to by those responsible for credit-related transactions within the treasury section. The terms of reference are aligned to the Exco credit risk governance standards and are supplemented by appropriate policies and procedures.

The ALCO committee:

- assesses the credit quality of counterparties and types of instruments used;
- recommends credit limits to the Investment Committee;
- ensures that transactions with counterparties are supported by trading agreements, where applicable; and
- approves methodologies used for the management of counterparty exposure.

The management of credit risk is governed by the following policies:

Trading in financial instruments is conducted and entered into with selected counterparties after credit limits have been authorised. Individual risk limits are set based on internal and external ratings in line with limits set by the Board. All credit limits are approved by the Investment Committee. The use of credit limits is regularly monitored.

Minimum credit-rating requirements for financial institutions are maintained to assess the risk categories by rating class and to ascertain the probability of default inherent in each rating class, approved concentrating risk parameters and collateral management procedures are in place.



# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

Concentration of credit risk is managed by setting credit risk limits at a counterparty-specific level. Concentration credit risk limits are used as second tier limits in relation to counterparty credit limits.

#### 30.4 Exposure to credit risk

The Group limits its counterparty exposures from its loans and receivables, trade and other receivables and investment portfolio by only dealing with individuals and corporate entities of a high quality credit standing. Therefore management does not expect any counterparty to fail to meet its obligations

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		GROUP		COMPANY	
		2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Current investments	30.1, 12	2,477,901	1,705,696	2,477,901	1,705,696
Non-current investments	30.1, 12	1,204,398	870,943	1,204,398	870,943
Loans receivables	30.1, 10	144,876	195,801	144,876	195,801
Trade and other receivables	30.1, 14	631,010	485,997	631,010	485,997
Cash and cash equivalents	30.1, 15	1,292,659	1,067,962	1,292,659	1,067,962
Derivative assets	30.1, 22.1	174,697	142,377	174,697	142,377
		<b>5,925,541</b>	<b>4,468,776</b>	<b>5,925,541</b>	<b>4,468,776</b>

#### 30.4.1 Financial income and expenses

##### Recognised in profit or loss

##### Net gains and (losses) on financial assets and liabilities through profit or loss

Realised Swap losses (FVTPL)	(56,309)	(78,776)	(56,309)	(78,776)
Realised Swap profits (FVTPL)	96,989	68,798	96,989	68,798
Loss from Swaps currency valuation (FVTPL)	(146,239)	(80,220)	(146,239)	(80,220)
Gain from Swaps currency valuation (FVTPL)	81,407	95,274	81,407	95,274
Unrealised foreign exchange losses on forward exchange contracts	(4,046)	(45,447)	(4,046)	(45,447)
Unrealised foreign exchange gain on forward exchange contracts	6,147	1,449	6,147	1,449
Realised foreign exchange losses (FVTPL)	(49,820)	(145,520)	(49,820)	(145,520)
Realised foreign exchange gain (FVTPL)	90,159	73,441	90,159	73,441
Realised exchange rate loss foreign loans (FVTPL)	(2,130)	(4,062)	(2,130)	(4,062)
Fair value adjustment on embedded derivative - Power Purchases Agreement/Power Sales Agreement (Held for trading asset)	(186,903)	22,723	(186,903)	22,723
Fair value adjustment on embedded derivative - Power Sales Agreement/Power Purchase Agreement (Held for trading liability)	107,656	54,996	107,656	54,996
Unrealised foreign exchange gain	53,109	13,544	53,109	13,544

##### Recognised in other comprehensive income

Net change in fair value of available-for-sale financial asset	206	105	206	105
----------------------------------------------------------------	-----	-----	-----	-----

\* FVTPL - Fair value through profit or loss

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.4.2 Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. As at 30 June 2012 no guarantee was outstanding.

#### NamPower employee home loans

Suretyship for N\$21.3 million (2011: N\$20.1 million) to three local banks (Bank Windhoek, First National Bank and Standard Bank) for all employees who are on the NamPower housing scheme and have attained financing from the aforementioned financial institutions. Such suretyship is limited to the original loan amount attained by each employee and excludes any additional financing for improvements or upgrades.

#### 30.4.3 Trade and other receivables

##### (a) Trade receivables

Credit risk with respect to trade and other receivables is limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries and geographical areas. The main classes of electricity receivables are cross border, large power users and small power users. Key large power users comprise mainly Namibian municipalities, town councils, village councils, regional councils, and mining customers.

The Audit and Risk Management Committee has established a credit policy under which each electricity customer's payment terms and conditions are offered.

The Group requires a security deposit equivalent to three (3) months estimated consumption in respect of all new customers before they are energised and the electricity is supplied with an exception to the Regional Distributors whereby they have to provide security deposit that is equal to one (1) month estimated consumption.

Electricity supply agreements are entered into with cross border customers who comprise utility companies of neighbouring countries. These customers are required to provide security deposit equivalent to the value of three month's estimated consumption. Refer note 30.4.4.

The level of security is reviewed when a customer defaults on their payment obligation or requires additional electricity supply capacity in which case they are required to either provide security or increase their existing security to an amount equivalent to three months of estimated future consumption before supply will commence.

Payment terms vary between customer classes as per the Group's credit policy. Interest is charged at a market related rate on balances in arrears.

The Group has well-established credit control procedures that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms. These procedures include an internal collection process, follow up with the customer either telephonically or in person, negotiations of mutually acceptable payment arrangements and the issue of letters of demand and notice of disconnection of supply. Non-payment will result in disconnection of supply. The legal collection process is pursued thereafter.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The decision to impair overdue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

Progress on the collection process is reviewed on a regular basis and if it is evident that the amount will not be recovered, it is recommended for write-off in terms of the NamPower policy and delegation of authority. The process of recovery continues unless it is confirmed that there is no prospect of recovery or the costs of such action will exceed the benefits to be derived. Amounts written off are determined after taking into account the value of the security held.

The total cumulative allowance for impairment for electricity receivables at 30 June 2012 was N\$18.1 million (2011: N\$21.4 million) (refer note 30.4.4). The enhancement of credit control strategies and monitoring of payment levels of all trade receivables continue to receive management attention.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 30. FINANCIAL INSTRUMENTS (continued)

### 30.4.3 Trade and other receivables (continued)

The maximum exposure to credit risk for trade receivables at the reporting date by geographic area:

Domestic- Namibia  
Regional Exports/Cross border customers

GROUP		COMPANY	
2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Carrying amount	Carrying amount	Carrying amount	Carrying amount
377,849	314,934	377,849	314,934
16,224	34,724	16,224	34,724
<b>394,073</b>	<b>349,658</b>	<b>394,073</b>	<b>349,658</b>

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

Distributors  
Mining  
End-user customers  
Other trade receivables

228,635	195,451	228,635	195,451
75,405	62,372	75,405	62,372
40,202	33,857	40,202	33,857
49,831	57,978	49,831	57,978
<b>394,073</b>	<b>349,658</b>	<b>394,073</b>	<b>349,658</b>

Concentration of credit risk that arises from the Group's receivables in relation to industry categories of the customers by percentage of total receivables from customers is:

Distributors  
Mining  
End-user customers  
Other trade receivables

2012 %	2011 %	2012 %	2011 %
58	55	58	55
19	18	19	18
10	10	10	10
13	17	13	17
<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Aging of trade receivables past due but not impaired at the reporting date for Group and Company are as follows:

Not past due  
Past due 0-30 days  
Past due 31-120 days  
More than one year

### GROUP and COMPANY

2012 N\$'000	2011 N\$'000
Gross	Gross
346,878	292,298
5,531	(708)
(8,718)	48,529
50,382	9,539
<b>394,073</b>	<b>349,658</b>

Trade receivables past due but not impaired are receivables where contractual payment terms are past due but the Group believes that impairment is not required based on the historical payment trend of the respective customers and the stage of collection of amounts owed to the Group. The Group believes that unimpaired amounts that are past due are still recoverable.

Included in more than one year trade receivables are capital contributions of N\$43.8 million (2011: N\$3.3 million) that are only recognised as revenue when all performance obligations have been performed eg. when the customer is energised.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.4.4 Impairment losses (Group and Company)

Not past due  
Past due 0-30 days  
Past due 31-120 days  
More than one year

GROUP		COMPANY	
2012 N\$'000	2012 N\$'000	2011 N\$'000	2011 N\$'000
Gross	impairment	Gross	impairment
581,845	750	426,838	388
6,069	378	(396)	246
(4,930)	3,444	50,357	1,626
64,223	13,506	29,035	19,156
<b>647,207</b>	<b>18,078</b>	<b>505,834</b>	<b>21,416</b>

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

**Balance 1 July**  
- Impairment loss recognised  
- Impairment utilised  
**Balance at 30 June**

GROUP		COMPANY	
2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
21,416	26,036	21,416	26,036
1,315	3,241	1,315	3,241
(4,653)	(7,861)	(4,653)	(7,861)
<b>18,078</b>	<b>21,416</b>	<b>18,078</b>	<b>21,416</b>

NamPower establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance consists of a specific loss component that relates to individual exposures.

An impairment loss of N\$12.4 million relates to a customer that was struggling to pay during 2006. The customer arranged for a deferred payment scheme through the court. Due to further financial difficulties the customer suspended the payments through this scheme. The customer was handed over to the lawyers for collection of the outstanding amount. At 30 June 2012 an impairment loss of N\$746 thousand is in respect of Komsberg Farming which was subsequently placed in provisional liquidation on 23 July 2012, thus the impairment allowance.

The remainder of the impairment loss at 30 June 2012 to several customers who have been struggling to pay and have indicated that they will not be able to pay their outstanding balances. Electricity supply to these customers has been suspended.

There was no indication of impairment of investments at reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### GROUP and COMPANY

2012 N\$'000	2011 N\$'000
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#### Security relating to trade receivables

The security held against trade receivables for the Group and Company comprises bank guarantees and cash deposits. The estimate of the fair value of the security is:

#### (a) Cash deposits

Electricity receivables security deposit -Cash		
Domestic Namibia	11,523	9,952
Regional Exports/ Cross Border customers	51	423

#### (b) Bank Guarantees

Domestic- Namibia	103,089	54,797
Cross border customers	58	23

### 30.5 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The management of liquidity and funding risk is vested with the treasury section in accordance with practices and limits set by Exco and the board. The Group's liquidity and funding management process includes:

- project cash flows and considering the cash required by the Group and optimising the short-term liquidity;
- monitoring financial liquidity ratios;
- maintaining a diverse range of funding sources with adequate back-up facilities, managing the concentration and profile of debt maturities and
- maintaining liquidity and funding contingency plans.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.5.1 Contractual cash flows

The tables below indicate the contractual undiscounted cash flows of the Group and Company's financial liabilities on the basis of their earliest possible contractual maturity. The cash flows of the Group's and Company's financial liabilities are indicated on a gross undiscounted basis. The cash flows for derivatives are presented as net cash flows.

GROUP	Carrying amount	Total contractual cash flows	Contractual cash flows 1 year or less	Contractual cash flows 1- 5 years	Contractual cash flows 5 years or more
	N\$ '000	N\$ '000	N\$ '000	N\$ '000	N\$ '000
<b>2012</b>					
<b>Non-derivative financial liabilities</b>					
Secured long term loans					
- GBP fixed rate loan	(184,176)	(200,977)	(20,085)	(80,364)	(100,528)
- EUR floating rate loan	(291,706)	(306,757)	(51,446)	(200,357)	(54,954)
- ZAR denominated loans	(2,229,678)	(3,512,870)	(362,366)	(1,136,529)	(2,013,975)
- NAD denominated loans	(303,734)	(510,564)	(31,086)	(124,344)	(355,134)
Non-current retention creditors	(8,283)	(8,283)	-	(8,283)	-
Trade and other payables	(882,875)	(882,875)	(882,875)	-	-
<b>Derivative financial liabilities</b>					
- Interest rate swaps and cross currency interest rate swaps used for hedging	(50,425)	(126,127)	(23,602)	(70,008)	(32,517)
<b>2011</b>					
<b>Non-derivative financial liabilities</b>					
Secured long term loans					
- GBP fixed rate loan	(155,620)	(184,218)	(16,742)	(66,954)	(100,522)
- EUR floating rate loan	(297,165)	(336,557)	(48,786)	(190,009)	(97,762)
- ZAR denominated loans	(1,932,521)	(3,242,497)	(197,550)	(1,013,571)	(2,031,376)
- NAD denominated loans	(306,861)	(541,650)	(31,086)	(124,344)	(386,220)
Non-current retention creditors	(7,047)	(7,047)	-	(7,047)	-
Trade and other payables	(575,470)	(575,470)	(575,470)	-	-
<b>Derivative financial liabilities</b>					
- Interest rate swaps and cross currency interest rate swaps used for hedging	(76,642)	(126,127)	(23,602)	(70,008)	(32,517)
- Forward exchange contracts	(8,744)	(8,650)	(8,650)	-	-

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 30. FINANCIAL INSTRUMENTS (continued)

### 30.5.1 Contractual cash flows (continued)

COMPANY	Carrying amount N\$ '000	Total contractual cash flows N\$ '000	Contractual cash flows 1 year or less N\$ '000	Contractual cash flows 1- 5 years N\$ '000	Contractual cash flows 5 years or more N\$ '000
<b>2012</b>					
<b>Non-derivative financial liabilities</b>					
Secured long term loans					
- GBP fixed rate loan	(184,176)	(200,977)	(20,085)	(80,364)	(100,528)
- EUR floating rate loan	(291,706)	(306,757)	(51,446)	(200,357)	(54,954)
- ZAR denominated loans	(2,229,678)	(3,512,870)	(362,366)	(1,136,529)	(2,013,975)
- NAD denominated loans	(303,734)	(510,564)	(31,086)	(124,344)	(355,134)
Non-current retention creditors	(8,283)	(8,283)	-	(8,283)	-
Trade and other payables	(882,881)	(882,881)	(882,881)	-	-
Loans due to subsidiaries	(6,384)	(6,384)	(6,384)	-	-
<b>Derivative financial liabilities</b>					
- Interest rate swaps and cross currency interest rate swaps used for hedging	(50,425)	(126,127)	(23,602)	(70,008)	(32,517)
<b>2011</b>					
<b>Non-derivative financial liabilities</b>					
Secured long term loans					
- GBP fixed rate loan	(155,620)	(184,218)	(16,742)	(66,954)	(100,522)
- EUR floating rate loan	(297,165)	(336,557)	(48,786)	(190,009)	(97,762)
- ZAR denominated loans	(1,932,521)	(3,242,497)	(197,550)	(1,013,571)	(2,031,376)
- NAD denominated loans	(306,861)	(541,650)	(31,086)	(124,344)	(386,220)
Non-current retention creditors	(7,047)	(7,047)	-	(7,047)	-
Trade and other payables	(575,614)	(575,614)	(575,614)	-	-
Loans due to subsidiaries	(6,384)	(6,384)	(6,384)	-	-
<b>Derivative financial liabilities</b>					
- Interest rate swaps and cross currency interest rate swaps used for hedging	(76,642)	(126,127)	(23,602)	(70,008)	(32,517)
- Forward exchange contracts	(8,744)	(8,650)	(8,650)	-	-

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.5.2 Derivative financial instruments

#### GROUP and COMPANY

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 amount of derivative financial instruments were:

	2012 N\$'000	2011 N\$'000
Net interest rate and cross currency swaps	30,005	(10,674)
Forward exchange contracts	41,741	148,729

For a more detailed breakdown refer to note 22.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

#### 30.5.3 Primary sources of funding and unused facilities

The primary sources to meet NamPower's liquidity requirements are revenue, cash inflows from maturing financial assets purchased, funds committed by government, local debt issued in the market as well as foreign debt. To supplement these liquidity sources under stress conditions, overdraft facilities with commercial banks are in place as indicated below:

General banking facilities	363,500	313,500
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The overdraft facilities, if utilised are repayable strictly on demand and will be charged at the prevailing bank's prime lending rate from time to time. The prime lending rate of the commercial banks at 30 June 2012 was 9.7%

### 30.6 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

A significant part of the market risk encountered arises from financial instruments that are managed within the treasury function of the company or from contracts containing embedded derivatives.

#### Financial instruments managed by the treasury function

The treasury section is responsible for managing market risk within the risk management framework approved by Exco



# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.6 Market risk (continued)

and the board. The overall authority for the management of market risks within the treasury section is vested in the Asset and Liability Committee (Alco) which reports quarterly to the Investment committee and the Audit and Risk Management Committee.

##### Embedded derivatives

NamPower entered into a number of agreements for the purchase and supply of electricity, where the revenue or expenditure from these contracts is based on foreign currency rates (mainly USD) or foreign production price indices. This gives rise to embedded derivatives that require separation as a result of the different characteristics of the embedded derivative and the host contract. The contractual periods vary from 3 years up to a maximum of 10 years. Certain of these contracts are currently being renegotiated.

The net impact on profit or loss of changes in the fair value of the embedded derivatives for the Group and Company is a fair value loss of N\$79.2 million (2011: N\$85 million gain). At 30 June 2012 the embedded derivative asset amounted to N\$91.5 million (2011: N\$76 million) for the Group and Company. The embedded derivative liability at 30 June 2012 was N\$110.4 million (2011: N\$16 million) for the Group and Company.

The valuation methods and inputs are discussed in note 30.6. Risks arising from these contracts are discussed under the relevant risk areas as follows:

- interest rate risk (refer note 30.6.1)
- currency risk (refer note 30.6.2)
- other price risk (refer note 30.6.3)

Electricity contracts that contain embedded derivatives are considered for economic hedging. Economic hedging in respect of foreign currency exposure resulting from these embedded derivatives takes place on a short-term basis.

Interest rate risk is the risk that the Group's financial position may be adversely affected as a result of changes in interest rate levels, yield curves and spreads.

The Group's interest rate risk arises mainly from long-term borrowings. Long-term borrowings and debt securities are issued at both fixed rates and floating rates and expose the Group to fair value interest rate risk.

The Group generally adopts a policy that its exposure to interest rates is on a fixed rate basis. Swaps have been used to convert the interest on floating rates to a fixed rate basis.

The Group adopts a policy of ensuring that its exposure to changes in interest rates on borrowings is hedged economically. This is achieved by entering into interest rate swaps.



# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.6 Market risk (continued)

At the reporting date the interest rate profile of the Group's interest bearing financial instruments was:

	GROUP		COMPANY	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
<b>Variable rate financial instruments</b>				
Financial assets	-	-	-	-
Financial liabilities	(53,734)	(56,861)	(53,734)	(56,861)
	<u>(53,734)</u>	<u>(56,861)</u>	<u>(53,734)</u>	<u>(56,861)</u>
<b>Fixed rate financial instruments</b>				
Financial assets	5,946,738	4,490,273	5,954,113	4,497,649
Financial liabilities	(4,317,802)	(3,471,072)	(4,324,192)	(3,477,601)
	<u>1,628,936</u>	<u>1,019,201</u>	<u>1,629,921</u>	<u>1,020,048</u>

#### Cash flow sensitivity analysis

The Group analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined interest rate shifts. For each simulation, the same interest rate shift is used for all currencies.

The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The calculation excludes borrowing costs capitalised in terms of the Group's accounting policy. The analysis is performed on the same basis as for 2011.

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below:

GROUP AND COMPANY	Equity 100 bp increase	Equity 100 bp decrease	Profit or (loss) 100 bp increase	Profit or (loss) 100 bp decrease
<b>30 June 2012</b>				
Variable rate instruments				
Interest rate swap				
-DBN				
NAD Curve	(355)	355	(537)	537
<b>30 June 2011</b>				
Variable rate instruments				
Interest rate swap				
-DBN				
NAD Curve	(375)	375	(569)	569

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.6.2 Currency risk

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

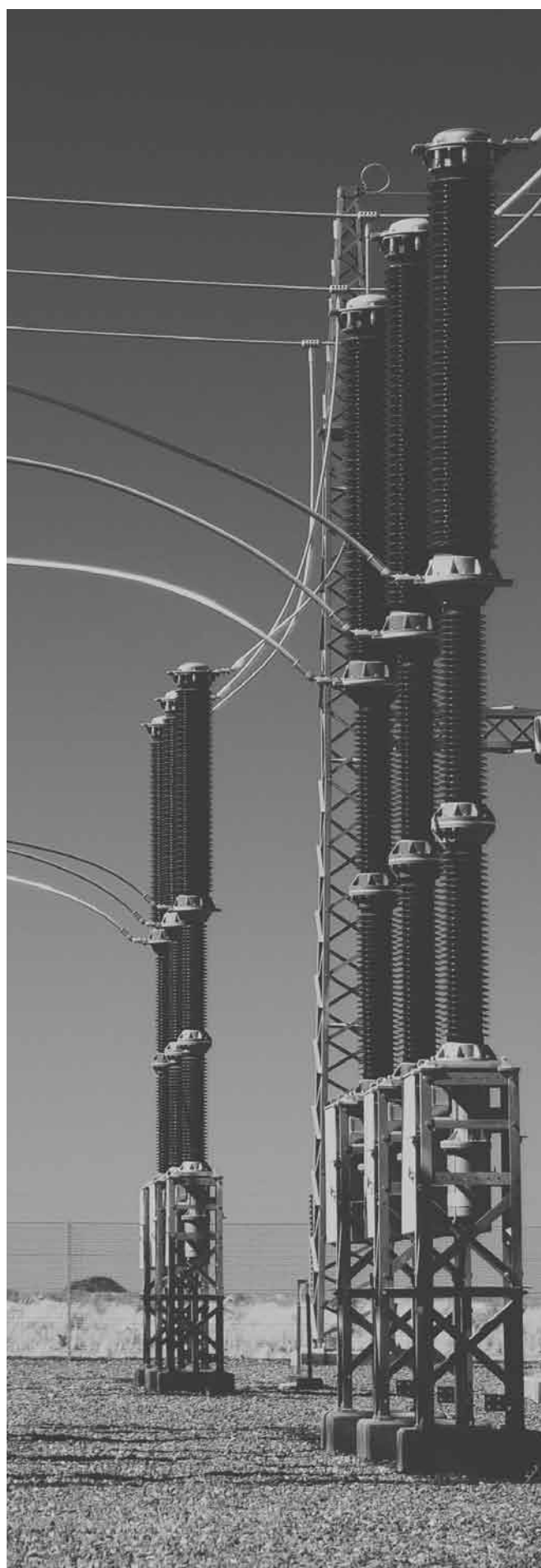
The loans denominated in foreign currency have been fully hedged using currency swaps that mature on the same date as the loans are due for repayment.

With respect to all other transactions denominated in currencies other than the Namibia Dollar and/or the South African Rand, the Company generally adopts a policy to hedge its foreign currency commitments where possible. The company is also exposed to foreign currency movements with regards to certain regional Power Purchase Agreements (PPAs) and Power Sales Agreements (PSA) which are hedged for the duration of the agreement and reviewed on a continuous basis.

#### Recognised assets and liabilities

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting can be applied are recognised in profit or loss.

Due to the fact that no hedge effectiveness test is performed all fair value movements on the currency and interest rate swaps are recognised in profit or loss as part of net financing costs.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 30. FINANCIAL INSTRUMENTS (continued)

### GROUP

The currency position at 30 June 2012 is set below

in thousands of Namibia Dollar	N\$	ZAR	AU\$	US\$	Euro	GBP	SEK	Total
<b>Assets</b>								
Other financial assets	-	-	-	94,109	80,429	-	159	174,697
Loans receivable	40,969	-	-	103,907	-	-	-	144,876
Trade and other receivables	603,043	-	-	27,967	-	-	-	631,010
Current investments	2,377,901	100,000	-	-	-	-	-	2,477,901
Cash and cash equivalents	192,301	905,062	-	195,246	17	33	-	1,292,659
	<u>3,214,214</u>	<u>1,005,062</u>	<u>-</u>	<u>421,229</u>	<u>80,446</u>	<u>33</u>	<u>159</u>	<u>4,721,143</u>
<b>Liabilities</b>								
Interest bearing loans and borrowings	(303,735)	(2,229,677)	-	-	(291,706)	(184,176)	-	(3,009,294)
Other financial liabilities	-	(2,805)	-	(110,494)	(205)	(47,620)	(1,519)	(162,643)
Trade and other payables	(684,983)	(197,799)	(900)	(38,032)	(13,654)	(35)	-	(935,403)
Non-current retention creditors	(8,047)	-	-	-	(236)	-	-	(8,283)
	<u>(996,765)</u>	<u>(2,430,281)</u>	<u>(900)</u>	<u>(148,526)</u>	<u>(305,801)</u>	<u>(231,831)</u>	<u>(1,519)</u>	<u>(4,115,623)</u>
<b>Gross statement of financial position exposure</b>								
Next year's forecast sales	2,217,449	(1,425,219)	(900)	272,703	(225,355)	(231,798)	(1,360)	605,520
Next year's forecast purchases	3,446,121	-	-	-	-	-	-	3,446,121
	<u>-</u>	<u>(586,014)</u>	<u>-</u>	<u>(621,147)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,207,161)</u>
<b>Gross exposure</b>	<u>5,663,570</u>	<u>(2,011,233)</u>	<u>(900)</u>	<u>(348,444)</u>	<u>(225,355)</u>	<u>(231,798)</u>	<u>(1,360)</u>	<u>2,844,480</u>
Foreign exchange contracts	-	-	-	33,375	-	-	11,069	44,444
<b>Net exposure</b>	<u>5,663,570</u>	<u>(2,011,233)</u>	<u>(900)</u>	<u>(315,069)</u>	<u>(225,355)</u>	<u>(231,798)</u>	<u>9,709</u>	<u>2,888,924</u>

The estimated sales and purchases include transactions for the next 12 months.

Currency translation rates :	30 June 2012
1 SA Rand	N\$ 1.0
1 SEK	N\$ 0.8
1 US Dollar	N\$ 8.3
1 Euro	N\$ 10.5
1 GBP	N\$ 13.0
1 AUD	N\$ 0.1

The currency position at 30 June 2011 is set below

<b>Assets</b>								
Other financial assets	-	-	-	76,409	65,968	-	-	142,377
Loans receivable	47,748	-	-	148,053	-	-	-	195,801
Trade and other receivables	448,424	-	-	37,573	-	-	-	485,997
Current investments	1,165,696	540,000	-	-	-	-	-	1,705,696
Cash and cash equivalents	153,312	766,756	-	147,842	25	27	-	1,067,962
	<u>1,815,180</u>	<u>1,306,756</u>	<u>-</u>	<u>409,877</u>	<u>65,993</u>	<u>27</u>	<u>-</u>	<u>3,597,833</u>
<b>Liabilities</b>								
Interest bearing loans and borrowings	(306,861)	(1,932,521)	-	-	(297,165)	(155,620)	-	(2,692,167)
Other financial liabilities	-	(2,452)	-	(21,342)	(78,650)	-	(4,206)	(106,650)
Trade and other payables	(488,090)	(95,636)	-	(37,448)	(250)	-	-	(621,424)
Non-current retention creditors	(7,047)	-	-	-	-	-	-	(7,047)
	<u>(801,998)</u>	<u>(2,030,609)</u>	<u>-</u>	<u>(58,790)</u>	<u>(376,065)</u>	<u>(155,620)</u>	<u>(4,206)</u>	<u>(3,427,288)</u>
<b>Gross statement of financial position exposure</b>								
Next year's forecast sales	1,013,182	(723,853)	-	351,087	(310,072)	(155,593)	(4,206)	170,545
Next year's forecast purchases	2,616,199	-	-	-	-	-	-	2,616,199
	<u>-</u>	<u>(555,618)</u>	<u>-</u>	<u>(541,509)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,097,127)</u>
<b>Gross exposure</b>	<u>3,629,381</u>	<u>(1,279,471)</u>	<u>-</u>	<u>(190,422)</u>	<u>(310,072)</u>	<u>(155,593)</u>	<u>(4,206)</u>	<u>1,689,617</u>
Foreign exchange contracts	-	-	-	90,838	12,616	-	36,625	140,079
<b>Net exposure</b>	<u>3,629,381</u>	<u>(1,279,471)</u>	<u>-</u>	<u>(99,584)</u>	<u>(297,456)</u>	<u>(155,593)</u>	<u>32,419</u>	<u>1,829,696</u>

The estimated sales and purchases include transactions for the next 12 months.

Currency translation rates :	30 June 2011
1 SA Rand	N\$ 1.0
1 SEK	N\$ 0.9
1 US Dollar	N\$ 6.8
1 Euro	N\$ 9.8
1 GBP	N\$ 10.9

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 30. FINANCIAL INSTRUMENTS (continued)

### COMPANY

The currency position at 30 June 2012 is set below

in thousands of Namibia Dollar	N\$	ZAR	AU\$	US\$	Euro	GBP	SEK	Total
<b>Assets</b>								
Other financial assets	-	-	-	94,109	80,429	-	159	174,697
Loans receivable	40,969	-	-	103,907	-	-	-	144,876
Trade and other receivables	603,043	-	-	27,967	-	-	-	631,010
Current investments	2,377,901	100,000	-	-	-	-	-	2,477,901
Cash and cash equivalents	192,301	905,062	-	195,246	17	33	-	1,292,659
	3,214,214	1,005,062	-	421,229	80,446	33	159	4,721,143
<b>Liabilities</b>								
Interest bearing loans and borrowings	(303,735)	(2,229,677)	-	-	(291,706)	(184,176)	-	(3,009,294)
Other financial liabilities	-	(2,805)	-	(110,494)	(205)	(47,620)	(1,519)	(162,643)
Trade and other payables	(684,989)	(197,799)	(900)	(38,032)	(13,654)	(35)	-	(935,409)
Non-current retention creditors	(8,047)	-	-	-	(236)	-	-	(8,283)
	(996,771)	(2,430,281)	(900)	(148,526)	(305,801)	(231,831)	(1,519)	(4,115,629)
<b>Gross statement of financial position exposure</b>								
	2,217,443	(1,425,219)	(900)	272,703	(225,355)	(231,798)	(1,360)	605,514
Next year's forecast sales	3,446,121	-	-	-	-	-	-	3,446,121
Next year's forecast purchases	-	(586,014)	-	(621,147)	-	-	-	(1,207,161)
<b>Gross exposure</b>	5,663,564	(2,011,233)	(900)	(348,444)	(225,355)	(231,798)	(1,360)	2,844,474
Foreign exchange contracts	-	-	-	33,375	-	-	11,069	44,444
<b>Net exposure</b>	5,663,564	(2,011,233)	(900)	(315,069)	(225,355)	(231,798)	9,709	2,888,918

The estimated sales and purchases include transactions for the next 12 months.

Currency translation rates :	30 June 2012
1 SA Rand	N\$ 1.0
1 SEK	N\$ 0.8
1 US Dollar	N\$ 8.3
1 Euro	N\$ 10.5
1 GBP	N\$ 13.0
1 AUD	N\$ 0.1

The currency position at 30 June 2011 is set below

<b>Assets</b>								
Other financial assets	-	-	-	76,409	65,968	-	-	142,377
Loans receivable	47,748	-	-	148,053	-	-	-	195,801
Trade and other receivables	448,424	-	-	37,573	-	-	-	485,997
Current investments	1,165,696	540,000	-	-	-	-	-	1,705,696
Cash and cash equivalents	153,312	766,756	-	147,842	25	27	-	1,067,962
	1,815,180	1,306,756	-	409,877	65,993	27	-	3,597,833
<b>Liabilities</b>								
Interest bearing loans and borrowings	(306,861)	(1,932,521)	-	-	(297,165)	(155,620)	-	(2,692,167)
Other financial liabilities	-	(2,452)	-	(21,342)	(78,650)	-	(4,206)	(106,650)
Trade and other payables	(488,090)	(95,780)	-	(37,448)	(250)	-	-	(621,568)
Non-current retention creditors	(7,047)	-	-	-	-	-	-	(7,047)
	(801,998)	(2,030,753)	-	(58,790)	(376,065)	(155,620)	(4,206)	(3,427,432)
<b>Gross statement of financial position exposure</b>								
	1,013,182	(723,997)	-	351,087	(310,072)	(155,593)	(4,206)	170,401
Next year's forecast sales	2,616,199	-	-	-	-	-	-	2,616,199
Next year's forecast purchases	-	(555,618)	-	(541,509)	-	-	-	(1,097,127)
<b>Gross exposure</b>	3,629,381	(1,279,615)	-	(190,422)	(310,072)	(155,593)	(4,206)	1,689,473
Foreign exchange contracts	-	-	-	90,838	12,616	-	36,625	140,079
<b>Net exposure</b>	3,629,381	(1,279,615)	-	(99,584)	(297,456)	(155,593)	32,419	1,829,552

The estimated sales and purchases include transactions for the next 12 months.

Currency translation rates :	30 June 2011
1 SA Rand	N\$ 1.0
1 SEK	N\$ 0.9
1 US Dollar	N\$ 6.8
1 Euro	N\$ 9.8
1 GBP	N\$ 10.9



# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### Sensitivity analysis

A strengthening of the N\$ against the following currencies at 30 June would have increased/(decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2011.

	GROUP and COMPANY			
	2012 Equity	2011 Equity	2012 Profit or (loss)	2011 Profit or (loss)
US Dollar (10 percent strengthening)	28,019	26,793	42,454	40,595
Euro (10 percent strengthening)	(20,153)	(19,628)	(30,534)	(29,739)
GBP (10 percent strengthening)	(12,156)	(10,269)	(18,418)	(15,559)

A weakening of the N\$ against the following currencies at 30 June would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

US Dollar (10 percent strengthening)	(28,019)	(26,793)	(42,454)	(40,595)
Euro (10 percent strengthening)	20,153	19,628	30,534	29,739
GBP (10 percent strengthening)	12,156	10,269	18,418	15,559

#### 30.6.3 Other price risk

Inflation price risk arises from embedded derivatives as discussed under note 30.8. The risk arises from movements in the United States production price index (PPI) and the South African Rand discount rate. Equity price risk arises from available-for-sale financial instruments. The risk arises from movements in the share price of the equity investment.

The following is the sensitivity analysis of the change in the value of the embedded derivatives (relating to customised pricing agreements) as a result of changes in the United States PPI and the South African Rand discount rate. This analysis has been performed on the same basis as the prior year. The analysis assumes that all other variables remain constant and the possible impact on profit or loss is:

	GROUP and COMPANY			
	2012 1% increase N\$'000	2012 1% decrease N\$'000	2011 1% increase N\$'000	2011 1% decrease N\$'000
Profit/(loss), including embedded derivatives				
United States PPI	(53,600)	51,448	(53,096)	50,727
South African Rand Discount Rate (Interest Rate)	(189)	189	603	(603)

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.7 Capital management

Nampower manages the total shareholders' equity and debt as capital. Capital consists of ordinary share capital, retained earnings and longterm debt. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and the level of dividends to ordinary shareholders.

The major items that impact the capital of Nampower include:

- the revenue received from electricity sales (which is a function of price and sales volumes and the cost of funding the business);
- the cost of operating the electricity business;
- the cost of expanding the business to ensure that capacity growth is in line with electricity sales demand (funding and additional depreciation);
- interest paid;
- taxation and
- dividends.

The Board has the responsibility to ensure that the Company is adequately capitalised through debt and equity management.

NamPower Treasury is tasked with the duties of managing the Company's short-term and long term capital requirements. The treasury department fulfils these functions within the framework that has been approved by the NamPower Board of Directors consisting of and not limited to an overall treasury policy, a hedging policy and investment policy.

Under NamPower's current debt portfolio consisting of local and foreign denominated loans, certain covenants are imposed on NamPower's capital requirements. These covenants being a minimum debt service cover ratio of 1.4, debt to EBITDA of a maximum of 4 and a maximum debt equity ratio of 65:35. The Company maintained the required covenants for the year under review as follows: debt service cover ratio of 5.07, debt to EBITDA of -1.60 and a debt equity ratio of 20:80. These covenants are used for forecasted financial planning to ensure and manage the loan conditions set. The Company also maintains a credit rating as affirmed by Fitch for foreign currency long-term as BBB- and national long-term rating AA-(zaf).

The tariff increases for the electricity business is subject to the process laid down by the Electricity Control Board (ECB). The current regulatory framework applicable to Nampower is based on historical cost and depreciated replacement cost for Generation and Transmission assets respectively.

The electricity business is currently in a major expansion phase. There is national consensus that the capital expansion programme continues. The funding related to new generating, transmitting and other capacity is envisaged to be obtained from cash generated by the business, shareholder support and funds borrowed on the local and overseas markets. The

adequacy of price increases allowed by the regulator and the level and timing of shareholder support are key factors in the sustainability of NamPower.

There were no changes to NamPower's approach to capital management during the financial year.

#### 30.8 Critical accounting estimates and judgements

Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (a) Embedded derivatives

NamPower has entered into a number of agreements to supply and purchase electricity to electricity-intensive industries where the revenue from these contracts is linked to foreign currency rates (only USD) and United State's production price indices that give rise to embedded derivatives.

##### The embedded derivatives have been divided into three categories:

- Commodity and/or foreign currency derivatives;
- Foreign currency or interest rate derivatives;
- Production price and foreign currency derivatives.

##### Valuation

The fair value of embedded derivatives is determined by using a forward electricity price curve.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### Valuation assumptions

The contracted electricity price used to value embedded derivatives is based on a combination of factors in the table below over the contracted period.

Forecast sales volumes are based on the most likely future sales volumes which have been back-tested against historic volumes.

The fair value of embedded derivatives takes into account the inherent uncertainty relating to the future cash flows of embedded derivatives, such as liquidity, model risk and other economic factors.

The following valuation assumptions for the future electricity price curve discussed above for the valuation of embedded derivatives were used and are regarded as the best estimates by the board:

Input	Year ended 30 June 2012						
	Unit	2012	2013	2014	2015	2016	2017
NAD/USD	USD per NAD	8.35	8.76	9.14	9.55	9.95	10.38
ZAR discount factor		0.99	0.94	0.89	0.84	0.80	0.75
United States PPI	Year-on-year (%)	3.95%	4.86%	5.32%	5.52%	5.78%	5.90%



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 30. FINANCIAL INSTRUMENTS (continued)

### 30.9 Fair values

The fair values of the financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

GROUP	Reference notes	2012		2011	
		Carrying amount	Fair value	Carrying amount	Fair value
in thousands of Namibia Dollar					
<b>Assets carried at fair value</b>					
Current investments	30.1, 12	901	901	696	696
Derivative assets	30.1, 22.1	174,697	174,697	142,377	142,377
		<u>175,598</u>	<u>175,598</u>	<u>143,073</u>	<u>143,073</u>
<b>Assets carried at amortised cost</b>					
Loans and receivables	30.1, 10, 12	144,876	144,876	195,801	195,801
Non-current investments	30.1, 12	1,204,398	1,204,398	870,943	870,943
Cash and cash equivalents	30.1, 15	1,292,659	1,292,659	1,067,962	1,067,962
Trade and other receivables	30.1, 14	631,010	631,010	485,997	485,997
		<u>3,272,943</u>	<u>3,272,943</u>	<u>2,620,703</u>	<u>2,620,703</u>
<b>Liabilities carried at fair value</b>					
Derivative liabilities	30.1, 22.2	(162,643)	(162,643)	(106,650)	(106,650)
Current interest bearing loans and borrowings	30.1, 18	(255,913)	(255,913)	(100,644)	(100,644)
Non-current interest bearing loans and borrowings	30.1, 18	(2,753,381)	(2,753,381)	(2,591,523)	(2,591,523)
		<u>(3,171,937)</u>	<u>(3,171,937)</u>	<u>(2,798,817)</u>	<u>(2,798,817)</u>
<b>Liabilities carried at amortised cost</b>					
Trade and other payables	30.1, 21	(935,403)	(935,403)	(621,424)	(621,424)
		<u>(935,403)</u>	<u>(935,403)</u>	<u>(621,424)</u>	<u>(621,424)</u>
<b>COMPANY</b>					
<b>Assets carried at fair value</b>					
Current investments	30.1, 12	901	901	696	696
Derivative assets	30.1, 22.1	174,697	174,697	142,377	142,377
		<u>175,598</u>	<u>175,598</u>	<u>143,073</u>	<u>143,073</u>
<b>Assets carried at amortised cost</b>					
Loans and receivables	30.1, 10, 12	144,876	144,876	195,801	195,801
Non-current investments	30.1, 12	1,204,398	1,204,398	870,943	870,943
Cash and cash equivalents	30.1, 15	1,292,659	1,292,659	1,067,962	1,067,962
Trade and other receivables	30.1, 14	631,010	631,010	485,997	485,997
		<u>3,272,943</u>	<u>3,272,943</u>	<u>2,620,703</u>	<u>2,620,703</u>
<b>Liabilities carried at fair value</b>					
Derivative liabilities	30.1, 22.2	(162,643)	(162,643)	(106,650)	(106,650)
Current interest bearing loans and borrowings	30.1, 18	(255,913)	(255,913)	(100,644)	(100,644)
Non-current interest bearing loans and borrowings	30.1, 18	(2,753,381)	(2,753,381)	(2,591,523)	(2,591,523)
		<u>(3,171,937)</u>	<u>(3,171,937)</u>	<u>(2,798,817)</u>	<u>(2,798,817)</u>
<b>Liabilities carried at amortised cost</b>					
Loans due to subsidiary	30.1, 7.1	(6,384)	(6,384)	(6,384)	(6,384)
Trade and other payables	30.1, 21	(935,409)	(935,409)	(621,568)	(621,568)
		<u>(941,793)</u>	<u>(941,793)</u>	<u>(627,952)</u>	<u>(627,952)</u>

There are no unrecognised fair value gains or losses with respect to financial instruments.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### Fair value hierarchy for Group and Company

The table below analyses financial instruments carried at fair value, by using the valuation method. The different levels have been defined as follows:

**Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

**Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

in thousands of Namibia Dollar

#### 30 June 2012

	Level 1	Level 2	Level 3	Total
Current investments	901	-	-	901
Derivative financial assets	-	83,136	91,561	174,697
	<u>901</u>	<u>83,136</u>	<u>91,561</u>	<u>175,598</u>
Interest bearing loans and borrowings	-	(3,009,294)	-	(3,009,294)
Derivative financial liabilities	-	(52,150)	(110,494)	(162,644)
	<u>-</u>	<u>(3,061,444)</u>	<u>(110,494)</u>	<u>(3,171,938)</u>

#### 30 June 2011

Current investments	696	-	-	696
Derivative financial assets	-	65,968	76,409	142,377
	<u>696</u>	<u>65,968</u>	<u>76,409</u>	<u>143,073</u>
Interest bearing loans and borrowings	-	(2,692,167)	-	(2,692,167)
Derivative financial liabilities	-	(90,555)	(16,095)	(106,650)
	<u>-</u>	<u>(2,782,722)</u>	<u>(16,095)</u>	<u>(2,798,817)</u>

There have been no transfers between the fair value hierarchy levels (2011: no transfers).

A reconciliation has been performed for fair value measurements in level 3 of the fair value hierarchy as follows:

	2012 N\$'000	2011 N\$'000
<b>Embedded derivative assets</b>		
Carrying value at beginning of the year	76,409	288,820
Net fair value (loss)/gain on embedded derivatives recognised in profit or loss	(186,903)	(212,411)
Carrying value at end of the year	<u>(110,494)</u>	<u>76,409</u>
<b>Embedded derivative liabilities</b>		
Carrying value at beginning of the year	(16,095)	(313,180)
Net fair value gain/(loss) on embedded derivatives recognised in profit or loss	107,656	297,085
Carrying value at end of the year	<u>91,561</u>	<u>(16,095)</u>

Refer to note 30.6.3 for a sensitivity analysis disclosing the effect of fair value changes that would result if one or more of the inputs were to change.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 30. FINANCIAL INSTRUMENTS (continued)

#### 30.9.1 Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the financial instruments reflected in the fair value hierarchy table above.

##### (a) Securities

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs.

##### (b) Derivatives

The fair values are based on current market movements at year end.

##### (c) Interest bearing loans and borrowings

Fair value is based on discounted expected future principal and interest cash flows. Refer note 18.

#### 30.10 Borrowing costs

GROUP		COMPANY	
2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
18,828	27,513	18,828	27,513

##### 30.10.1 Borrowing cost capitalised

Borrowing cost in respect of the construction of the Caprivi Link Interconnector and the Ruacana 4th unit. The borrowing cost capitalised for the Caprivi Link Interconnector and the Ruacana 4th unit is calculated using the NamPower Bond NMP20N interest rate of 9.4% and NMP19N interest rate of 10% respectively.

#### 30.11 Defaults and breaches

There were no defaults or breaches of the loan agreements during the current and prior year.

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 31. SEGMENT REPORTING

#### Business unit segments

The Group has three reportable segments, as described below, which are the Group's core business units. The core business units offer different services, and are managed separately because they require different expertise and marketing strategies. For each of the strategic business units, the Board reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

**Generation:** Supply of energy

**Transmission:** Transmission of energy

**Other Support Services, including Energy Trading:** Short, medium and long term planning and management of energy and Power Systems Development responsible for development of supply sources of energy

Support services includes Distribution of energy, Corporate Services, Finance and the Office of the Managing Director.

#### Information about reportable business units

Amounts in N\$'000	Generation		Transmission		Other		Total	
	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000	2012 N\$'000	2011 N\$'000
Total revenues	569,593	414,319	1,069,294	794,137	4,680,170	4,413,608	6,319,057	5,622,064
Intersegment revenue	(569,593)	(414,319)	(1,193,380)	(1,215,609)	(2,000,525)	(1,682,971)	(3,763,498)	(3,312,900)
Total Segment revenue	-	-	(124,086)	(421,472)	2,679,645	2,730,637	2,555,559	2,309,164
Interest Income	-	-	2,698	2,111	333,583	273,580	336,281	275,691
Interest expense	-	-	(147,978)	(111,562)	(107,268)	(93,003)	(255,246)	(204,565)
Depreciation & amortisation	(294,271)	(281,968)	(381,215)	(352,598)	(20,305)	(31,404)	(695,791)	(665,970)
Other operating expenditure	(126,315)	(114,131)	(208,814)	(160,049)	(315,225)	(246,072)	(650,354)	(520,252)
Segment result (before tax)	(420,251)	(371,119)	1,526,269	995,716	(879,380)	(501,521)	226,638	123,076
<b>Other material non-cash items:</b>								
Impairment on property, plant and equipment	-	(26)	-	(114,017)	-	(5,503)	-	(119,546)

# NOTES TO THE FINANCIAL STATEMENTS

## for the year ended 30 June 2012

### 31. SEGMENT REPORTING (continued)

Reconciliation of reportable segment revenues, profit or loss, assets and liabilities and other material items

	2012 N\$'000	2011 N\$'000
<b>Revenues</b>		
Total revenue for reportable segments	6,319,057	5,622,064
Other income	60,575	61,991
Elimination of intersegment revenue	<u>(3,763,498)</u>	<u>(3,312,900)</u>
	<u>2,616,134</u>	<u>2,371,155</u>
<b>Profit or loss</b>		
Total profit or loss	226,638	123,076
Other profit	-	-
Elimination of intersegment profits	-	-
<b>Total profit before income tax</b>	<u>226,638</u>	<u>123,076</u>

#### Other material items 2012

	Reportable segment totals	Adjustments	Totals
<b>in thousands Namibia Dollar</b>			
Finance income	336,281	-	336,281
Finance expense	(255,246)	-	(255,246)
Depreciation and amortisation	(695,791)	-	(695,791)
Other operating expenditure	(650,354)	-	(650,354)

#### Other material items 2011

<b>in thousands Namibia Dollar</b>			
Finance income	275,691	-	275,691
Finance expense	(204,565)	-	(204,565)
Depreciation and amortisation	(665,970)	-	(665,970)
Other operating expenditure	(520,252)	-	(520,252)
Impairment of Property, plant and equipment	(119,546)	-	(119,546)

# ADMINISTRATION

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