

# ANNUAL REPORT

## 2011/12



A Brighter Future through Energy Efficiency

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## VISION

To be a major player in Energy Sector development, nationally and regionally.

## MISSION

To meet the needs of our customers in a sufficiently profitable and environmentally sound way through providing a reliable and safe power supply of acceptable quality.

## CORE VALUES

- Service Excellence
- Honesty and Integrity
- Respect
- Social Responsibility



# FACTS AND FIGURES

Year ended 31 March 2012

| INCOME STATEMENT                           | 2012      | 2011      | 2010      | 2009      | 2008      |
|--------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Energy Sales (GWh)                         | 955.1     | 976.8     | 1 018.6   | 981.9     | 977.1     |
| Sales Revenue (E'000)                      | 1 033 165 | 973 444   | 799 482   | 560 512   | 485 756   |
| Other Income (E'000)                       | 10 444    | 16 061    | 9 200     | 6 433     | 2 566     |
|                                            | 1 043 609 | 989 505   | 808 682   | 566 945   | 488 322   |
| Operating Expenses                         | 816 102   | 682 088   | 613 730   | 468 662   | 358 430   |
| Depreciation                               | 75 304    | 60 091    | 47 073    | 46 491    | 34 665    |
| Armortisation of Grants                    | -7 303    | -5 119    | -6 775    | -5 992    | -4 520    |
| Net Finance Cost/(Income)                  | 11 666    | 11 869    | -27 205   | -4 117    | 44 495    |
| Other Losses                               | 67 912    | 21 316    | 0         | 0         | 0         |
| Share of (Profit)/Loss in Joint Venture    | -34 767   | -20 417   | -18 330   | -15 693   | 4 626     |
| Taxation                                   | 33 808    | 51 674    | 43 610    | 15 399    | 5 529     |
| Total Costs                                | 962 722   | 801 502   | 652 103   | 504 750   | 443 225   |
| Profit                                     | 80 887    | 188 003   | 156 579   | 62 195    | 45 097    |
|                                            |           |           |           |           |           |
| BALANCE SHEET                              |           |           |           |           |           |
| Fixed Assets (Net)                         | 1 174 927 | 1 028 328 | 882 574   | 698 808   | 557 268   |
| Capital Work in Progress                   | 74 295    | 60 804    | 38 571    | 117 265   | 203 782   |
| Investment in Joint Venture                | 176 872   | 137 737   | 141 262   | 157 801   | 118 876   |
| Derivative Financial Instruments           | 34 095    | 26 238    | 33 949    | 63 083    | 62 721    |
| Other Assets                               | 43 801    | 45 683    | 26 238    | 26 536    | 18 604    |
| Retirement Benefits Assets                 | 4 804     | 3 612     | 1 887     | 250       | 0         |
| USL Electricity Prepayment                 | 140 000   | 40 000    | 0         | 0         | 0         |
| Embedded Derivative Asset                  | 8 868     | 5 988     | 0         | 0         | 0         |
| Current Assets                             | 317 853   | 487 982   | 367 882   | 237 397   | 253 596   |
| Total Assets                               | 1 975 515 | 1 836 372 | 1 492 363 | 1 301 140 | 1 214 847 |
| Current Liabilities                        | -233 653  | -254 641  | -220 263  | -198 548  | -193 667  |
|                                            | 1 741 862 | 1 581 731 | 1 272 100 | 1 102 592 | 1 021 180 |
|                                            |           |           |           |           |           |
| <b>Funds Employed:</b>                     |           |           |           |           |           |
| Long-term Loans                            | 271 967   | 284 539   | 227 949   | 209 561   | 227 608   |
| Embedded Derivative Liability              | 93 159    | 20 958    | 12 215    | 24 979    | 17 000    |
| Deferred Income                            | 121 977   | 109 788   | 105 978   | 106 796   | 111 465   |
| Other Deferred Income                      | 43 801    | 45 682    | 26 238    | 26 536    | 18 604    |
| Unrealised Foreign Currency Hedging Losses | 5 669     | 4 549     | 4 852     | 5 171     | 5 179     |
| Employee Retirement Liability              | 0         | 0         | 0         | 0         | 5 430     |
| Deferred Tax Liability                     | 148 843   | 145 655   | 113 400   | 68 265    | 52 666    |
| Shareholder's Funds                        | 1 056 446 | 970 550   | 781 468   | 661 284   | 583 228   |
|                                            | 1 741 862 | 1 581 721 | 1 272 100 | 1 102 592 | 1 021 180 |

# KEY STATISTICS

|                                          | 2012             | 2011    | 2010    | 2009    | 2008    |
|------------------------------------------|------------------|---------|---------|---------|---------|
| 1 Revenue (E'000)                        | <b>1 033 165</b> | 973 444 | 799 482 | 560 512 | 485 756 |
| 2 Debtors' Collection Period (Days)      | <b>68</b>        | 74      | 70      | 81      | 85      |
| 3 Taxation (E'000)                       | <b>33 808</b>    | 51 673  | 43 610  | 15 599  | -5 529  |
| 4 Capital Expenditure (E'000)            | <b>235 394</b>   | 228 080 | 152 156 | 101 718 | 130 891 |
| 5 Imported Power (GWh)                   | <b>813.44</b>    | 805.50  | 909.40  | 923.30  | 983.00  |
| 6 Local Generation (GWh)                 | <b>272.3</b>     | 333.4   | 288.1   | 245.5   | 160.0   |
| 7 Average Price per Unit Sold (c/Kw)     | <b>103.6</b>     | 92.4    | 74.9    | 57.0    | 49.7    |
| 8 Number of Domestic Customers (000)     | <b>99.4</b>      | 88.5    | 77.6    | 68.3    | 59.6    |
| 9 Number of Non-Domestic Customers (000) | <b>10.2</b>      | 11.1    | 10.7    | 10.7    | 10.9    |
| 10 System Maximum Demand (MW)            | <b>203.00</b>    | 200.77  | 204.48  | 200.65  | 200.30  |
| 11 Units Sold - Total (GWh)              | <b>955.1</b>     | 976.8   | 1 018.6 | 981.9   | 977.1   |
| - Industrial (GWh)                       | <b>338.0</b>     | 360.2   | 389.6   | 405.8   | 414.7   |
| - Agricultural (GWh)                     | <b>231.3</b>     | 211.1   | 218.3   | 191.2   | 179.3   |
| - Commercial (GWh)                       | <b>71.2</b>      | 100.9   | 102.7   | 101.9   | 104.6   |
| - Domestic (GWh)                         | <b>314.6</b>     | 304.6   | 308.0   | 275.7   | 278.5   |
| 12 Installed Capacity:                   |                  |         |         |         |         |
| - Ezulwini Hydro Power Station (MW)      | <b>20.0</b>      | 20.0    | 20.0    | 20.0    | 20.0    |
| - Edwaleni Hydro Power Station (MW)      | <b>15.0</b>      | 15.0    | 15.0    | 15.0    | 15.0    |
| - Edwaleni Diesel Power Station (MW)     | <b>9.5</b>       | 9.5     | 9.5     | 9.5     | 9.5     |
| - Maguduza Hydro Power Station (MW)      | <b>5.6</b>       | 5.6     | 5.6     | 5.6     | 5.6     |
| - Maguga Power Station                   | <b>19.5</b>      | 19.5    | 19.5    | 19.0    | 19.0    |
| 13 Transmission Lines                    |                  |         |         |         |         |
| - 132 KV (km)                            | <b>333</b>       | 333     | 333     | 329     | 329     |
| - 66 KV (km)                             | <b>914</b>       | 869     | 869     | 846     | 836     |
| 14 Distribution Lines                    |                  |         |         |         |         |
| - 11kV (km)                              | <b>14 064</b>    | 8 367   | 8 011   | 7 437   | 7 077   |
| 15 Employees (No)                        | <b>587</b>       | 624     | 620     | 652     | 739     |
| 16 Permanent (No)                        | <b>539</b>       | 571     | 587     | 620     | 626     |
| 17 Casual/Temporary                      | <b>48</b>        | 53      | 33      | 32      | 113     |
| 18 Fixed Assets : Turnover (Times)       | <b>0.89</b>      | 0.97    | 0.88    | 0.69    | 0.64    |
| 19 Total Assets : Turnover (Times)       | <b>0.53</b>      | 0.59    | 0.54    | 0.43    | 0.40    |
| 20 Return on Total Assets (%)            | <b>4</b>         | 9       | 7       | 4       | 4       |

# TECHNICAL PERFORMANCE

|                               |                                    | 2012           | 2011    | 2010    | 2009    | 2008    |
|-------------------------------|------------------------------------|----------------|---------|---------|---------|---------|
| 1                             | System Requirements (GWh) Sent Out | <b>1 129.8</b> | 1 138.1 | 1 186.3 | 1 162.8 | 1 143.6 |
| 2                             | Units Sold (GWh)                   | <b>955.1</b>   | 976.8   | 1 018.6 | 991.9   | 977.1   |
| 3                             | System Losses (%)                  | <b>15.5</b>    | 14.2    | 14.9    | 15.5    | 14.6    |
| 4                             | SEC Internal Generation (GWh)      | <b>279.8</b>   | 333.4   | 288.1   | 246.1   | 160.2   |
| 5                             | SEC Internal Generation (%)        | <b>24</b>      | 29      | 24      | 21      | 14      |
| 6                             | System Maximum Demand (MW)         | <b>203.0</b>   | 200.8   | 204.5   | 200.7   | 200.3   |
| <b>Ratios and Statistics</b>  |                                    |                |         |         |         |         |
| 1                             | Net Income to Revenue (%)          | <b>7.8</b>     | 20.8    | 19.3    | 9.8     | 9.3     |
| 2                             | Operating Income to Revenue        | <b>14.7</b>    | 25.40   | 19.2    | 10.5    | 16.3    |
| 3                             | Return on Equity                   | <b>7.7</b>     | 19.4    | 20.0    | 8.3     | 7.7     |
| 4                             | Return on Capital Employed         | <b>4.6</b>     | 11.1    | 10.5    | 4.2     | 3.3     |
| 5                             | Return on Operating Assets         | <b>4.1</b>     | 12.3    | 12.0    | 7.9     | 8.0     |
| <b>Debt Management Ratios</b> |                                    |                |         |         |         |         |
| 1                             | Debt/Equity                        | <b>0.3</b>     | 0.3     | 0.3     | 0.4     | 0.5     |
| 2                             | Annual Debt Service (Times)        | <b>9.3</b>     | 11.0    | 7.0     | 4.2     | 3.3     |
| <b>Liquidity Ratios</b>       |                                    |                |         |         |         |         |
| 1                             | Current Ratio                      | <b>1.4</b>     | 1.9     | 1.7     | 1.2     | 1.3     |
| 2                             | Acid Test Ratio                    | <b>1.1</b>     | 1.6     | 1.3     | 0.9     | 1.0     |
| <b>Training</b>               |                                    |                |         |         |         |         |
| 1                             | Training Expenditure (E'000)       | <b>3 742</b>   | 3 619   | 3 675   | 3 300   | 2 997   |
| <b>Other</b>                  |                                    |                |         |         |         |         |
| 1                             | Consumer Price Index (%)           | <b>8.8</b>     | 5.5     | 4.9     | 11.8    | 9.5     |
| 2                             | SEC Tariff Increase (%)            | <b>8.0</b>     | 16.0    | 28.2    | 21.0    | 4.3     |

# FROM POWER STATION TO CUSTOMER

## POWER STATIONS

### Input:

Water\*\* – 880,279 MI

Diesel – 10,660 l

\*\* All water used is released back to river streams unpolluted.

### Output:

Total electricity generated – 333.4 GWh

Total electricity sold – 976.8 GWh

The balance of electricity is imported into the country.

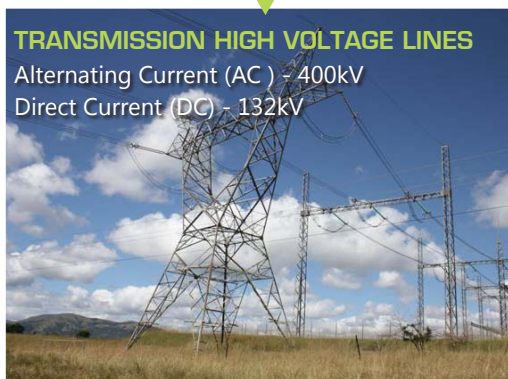


Maguga Power Station

## TRANSMISSION HIGH VOLTAGE LINES

Alternating Current (AC) – 400kV

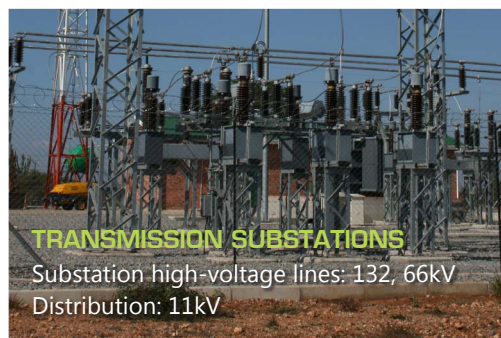
Direct Current (DC) – 132kV



## TRANSMISSION SUBSTATIONS

Substation high-voltage lines: 132, 66kV

Distribution: 11kV



## CUSTOMERS

Our customer base consists of industrial, agricultural, commercial and domestic.

Industrial: 360, 2 GWh

Agricultural – 211, 1 GWh

Commercial – 110, 9 GWh

Domestic 304.6 GWh

## TRANSFORMERS

The voltage levels of electricity are stepped down to meet distribution requirements.

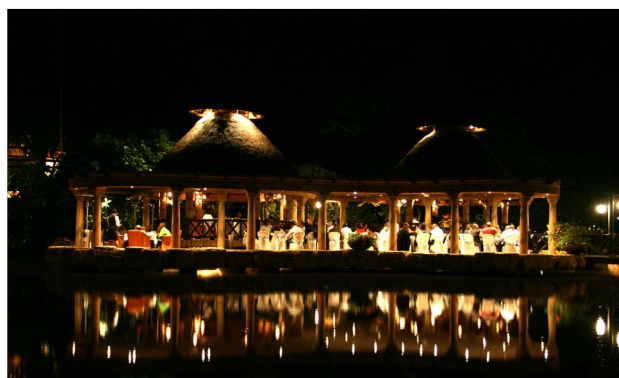
(11kV stepped down to 400V)



## CUSTOMERS



An SEC Customer's House (Domestic)



Summerfield Botanical Gardens in Matsapha (Commercial)

# HOW SEC GENERATES ELECTRICITY



## POWER STATIONS

SEC mainly operates four hydropower stations; Maguga Hydropower Station, Ezulwini Hydropower Station, Edwaleni Hydropower Station, and Maguduza Hydropower Station. These all serve as peaking and emergency power stations. They are not a constant supply of electricity for normal daily consumption, which is a function of base load power stations like thermal power stations. This is due to the fact that there is limited dam/storage capacity, variable & unreliable rainfall patterns & intensity. Subsequently, there is insufficient water to run hydro turbines continuously all year round and ultimately supply the country's total energy demand.

These stations have a combined installed generation capacity of 60.4 MW, and contribute (SEC's internal generation) 29% of the total energy consumed in the country. The rest is imported largely from Eskom in South Africa, and a portion of it from EDM in Mozambique.

SEC's installed Hydro Capacity is distributed amongst the four power stations as follows:

1. Maguga Hydropower Station – 2 x 9.9 MW Hydro Units.
2. Ezulwini Hydropower Station – 2 x 10.0 MW Hydro Units.
3. Edwaleni Hydropower Station – 4 x 2.5 MW & 1 x 5.0 MW Hydro Units.
4. Maguduza Hydropower Station – 1 x 5.6 MW Hydro Units.

## WATER SUPPLY RESERVOIRS

The three power stations, Ezulwini, Edwaleni and Maguduza are cascaded, with the Luphohlo Dam as their key water supply. The dam is built upon and is supplied by the Lusushwana River. Water supplied by the dam to the Ezulwini Hydropower Station is utilised further down by the Edwaleni Hydropower Station, and finally by the Maguduza Hydropower Station. The Maguga Hydropower Station is supplied by the Maguga Dam, which is operated by the Komati Basin Water Authority (KOBWA).

The dam is built upon and supplied by the Komati River. Since the primary function of the Maguga/Driekoppies Dam System is to supply water for irrigation downstream of the dam, the Maguga Hydropower Station operation is guided by "Hydropower Operating Guidelines" agreed upon, and signed by both SEC and KOBWA.

## HYDROPOWER THEORY

Hydropower is a conventional renewable energy source which is clean, free from pollution and generally has a positive effect on the environment. One key operational advantage of hydropower stations is that they are capable of generating power within minutes.

A hydropower station utilises the potential energy of water stored in a dam higher than the power station by converting it into electric energy. The water flows through a high pressure conduit referred to as a penstock, into a water turbine, through a turbine runner, and discharged back into the river. As the water flows through the turbine runner, it spins the turbine shaft which drives the generator connected to it, thereby generating electricity. The electricity is then fed into the transmission network.

# BOARD OF DIRECTORS



From left to right:

## 1. MR. HENRY D. SHONGWE

Non- Executive Director

- MSc Mechanical Engineering- UK
- BSc Hons in Energy Studies-UK

## 2. MR. EDGAR QHAWWE MAVUSO

- Masters Degree in Education – Massachusetts, USA
- BA Degree – University of Botswana, Lesotho & Swaziland
- Chairman's Programme - IODSA

## 3. MS. HLOBSILE NDZIMANDZE

Non-Executive Director

- BA (Law)
- LLB (UNISWA)
- Legislative Drafting (Ghana Law School)

## 4. MR. BANELE NYAMANE

Acting MD (1-11-2011 to 31-3-2012)

- Bachelor of Commerce (Accounting) – UNISWA
- Honours Degree in Accounting Science (CTA) – UNISA
- Post Graduate Diploma in Auditing – APT
- Chartered Accountant, South Africa, CA, ICAEW
- Chartered Accountant, Swaziland, CA (SD) – SIA

## 5. MR. TIMOTHY R.T NHLEKO

Acting Chairman

- MBA- Florida International University, Miami, Florida, USA
- BA Economics – University of Botswana and Swaziland
- Diploma in Banking- Institute of Bankers, SA
- Chairman's Programme - IODSA

## 6. MRS. LINDA NKWANYANA

Non-Executive Director

- Human Resource Management - (Mangosuthu Technikon)
- B-Tech Degree Human Resource Management (UNISA)

## 7. MRS. SABELO PELEOWO

- Bachelor of Arts (Law) - UNISWA
- Bachelor of Laws (LLB) – University of the Witwatersrand
- Masters in Business Leadership (MBL) – UNISA
- Admitted Attorney of the High Court of Swaziland

## 8. MR. BHANGASE P.M ZWANE

Legal Adviser & Company Secretary

- Master of Laws (Wits) - Energy Law, Banking & Finance Law, Competition Law and Intellectual Property Law
- Bachelor of Laws (UNISWA) (Old UBS/ Edinburgh University, UK Joint Programme)
- Attorney, Notary Public, Conveyancer (of the Courts of Swaziland and South Africa)

# EXECUTIVE MANAGEMENT



## **BANELE NYAMANE (33)**

Acting MD (1-11-2011 to 31-3-2012)

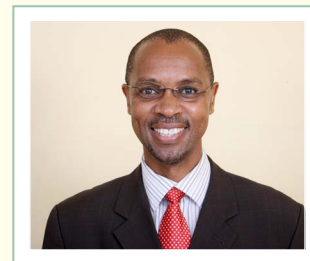
- Bachelor of Commerce (Accounting) – UNISWA
- Honours Degree in Accounting Science (CTA) – UNISA
- Post Graduate Diploma in Auditing – APT
- Chartered Accountant, South Africa, CA, ICAEW
- Chartered Accountant, Swaziland, CA (SD) – SIA
- Responsibilities
  - Corporate Strategy & Vision
  - Capital Allocation
  - Team Building



## **MESHACK M. KUNENE (52)**

General Manager Operations

- B. Eng (Electrical and Electronics Engineering) – UK
- Electricity Distribution Management (Sweden)
- Executive Development Programme – (Stanford)
- Member of the South African Institution of Electrical Engineers
- Responsibilities
  - Generator & Transmission
  - Projects
  - System Operations & Control



## **SKHUMBUZO S. TSABEDZE (48)**

General Manager Customer Service

- BSc - UNISWA
- LLB - UNISA
- PGD/Master of Arts (Info Science) – UK
- Master of Business Leadership – UNISA
- Chartered Marketer – SA
- Responsibilities
  - Customer Service
  - Distribution
  - Marketing & Commercial Services
  - Key Accounts
  - Revenue Protection & Billing



## **MAX MKHONTA (44)**

General Manager Corporate Services

- BA Social Science – UNISWA
- Bachelor of Administration in Human Resource Management (Honours Degree) – UKZN
- Responsibilities
  - Corporate Communications
  - Legal Services
  - Facilities Management
  - Human Capital Management & Development
  - Industrial Relations



## **RANSFORD QUAYNOR (38)**

Acting GM Finance

- BComm Accounting (UNISWA)
- Registered Accountant
- Certified Chartered Accountant
- Responsibilities
  - Finance
  - Information Technology
  - Procurement



## **PATRICK M. MATHUNJWA (44)**

Technical Services Manager

- BA (Honours) – Accounting and Finance – UK
- Master of Business Administration – UK
- Certified Chartered Accountant (ACCA) – UK
- Registered Accountant (SD)
- Responsibilities
  - Survey & Drawing
  - Environment & Safety
  - Outsourced Services
  - Rural Electrification
  - Transport
  - Strategy Co-ordination & Revenue Diversification

# THE OFFICIAL LAUNCH OF THE MAGUGA HYDRO ELECTRIC POWER STATION



His Majesty King Mswati III and Her Majesty the Indlovukazi with the Minister of Natural Resources and Energy Princess Tsandzile and SEC Executive and Board Members at the unveiling of the plaque

In the midst of an exciting year for the Swaziland Electricity Company came the official launch of the Maguga Hydro Electric Power Station on the 13<sup>th</sup> May 2011. The country was abuzz with the news of this groundbreaking event in which King Mswati III was going to unveil a plaque and officially open the power station for the benefit of all of his subjects. The E220 million hydro electric power station is a crucial facility for SEC and the country at large. It is a sign of true development; particularly for Swaziland, which aspires to be a fully fledged first-world country by the year 2022. Work was underway in 2004 and the power station was built in a record time of 26 months. Maguga Hydro Electric Power Station produces 20 megawatts of electricity which translates to 10 per cent of the overall national demand. At its peak, the electricity demand for Swaziland is about 200 megawatts. The 10 per cent produced at Maguga represents 30 per cent of the overall energy generated locally. The other local hydro electric power plants include Ezulwini, which contributes 20 megawatts to the national grid and Edwaleni which produces 21 megawatts.

Maguga Hydro Power Station is unique in that the dam was originally built by the Komati Basin Water Authority (KOBWA) for the benefit of sugarcane farmers downstream. While plans to construct the dam unfolded, it became clear that it had massive potential for electricity generation. Therefore, the hydro electric power station came as a spin-off from the dam project, and the water released for irrigation downstream is used to drive turbines, thus producing electricity.

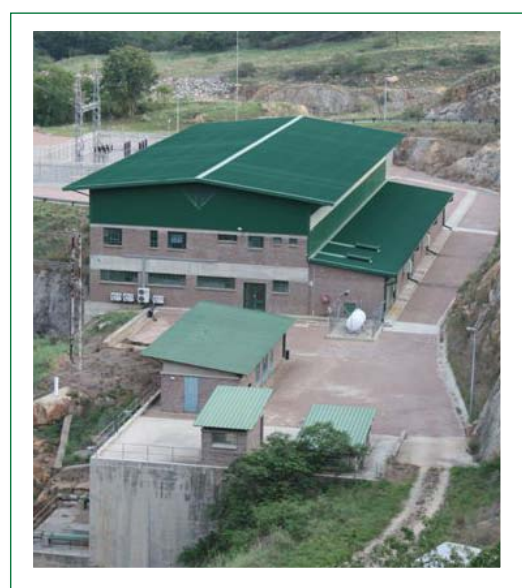


Former SEC Managing Director Pius Gumbi shows His Majesty King Mswati III around the Maguga Hydro Electric Power Station.

The day of the official opening of the Maguga Hydro Electric Power Station was welcomed with much joy and celebration. A marquee was erected on the banks of Maguga Dam and the function was well attended. Speeches were made by HRH Hon. Princess Tsandzile (Minister of Natural Resources and Energy), Hhohho Regional Administrator Babe Mshamndane Sibandze, SEC Board Chairman Mr. S'thofeni Ginindza, Princess Ntfombindze and Minister of Finance Hon. Mr. Majozi Sithole. This was followed by His Majesty's address where he praised SEC very highly for such a landmark initiative; especially in this tough economic climate. His Majesty was taken on a tour around the Maguga Hydro Electric Power Station. The tour involved the unveiling of the plaque and a long, difficult hike up a 120 metre high staircase – a hike that His Majesty handled with aplomb. His Majesty also electronically launched the running of the Maguga Hydro Electric Power Station which is operated remotely.



His Majesty King Mswati III launching the operation of the Maguga Hydro Electric Power Station



Maguga Hydro Electric Power Station

# HISTORY OF SEC



## 1920s - 1950s

The first electric light to light up the night in Swaziland was installed at Mlilwane with a 52.5 kVA hydro-turbine by James Weighton Reilly. Reilly later installed this plant on the Mbabane River, below where the Swazi Inn was later built, to supply Mbabane with light. He subsequently sold it to Mercer Cox, who then sold it to the Swaziland Government. Mickey Reilly also brought electricity to Bremersdorp (present-day Manzini), where he created a roaring trade selling single light points to the town, and in particular to the families Howe and Stewart whose rivalry caused them to compete with each other. This escalated not only the price of electricity, but also the number of light points sold!

**8 June 1955** - The process began for the Government of Swaziland to buy the Bremersdorp Electricity Supply from the Swaziland Power Company for £ 50,000.

**1963** - The Swaziland Electricity Board was officially launched and work commenced on the construction of Edwaleni Hydro- Electric Power Station.

**19 September 1964** - The Edwaleni Hydro-Electric Power Station was inaugurated by Mr. H. F Oppenheimer in the presence of His Majesty King Sobhuza II.

**1975** - Hhelehhele 132/66kV Substation was constructed.

**1980** - Work commenced on the construction of the Luphohlo Power Station.

**1985** - Luphohlo Power Station was commissioned bringing the total installed internal generation to 51MW.

**1987** - Eskom III Incomer was constructed from Normandie to Kalanga.

**1989** - Nhlanguano II and Kalanga 132/66kV Substations were constructed. This was a great relief to the Eskom I and II 132kV Incomers which were now operating at full capacity.

**1989** - Mhlosheni and Hluti 33/11kV Substations were constructed.

**May 1992** - SEB signed a performance contract with the Swaziland Government.

**1998** - Work commenced on the construction of Maguga Dam.

**2000** - Motraco 400kV joint venture as well as the Edwaleni II 400/132kV 500MVA (2by 250MVA) Substation was commissioned. This project, combined with the commissioning of a number

of other 132/66kV substations brought a marked improvement to the quality of supply. Hhelehhele and Stonehenge Substations were brown field projects whilst Mkhinkomo II was a green field development.

**2001** - Construction of the Maguga Dam was completed.

**2001** - Maguga Dam won the South African Institution of Civil Engineering Award for most outstanding civil engineering achievement in the International Category for 2001.

**2002** - Maguga Dam was commissioned.

**2001-2010** - A number of green fields as well as new 66/11kV substations were constructed resulting in improved capacity in these substations. These substations included Big Bend, Bhalegane, Sihhoye, Kent Rock, Pine Valley, Lobamba, and Manzini North Substations.

**December 2007** - The Swaziland Electricity Board changed its name and became the Swaziland Electricity Company.

**13 May 2012** - The Maguga Hydro-Electric Power Station was inaugurated by His Majesty King Mswati III.

## THE MINISTRY IN CHARGE



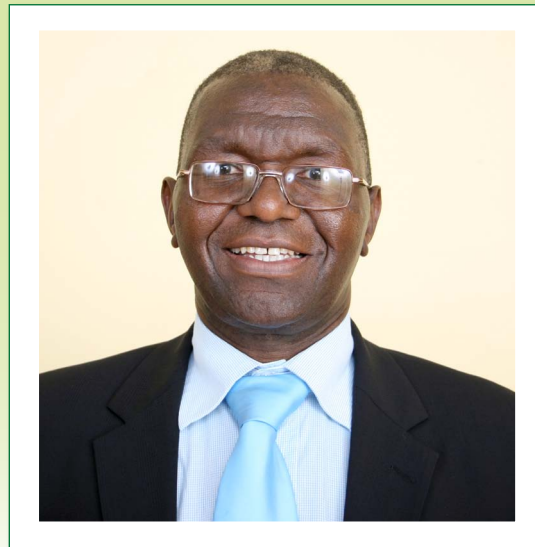
The Minister of Natural Resources and Energy Princess Tsandzile



Ministry of Natural Resources and Energy  
Principal Secretary Mr. Thembinkhosi Mamba

# CHAIRMAN'S REVIEW

I have the pleasure to present the Swaziland Electricity Company's Annual Report for the year ended 31 March 2012. The country has continued to face a tough economic environment in the year under review and our Company has not been spared this fate. We have continued to see a decline in business during the year and the Company is continuing to work on strategies to ensure that it remains viable during these tough economic times.



## ECONOMIC REVIEW

The economy of the country has continued to experience slow growth, but the situation has improved slightly compared to the previous year. The country's share of the SACU revenue also improved slightly, this resulted in a positive impact within most of the companies who were owed by Government.

Although there has been an improvement, it has not been reflected in our financials as we continue to see a decline in unit sales to domestic customers, despite the fact that the number of connections has increased by 10% during the year. This may be attributed to the fact that salary increments granted have been below inflation or have not been granted at all, resulting in consumers having to reduce their spending.

We are looking forward to the implementation of the Investor Road Map that was recently launched by His Majesty King Mswati III, in that it will bring much needed investment to the country. Working with His Majesty's Government, the Swaziland Investment Promotion Agency (SIPA) has also undertaken to reduce investment times by 25% in the mining sector. As a Company, we are looking to benefit positively from such investments as they have the potential to take a substantial load from the grid.

## SAFETY AND ENVIRONMENT

The Company is committed to ensuring the safety of its employees, contractors and the public at large. During the year, we have continued to invest heavily in addressing safety issues by educating the public via mass media as well as other critical initiatives. We also subscribe to the protection of the environment and to addressing concerns around global warming. On the 31<sup>st</sup> March 2012, we joined the global community in observing Earth Hour 2012 through encouraging electricity users to switch off their power for an hour. We applaud the co-operation from our customers and we are happy to report that during that period we saved 20 MWh of energy and contributed to the minimisation of global warming and therefore, climate change.

It is regrettable that during the year under review, two contractor employees and a member of the public died in separate incidents. In an effort to continuously review our procedures and therefore improve safety and efficiency, we have embraced ISO, over and above NOSA, and are working towards accreditation. In this way, we will continue to work towards eliminating these incidents from happening.

## BUSINESS REVIEW

As highlighted above regarding the difficult economic environment, units sold by the Company declined by 2.2% during the year. This is against the increase of 10% of customer connections, mainly domestic. The decline is attributed to two major customers who opted for self-generation. This will continue to have a negative impact on the Company as these customers contributed to the combined revenue of approximately E150 million over the past financial year. The Company has also partnered with one of the sugar milling companies in a co-generation project that has led to an increase in energy output sourced within the country.

The Company has also had an increase in electricity theft, through by-passes and we believe this is due to the tough economic conditions. In response, we have put a number of strategies in place to try and eliminate this problem and we are seeing the positive results of these efforts.

As part of the Company contribution into the Investor Road Map, we continued to improve the infrastructure to ensure availability and improve quality of supply through the construction of Distribution Substations and converting wooden poles into steel mono-poles for transmission lines. The Company has also invested heavily in its Distribution Network and the impact of that investment is evident through the decrease in electricity outages.

Whilst the Thermal Power Station Project was stalled due to delays in obtaining an exploration license, the Company is pursuing the Lower Maguduza Hydro Power Scheme which is anticipated to have an output of about 12MWh. We continued to get additional power from Eskom and EDM respectively, notwithstanding that the latter had some challenges during the year as they did not have excess power for some periods.

The Company is still owed a substantial amount of money by some Government Ministries and Departments and engagements are continuing to ensure that this amount is recovered. In consultation with Government, the Company is exploring the option of converting some installations into pre-paid systems, not only to reduce the debt, but to assist Government in controlling its electricity costs.

Regrettably, the industrial relations climate in the Company was not ideal during the year under review and this resulted in an illegal work stoppage in February 2012. This negative climate can be attributed to the ongoing measures being introduced to minimise costs to ensure the future sustainability of the Company. The Board of Directors and Management will continue working towards normalising the climate.

## FINANCIAL PERFORMANCE

The profit for the year was E81 million which reflects a decrease of 57 % compared to last year's figure of E188 million. The major contributor to the decrease is the fair value loss on the EIB Loan embedded derivative of E69 million against the E21 million recognised in the prior year. During the year, the Company performed a detailed valuation of MOTRACO, which reflected a significant difference to the book valuation that has always been performed. The Company is working on strategies to minimise the impact of this derivative as it is seven years away from maturing. MOTRACO again declared a dividend of US\$ 2 million during the year under review.

Although revenue increased by 7%, actual energy sales decreased by 2.2%. The overall increase in revenue can be attributed to the 8% tariff increase applied during the year. The decrease in units is attributed to two sugar milling companies opting for co-generation. There was also a 20% increase in distribution costs which can be attributed to the increased maintenance undertaken during the period under review.

Revenue per employee increased to E1.9 million versus E1.2 million in the prior year and this is as a result of the lower employee numbers. There were also challenges with recruitment during the year; once these have been resolved, the employee numbers are expected to normalise and increase.

## BOARD OF DIRECTORS

On the 31<sup>st</sup> October 2011, four Non-Executive Directors retired as their maximum term of four years had been reached. The Managing Director also opted not to renew his contract. The appointing authority, the Minister of Natural Resources and Energy (MNRE) appointed two Directors and at year end there were two vacant positions.

At year end, the Board was engaged in the process of recruiting a Managing Director and this process is expected to be completed soon. The appointing authority, being the MNRE, is also expected to appoint the two Non-Executive Directors, which may include a substantive Chairperson.

As a result of the above, some Board Sub-Committees could not function effectively after the 31st of October 2011.

All Board Members have undergone the relevant training to assist them to carry out their functions effectively.

## CONCLUSION

On behalf of the Board, I would like to pass on our appreciation to the Minister of Natural Resources and Energy for the support and guidance that she has provided the Board during the year. A vote of thanks also goes to the Management and all the Company's employees for the effort they have put in to make the Company such a success. The future will certainly be much more challenging given this year's financial performance and all stakeholders are requested to gear up for tough times ahead.

# MANAGING DIRECTOR'S REPORT



“ The Company is concerned with the impact of global warming and on the 31<sup>st</sup> March 2012, it joined the world in marking the 'Earth Hour'. 20 MWh was saved during that period. ”

## CUSTOMER SERVICE

### Customer Numbers

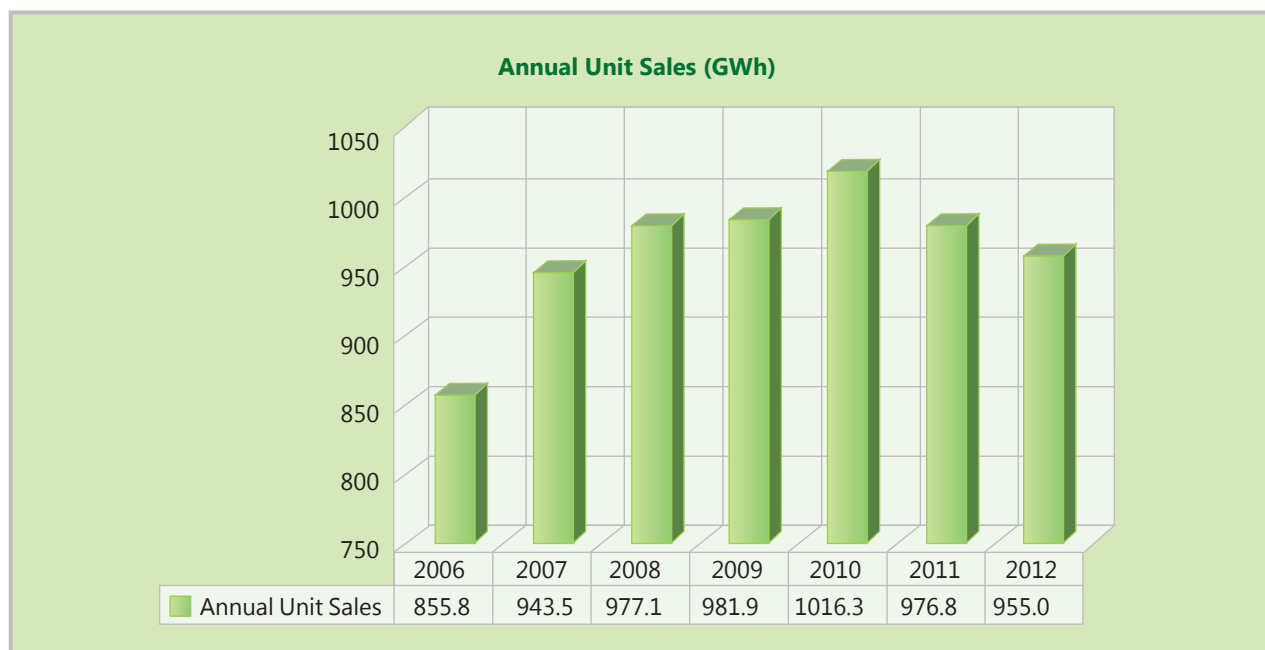
In the year under review, SEC's customer base increased by 10.1%, from 99,631 in the previous year to 109,681. SEC substantially completed the roll-out of pre-payment meters with 96.1% of the customers on the pre-paid system.

Customer growth by tariff category continued to be dominated by the domestic sector which represents 91% from a previous ratio of 89% of SEC's total customers. Growth remained stunted in the Industrial and Irrigation Sector in the year under review as the slow economic conditions did not improve in the country.



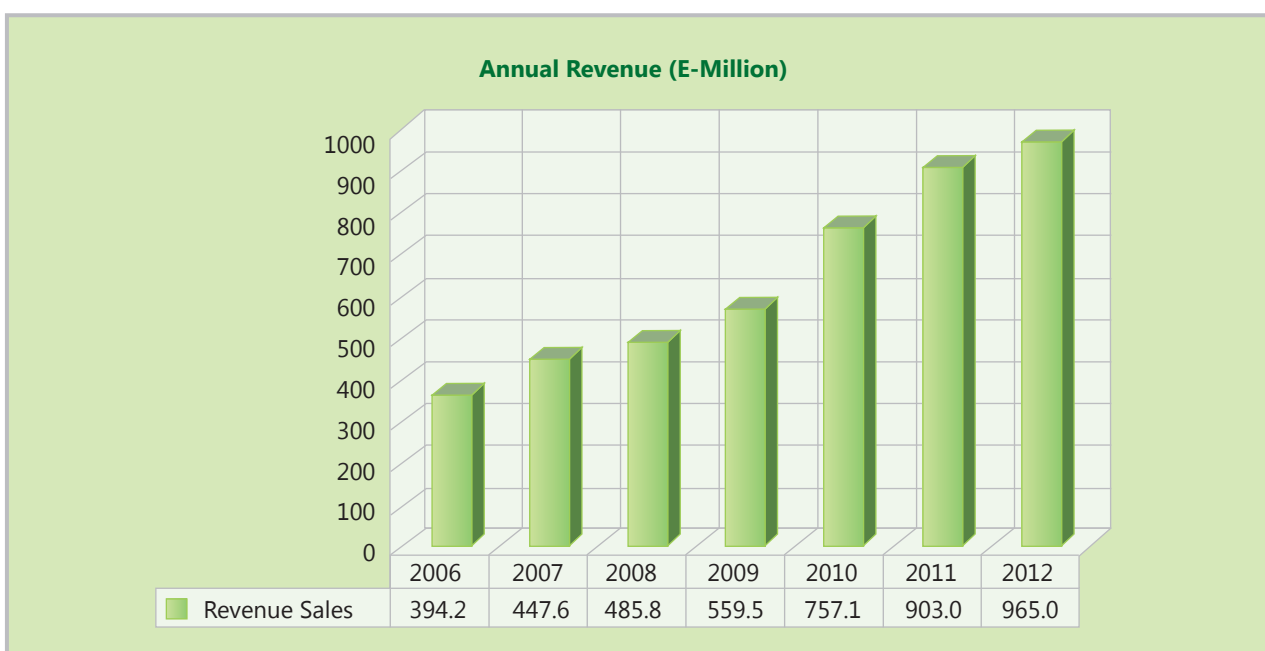
## Unit Sales

SEC unit sales recorded for the year were reduced from a previous record of 977GWh to 955GWh. This represented a decline of 2.2% for the year under review, in addition to that of the previous year; the cumulative decline recorded was 6.2%. Major contributors to the decline in sales were the loss of a major customer in the Lubombo Region who migrated to co-generation options, as well as the continued roll out of pre-paid electricity and Demand Side Management (DSM) Awareness Programme. This programme is aimed at educating customers about ways and means to save energy.

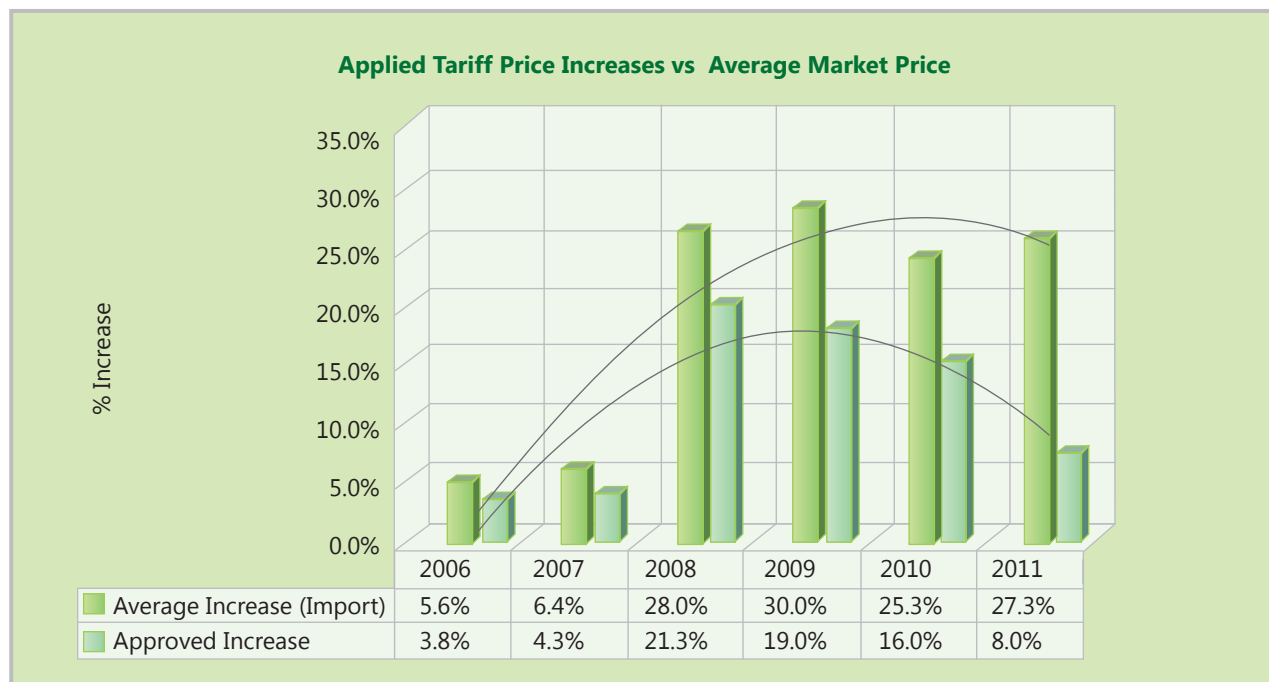


## Revenue Sales

Despite the reduction in unit sales during the period under review, SEC revenue sales increased by 7%, from E903 million to E965 million, in the period under review. The growth in revenue sales is attributed to the tariff increase of 8% which was applied with effect from 1 June 2011. The increase was also influenced by the high season tariff rates.



# MANAGING DIRECTOR'S REPORT - continued

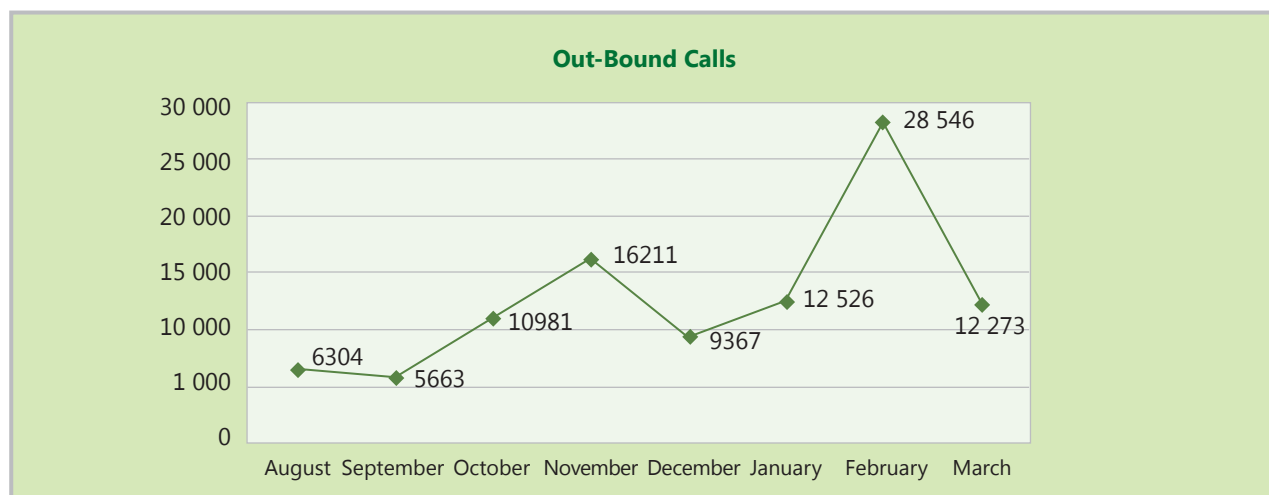


## Customer Education

SEC continued with its outreach campaigns, educating customers on the business and operations of the Company. Educational programmes were run weekly on Swaziland Broadcasting Service Station (SBIS) and during the course of the year another slot was added on the Voice of the Church (VOC) Radio Station. Both stations have a wide listenership. Customer education was also pursued through road show campaigns; a total of 22 road shows were conducted across the country.

## CALL CENTRE (800 9000)

The SEC Call Centre was rolled out and it continued to play a major role in customer services with the intention of improving customer satisfaction. During the latter part of the year, the operational hours of the Call Centre were extended from 16 hours to 24 hours. The toll-free number, 800 9000, was anchored on all SEC communication and advertisements were implemented to direct customers to the Call Centre as the first point of service contact. SEC customers have responded very well and they have continued to utilise the Call Centre as the primary contact.



## Customer Service Charter

SEC developed a Customer Service Charter and trained its staff, with a view to ensure that high customer service levels are met. The purpose of the Customer Service Charter is to ensure that customer service levels are of an acceptable performance standard and are predictable. In addition, SEC, as a service provider, can be held accountable and it therefore fosters the culture of customer centricism.

## Integration of the Distribution into Customer Service

With effect from the 1st of April 2011, the distribution business was incorporated into the Customer Service Division to ensure SEC remained customer focussed. In the period under review, SEC distribution continued to construct, maintain and attend to faults and services.

Swaziland is prone to continuous high-lightening incidents and harsh summer storms. In the past, this has resulted in regular unplanned power outages. Priority for the distribution sections of the business was focussed upon the implementation of the distribution study recommendations to improve the network system's safety, reliability and accessibility. This included several projects, among them were BLI installations (Basic Line Insulation) which was undertaken throughout the ten depots to improve system earthing as well as the introduction of combi units and firewalls designed to protect transformers. Whenever transformers are destroyed by lightning, it results in huge replacement costs and longer outage periods, so protecting them significantly reduces outages, saves costs and ensures continued provision of supply. The depots also embarked upon a project to replace pole mounted boxes in the network whose absence results in a large number of outages and faults.

## System Losses, Revenue Collection and Debtor Days

The continued roll-out of the Pre-Paid Project mitigated an increase in debtor days; however there were notable incidents of by-passes. The illegal by-pass of SEC supply increases commercial losses and undermines efforts of revenue collection and system losses management. SEC embarked upon a programme to encourage whistle blowing and also to conduct meter inspection. Culprits are apprehended and handed over to the Law Enforcement Agents for prosecution.

The debtor days remained relatively stagnant due to the poor servicing of SEC debt primarily by Government and small irrigation holder customers who struggled to service their accounts. Debt from previous credit accounts was linked to the prepaid accounts and customers were allowed up to nine months to clear their debts as part of the conversion programme.

Having factored in the adjustments, the debtor days came to 68 from a previous record of 74 days.

## OPERATIONS

### Transmission Network Telecommunications Supervisory System

The effectiveness of the Transmission Network Telecommunication Supervisory System started to show signs of ageing and the availability started to decrease. The current system was commissioned more than ten years ago and system spares became obsolete. As such, the Company took a resolution to replace the entire Transmission Network Communications Supervisory System comprising of Remote Terminal Units (RTU) which had an average availability of 94.32 %, Supervisory Control and Data Acquisition (SCADA), as well as the Microwave Network which forms the backbone of SEC Telecommunications Network. It is expected that the effectiveness of the Transmission Network Telecommunications Supervisory System will improve significantly over next coming two years. This project comes with added functionalities such as a Distribution Network Supervisory System. The total project cost is E24 million.

The Company completed the replacement of old microwave radios in the network. This also saw the construction of a new site in Big Bend as part of the Microwave Project which has a new 50m tower. This has increased the capacity of the backbone network to a capacity of 155mbps with the potential of upgrading to STM-4. This capacity is utilised for the internal communication circuits and also presents the availability of spare capacity for any future installations and business for the organisation.

# MANAGING DIRECTOR'S REPORT - continued

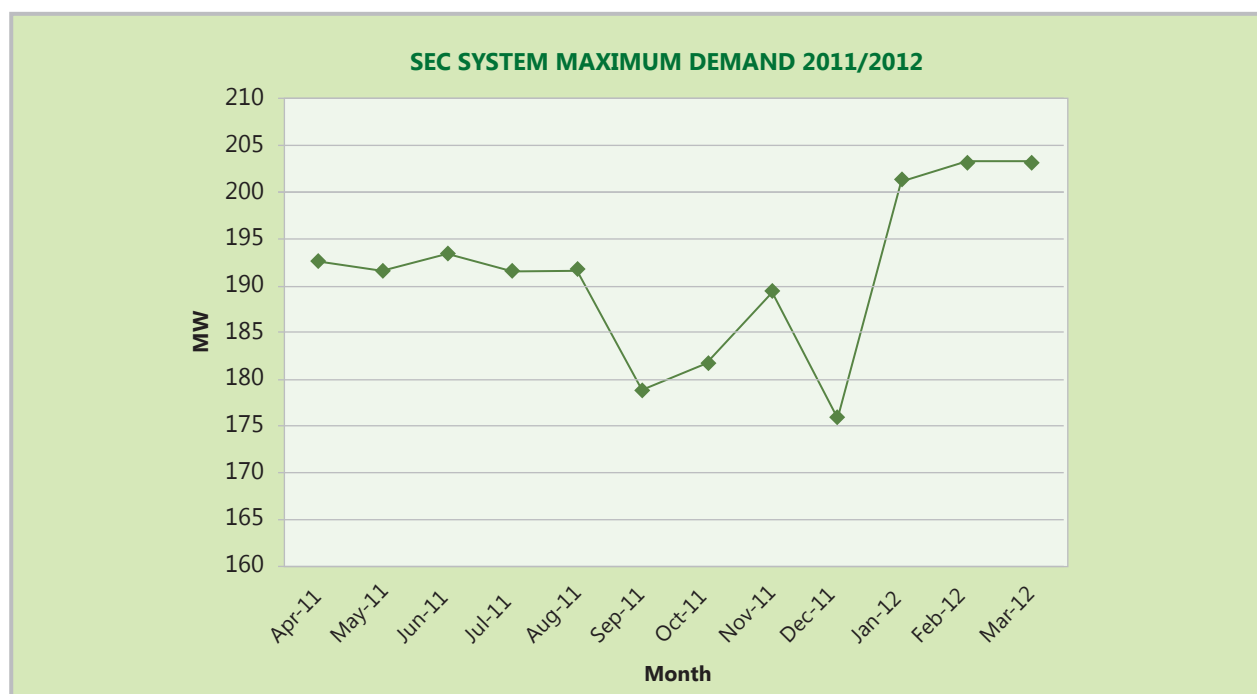
## OPERATIONS - CONTINUED

In a drive to improve the mobile VHF radio coverage in the country we have completed the construction of two mobile repeater sites at Vusweni High Site (improve Channel 4) and Mdzimbha High Site (improve Channel 7). This is the first phase of a project which we expect to complete in the financial year 2012/2013. This is expected go a long way in improving the radio coverage in the country.

### System Maximum Demand and Trading

The system maximum demand for the current period was 203.336MW; it was reached on the 27<sup>th</sup> March 2012 at 2000 hrs.

**Figure 1 below shows the energy demand throughout the financial year:**



The financial year saw the introduction of Ubombo Sugar Limited (USL) into the Swaziland generation mix. USL started generating into the SEC grid in June 2011. This resulted in a decline in imports for the financial year even though SEC exported power to USL at certain times during the financial year.

### Generation

The year under review has seen a significant drop in internal power generation/production as a result of the low amounts of rain obtained during the course of the year. Production has dropped by 55 GWh (16.6%) from 334 GWh in 2010/11 to 278.5 GWh in 2011/12, and this was even lower than the 2009/10 production. Refer to Figure 1 overleaf:

**Figure 2 - Internal Generation (GWh) & Contribution to System (%)**

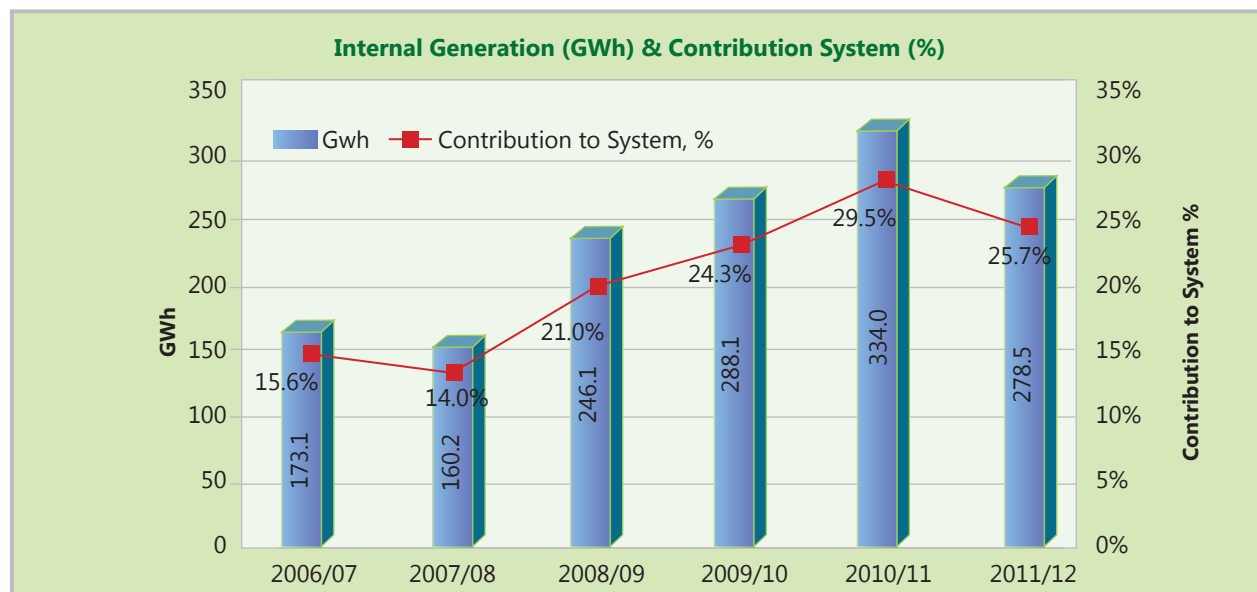


**Figure 3 - Internal Annual Generation per Plant, GWh**

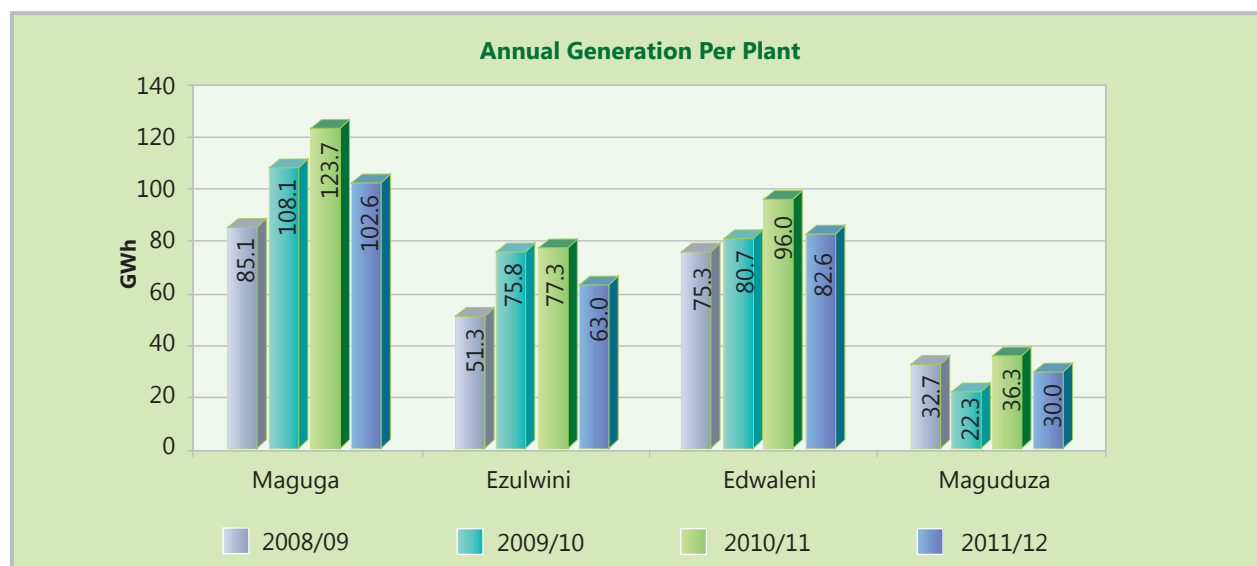
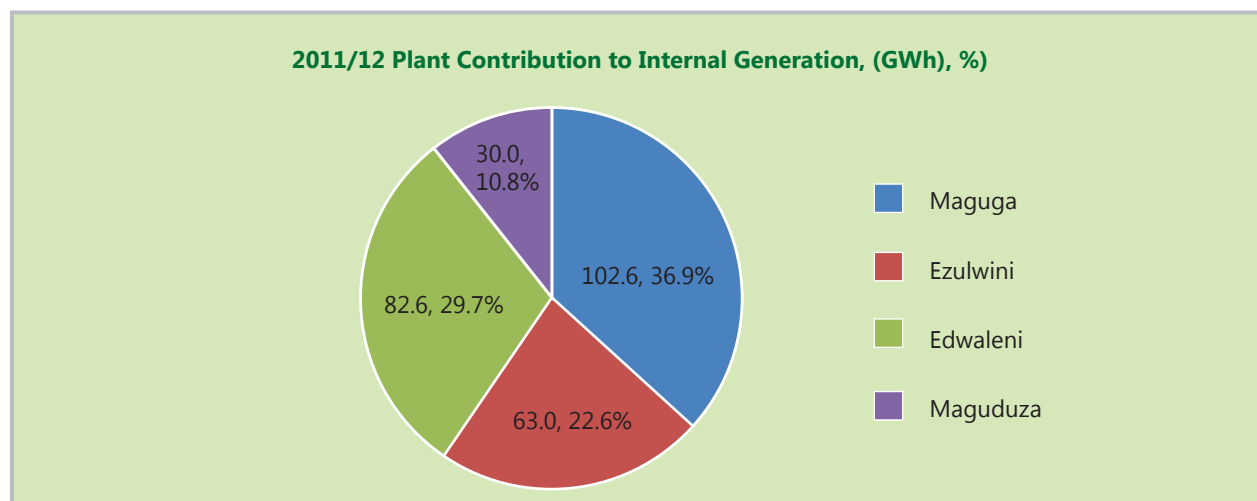


**Figure 4 - 2010/11 Individual Plant Contributions to Internal Generation**



# MANAGING DIRECTOR'S REPORT - continued

The Company has, over the last five years, been involved in infrastructure development throughout the country. The objective of the said development is mainly to improve system reliability and the quality of supply. The projects for the year under review included the construction of new 66/11kV substations in Mayiwane (Hhohho Region) and Lawuba (Shiselweni Region). The above projects entailed 66kV busbar extension in Sihhoye and Hlatikulu 66/11kV Substations. The total cost for the development of both substations and the associated busbar extensions is E60 million.

## SHERQ

SEC is committed to providing a safe and healthy working environment to all its employees, contractors and customers. The Company has established a fully-fledged Safety Health Environment Risk and Quality (SHERQ) Department which seeks to ensure, inter alia, that required safety, health, environmental and quality standards are observed within all the Company's business activities and processes. The Company also complies with legislation and regulations pertaining to safety, health, environment and quality. SHERQ awareness campaigns and training are conducted regularly and compliance assessments are done through scheduled inspections and internal audits.

Management continues to emphasise occupational safety as one of the Company's key priorities. This has seen the number of disabling injuries decreasing over time among its employees. It is with great sadness, however, that fatalities involving two contractors' employees and one member of the public were experienced at separate incidents during the year. The health and safety of SEC contractors and of the public receives the necessary attention from Management and strategies are being put in place to ensure that the Company's safety Management standards are in line with best practice. Contractors working under SEC supervision are expected to comply with SEC's safety, health and environmental standards as well as the quality specifications determined by the Company.

Copper theft remains a challenge and the vandalism of SEC infrastructure continues to compromise the Company's Network Protection System and this adversely impacts upon our valued customers. Various initiatives are currently being explored by the Company to step up security and surveillance measures at key sites, especially at the major substations.

During the year various safety training and awareness interventions were undertaken by the Company through direct training, mass media and school site visits.

The Company is concerned with the impact of global warming and on the 31<sup>st</sup> March 2012, it joined the world in marking the 'Earth Hour'. 20 MW was saved during that period.



SEC is committed to providing a safe and healthy working environment to all its employees, contractors and customers

## CORPORATE SERVICES

### Manning Levels

By the close of the 2011/2012 financial year, the Company's staff complement stood at 587, including 48 temporary employees. The following tabular presentation represents the breakdown of the staff complement by division, age and gender.

### Turnover

The Company's voluntary turnover for the 2011/12 financial year was 5.9% and the involuntary turnover was 2.1%. The voluntary turnover was a result of implementing a Voluntary Early Retirement Scheme which totalled 4.76 % of the turnover and 1.14% was a result of resignations. The involuntary turnover was 0.95% as a result of deaths, 0.38% dismissals and 0.77% normal retirements.

| AGE   | MD'S OFFICE |          | TECHNICAL SERVICES |          | CORPORATE SERVICES |           | CUSTOMER SERVICE |            | FINANCE   |           | OPERATIONS |           | TOTAL      |            | TOTAL      |
|-------|-------------|----------|--------------------|----------|--------------------|-----------|------------------|------------|-----------|-----------|------------|-----------|------------|------------|------------|
|       | M           | F        | M                  | F        | M                  | F         | M                | F          | M         | F         | M          | F         | M          | F          |            |
| 21-30 | 0           | 0        | 0                  | 1        | 21                 | 8         | 30               | 34         | 3         | 0         | 9          | 2         | 63         | 45         | <b>108</b> |
| 31-40 | 0           | 1        | 8                  | 0        | 12                 | 6         | 72               | 48         | 12        | 4         | 58         | 5         | 162        | 64         | <b>226</b> |
| 41-50 | 0           | 2        | 11                 | 0        | 9                  | 4         | 76               | 18         | 6         | 8         | 73         | 3         | 175        | 35         | <b>210</b> |
| 51-60 | 0           | 1        | 1                  | 0        | 1                  | 0         | 18               | 4          | 1         | 0         | 17         | 0         | 38         | 5          | <b>43</b>  |
|       | <b>0</b>    | <b>4</b> | <b>20</b>          | <b>1</b> | <b>43</b>          | <b>18</b> | <b>196</b>       | <b>104</b> | <b>22</b> | <b>12</b> | <b>157</b> | <b>10</b> | <b>438</b> | <b>149</b> | <b>587</b> |

### Training

A total of E3.7million was spent on training in the 2011-2012 financial year. The Company continued to focus continuous targeted training in line with its evolving mandate of improving customer centricity, operational effectiveness and cost efficiency. The tabular presentation below shows the 2011/12 overall training statistics for the Company:

| Division           | No. of Staff Trained | Expenditure      | Man Days Spent |
|--------------------|----------------------|------------------|----------------|
| CORPORATE SERVICES | 41                   | 383,970          | 364            |
| CUSTOMER SERVICES  | 196                  | 1,461,439        | 1756           |
| FINANCE            | 55                   | 517,081          | 431            |
| MD'S OFFICE        | 5                    | 202,902          | 56             |
| NESMASA            | 0                    | 0, 00            | 0              |
| OPERATIONS         | 156                  | 1,074,285        | 606            |
| SESMAWU            | 4                    | 2,400            | 20             |
| TECHNICAL SERVICES | 2                    | 100,243          | 106            |
| <b>TOTAL</b>       | <b>459</b>           | <b>3,742,320</b> | <b>3339</b>    |

### Employee Relations

As highlighted under the Chairman's Report, the industrial relations climate has been negatively affected mainly by the implementation of a number of measures aimed at addressing concerns on the sustainability of current manpower costs, including the introduction of a new Remuneration Dispensation Company. Both labour formations have not bought into the initiatives and, as a result, the relationship between Management and organised labour has become adversarial. This has culminated in an industrial action lasting for one day that was taken by Union members in February 2012. The outcome of the industrial action was that Union members were awarded a 9.8 % once-off payment plus one month's housing allowance.

# MANAGING DIRECTOR'S REPORT - continued

## CORPORATE SOCIAL INVESTMENT

Corporate Social Investment (CSI) involves significant contributions towards individuals and the communities in which they live. Swaziland Electricity Company (SEC) recognises CSI as a business imperative that must be carried out in order to achieve sustainable positive outcomes. SEC is therefore committed to creating value for all related stakeholders, where possible, by providing the following programmes:

1. Education.
2. Health.
3. Environment.
4. Social & Economic Development.

## POLICY STATEMENT

CSI is an integral part of SEC's business as outlined in the Company's core values and is consistent with the Electricity Act. As encouraged by Corporate Governance and the triple bottom line guiding principles, SEC underwrites the policy in terms of its desire to embrace the broader community as key stakeholders in SEC. The Company's business can only be sustainable in the long term if SEC remains relevant to the needs and aspirations of the community from which it derives its business.

## CORPORATE SOCIAL INVESTMENT DISBURSEMENTS

As its key social responsibility, charity is at the heart of SEC. This is evidenced by over E3.3 million in donations the Company has recently made in the current financial year to the under-listed organisations and institutions:

### University of Swaziland

SEC made a cash donation of E3million towards the Electronics and Electrical Engineering Department of the University of Swaziland (UNISWA), through the UNISWA Foundation in October 2011. The money was used to purchase equipment which was fitted in the UNISWA engineering laboratories and lecture rooms. Through this support, SEC has assisted in broadening the academic syllabuses of the institution for the benefit of the entire nation. The Company found it worthwhile to invest in the local University so as to improve the Country's development. Many students have had challenges securing scholarships to study in similar fields outside of the country. SEC has created an enabling environment for local students to study at a lower cost than in other countries.



Representatives from the UNISWA Foundation receive a very generous donation from SEC.

### Students in Free Enterprise (SIFE)

SIFE mobilises teams of students at tertiary institutions across the globe to drive social and economic development programmes in local communities in partnership with business and its funders. This is with a focus upon achieving measurable social goals, developing socially-minded future leaders with real and practical entrepreneurial experience. Through SEC's thematic partnership, amongst others, the UNISWA SIFE team managed to come up with a programme that competed in the 2011 SIFE World Cup in Kuala Lumpur, Malaysia. This is a global showcase of the community projects developed by SIFE teams worldwide and a venue for creating a constructive dialogue between the top leaders of today and tomorrow.

### Scholarship Programme

This year, SEC has started an exciting initiative that will give two very lucky students an incredible opportunity to further their education and, ultimately, their career. These gifted students have been chosen to be sponsored by SEC to attend high school at Waterford Kamhlaba UWCSA, all the way through to the International Baccalaureate. Subsequent to this, SEC will also sponsor the students to go to the University of Swaziland to pursue an Engineering Degree. After completion of their university education, the two students will be welcomed with open arms into SEC, where they will be employed for five years. This is an incredible opportunity that the Swaziland Electricity Company is proud to provide!

### SOS Children's Village

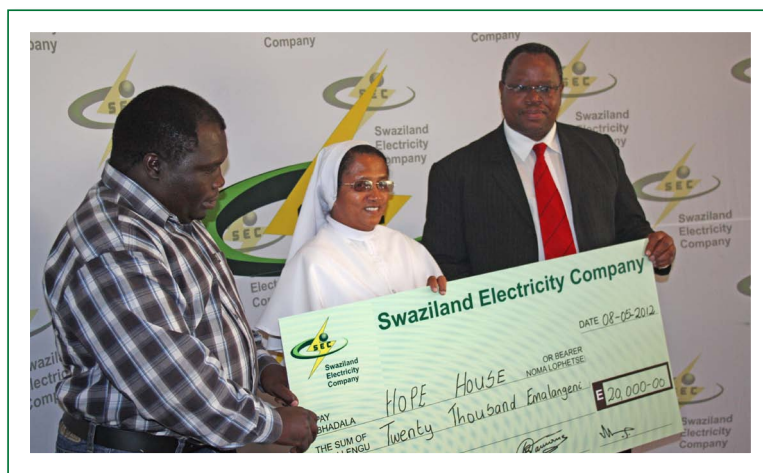
SEC made a family house donation to SOS Children's Village; an independent organisation that is dedicated to and passionate about preventing children from losing parental care. The organisation had a desperate need to improve their facilities and pay fees for under-privileged children. SEC's support went a long way in helping SOS Children's Village meet its vision that states, "Every child belongs to a family and grows with love, respect and security". Through the family house support, 10 under-privileged children were raised in what is considered to be the best alternative care to the natural family-of-origin environment. The children were provided with a secure and loving home as well as a sound education and preparation for lives as adults.

### Hope House

Hope House, a place of peace for terminally ill HIV and AIDS patients, has managed to cater for an increased number of patients through the consistent support of SEC and other organisations. The organisation depends entirely on donations for the day-to-day running of its centre. Donations of SEC's nature were used for the purchase of medication, food and for patient care. Last year Hope House recorded a 83% rate of clients being discharged from the centre after recovery. This has largely been through support received from generous donors.

### Swaziland Epilepsy Association

This new NGO, which is an advocacy organisation dealing with epilepsy related challenges, had a golf tournament named the 'Epilepsy Yellow Golf Day' in which SEC participated. The Company supported the event whose objective was to raise awareness about epilepsy, its treatment and care. The organisation is running a campaign to bring people living with epilepsy 'out of the shadows' so that they are embraced by the larger society. The organisation is also currently focusing its resources and networks towards establishing the first shelter and epilepsy clinic in the country. This clinic will be a huge advantage to epilepsy patients as it will encompass epilepsy equipment that will expose epilepsy during its infant stages. The clinic will further educate the nation about the epilepsy care and management required by epilepsy patients and their guardians.



General Manager Operations, Mr Meshack Kunene presents representatives from Hope House with a cheque for E20,000



Former SEC Managing Director, Mr. Pius Gumbi presents a cheque of E5,000 to a representative from the Swaziland Epilepsy Association

# MANAGING DIRECTOR'S REPORT - continued

## Mayiwane High School

Another donation, in form of air-conditioners, was made to Mayiwane High School on the 15th June 2011 where the Company was held in high esteem for its faithfulness in keeping promises. The E29 000 worth of air-conditioners were presented to the school by the then SEC Managing Director Pius Gumbi.

## Ekwetsembeni Special School

This special school is a non-profit making institution that caters for children who are physically & mentally challenged and had engaged in a project of installing cupboards for its classrooms. Due to the nature of the pupils in the school, it was appropriate for the school to secure proper storage for learning materials. The project was initiated to benefit all pupils in the school; creating an enabling environment for education.

## FAWESWA (Forum for African Women Educationalists Swaziland Chapter)

The organisation with a mandate of supporting gender equality and equality in education by fostering positive policies, practices and attitudes girls' education, formally conveyed its need for the Company's financial support at a fundraising breakfast held in April 2011. SEC also supports an initiative by the organisation to encourage girls to pursue scientific and technical jobs through a job-shadowing programme held during school breaks.

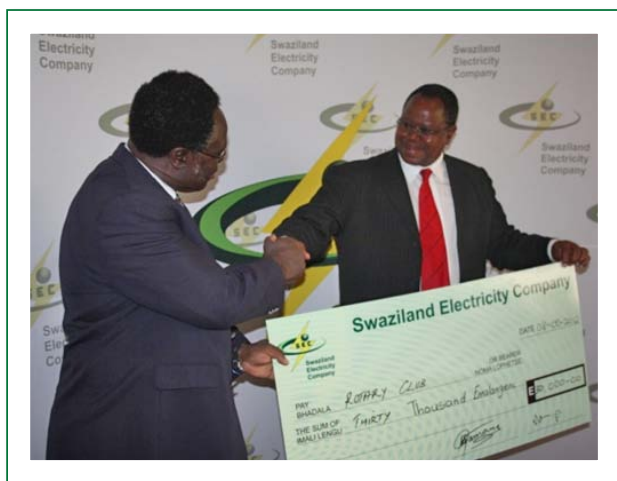
## Cheshire Homes

SEC renewed its relationship with Cheshire Homes by supporting the organisation in completing a storage room initiated in 2009. Previously, the organisation had to spend money storing equipment in rented premises. Cheshire Homes provides high standards of residential and health care for profoundly disabled persons. Currently, the organisation has wards admitting only 16 people, while others are brought in on a daily basis to receive health care and be helped in developing self reliance through activities, programmes and special events. SEC has also religiously sponsored employee participation in the annual Cheshire Homes fundraising walk. This is a key fundraising event for this organisation, the only comprehensive rehabilitative centre in the country.

Other organisations that have been supported by SEC include the Swaziland Hospice at Home, Philani Maswati Charity, Mbabane – Mbuluzi Rotary Club and the Rotary Club of Mbabane.



The Philani Maswati Representative receives a cheque For E10, 000.00 from General Manager Operations, Mr. Meshack Kunene



The Rotary Club Representative receives a cheque for E30, 000

**CSI/R Actual Spending by SEC during the 2011/2012 Financial Year;  
April 2011 to February 2012**

| <b>Institution/Organisation</b>               | <b>Amount (E)</b> |
|-----------------------------------------------|-------------------|
| UNISWA                                        | 3, 000, 000       |
| Mbabane – Mbuluzi Rotary Club                 | 43,200            |
| SIFE                                          | 40, 000           |
| Ekwetsembeni Special School                   | 30, 000           |
| SOS Children's Village                        | 30, 000           |
| Rotary Club of Mbabane                        | 30, 000           |
| Mayiwane High School                          | 28,851            |
| Swaziland Hospice at Home                     | 25, 000           |
| Common Parliamentary Association of Swaziland | 25, 000           |
| Hope House                                    | 20, 000           |
| Cheshire Homes                                | 20, 000           |
| JMC Awards                                    | 20, 000           |
| Swaziland Sugar Association                   | 10, 000           |
| Philani Maswati Charity                       | 10, 000           |
| CSI Indaba                                    | 7, 500            |
| Swaziland Epilepsy Organisation               | 5, 000            |
| Sifundzani High School                        | 5, 000            |
| FAWESWA                                       | 2, 000            |
| Municipal Council of Mbabane                  | 2, 000            |
| <b>Total CSI:</b>                             | <b>3,353,551</b>  |



The benefactors of SEC's generous Corporate Social Investment within the Swazi community

# MANAGING DIRECTOR'S REPORT - continued

## FINANCE

### Embedded Derivatives

During the year, the Audit Committee sanctioned an exercise to comprehensively review all the Company's contracts to check whether there were any disclosure requirements in terms of IFRS that had not been covered in prior years. The review revealed that there are three embedded derivatives that had not been previously recognised. The adjustments for those derivatives are disclosed in Note 37 of the financial statements. The net impact of these derivatives is an asset of E1.7 million (2011: E3.4 million) recognised.

The Company share in the joint venture, MOTRACO has always been measured at book value using the annual financial statements. During the year under review, Management sanctioned a detailed valuation of the joint venture. The result was that the actual value was higher than what was previously estimated. The impact was that the embedded derivative liability was understated. This resulted in an adjustment of E69 million, thereby increasing the liability.

### Statement of Comprehensive Income

Electricity sales turnover for the period under review amounted to E965 million, representing an increase of 7% from the previous year's figure of E903 million. Actual energy sold during the year was 955 GWh (2011: 977 GWh), resulting in a decline in energy sales of 2.2%. The 7% increase in revenue for the year is as a result of the tariff increase applied during the year of 8%. Costs of sales for the year were E586 million (2011: E453 million). The increased cost of sales was attributable to tariff increase for imports.

Gross profit margin decreased by 10%, and this is due to the impact of the three major customers who are no longer relying on the Company for power.

Other income dropped from E11 million to E1 million this year due to once-off items that had been recognised in the previous year.

There was a 20% increase in distribution expenses during the year and this was due to the increase in maintenance undertaken during the year. Administration cost decreased by 9% due to the fact that last year's figure included E27 million for the Early Retirement Plan whereas, in the current year, only E3 million was spent to complete last year's exercise. Eliminating the impact of the early retirement, administration costs increased by 6%, which was in line with inflation.

The increase in other losses is as a result of the change in the valuation assumptions for the joint venture Company. The share of profit from the joint venture increased by 75% as a result of the stronger US Dollar against the lilangeni and the fact that the joint venture performed well during the period under review.

### Statement of Financial Position

Non-current assets increased by 23% during the year whilst current assets decreased by 52% respectively. The increase in non-current assets is attributed to a 15% increase in property, plant and equipment and an increase in the USL prepayment. The decrease in current assets is as a result of the decrease in cash which was used to fund the USL prepayment. There was also a decrease of 29% on debtors and this is due to the introduction of the Prepaid System, resulting in lower debtors.

There were no additional borrowings raised during the year under review. The adverse exchange rates movements have resulted in an increase in our translated loan balances and the impact of that was a E12 million foreign exchange loss.

### Statement of Cash Flows

Net cash generated from operating activities decreased by 64% from last year's E248 million. E110 million of that was for the USL prepayment and a tax payment of E70 million made during the year.

Net cash from investing activities was comparable to the prior year whilst net cash from financing activities dropped by E96 million due to the fact that there were no borrowings raised during the year compared to the prior year wherein E75 million was raised.

# CORPORATE SUSTAINABILITY REPORT



Sustainability within the Swaziland Electricity Company (SEC) was once solely a 'do-good' slide-show which has now become a steadfast reality. The investors and stakeholders are now calling for the Company to act sustainably as the economic, social and environmental activities of SEC impact upon the triple bottom line. The Company has come to fully appreciate that sustainable development has clear business benefits.

In this regard, the Company has implemented various projects and initiatives that benefit not only SEC but its surrounding community and stakeholders as well. SEC is striving to ensure that the issue of sustainability permeates the whole value chain in the organisation. Amongst these initiatives are Corporate Governance, health and safety, environmental management, employee well-being, Demand Side Management and Corporate Social Investment (CSI).

SEC can say, with pride, that they are taking  
strides in the implementation of  
sustainable development within Swaziland.

# CORPORATE ENVIRONMENTAL SUSTAINABILITY - continued

The Company has identified education as a key focus area for sustainability to be achieved in Swaziland. The organisation has sponsored students in tertiary institutions who are in the engineering field. The Company also engages students from the University of Swaziland, who are attached to various Departments so that they can benefit from job training and apply some of their skills in the process. In addition to that the Company has introduced a policy to provide a two-year 'on the job' training contract for graduates who are not yet employed. Despite the dire economic crisis affecting every business globally, SEC was responsive to the social needs of the community by making contributions to social organisations (SWAGAA, Hospice at Home, etc).

In being responsive to the welfare needs of its employees, the Company launched an Employee Wellness Programme and peer educators have been appointed in various Departments within the organisation. The Employee Wellness Programme is promoted and supported within the organisation. Wellness rooms have been constructed on the various work sites and employees are encouraged to undertake sporting activities.

In line with the 'COP 2011' theme, the organisation launched a Waste Recycling Programme, during the past financial year, which aims at reducing the carbon footprint and minimising pollution and other negative impacts that waste has upon our environment. The Company also partnered with the Swaziland Environment Authority in the commemoration of World Environment Day. The theme of this year was 'Green Economy'. The partnership marked a change in the strategic outlook of the organisation.

It has been noted that energy resources are dwindling within the Southern African Region. Hence, the Company has adopted and focused upon the Efficient Use of Energy Programme called Demand Side Management (DSM). An intensive effort is being made to raise awareness about energy efficiency through the various media sources. Currently the emphasis is on the young generation who need to grow up with energy conservation culture. The Company has recently completed a multimillion project where prepaid meters were installed throughout the country. The Company has since observed a reduction in energy use. This has shown commitment by the Company to address the issues of climate change by promoting efficient energy use. SEC's participation in the Earth Hour on 29<sup>th</sup> March 2012 was also a display of how committed SEC is to saving our precious environment.

The Company has also contributed significantly in increasing economic opportunities within the country. Local and international contractors and consultants have been engaged to undertake some of SEC's projects and this has proven to have a multiplier effect in local and international economies. SEC can say, with pride, that they are taking strides in the implementation of sustainable development within Swaziland.

To strike a balance in the achievement of sustainability in economic, social and environment initiatives; the business of the Company is driven through the implementation of a three-year strategic plan that is reviewed annually. Technological support has been a critical business enabler of operational initiatives aimed at satisfying customers' needs. Despite the worldwide economic challenges facing corporate organisations, the Company continued to operate profitably to meet all its obligations and paid dividends to the shareholders. Compliance with legal and safety requirements is enshrined in the day-to-day operations of the Company. Corporate Governance principles have been adhered to in the overseeing of the organisation through having an independent Board and Executive Management.

# SEC EARTH HOUR 2012 - A Resounding Success!



## CANDLES LIGHT UP ACROSS THE NATION

On 31st March 2012, between the hours 8:30pm and 9:30pm, Swaziland fell into darkness and candles lit across the Nation, a demonstration of the Country's support for climate change awareness.

### How it All Began

Earth Hour started in 2007 in Sydney, Australia, when 2.2 million individuals and more than 2,000 businesses turned off their lights for one hour to take a stand against climate change. In 2010, a record 128 countries and territories joined the global display of support. Iconic buildings and landmarks from Asia Pacific to Europe and Africa, to the Americas, 'switched off'. People across the world and from all walks of life turned off their lights and came together in celebration and contemplation of the one thing we all have in common, our planet. In 2011, Swaziland joined the ranks of this great initiative, spearheaded by Swaziland Electricity Company (SEC).

### LIVE BEYOND THE HOUR

SEC, along with her Earth Hour partners, Nedbank, Renewable Energy Association of Swaziland (REASWA), Swaziland Environmental Authority (SEA) and the Earth Hour Organisation, held a function to celebrate this exciting event at the Royal Swazi Convention Centre on Saturday evening. Programme Director, SEC General Manager Customer Service, Skhumbuzo Tsabedze kicked off the evening's activities, reminding the public to "live beyond the hour". He said *'The Earth Hour concept is not about switching off for only the stipulated period, but it's just a reminder that it should become a culture for every person who cares about the environment to use electricity conservatively. Can you imagine how big a contribution we could make as a Nation if we were to use electricity sparingly daily?'*

# SEC EARTH HOUR 2012 - A Resounding Success! - continued

## I WILL IF YOU WILL

The slogan for Earth Hour 2012 is 'I Will if You Will'; as Mr Tsabedze explained, 'SEC will proudly donate 2,000 Compact Fluorescent Lamps (CFLs, energy efficient light bulbs) to the people of Swaziland if our Kingdom saves 20,000 kWh of energy during Earth Hour this evening.' SEC would like their message of energy conservation to spread throughout the country, last year the Earth Hour function was held in Mbabane, this year in Ezulwini and they are hoping to hold next year's function in Manzini. 'We want to reach the whole country with our message; especially the youth since they hold our future in their hands.' Mr Tsabedze remarked. The response to this year's Earth Hour is unprecedented with the Swazi entertainment industry offering their services free of charge to the event. Three of the acts to show such generosity were music group 'Siyinqaba', Poet, 'Qibho Intellectual' and gospel singers 'TAKEN'. These acts brought the evening to life with their rich and varied talents.

## USE SUSTAINABLE RESOURCES

Nedbank Swaziland representative, Thabsile Dlamini spoke passionately about the cause "We, at Nedbank, are proud to support this endeavour. We are well known for being the only bank in Southern Africa to possess an eco-friendly building which has 'sensory lights'. Everyone needs to use sustainable resources and recycle, I will if you will!" SEA representative, Gcina Dlamini, was also very enthusiastic about the subject, "Hold hands together, there is still a lot of work we need to do for our planet. The Earth needs us!" Ms Dlamini enthused. The REASWA thanked SEC for all that they have done towards the success of this important endeavour.

## SWITCH OFF!

At 8:30pm, the Royal Swazi Convention Centre was plunged into darkness and candles were lit, a true symbol of hope. After an hour of 'dinner by candlelight', the room was bathed in light and everyone was greeted by the fantastic news that Swaziland had surpassed the target of 20, 000 kWh saved and had saved 30, 003 kWh. A round of spontaneous applause echoed around the room as the SEC Acting Managing Director, Meshack Kunene, took to the podium. He began by thanking all those who came out on a rainy evening to support SEC and its partners. "SEC are proud and excited to be associated with Earth Hour and it has worked! We have exceeded the target, congratulations Swaziland! Due to this year's success, next year, even more energy will be saved. We must now take these lessons into the future with us, do not keep appliances plugged in if they are not in use, if there is no one in the bedroom, switch off the lights. These small efforts make a huge difference if we all band together. At SEC, we encourage the use of CFLs, although they cost more, they will last for up to two years and are therefore very cost effective. Conserve, conserve, conserve energy!" Mr Kunene impressed upon his audience.

## FOLLOW SEC'S IMPRESSIVE LEAD

The Keynote Address was made, eloquently, by the Principal Secretary, Theminkhosi Mamba from the Ministry of Natural Resources and Energy. He reiterated the message of energy efficiency being practised throughout the Nation 'Preach the gospel of saving energy! Use the Earth Hour to combat the growing threat of climate change; we all need to act against this threat. Thank you to everyone who has participated in this worthy event. We need to reduce greenhouse gas emissions and this accomplishment starts with a single step, one step at a time. We must practise energy efficiency daily, not just once a year. Renewable energy must be a priority. Earth Hour is a step in the right direction to kick start energy efficient behaviour amongst the Swazi population.

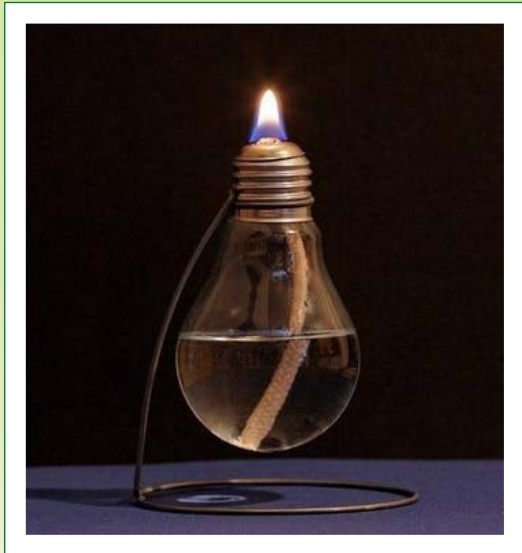
Principal Secretary Mamba also mentioned the financial savings that can be made, "Government money is being misused due to lights being left on in the Ministries overnight and over weekends. The money could be better spent on building necessities like roads, improving the health care system and attending to other urgent matters.



Mr. Theminkhosi Mamba

Congratulations to SEC for pledging to donate 2,000 CFLs, the target has been surpassed! This is a lesson other organisations should take from SEC, follow their impressive lead!"

# DEMAND - SIDE MANAGEMENT IN SWAZILAND



## What is Load Shedding?

The SADC region is currently experiencing an increase in demand which exceeds supply. When such a situation occurs there is a need to reduce the demand by shedding some load for certain customers. The prevailing decline of power-supply in the region, emanating from the unprecedented increase in demand, has unfortunately necessitated the bringing about of planned interruptions to consumers and customers. This process is called 'load shedding'.

*"Load shedding is the act or process of disconnecting the electric current on certain lines when the demand becomes greater than the supply."*

The main power suppliers in the region have found themselves under pressure to reclaim fractions of the power they have been supplying to neighbouring utilities in the region. This process may cascade to consumers in the affected countries. Eskom has indicated that neighbouring utilities should only load shed when Eskom is load shedding. Although the System is currently strained, we are currently relying on their reserves to avoid load shedding.

## How will Load Shedding affect Swaziland?

In the case of Swaziland, load shedding is always a last-resort measure. Only after all other options at our disposal have been exhausted does SEC interrupt supply to other customer categories. These options involve running power stations at maximum capacity and interrupting supply to industrial customers with special contracts. When this does occur, extra care is taken to ensure essential services such as hospitals are not affected.

Load shedding is appropriately structured to ensure that available power is interrupted on a rotation basis between the various customer categories. By spreading the impact, affected areas are never interrupted for more than two hours at a time. In most cases, customers are always informed of any interruptions well in advance.

In summary, load shedding is used as an effective way to avoid blackouts. Excessive demands on the electricity system unbalance the network, which can, in turn, cause it to collapse. By rotating the load in a planned and controlled manner, the system remains stable.

# LOAD SHEDDING AND ITS EFFECT ON SWAZILAND - continued

## What is SEC doing to Minimise Load Shedding?

- SEC has increased local hydro generation, but at the same time, is aware that they cannot drain the dams entirely within a short period of time.
- SEC is running her diesel generators at Edwaleni to assist in meeting the demand.
- Negotiations are ongoing with SEC's strategic key customers, which possess generators, to increase their generation capacity.
- SEC has planned load shedding schemes which are to be implemented by controllers whenever the need to load shed arises.

## Tips to Avoid the Necessity of Load Shedding

The use of electrical equipment such as air-conditioners, geysers and swimming pool pumps should be minimised. Such appliances should be in very good condition to ensure efficient use, thus guaranteeing a stable demand for electricity. This will assist in minimising the necessity to resort to load shedding.

In the event we find ourselves compelled to carry out these power outages, we will issue load shedding schedules to the Nation. Customers are encouraged to review the schedule regularly as the situation may change from time to time. It is the intention of SEC to strictly adhere to the issued schedules. It is highly probable, given the dynamic nature and operation of the electricity network, for this information to change periodically.

## Hints and Tips in the Case of Power Outage

SEC, like all other utilities in the region, may experience short-term power-supply shortages, while at the same time experiencing an increase in demand, especially in the winter months. From time to time this may result in planned power interruptions. The more electricity Swaziland consumers can save by switching off non-essential appliances, the fewer power outages there will be. Below are hints and tips to assist in the case of power outage.

## Special Needs

If you have special needs, such as medical support equipment (ventilators, dialysis, machines etc), please notify your medical practitioner immediately so that special arrangements can be made. Such special assistance is only available with the authorisation of a registered general practitioner, doctor or medical specialist. If you require advice regarding the provisions that have been made for special needs, kindly contact SEC on our toll-free line, 800 9000 or any other numbers stipulated by our Company.

## Switch it Off

When the power goes off, it is safest to simply turn off (or even better, disconnect) any electrical appliances that were being used. Keep one light switched 'on' to alert you when the power returns. Clearly mark on/off switches with a piece of masking tape. When the power returns, it may do so with a momentary surge, which may damage electronic appliances such as computers, television sets, VCR/ DVD players etc. It is therefore advisable that such electrical appliances should be disconnected.

**Do bear in mind that homeowners or inhabitants are entirely responsible for all electricity usage and appliances in their homes.**



# **SWAZILAND ELECTRICITY COMPANY LIMITED**

## **ANNUAL FINANCIAL STATEMENTS for the year ended 31 March 2012**

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## STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS

for the year ended 31 March 2012

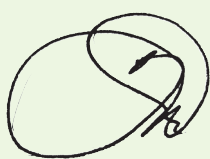
The directors are responsible for the preparation, integrity and fair presentation of the annual financial statements of the Swaziland Electricity Company Limited. The annual financial statements presented on pages 35 to 127 have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgements and estimates made by management. The directors also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the annual financial statements.

The directors are also responsible for the Swaziland Electricity Company Limited's internal financial controls. These are designed to provide reasonable, but not absolute assurance as to the reliability of the annual financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and any system has occurred during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. The directors have no reason to believe that the Swaziland Electricity Company Limited will not be a going concern in the foreseeable future based on forecasts and available cash resources. These annual financial statements support the viability of the Swaziland Electricity Company Limited.

The annual financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers, which was given unrestricted access to all financial records and related data, including minutes of the directors and committees of the Company. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate. PricewaterhouseCoopers' audit report is presented on page 35.

The annual financial statements which appear on pages 35 to 127 have been approved by the Board of Directors and are signed on its behalf by:



DIRECTOR



DIRECTOR

27 June 2012

DATE

27 June 2012

DATE

# INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Swaziland Electricity Company Limited

We have audited the accompanying annual financial statements of Swaziland Electricity Company Limited, which comprise the directors' report, the statement of financial position as of 31 March 2012, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 35 to 127.

## DIRECTORS' RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Swaziland Companies Act 2009. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual 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 annual 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 the directors, as well as evaluating the overall presentation of the annual financial statements.

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

## OPINION

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the company as of 31 March 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Swaziland Companies Act 2009.



PricewaterhouseCoopers

Partner: Paul Lewis

Chartered Accountant (Swaziland)

Mbabane

Date: 23 July 2012

# DIRECTORS' REPORT

for the year ended 31 March 2012

## 1. NATURE OF BUSINESS

The Swaziland Electricity Company is engaged in the business of generation, transmission and distribution of electricity in the country. Customers include agricultural, industrial, commercial and residential households.

The Swaziland Electricity Company is governed by the four enabling legislations namely; The Electricity Company Act, 2007, The Energy Regulatory Act, 2007, The Electricity Act, 2007 as well as the Public Enterprises Unit (Control and Monitoring) Act, 1989.

## 2. BUSINESS ISSUES

Over the past two years, the company has lost three of its major customers. Two opting for self-generation and the other shut down its manufacturing unit. In light of these challenges, coupled with the stagnant economy, the directors have re-structured the business operations to ensure the curtailment of costs and to improve efficiencies.

The company is also pursuing opportunities to increase its generation capacity in order to reduce cost of sales.

### Revenue and Expenditure

Electricity sales turnover for the period under review amounted to E965 million representing an increase of 7% from the previous year's figure of E903 million. Actual energy sold during the year was 955 GWh (2011: 977 GWh) resulting in a decline in energy sales of 2.2%.

The 7% increase in revenue for the year is as a result of the tariff increase applied during the year of 8%. Costs of sales for the year were E586 million (2011: 453 million). The increased cost of sales was attributable to tariff increase for imports.

## 3. TECHNICAL PERFORMANCE

Internal generation for the year stood at 272 GWh representing 24% of total units sent out, a decrease from the previous year's figure of 29%. The decreased generation output was a result of fewer rains during the year leading to decreased generation spell. The company's imports were 813 GWh (806 GWh) and the cost of these imports were E437 million (2011: 331 million). The increased cost of imports was as a result of high tariff. Wheeling charges increased to E17 million (2011: E16 million) due to price escalation.

Total units sent out during the period were 1 130 GWh, units sold were 955 GWh resulting in system losses of 15.5% (2011: 14.2%). Management continues to focus on reducing system losses.

## **DIRECTORS' REPORT (continued)**

for the year ended 31 March 2012

### **4. CAPITAL EXPENDITURE**

Capital projects total cost incurred during the year amounted to E235 million (2011: 228 million). Most of the capital expenditure was to improve the distribution network.

### **5. CASHFLOW FOR THE YEAR**

Cash and cash equivalents at the end of the financial year decreased to E83 million from E208 million the previous year. The prior year had a second and final draw down of E75 million from the Public Service Pension Fund (PSPF). An amount of E 110 million was reserved for the payment of the prepayment as disclosed in note 17.

### **6. JOINT VENTURE**

During the year under review the joint venture company declared a second dividend. The company's share was US\$ 2 million (E13 864 000), (2011: 1.5 million (E10 270 500)). As per the financing agreement related to this investment, 50% of the dividend was remitted to EIB after deducting 20% withholding tax as per the Mozambique tax code.

### **7. CORPORATE GOVERNANCE ISSUES**

In compliance with good corporate governance principles, the company has operated and maintained the following Board Committees: Audit and Risk Committee, Finance Committee, Remunerations Committee, and the Technical Committee. These Committees remained effective throughout the accounting period.

#### **Environmental Responsibility:**

In compliance with the relevant legislation all projects undertaken by the company are carried out after full compliance with the Environmental Act of 2002. Hazardous substances are disposed-off in full compliance with safety standards and environmental requirements as stipulated by the act.

#### **Social Responsibility:**

The company is fully committed to minimize the impact of HIV/AIDS on its staff in order to save lives and ensure long term sustainability of the company. The company has continued to support initiatives by charity and similar organisations in their quest to eliminate poverty and the HIV/AIDS impact on the Company in general.

### **8. SHARE CAPITAL**

The share capital of the company amount to E433,493,841.00 made up of 433,493,841 share of E1 each.

## DIRECTORS' REPORT (continued)

for the year ended 31 March 2012

### 9. DIVIDEND

The Directors recommended and paid a dividend of E9.6 million (2010:E6 million) in respect of the financial year ended 31 March 2011.

### 10. DIRECTORS

The Directors are appointed by the Minister responsible for Natural Resources and Energy. The following directors served on the board during period under review:

#### Non-executive directors

##### Chairperson

Mr. Sthofeni Ginindza  
Mr. Timothy Nhleko

##### Appointed

01 November 2007 (retired 31 October 2011)  
02 September 2008 (acting chairperson from  
1 November 2011)

##### Deputy Chairperson

Dr. Winnie Nhlengethwa

01 November 2007 (retired 31 October 2011)

##### Directors

Mr. Henry Shongwe  
HRH Princess Msindvose  
Dr. Mike Matsebula  
Ms Hlobisile Ndzimandze  
Mrs Linda Nkwanyana  
Mr Qhawe Mavuso  
Mrs Sabelo Paleowo

11 May 2004  
01 November 2007 (retired 31 October 2011)  
01 November 2007 (retired 31 October 2011)  
03 February 2011  
03 February 2011  
01 November 2011  
01 November 2011

## DIRECTORS' REPORT (continued)

for the year ended 31 March 2012

### Executive Director

#### Managing Director

Mr. Pius Gumbi

01 November 2005 (resigned 31 October 2011)

#### Secretary

Mr. Mzabalazo Zwane

31 October 2009

#### Acting Directors during the year

Mr. Banele Nyamane

01 November 2011 (acting Managing Director from  
01 November 2011 to 31 March 2012)

Mr. Meshack Kunene

01 April 2012 (acting Managing Director)

## 11. BANKERS

The following financial institutions were the bankers of the company during the year:

Standard Bank Swaziland  
Standard House  
P O Box 667  
Mbabane

Nedbank Swaziland Limited  
P O Box 70  
Mbabane

First National Bank  
Sales House Building  
Swazi Plaza  
P O Box A267  
Eveni

## 12. BUSINESS AND POSTAL ADDRESS OF THE COMPANY

#### Business address

Eluvatsini House  
Mhlambanyatsi Road  
MBABANE  
Swaziland

#### Postal address

P O Box 258  
MBABANE  
H100  
Swaziland

## 13. AUDITORS

The auditors of the company are:

#### Business address

PricewaterhouseCoopers  
MTN Office Park  
Karl Grant Street  
MBABANE  
Swaziland

#### Postal address

PricewaterhouseCoopers  
P O Box 569  
MBABANE  
H100  
Swaziland

# ANNUAL STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2012

|                                                                         | Note | 2012<br>E          | 2011<br>E     |
|-------------------------------------------------------------------------|------|--------------------|---------------|
| Revenue                                                                 | 3    | 1 033 165 193      | 973 444 221   |
| Cost of sales                                                           | 4    | (585 667 347)      | (453 455 947) |
| <b>Gross profit</b>                                                     |      | <b>447 497 846</b> | 519 988 274   |
| Other income                                                            | 5    | 17 747 973         | 21 180 597    |
| Distribution costs                                                      |      | (181 161 281)      | (151 707 173) |
| Administrative expenses                                                 |      | (124 577 490)      | (137 016 217) |
| <b>Operating profit</b>                                                 | 6    | <b>159 507 048</b> | 252 445 481   |
| Finance costs                                                           | 9    | (23 840 210)       | (24 410 071)  |
| Finance income                                                          | 9    | 12 174 406         | 12 540 644    |
| Finance costs-net                                                       |      | (11 665 804)       | (11 869 427)  |
| Other losses                                                            | 10   | (67 912 320)       | (21 316 405)  |
| Share of profit of joint venture                                        | 13   | 34 767 001         | 20 416 888    |
| <b>Profit before income tax</b>                                         |      | <b>114 695 925</b> | 239 676 537   |
| Income tax expense                                                      | 8    | (33 808 199)       | (51 673 951)  |
| <b>Profit for the year</b>                                              |      | <b>80 887 726</b>  | 188 002 586   |
| <b>Other comprehensive income</b>                                       |      |                    |               |
| Foreign exchange gains/(losses) on translation of foreign joint venture | 11   | 14 593 360         | (10 945 077)  |
| <b>Other comprehensive (gains)/ losses for the year net of tax</b>      |      | <b>14 593 360</b>  | (10 945 077)  |
| <b>Total comprehensive income for the year</b>                          |      | <b>95 481 086</b>  | 177 057 509   |
| <b>Basic and diluted earnings per share (cents)</b>                     |      | <b>22</b>          | 41            |

# ANNUAL STATEMENT OF FINANCIAL POSITION

As at 31 March 2012

|                                                     | Notes | 2012<br>E            | 2011<br>E            | 2010<br>E            |
|-----------------------------------------------------|-------|----------------------|----------------------|----------------------|
| <b>Assets</b>                                       |       |                      |                      |                      |
| <b>Non current assets</b>                           |       |                      |                      |                      |
| Property, plant and equipment                       | 12    | 1 249 222 150        | 1 089 132 323        | 921 145 323          |
| Investment in joint venture                         | 13    | 176 871 996          | 137 727 295          | 141 262 254          |
| Other assets                                        | 14    | 43 801 221           | 45 682 979           | 26 237 588           |
| USL electricity prepayment                          | 17    | 130 000 000          | 30 000 000           | -                    |
| Derivative financial instruments                    | 26    | 34 095 381           | 26 238 488           | 33 948 954           |
| Retirement benefit asset                            | 28    | 4 804 424            | 3 611 531            | 1 887 368            |
| Embedded derivative asset                           | 25,37 | 8 868 095            | 5 987 858            | 19 549 398           |
|                                                     |       | <b>1 647 663 267</b> | <b>1 338 380 474</b> | <b>1 144 030 885</b> |
| <b>Current assets</b>                               |       |                      |                      |                      |
| Inventories                                         | 15    | 58 917 334           | 69 748 087           | 69 762 614           |
| Trade and other receivables                         | 16    | 161 800 446          | 209 739 232          | 167 105 612          |
| USL electricity prepayment                          | 17    | 10 000 000           | 10 000 000           | -                    |
| Current income tax assets                           | 30    | 13 747 764           | -                    | -                    |
| Cash and cash equivalents                           | 18    | 83 387 054           | 208 494 908          | 131 013 121          |
|                                                     |       | <b>327 852 598</b>   | <b>497 982 227</b>   | <b>367 881 347</b>   |
| <b>Total assets</b>                                 |       | <b>1 975 515 865</b> | <b>1 836 362 701</b> | <b>1 511 912 232</b> |
| <b>Equity and liabilities</b>                       |       |                      |                      |                      |
| <b>Equity attributable to owners of the company</b> |       |                      |                      |                      |
| Ordinary shares                                     | 19    | 433 493 841          | 433 493 841          | 433 493 841          |
| Foreign exchange translation reserves               | 20    | 19 910 375           | 5 317 015            | 16 262 092           |
| Retained earnings                                   |       | 603 042 172          | 531 739 507          | 349 745 146          |
|                                                     |       | <b>1 056 446 388</b> | <b>970 550 363</b>   | <b>799 501 079</b>   |
| <b>Liabilities</b>                                  |       |                      |                      |                      |
| <b>Non current liabilities</b>                      |       |                      |                      |                      |
| Deferred grant income                               | 21    | 121 976 682          | 109 788 001          | 105 977 552          |
| Other deferred income                               | 22    | 43 801 221           | 45 682 979           | 26 237 588           |
| Borrowings                                          | 24    | 271 966 729          | 284 538 511          | 227 948 951          |
| Embedded derivative liability                       | 25,37 | 93 158 558           | 20 957 831           | 13 731 035           |
| Derivative financial instruments                    | 26    | 5 669 792            | 4 549 080            | 4 852 244            |
| Deferred income tax liabilities                     | 29    | 148 843 300          | 145 655 123          | 113 400 466          |
|                                                     |       | <b>685 416 282</b>   | <b>611 171 525</b>   | <b>492 147 836</b>   |
| <b>Current liabilities</b>                          |       |                      |                      |                      |
| Current income tax liabilities                      | 30    | -                    | 29 371 054           | 12 688 029           |
| Borrowings                                          | 24    | 36 900 795           | 35 824 652           | 29 105 739           |
| Trade and other payables                            | 31    | 144 396 816          | 126 931 596          | 141 270 762          |
| Provisions for other employee benefits              | 27    | 28 353 005           | 41 593 306           | 24 539 668           |
| Deferred revenue                                    | 23    | 24 002 579           | 20 920 205           | 12 659 119           |
|                                                     |       | <b>233 653 195</b>   | <b>254 640 813</b>   | <b>220 263 317</b>   |
| <b>Total liabilities</b>                            |       | <b>919 069 477</b>   | <b>865 812 338</b>   | <b>712 411 153</b>   |
| <b>Total equity and liabilities</b>                 |       | <b>1 975 515 865</b> | <b>1 836 362 701</b> | <b>1 511 912 232</b> |

# ANNUAL STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2012

|                                                                                                 | Note | Share capital<br>E | Foreign<br>exchange<br>translation<br>reserves<br>E | Retained<br>earnings<br>E | Total<br>E    |
|-------------------------------------------------------------------------------------------------|------|--------------------|-----------------------------------------------------|---------------------------|---------------|
| <b>Balance at 31 March 2012</b>                                                                 |      |                    |                                                     |                           |               |
| Balance at 1 April 2011                                                                         |      | 433 493 841        | 5 317 015                                           | 531 739 507               | 970 550 363   |
| Profit for the year                                                                             |      | -                  | -                                                   | 80 887 726                | 80 887 726    |
| Other comprehensive income for the year: Exchange differences on translating foreign operations | 20   | -                  | 14 593 360                                          | -                         | 14 593 360    |
| <b>Total comprehensive income for the year</b>                                                  |      | 433 493 841        | 19 910 375                                          | 612 627 233               | 1 066 031 449 |
| Dividends to equity holders of the company                                                      |      | -                  | -                                                   | (9 585 061)               | (9 585 061)   |
| Total distributions to owners of the company recognised in equity                               |      | -                  | -                                                   | (9 585 061)               | (9 585 061)   |
| <b>Balance at 31 March 2012</b>                                                                 |      | 433 493 841        | 19 910 375                                          | 603 042 172               | 1 056 446 388 |
| <b>Balance at 31 March 2011</b>                                                                 |      |                    |                                                     |                           |               |
| Balance at 01 April 2010                                                                        |      | 433 493 841        | 16 262 092                                          | 331 711 647               | 781 467 580   |
| Adjustment for embedded derivatives to appropriate measurement basis and recognition            | 38   | -                  | -                                                   | 18 033 499                | 18 033 499    |
| Balance as at 01 April 2010 as restated                                                         |      | 433 493 841        | 16 262 092                                          | 349 745 146               | 799 501 079   |
| Profit for the year as restated                                                                 |      | -                  | -                                                   | 188 002 586               | 188 002 586   |
| Other comprehensive income for the year: Exchange differences on translating foreign operations | 20   | -                  | (10 945 077)                                        | -                         | (10 945 077)  |
| <b>Total comprehensive income for the year</b>                                                  |      | 433 493 841        | 5 317 015                                           | 537 747 732               | 976 558 588   |
| Dividends to equity holders of the company                                                      |      | -                  | -                                                   | (6 008 225)               | (6 008 225)   |
| <b>Total distributions to owners of the company recognised in equity</b>                        |      | -                  | -                                                   | (6 008 225)               | (6 008 225)   |
| <b>Balance at 31 March 2011</b>                                                                 |      | 433 493 841        | 5 317 015                                           | 531 739 507               | 970 550 363   |

# ANNUAL STATEMENT OF CASH FLOWS

for the year ended 31 March 2012

|                                                                           | Note | 2012<br>E            | 2011<br>E     |
|---------------------------------------------------------------------------|------|----------------------|---------------|
| <b>Cash flows from operating activities</b>                               |      |                      |               |
| Cash generated by operations                                              | 32.1 | <b>319 102 069</b>   | 289 812 364   |
| Tax paid                                                                  | 30   | <b>(70 090 500)</b>  | -             |
| Dividends received from Motraco Joint Venture                             | 13   | <b>13 864 000</b>    | 10 270 500    |
| Interest received                                                         | 9    | <b>12 174 406</b>    | 12 540 644    |
| Interest paid                                                             | 9    | <b>(23 840 120)</b>  | (24 410 071)  |
| Employer contributions to plan asset                                      | 28   | <b>(7 985 328)</b>   | (8 757 949)   |
| USL electricity prepayment                                                | 17   | <b>(110 000 000)</b> | (40 000 000)  |
| Grants received                                                           | 21   | <b>17 861 775</b>    | 8 929 319     |
| <i>Net cash generated by operating activities</i>                         |      | <b>151 086 302</b>   | 248 384 807   |
| <b>Cash flows from investing activities</b>                               |      |                      |               |
| Additions to property, plant and equipment to maintain operating capacity | 32.2 | <b>(235 393 840)</b> | (228 080 497) |
| Proceeds from disposal of property, plant and equipment                   | 32.3 | <b>816 970</b>       | 3 292 611     |
| Increase/(decrease) in other assets                                       |      | <b>1 881 759</b>     | (19 445 392)  |
| (Increase)/decrease in other deferred income                              |      | <b>(1 881 759)</b>   | 19 445 392    |
| <i>Net cash utilised in investing activities</i>                          |      | <b>(234 576 870)</b> | (224 787 886) |
| <b>Cash flows from financing activities</b>                               |      |                      |               |
| Proceeds from borrowings                                                  |      | -                    | 75 000 000    |
| Dividends paid                                                            |      | <b>(9 585 061)</b>   | (6 008 225)   |
| Repayment of borrowings                                                   |      | <b>(32 032 225)</b>  | (15 095 660)  |
| <i>Net cash (utilised)/received in financing activities</i>               |      | <b>(41 617 286)</b>  | 53 896 115    |
| Net (decrease)/increase in cash and cash equivalents                      |      | <b>(125 107 854)</b> | 77 493 036    |
| Cash and cash equivalents at beginning of the year                        |      | <b>208 494 908</b>   | 131 001 872   |
| Cash and cash equivalents at end of the year                              | 18   | <b>83 387 054</b>    | 208 494 908   |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2012

## 1 GENERAL INFORMATION

Swaziland Electricity Company generates, purchases, transmits and distributes electricity to agricultural, industrial, commercial, mining and residential customers throughout the Kingdom of Swaziland. Swaziland Electricity Company is governed by The Electricity Company Act, 2007, The Electricity Act, 2007, The Energy Regulatory Authority Act, 2007 and The Public Enterprises (Control and Monitoring) Act, 1989. The Company comprises Swaziland Electricity Company and equity accounted 33% share of profits from the Motraco joint venture.

Motraco's principal role is the supply of energy to Mozal Aluminium Smelters in Mozambique and the wheeling of electric energy to the Electricidade de Mozambique, Swaziland Electricity Company and Eskom South Africa.

Swaziland Electricity Company is a limited liability company incorporated and domiciled in Swaziland.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Statement of compliance and basis of preparation

The annual financial statements of Swaziland Electricity Company Limited have been prepared in accordance with International Financial Reporting Standards, IFRIC Interpretations and the Swaziland Companies Act of 2009. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The IFRIC interpretation does not have an impact on the company's annual financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in note 28.

#### 2.1.1 Going-concern basis

The company meets its day-to-day working capital requirements through the use of its cash reserves and bank facilities. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current resources and facilities. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its annual financial statements.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2012

### 2.1.2 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the company*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the company.

(b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted*

- IAS 19, 'Employee benefits' was amended in June 2011. The impact on the company will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset).
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 10, 'consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The company is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2012

### 2.1 Statement of compliance and basis of preparation (continued)

#### 2.1.2 Changes in accounting policy and disclosures (continued)

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The company is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The company is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2012.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company.

### 2.2 Consolidation

#### Joint venture

Joint ventures are contractual arrangements whereby two or more parties undertake an economic activity that is subject to joint control.

Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost in the annual financial statements of the Company. The Company's investment in joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Company's share of its joint ventures post acquisition profits or losses are recognised in profit or loss, and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in joint venture equals or exceeds its interest in the joint venture, including any other unsecurable receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

When the financial statements of the joint venture are prepared as of a date different from that of the parent's financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. However, the difference between the end of the reporting period of the joint venture and that of the parent shall be no more than three months.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2012

### 2.2 Consolidation (continued)

#### Joint venture (continued)

Unrealised gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Company.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences for the year ended 31 March 2012 related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

### 2.3 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The annual financial statements are presented in 'Emalangení' (E), which is the company's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the income statement within 'other (losses)/gains – net'. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2012

### 2.4 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which dividends are approved.

### 2.5 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Freehold land is not depreciated.

Buildings on freehold land, plant, equipment and motor vehicles are depreciated on a straight line basis over their current anticipated useful lives.

The rates of depreciation used are based on the following estimated current useful lives:

|                                          |          |
|------------------------------------------|----------|
| Canal, weirs, conduits and valves        | 50 years |
| Dam and spillway                         | 50 years |
| Luphohlo civil works                     | 50 years |
| Buildings and staff housing              | 40 years |
| Generation plant                         | 40 years |
| Leasehold buildings                      | 30 years |
| Substations, transformers and switchgear | 25 years |
| Distribution and transmission            | 25 years |
| Radio and communication equipment        | 10 years |
| Computer equipment                       | 3 years  |
| Motor vehicles                           | 5 years  |
| Office furniture and equipment           | 10 years |

The costs of improvements to leasehold buildings are written off over the lesser of the periods of the leases or their useful lives.

The basis of depreciation, useful lives and residual values are assessed annually.

The costs of distribution and transmission assets are stated after deducting customer's contributions up to 30 June 2009.

Work-in-progress on capital projects is included at cost and is not depreciated until the relevant asset is available for use. Borrowing costs incurred in financing work-in-progress on qualifying capital projects are included in the cost of the project until the project is substantially completed.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2012

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

The Company 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 Company and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense.

Profits and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in profit or loss within other income.

### 2.6 Capitalisation of borrowing costs

Borrowing costs attributable to the construction of qualifying assets less all investment income on the borrowings are capitalised as part of the cost of those assets over the period of construction to the extent that the assets are financed by financial instruments. Where active development is interrupted for extended periods, capitalisation is suspended. All other borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

### 2.7 Impairment of assets

#### (a) Assets carried at amortised cost

The carrying amounts of assets stated in the statement of financial position, other than inventories and deferred tax assets, are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated as the higher of the fair value less costs to sell and its value in use. An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount exceeds the recoverable amount.

In assessing value in use, the expected future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses in respect of cash-generating units are allocated to assets in the cash-generating unit on a pro rata basis.

A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the recoverable amount and if there is an indication that the impairment loss may have been reversed. The reversal is limited to an amount equal to the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised in previous years.

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2012

### 2.7 Impairment of assets (continued)

#### (a) Assets carried at amortised cost

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

### 2.8 Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

### 2.9 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of other income when the Company's right to receive payments is established.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.9 Financial assets (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

#### (1) Financial assets at fair value through profit or loss

Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

As at the 31 March 2012 the company has no designated hedging relationships for which hedge accounting will be applied.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term

#### (2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as current assets. The Company's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the statement of financial position (notes 16 and 18).

### 2.10 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of estimated returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### a) Electricity Revenue

Electricity revenue is recognised when electricity is consumed by the customer.

Revenue from customer contributions is recognised when the customer has been fully connected to the electricity grid and the lines energised.

#### b) Sale of services

Sale of services is recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.10 Revenue recognition (continued)

#### c) *Other revenue/income*

Other revenue is recognised when the significant risks and rewards of ownership are transferred to the buyer and the amount of revenue can be measured reliably.

#### d) *Deferred revenue*

Deferred electricity revenue comprises unearned prepaid electricity revenue from domestic and small commercial customers. The company utilizes an internally generated model to establish an estimate of unearned revenue from prepaid customers.

Deferred contributions from customers towards infrastructure relate to fees for connection received in advance from prospective electricity customers. These fees are recognised as revenue when the connections are completed.

### 2.11 Finance income

Finance income comprises interest receivable on loans, advances, trade receivables and income from financial market investments. Interest is only recognised where it is probable that the economic benefits associated with the transaction will flow to the Company. Finance income is recognised on a time-proportionate basis that takes into account the effective yield on assets.

### 2.12 Finance cost

Finance cost comprises interest payable on borrowings calculated using the effective interest rate method as well as interest resulting from the unwinding of discount on provisions.

### 2.13 Dividend distributions

Dividend distribution to the company's shareholder is recognised as a liability in the Company's annual financial statements in the period in which the dividends are approved by the company's shareholder.

Dividend income is recognised when the right to receive payment is established.

### 2.14 Financial risk management

#### (1) *Financial risk factors*

The Company's activities expose it to a variety of financial risks including currency risk, credit risk, cash-flow interest rate risk (floating loans), liquidity risk, fair value interest risk, price risk and the variable interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. The Company uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in close co-operation with the Company operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and investing excess liquidity.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2012

### 2.14 Financial risk management (continued)

#### (1) Financial risk factors (continued)

##### (a) Market risk

##### (i) Foreign exchange risk

*Foreign exchange risk is the risk that the value of financial instrument will fluctuate as a result of changes in foreign exchange rates.*

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with the Euro. Foreign exchange risk arises when from future long term repayments recognised as liabilities.

To manage the foreign currency risk arising from future long term loan repayments and recognised liabilities.

A change of +/-10% in exchange rates at the reporting date would have increased (decreased) profit or loss and foreign borrowings by the amounts shown below:

| <b>Borrowings 2012</b>           | <b>E<br/>Equity</b> | <b>E<br/>Profit or loss</b> |
|----------------------------------|---------------------|-----------------------------|
| Increase in exchange rate by 10% | <b>(26 061 063)</b> | <b>(26 061 063)</b>         |
| Decrease in exchange rate by 10% | <b>26 061 063</b>   | <b>26 061 063</b>           |
|                                  |                     |                             |

| <b>Borrowings 2011</b>           | <b>Equity</b> | <b>Profit or loss</b> |
|----------------------------------|---------------|-----------------------|
| Increase in exchange rate by 10% | (25 654 224)  | (25 654 224)          |
| Decrease in exchange rate by 10% | 25 654 224    | 25 654 224            |

##### (ii) Price risk

Price risk includes equity price risk.

*Equity price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.*

The Company is currently not exposed to equity price risk because at the statement of financial position date there were no investments held by the Company and classified either as available for sale or at fair value through profit and loss.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2012

### 2.14 Financial risk management (continued)

#### (1) Financial risk factors (continued)

##### (a) Market risk (continued)

##### (iii) Cash flow and fair value interest rate risk

*Cash flow and interest rate risk is the risk that the value and cash flow of a financial instrument will fluctuate due to changes in market interest rates.*

As the Company has significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in the market interest rates and this has an impact on the company's profits. The Company has no policies in place to hedge against fluctuating interest rate.

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings and long-term loans issued at fixed rates expose the Company to fair value interest rate risk. Currently there are loans issued at fixed interest rate and as such the Company is exposed to fair value interest rate risk.

During 2011 and 2012, the Company's borrowings at variable rates were denominated in the Swaziland Lilangeni and Euros.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging.

Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

The simulation is done on a quarterly basis to verify that the maximum loss potential is within the limit given by the management.

The table below gives an indication of the Company's monetary sensitivity to changes in interest rates.

| 2012             | Cash at bank<br>E | Borrowings<br>E | Other Assets<br>E |
|------------------|-------------------|-----------------|-------------------|
| Base amounts     | 83 387 054        | 308 867 524     | 43 801 221        |
| Interest plus 1% | 84 220 925        | 311 956 199     | 44 239 233        |
| Interest less 1% | 82 553 183        | 305 778 849     | 43 363 209        |

| 2011             | Cash at bank<br>E | Borrowings<br>E | Other Assets<br>E |
|------------------|-------------------|-----------------|-------------------|
| Base amounts     | 208 494 908       | 320 363 163     | 45 682 979        |
| Interest plus 1% | 210 579 857       | 323 566 795     | 46 139 809        |
| Interest less 1% | 206 409 959       | 317 159 531     | 45 226 194        |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2012

### 2.14 Financial risk management (continued)

#### (1) Financial risk factors (continued)

##### (b) Credit risk

*Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss.*

The Company has exposure to credit risk, which is the risk that a counterpart will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- Trade and other receivables,
- Other assets,
- Derivative financial instruments
- Cash and cash equivalents
- Deposits with banks and other financial institutions.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterpart, or Company's of counterparties. Such risks are subject to an annual or more frequent review.

The major concentration of credit risk arises from the Company's receivables and investment securities in relation to the nature of customers and issuers. No collateral is required in respect of financial assets. Reputable financial institutions are used for investing and cash handling purposes.

Quality control and risk department makes regular reviews to assess the degree of compliance with the Company procedures on credit and the overall control environment.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

To manage the credit risk on accounts receivables the company has mechanisms in place which include credit vetting procedures, robust debt collecting methods pre-approved credit limits.

#### (2) Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns and benefits for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or enter into further financing as applicable.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.14 Financial risk management (continued)

#### (1) Financial risk factors (continued)

#### (2) Capital risk management

During 2012, the Company's strategy was to maintain the gearing ratio (before interest accrual is taken into account) within 25%. The gearing ratios before interest accrual at 31 March 2012 and 2011 were as follows:

|                                           | 2012<br>E     | 2011<br>E     |
|-------------------------------------------|---------------|---------------|
| Total Borrowings (note 24)                | 308 867 524   | 320 363 163   |
| Less: Cash and cash equivalents (note 18) | (83 387 054)  | (208 494 908) |
| Net debt                                  | 225 480 470   | 111 868 255   |
| Total equity                              | 1 056 446 388 | 970 550 363   |
| Total capital                             | 1 281 926 858 | 1 082 418 618 |
| <b>Gearing ratio</b>                      | <b>6%</b>     | 10%           |

The deterioration in gearing ratio is primarily due to the valuation of foreign currency denominated long term loans. This is as a result of the appreciation of the Lilangeni against the Euro. Furthermore, there has been a significant decrease on cash and cash equivalents as at 31 March 2012 compared to the previous year.

#### (3) Fair value estimation

The fair value of financial instruments traded in active market (such as trading and available for sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by the Company is the mid market rates..

The carrying value of trade receivables and payables are assumed to approximate their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

For financial assets and liabilities with maturity of less than one year, the face value less any estimated credit adjustments are assumed to approximate their fair values.

#### Currency Risk

The company conducts business transactions in three major currencies: being the South African Rand, Euro and US dollar. This by implication means that there is an exposure to currency risk arising from adverse movements in foreign exchange rates.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### (3) Fair value estimation

#### Currency Risk (continued)

The effect of exchange rate fluctuations on the company's income statement is analysed as follows:

| <b>Borrowings 2012</b>                                       |                                   |                        |         |        |                    |                                                         |                                                         |
|--------------------------------------------------------------|-----------------------------------|------------------------|---------|--------|--------------------|---------------------------------------------------------|---------------------------------------------------------|
|                                                              | Balance in<br>foreign<br>currency | Rate at<br>year<br>end | + 15%   | -15%   | SZL<br>equivalent  | Effect of 15%<br>increase in<br>the income<br>statement | Effect of 15%<br>decrease in<br>the income<br>statement |
| <b>Euro</b>                                                  | <b>Euro</b>                       |                        |         |        |                    |                                                         |                                                         |
| European Investment Bank –<br>Motracco Project Loan          | 5 919 000                         | 10.2822                | 11.8245 | 8.7399 | 60 860 342         | 9 128 874                                               | (9 128 874)                                             |
| European Investment Bank –<br>400kV Integration Project Loan | 2 647 059                         | 10.2822                | 11.8245 | 8.7399 | 27 217 588         | 4 082 559                                               | (4 082 559)                                             |
| European Investment Bank-<br>Motracco Project loan           | 8 200 000                         | 10.2822                | 11.8245 | 8.7399 | 84 314 040         | 12 646 860                                              | (12 646 860)                                            |
| Swaziland Government Loan<br>No.6                            | 131 473                           | 10.2822                | 11.8245 | 8.7399 | 1 351 833          | 202 770                                                 | (202 770)                                               |
|                                                              | <b>16 897 532</b>                 |                        |         |        | <b>173 743 803</b> | <b>26 061 063</b>                                       | <b>(26 061 063)</b>                                     |

#### Borrowings 2011

|                                                              | Balance in<br>foreign<br>currency | Rate at<br>year<br>end | + 15%   | -15%   | SZL<br>equivalent  | Effect of 15%<br>increase in<br>the income<br>statement | Effect of 15%<br>decrease in<br>the income<br>statement |
|--------------------------------------------------------------|-----------------------------------|------------------------|---------|--------|--------------------|---------------------------------------------------------|---------------------------------------------------------|
| <b>Euro</b>                                                  | <b>Euro</b>                       |                        |         |        |                    |                                                         |                                                         |
| European Investment Bank –<br>Motracco Project Loan          | 6 484 000                         | 9.6115                 | 11.0532 | 8.1698 | 62 320 966         | 9 347 982                                               | (9 347 982)                                             |
| European Investment Bank –<br>400kV Integration Project Loan | 2 941 176                         | 9.6115                 | 11.0532 | 8.1698 | 28 269 113         | 4 240 293                                               | (4 280 293)                                             |
| European Investment Bank-<br>Motracco Project loan           | 8 200 000                         | 9.6115                 | 11.0532 | 8.1698 | 78 814 300         | 11 821 940                                              | (11 821 940)                                            |
| Swaziland Government Loan<br>No.6                            | 169 251                           | 9.6115                 | 11.0532 | 8.1698 | 1 626 756          | 244 009                                                 | (244 009)                                               |
|                                                              | <b>17 794 427</b>                 |                        |         |        | <b>171 031 135</b> | <b>25 654 224</b>                                       | <b>(25 654 224)</b>                                     |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### (3) Fair value estimation (continued)

#### Currency Risk (continued)

The table below shows the sensitivity analysis of the value of the embedded derivative due to the change in the value of Motraco which is the key input to the valuation of the embedded derivative. The other input variables are assumed to be constant.

The effect of exchange rate fluctuations on the company's income statement is analysed as follows:

#### Investment in Motraco 2012

|                       | Balance in<br>foreign<br>currency | Rate at<br>year end | + 15%  | -15%   | SZL<br>equivalent | Effect of 15%<br>increase on<br>the income<br>statement | Effect of 15%<br>decrease on<br>the income<br>statement |
|-----------------------|-----------------------------------|---------------------|--------|--------|-------------------|---------------------------------------------------------|---------------------------------------------------------|
| <b>USD</b>            |                                   | <b>USD</b>          |        |        |                   |                                                         |                                                         |
| Investment in Motraco | 22 992 785                        | 7.6925              | 8.8464 | 6.5386 | 176 871 996       | 26 531 375                                              | (26 531 375)                                            |
|                       | 22 992 785                        |                     |        |        | 176 871 996       | 26 531 375                                              | (26 531 375)                                            |

#### Investment in Motraco 2011

|                       | Balance in<br>foreign<br>currency | Rate at<br>year end | + 15%  | -15%   | SZL<br>equivalent | Effect of 15%<br>increase on<br>the income<br>statement | Effect of 15%<br>decrease on<br>the income<br>statement |
|-----------------------|-----------------------------------|---------------------|--------|--------|-------------------|---------------------------------------------------------|---------------------------------------------------------|
| <b>USD</b>            |                                   | <b>USD</b>          |        |        |                   |                                                         |                                                         |
| Investment in Motraco | 20 332 853                        | 6.7743              | 7.7904 | 5.7582 | 137 727 295       | 20 660 212                                              | (20 660 212)                                            |
|                       | 20 332 853                        |                     |        |        | 137 727 295       | 20 660 212                                              | (20 660 212)                                            |

### 3.2 Liquidity Risk

Cash flow forecasting is performed by the company. The Company monitors rolling forecasts of the company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the company does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the company's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements

Liquidity Risk would be the inability to meet or honour obligations as they fall due. Amounts included in the table are the contractual discounted cash flows. As a result, these amounts will not reconcile to the amounts disclosed on the statement of financial position except for short-term payables and receivables to be settled within 12 months where discounting is not applied. The Liquidity Risk Analysis statement as at 31 March 2012 is as follows:

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 3.2 Liquidity Risk (continued)

Liquidity risk-Financial Assets and Liabilities

|                           | Less than<br>1 year<br>E | Between 2<br>and 5 years<br>E | Over<br>5 years<br>E | Total<br>E         |
|---------------------------|--------------------------|-------------------------------|----------------------|--------------------|
| <b>31 March 2012</b>      |                          |                               |                      |                    |
| <b>Financial Assets:</b>  |                          |                               |                      |                    |
| Trade receivables         | 118 085 205              | -                             | -                    | 118 085 205        |
| Cash and cash equivalents | 83 387 054               | -                             | -                    | 83 387 054         |
|                           | <b>201 472 259</b>       | <b>-</b>                      | <b>-</b>             | <b>201 472 259</b> |

#### 31 March 2011

##### Financial Assets:

|                           |                    |          |          |                    |
|---------------------------|--------------------|----------|----------|--------------------|
| Trade receivables         | 151 613 467        | -        | -        | 151 613 467        |
| Cash and cash equivalents | 208 494 908        | -        | -        | 208 494 908        |
|                           | <b>360 108 375</b> | <b>-</b> | <b>-</b> | <b>360 108 375</b> |

#### 31 March 2012

##### Financial Liabilities:

|                          | Less than<br>1 year<br>E | Between 2<br>and 5 years<br>E | Over<br>5 years<br>E | Total<br>E         |
|--------------------------|--------------------------|-------------------------------|----------------------|--------------------|
| Trade and other payables | 144 396 816              | -                             | -                    | 144 396 816        |
| Bank overdraft           | 529 030                  | -                             | -                    | 529 030            |
| Shareholders loan        | 11 240 181               | -                             | -                    | 11 240 181         |
| Foreign borrowings       | 10 131 584               | 41 807 342                    | 110 159 386          | 162 098 312        |
| Local borrowings         | 15 000 000               | 60 000 000                    | 60 000 000           | 135 000 000        |
|                          | <b>181 297 611</b>       | <b>101 807 342</b>            | <b>170 159 386</b>   | <b>453 264 339</b> |

#### 31 March 2011

##### Financial Liabilities:

|                          |                    |                   |                    |                    |
|--------------------------|--------------------|-------------------|--------------------|--------------------|
| Trade and other payables | 126 931 596        | -                 | -                  | 126 931 596        |
| Bank overdraft           | 28 645             | -                 | -                  | 28 645             |
| Shareholders loan        | 11 240 181         | -                 | -                  | 11 240 181         |
| Foreign borrowings       | 9 402 326          | 26 093 981        | 122 894 031        | 158 390 338        |
| Local borrowings         | 15 153 499         | 60 550 500        | 75 000 000         | 150 703 999        |
|                          | <b>162 756 247</b> | <b>86 644 481</b> | <b>197 894 031</b> | <b>447 294 759</b> |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 3.2 Liquidity Risk (continued)

Liquidity risk-Financial Assets and Liabilities

|                                   | Less than<br>1 year<br>E | Between 2<br>and 5 years<br>E | Over<br>5 years<br>E | Total<br>E |
|-----------------------------------|--------------------------|-------------------------------|----------------------|------------|
| <b>31 March 2012</b>              |                          |                               |                      |            |
| <b>Non-Financial Assets:</b>      |                          |                               |                      |            |
| Derivative financial instruments  | -                        | 34 095 381                    | -                    | 34 095 381 |
| Embedded derivative assets        | -                        | -                             | 8 868 095            | 8 868 095  |
|                                   | -                        | 34 095 381                    | 8 868 095            | 42 963 476 |
|                                   |                          |                               |                      |            |
|                                   | Less than<br>1 year<br>E | Between 2<br>and 5 years<br>E | Over<br>5 years<br>E | Total<br>E |
| <b>31 March 2011</b>              |                          |                               |                      |            |
| <b>Non-Financial Assets:</b>      |                          |                               |                      |            |
| Derivative financial instruments  | -                        | 26 238 488                    | -                    | 26 238 488 |
| Embedded derivative assets        | -                        | -                             | 5 987 858            | 5 987 858  |
|                                   | -                        | 26 238 488                    | 5 987 858            | 32 226 346 |
|                                   |                          |                               |                      |            |
|                                   | Less than<br>1 year<br>E | Between 2<br>and 5 years<br>E | Over<br>5 years<br>E | Total<br>E |
| <b>31 March 2012</b>              |                          |                               |                      |            |
| <b>Non-Financial Liabilities:</b> |                          |                               |                      |            |
| Derivative financial instruments  | -                        | 5 669 792                     | -                    | 5 669 792  |
| Embedded derivative liability     | -                        | -                             | 93 158 558           | 93 158 558 |
|                                   | -                        | 5 669 792                     | 93 158 558           | 98 828 350 |
|                                   |                          |                               |                      |            |
|                                   | Less than<br>1 year<br>E | Between 2<br>and 5 years<br>E | Over<br>5 years<br>E | Total<br>E |
| <b>31 March 2011</b>              |                          |                               |                      |            |
| <b>Non-Financial Liabilities:</b> |                          |                               |                      |            |
| Derivative financial instruments  | -                        | 4 549 080                     | -                    | 4 549 080  |
| Embedded derivative liability     | -                        | -                             | 20 957 831           | 20 957 831 |
|                                   | -                        | 4 549 080                     | 20 957 831           | 25 506 911 |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.16 Fair value hierarchy disclosures

The table below analyses financial instruments carried at fair value by the level of fair value hierarchy. The fair value hierarchy depends on the extent to which quoted prices are used in determining the fair value of the specific instruments. The different levels are defined as follows:

Level 1: Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Fair value is based on input other than quoted prices included in Level 1 that is observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Fair value is based on input for the asset or liability that is not based on observable market data (i.e., unobservable inputs)

|                                     | Level 1<br>E | Level 2<br>E | Level 3<br>E | Total<br>E |
|-------------------------------------|--------------|--------------|--------------|------------|
| <b>2012</b>                         |              |              |              |            |
| <b>Financial Instruments-Assets</b> |              |              |              |            |
| Derivative financial instruments    | -            | 34 095 381   | -            | 34 095 381 |
| Embedded derivative asset           | -            | -            | 8 868 095    | 8 868 095  |
|                                     | -            | 34 095 381   | 8 868 095    | 42 963 440 |

|                                  |   |            |           |            |
|----------------------------------|---|------------|-----------|------------|
| <b>2011</b>                      |   |            |           |            |
| Derivative financial instruments |   | 26 238 488 | -         | 26 238 488 |
| Embedded derivative asset        | - | -          | 5 987 858 | 5 987 858  |
|                                  | - | 26 238 488 | 5 987 858 | 32 963 476 |

|                                          | Level 1<br>E | Level 2<br>E | Level 3<br>E | Total<br>E |
|------------------------------------------|--------------|--------------|--------------|------------|
| <b>2012</b>                              |              |              |              |            |
| <b>Financial Instruments-Liabilities</b> |              |              |              |            |
| Embedded derivative liability            | -            | -            | 93 158 558   | 93 158 558 |
| Derivative financial instruments         | -            | 5 669 792    | -            | 5 669 792  |
|                                          | -            | 5 669 792    | 93 158 558   | 98 828 350 |

|                                  |   |           |            |            |
|----------------------------------|---|-----------|------------|------------|
| <b>2011</b>                      |   |           |            |            |
| Embedded derivative liability    | - | -         | 20 957 831 | 20 957 831 |
| Derivative financial instruments | - | 4 549 080 | -          | 4 549 080  |
|                                  |   | 4 549 080 | 20 957 831 | 25 506 911 |

For the reconciliation of Level 3 financial instruments (Embedded Derivatives) refer to Note 25

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.16 Fair value estimation disclosures (continued)

The table below shows the sensitivity analysis of deferred revenue due to the change in the customer's electricity consumption patterns which is the key input variable to the deferred revenue model used by the company to estimate the amount of revenue earned and deferred derived from prepaid customers. The current consumption pattern assumption is that 55% of the March 2012 revenue is deferred; therefore the sensitivity analysis shows the impact of the change in this assumed spending pattern. The other input variables are assumed to be constant.

#### Deferred revenue 2012

|                  | Balance<br>E | Effect of 5%<br>increase on the<br>income<br>statement<br>E | Effect of 5%<br>decrease on the<br>income<br>statement<br>E |
|------------------|--------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Deferred revenue | 24 002 579   | 1 200 129                                                   | (1 200 129)                                                 |
|                  | 24 002 579   | 1 200 129                                                   | (1 200 129)                                                 |

#### Deferred revenue 2011

|                  | Balance<br>E | Effect of 5%<br>increase on the<br>income<br>statement<br>E | Effect of 5%<br>decrease on the<br>income<br>statement<br>E |
|------------------|--------------|-------------------------------------------------------------|-------------------------------------------------------------|
| Deferred revenue | 20 920 205   | 1 046 010                                                   | (1 046 010)                                                 |
|                  | 20 920 205   | 1 040 010                                                   | (1 040 010)                                                 |

### 2.17 Taxation

#### Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the annual financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax liabilities and deferred tax assets are recognised for all temporary difference arising from the following differences:

- The excess of book values of fixed assets over their written down values for tax purposes;
- The excess of book values of finance leases over their written down values for tax purposes;
- Income and expenditure in the annual financial statements of the current year dealt with in other years for tax purposes.
- The unrealised foreign exchange gains/or losses on Motraco which represent a potential future dividend income to be declared by Motraco.
- A deferred tax asset will also arise from tax losses to the extent to which the company expects to utilise the tax losses against future taxable profits.
- The company entity also recognises deferred tax from temporary differences arising from provisions, prepayments, retirement benefit assets, deferred income, and embedded derivatives.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.17 Taxation (continued)

#### Current Tax

The charge for the current tax is the amount of income taxes payable in respect of the taxable profits for the current period. It is calculated using tax rate that have been enacted or substantially enacted by the statement of financial position date.

- Taxation is recognised in profit or loss except to the extent that it relates to items recognised in Other Comprehensive Income.
- Taxation is calculated based on tax laws enacted at balance sheet date.
- The policy in respect of the offsetting of deferred tax assets and liabilities

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

### 2.18 Inventories

Inventories are stated 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 selling expenses. Cost is determined on the weighted average basis and includes expenditure incurred in acquiring inventories and bring them to their existing location and condition.

### 2.19 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Restructuring provisions comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Company becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Company are not provided in advance.

### 2.20 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks, other short term high liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are included within borrowings in current liabilities on the statement of financial position.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.20 Cash and cash equivalents (continued)

Cash and cash equivalents does not include other assets which include restricted cash for rural electrification projects funded by the Government and the Chinese Government.

### 2.21 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in profit or loss.

### 2.22 Borrowings

Borrowings are initially recognised at fair value, which is usually evidenced by the fair value of the consideration received, net of transaction costs incurred, when they become party to the contractual provisions. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between the proceeds (net of transaction value) and the redemption value is recognised in profit or loss over the period of the borrowings.

### 2.23 Employee benefits

#### a) Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provision for employee entitlements to salaries and annual leave represent the amount that the Company has a present obligation to pay, as a result of employees' services provided up to the statement of financial position date. The provision has been calculated at undiscounted amounts based on current salary rates.

#### b) Pension obligations

A defined contribution plan is a pension plan under which the group pays fixed contributions into the plan. The Company operates a defined contribution plan. The Company pays contributions to a privately administered pension plan on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Company has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in staff costs. A defined benefit plan is a pension plan that is not a defined contribution plan.

#### c) Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans 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 the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at statement of financial position date on government bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. The actuarial valuations are carried out on a yearly basis.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.23 Employee benefits (continued)

#### c) *Defined benefit plans (continued)*

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense 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.

Any cumulative unrecognised past service costs and actuarial gains or losses are taken into account in the computation of the net defined benefit obligation or asset.

In calculating the Company's obligation in respect of a plan, to the extent that any cumulative unrecognised in actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, it is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the Company, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reduction in future contributions to the plan.

The company intends to convert from the current Defined Benefit plan to a Defined Contribution plan. The plan to convert has been implemented pending the approval of the Registrar of insurance and retirement funds.

#### d) *Termination benefits*

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after statement of financial position date are discounted to present value.

#### e) *Performance bonus*

The bonus provision can be recognised provided the amount can be reliably measured at the balance sheet date.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

#### f) *Statutory obligations*

Provision is not made for statutory termination obligations in terms of the Employment Act, 1980. It is considered that the Company's contribution to the Pension Fund which can be recovered against such statutory obligations, at present, exceed any such liability.

### 2.24 Grants received

Grants, including non-monetary grants at fair value, are recognised when there is reasonable assurance that the Company will comply with the conditions attached to the grant and that the grant will be received.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.24 Grants received (continued)

Property, plant and equipment acquired from the proceeds of grants is depreciated in accordance with the Company's property, plant and equipment accounting policy. Grants utilised to acquire property, plant and equipment are initially recognised as deferred income and subsequently recognised as in profit or loss on a systematic and rational basis over the useful lives of the assets

Accounting treatment for below interest market rate received from the Government;

The difference between the proceeds and the fair value of the loan on day one is recognised as deferred income

The difference between the market interest rate at which interest is accrued at and the actual interest rate payable to the lender is recorded as deferred income. The cash saving is transferred from cash and cash equivalents to a "counterpart fund" to be used for future development projects. Capital items funded from the Counterpart fund are transferred to grants received and the relevant assets recorded at original cost.

Any interest received on the "counterpart fund" bank account is not recorded as interest income, but is deferred (in a similar manner to the interest rate subsidy) for use in future projects.

Grants received to defray operating expenditure are recognised in profit or loss when the expenditure has been incurred.

#### *Government and donor grants*

Grants received by the Company from Government and donors to acquire assets are shown as deferred income and the relevant assets are brought to account at their actual cost.

#### *Rural electrification fund*

Funds contributed by Government, donors and consumers to rural electricity projects are held in the Rural Electrification Fund until expended, at which time these funds are transferred to consumer contributions and netted off the cost of related distribution or transmission assets.

#### *Counterpart fund*

Contributions received from interest differential on the Swaziland loan No. 4 and the European Investment Bank loan and interest received on deposits are held in the Counterpart Fund until expended. Capital items funded from the Counterpart Fund are transferred to grants received and the relevant assets are brought to account at their actual cost.

### 2.25 Transfers from customers

#### *Accounting policy for transfers received before 1 July 2009*

Cash contributions made by the Company's customers to fund part of the installation equipment required to connect them to the electricity network were deducted in arriving at the carrying amount of the installation equipment. Profit or loss effect of the capital contributions is consequently recognised by way of a reduced depreciation expense.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.25 Transfers from customers (continued)

*Accounting policy for transfers received after 1 July 2009*

Cash contributions made by the Company's customers to fund part of the installation equipment required to connect them to the electricity network are recognised as revenue in profit or loss as soon as the connections are completed. Electricity connection contributions for assets not yet completed are deferred and recognised as a liability in the statement of financial position. An asset constructed or acquired for which the SEC receives a cash contribution is initially recognised at cost. A physical asset contributed by a customer is initially recognised at fair value.

### 2.26 Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when the Company has transferred its contractual right to receive the cash flows of the financial assets, and either:

- Substantially all the risks and rewards of ownership have been transferred; or
- The Company has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

### 2.27 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 2.28 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The full fair value of a derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

As at 31 March 2012 the company has not applied any hedge accounting.

#### *Embedded derivative*

In order to determine whether the hybrid instrument meet the definition of an embedded derivative, the company considers:

- a) whether a host contract exists;
- b) whether some of the cash flows that otherwise would be required by the host contract have been modified according to a specified index or variable, and as a result financial risks have effectively shifted between the parties; and
- c) whether the portion of the hybrid instrument that causes the modification in the cash flows attached to the contract meets the definition of a derivative.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.29 Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The major area where management has used its judgment and accounting estimates are with regards to:

#### *(a) Provision for post employment benefits disclosed under note 27*

An actuary was appointed to perform the valuation to determine the Company's obligation in this regard. The assumptions and judgments used by the actuary were considered by the Company and were deemed reasonable in light of the prevailing and anticipated future economic conditions.

#### *(b) Valuation of embedded derivative –Motraco EIB Loan*

The Company has used estimated future cash flows and market interest rates to estimate the value of the embedded derivative related to the EIB Motraco Equity Loan (Note 25A). The estimates used are management's best estimates. The key inputs and estimates have been outlined below:

##### *Valuation date*

The valuation date is 31 March 2012

##### *Maturity date*

The maturity date of the EIB loan which is 10 June 2019

##### *Company value*

The equity valuation of Motraco was performed for the period ended 31 October 2011. A risk-free growth rate was then applied to the equity value of Motraco values to determine the equity values as at 31 March 2012. The USD Zero swap curve was applied.

##### *Company value*

Dividend forecasts were used to future company values and then derive a forward dividend yield term structure. It was assumed that the dividends beyond the forecasted period (2030) would grow at a perpetuity growth rate of 2%.

##### *Volatility*

The volatilities of the suitable proxy companies was calculated and adjusted for country specific risk by applying a factor determined by comparing the volatilities of the respective proxy country's main stock index and the volatility of the South African main stock index (JSE ALSHARE). The historical share price data was sourced from McGregor BFA and applied equally weighted technique to calculate the volatilities.

#### *(c) Estimated impairment of trade and receivables*

The Company tests annually whether trade and other receivables suffered any impairment in accordance with the accounting policy stated in 2.7. The recoverable amounts of trade and other receivables have been determined based on discount cash inflows. These calculations require the use of estimates (Note 16).

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 2.29 Critical accounting estimates and judgements (continued)

#### (d) Depreciation

The Company charges depreciation as an expense on items of property, plant and equipment (Note 12) based on the useful lives of the different items of property, plant and equipment. The useful lives are management's best estimates. Management reviews the useful lives of assets on an annual basis.

#### (e) Income taxes

Significant judgement is required in determining the provision for income taxes. The Company recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax income of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

#### (f) Prepaid revenue

The assumption is that the customer buying pattern is consistent from month to month and that most sales takes place during the third and fourth weeks of the month, an assumption was also made that the percentage of active buying consumer index indicates a close to constant trend with a lowest of 74% and a highest of 78% which suggest a consistent buying behaviour of customers. Another noted pattern which was observed and used as part of the assumptions is that the combined sales for weeks 3 and 4 of every month always being higher than that of week 1 and 2 of that month. The average ratio is 55% to 45% respectively.

### 2.30 Trade payables

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

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

### 2.31 Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

|                                                                                                     | 2012<br>E            | 2011<br>E          |
|-----------------------------------------------------------------------------------------------------|----------------------|--------------------|
| <b>3 REVENUE</b>                                                                                    |                      |                    |
| <b>3.1</b> The analysis of electricity revenue per customer categories is as follows:               |                      |                    |
| - Domestic and Small Commercial                                                                     | 360 124 815          | 360 999 886        |
| - Irrigation, Industrial, and Large Commercial                                                      | 603 785 668          | 531 463 193        |
| - Other                                                                                             | 1 287 410            | 10 596 511         |
| - Contributions from customers towards infrastructure                                               | 67 967 300           | 70 384 631         |
|                                                                                                     | <b>1 033 165 193</b> | <b>973 444 221</b> |
| <b>3.2</b> The analysis of electricity by service revenue nature is as follows:                     |                      |                    |
| - Revenue from sale of electricity                                                                  | 965 197 893          | 903 059 590        |
| - Revenue from rendering services (new connection fees etc)                                         | 67 967 300           | 70 384 631         |
|                                                                                                     | <b>1 033 165 193</b> | <b>973 444 221</b> |
| <b>4 COST OF SALES</b>                                                                              |                      |                    |
| Cost of sales consists of electricity purchases, electricity wheeling charges and generation costs. |                      |                    |
| Electricity purchases                                                                               | 437 106 405          | 331 007 325        |
| Electricity wheeling charges                                                                        | 16 909 391           | 16 071 918         |
| Electricity generation cost                                                                         | 30 738 076           | 25 398 425         |
| Electricity transmission costs                                                                      | 90 913 475           | 80 978 279         |
| Amortisation of USL electricity prepayment                                                          | 10 000 000           | -                  |
|                                                                                                     | <b>585 667 347</b>   | <b>453 455 947</b> |
| <b>5 OTHER INCOME</b>                                                                               |                      |                    |
| Projects revenue                                                                                    | 2 519 584            | -                  |
| Rental income                                                                                       | 1 219 208            | 1 166 206          |
| Profit on disposal of property, plant and equipment                                                 | 816 970              | 3 290 153          |
| Profit on sale of scrap                                                                             | 372 880              | 2 458              |
| Bad debt recovery                                                                                   | 140 604              | 21 031             |
| Reconnection fees                                                                                   | 2 027 980            | 3 409 131          |
| Other income (Discounts, VAT refund)                                                                | 2 962 557            | 7 863 024          |
| Tampering charges                                                                                   | 237 670              | 215 454            |
| Tender fees                                                                                         | 147 018              | 94 270             |
| Grant amortisation (Note 5.1)                                                                       | 7 303 502            | 5 118 870          |
|                                                                                                     | <b>17 747 973</b>    | <b>21 180 597</b>  |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

|                                                                                                       | 2012<br>E         | 2011<br>E  |
|-------------------------------------------------------------------------------------------------------|-------------------|------------|
| <b>5 OTHER INCOME (CONTINUED)</b>                                                                     |                   |            |
| <b>5.1 Grant amortisation</b>                                                                         |                   |            |
| Grants realized during the year (Note 21)                                                             | <b>5 673 094</b>  | 5 118 870  |
| Grants received to defray operating expenditure                                                       | <b>1 630 408</b>  | -          |
|                                                                                                       | <b>7 303 502</b>  | 5 118 870  |
| <b>6 INCOME FROM OPERATION BEFORE INCOME TAX</b>                                                      |                   |            |
| Income from operations before income tax is arrived at after taking into account the following items: |                   |            |
| Auditors remuneration - audit fees                                                                    | <b>977 260</b>    | 1 005 258  |
|                                                                                                       |                   |            |
| Current year annual audit fees                                                                        | <b>224 687</b>    | 297 222    |
| Prior year annual audit fees                                                                          | <b>752 573</b>    | 708 036    |
|                                                                                                       | <b>977 260</b>    | 1 005 258  |
|                                                                                                       |                   |            |
| Depreciation on property, plant and equipment (Note 12)                                               | <b>75 304 012</b> | 60 091 039 |
|                                                                                                       |                   |            |
| Net impairment charges and other credit risk                                                          |                   |            |
| - Electricity receivable impairment charges (Note 16)                                                 | -                 | -          |
| - Bad debts recovered (Note 16)                                                                       | <b>(140 604)</b>  | (21 031)   |
|                                                                                                       | <b>(140 604)</b>  | (21 031)   |
|                                                                                                       |                   |            |
| Director expenses                                                                                     | <b>539 635</b>    | 383 075    |
|                                                                                                       |                   |            |
| Donations                                                                                             | <b>3 407 228</b>  | 203 247    |
|                                                                                                       |                   |            |
| Legal fees                                                                                            | <b>915 261</b>    | 644 317    |
|                                                                                                       |                   |            |
| Depreciation expense included in cost of sales                                                        | <b>42 878 246</b> | 39 370 310 |
| Depreciation expense included in distribution expenses                                                | <b>19 217 453</b> | 15 269 583 |
| Depreciation expense included in administration expenses                                              | <b>13 208 313</b> | 5 451 146  |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

|                                                  | 2012<br>E          | 2011<br>E   |
|--------------------------------------------------|--------------------|-------------|
| <b>6 INCOME FROM OPERATION BEFORE INCOME TAX</b> |                    |             |
| Amortisation expense included in cost of sales   | <b>10 000 000</b>  | -           |
| Insurance expenses                               | <b>7 707 285</b>   | 7 209 146   |
| Motor vehicle expenses                           | <b>16 274 165</b>  | 11 275 426  |
| Professional fees and consultancy                | <b>1 052 693</b>   | 3 165 949   |
| Repairs and maintenance                          | <b>56 945 802</b>  | 39 407 855  |
| Employee compensation and benefits (note 7)      | <b>145 194 539</b> | 177 744 510 |
| Travelling and disbursements expense             | <b>4 201 737</b>   | 3 709 384   |
| <b>7 EMPLOYEE BENEFIT EXPENSE</b>                |                    |             |
| Salaries and wages                               | <b>89 938 779</b>  | 93 791 710  |
| Pension costs - defined benefit plan (Note 28)   | <b>6 792 436</b>   | 7 033 786   |
| Early retirement plan                            | <b>3 122 563</b>   | 27 747 912  |
| Other employment benefits and costs              | <b>45 340 761</b>  | 49 171 102  |
|                                                  | <b>145 194 539</b> | 177 744 510 |

The average number of persons employed by the Company during the year was 539 (2011: 546). During the year 25 employees left the company as part of the early retirement programme.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 8 INCOME TAX EXPENSE

The statutory tax rate of 30% was used to calculate the current and differed tax liabilities.

- Current tax - Swaziland normal taxation (Note 30)
- Deferred tax (Note 29)

Income tax expense

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the Company's profit as follows:

Profit before tax

Tax calculated at company tax rate

Tax effects of: Legal fees

Donations

Capital foreign exchange gains and losses

Net income from joint venture

Grant amortised

Non-deductible portion of interest on EIB Motraco loan

Fair value adjustment on embedded derivatives

Fair Value adjustment on interest rate and currency swaps

Withholding tax on Motraco unremitted earnings

Contributions from customers towards infrastructure

Tax effects on disposal of property

Tax charge

Other comprehensive income:

Accumulated foreign exchange gains on translation of Motraco Investment

Before tax

Deferred tax effect

After tax

Total tax charge on statement of comprehensive income

| 2012<br>E           | 2011<br>E    |
|---------------------|--------------|
| <b>26 971 682</b>   | 16 683 025   |
| <b>6 836 517</b>    | 34 990 926   |
| <b>33 808 199</b>   | 51 673 951   |
| <b>114 695 925</b>  | 239 676 537  |
| <b>34 408 778</b>   | 71 902 961   |
| <b>274 578</b>      | 193 294      |
| <b>122 167</b>      | 60 974       |
| <b>2 656 588</b>    | (664 605)    |
| <b>(10 430 100)</b> | (6 125 066)  |
| <b>(1 701 928)</b>  | (1 535 661)  |
| <b>(839 175)</b>    | (1 530 526)  |
| <b>20 796 146</b>   | 6 236 501    |
| <b>(2 320 854)</b>  | 2 222 190    |
| <b>11 477 280</b>   | 2 029 278    |
| <b>(20 390 190)</b> | (21 115 389) |
| <b>(245 091)</b>    | -            |
| <b>33 808 199</b>   | 51 673 951   |
| <b>12 190 511</b>   | (6 051 189)  |
| <b>(3 648 340)</b>  | 2 736 269    |
| <b>8 542 171</b>    | (3 314 920)  |
| <b>30 159 859</b>   | 48 937 682   |

#### 8.1 Withholding tax on Motraco unremitted earnings

The Company has recognised deferred tax on the unremitted earnings of the joint venture company (note 13) because there is a 20% withholding tax payable when these earnings are distributed by the joint venture company. The Withholding tax on Motraco's unremitted earnings represents a reconciling item in the tax reconciliation as permanent difference because the withholding tax liability will be due to the Mozambican tax authorities.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

|                                                                                         | 2012<br>E    | 2011<br>E    |
|-----------------------------------------------------------------------------------------|--------------|--------------|
| <b>9 FINANCE COSTS</b>                                                                  |              |              |
| Interest in foreign currency denominated EIB loan which contains an embedded derivative | (3 336 787)  | (9 347 316)  |
| Interest – other foreign currency denominated loans                                     | (6 660 026)  | (5 809 197)  |
| Interest – local currency denominated loans                                             | (11 724 289) | (7 778 189)  |
|                                                                                         | (21 721 102) | (22 934 702) |
| <b>Foreign (losses)/ gains</b>                                                          |              |              |
| Net foreign exchange (losses)/ gains -Foreign Loans                                     | (8 855 289)  | 5 931 932    |
| <b>Net fair value losses on other derivatives</b>                                       |              |              |
| Swaps - foreign exchange derivatives                                                    | 7 856 893    | (7 710 466)  |
| - interest rate derivatives                                                             | (1 120 712)  | 303 165      |
|                                                                                         | 6 736 181    | (7 407 301)  |
| <b>Net foreign exchange losses – net</b>                                                | (2 119 108)  | (1 475 369)  |
| <b>Finance costs – net</b>                                                              | (23 840 210) | (24 410 071) |
| <b>9 FINANCE INCOME</b>                                                                 |              |              |
| Interest on short term bank deposits                                                    | 6 694 849    | 8 537 955    |
| Interest on accounts receivable                                                         | 5 479 557    | 4 002 689    |
|                                                                                         | 12 174 406   | 12 540 644   |
| <b>Finance costs-net</b>                                                                | (11 665 804) | (11 869 427) |
| <b>10 OTHER GAINS/(LOSSES)</b>                                                          |              |              |
| Fair value losses – EIB loan embedded derivative                                        | (69 320 490) | (20 788 336) |
| Net foreign exchange gains/(losses) -foreign transactions                               | 1 408 170    | (528 069)    |
| <b>Other losses-net</b>                                                                 | (67 912 320) | (21 316 405) |
| <b>11 FOREIGN EXCHANGE LOSSES ON TRANSLATION OF FOREIGN OPERATION</b>                   |              |              |
| Net foreign exchange gains/( losses) - Motraco Joint Venture (refer to Note 20)         | 18 241 700   | (13 681 346) |
| Tax effect                                                                              | (3 648 340)  | 2 736 269    |
| After tax effect foreign exchange losses                                                | 14 593 360   | (10 945 077) |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 12 PROPERTY, PLANT AND EQUIPMENT

| AS AT 31 MARCH 2012                                                                    | Carrying<br>amount at<br>01 April 2011 | Additions   | Disposals | Transfers     | Depreciation<br>for the year | Net carrying<br>Amount at<br>31 Mar. 2012 | Cost at<br>31 Mar. 2012 | Accumulated<br>Depreciation<br>at 31.3.12 |
|----------------------------------------------------------------------------------------|----------------------------------------|-------------|-----------|---------------|------------------------------|-------------------------------------------|-------------------------|-------------------------------------------|
|                                                                                        | E                                      | E           | E         | E             | E                            | E                                         | E                       | E                                         |
| Dam and Spillway                                                                       | 16 465 006                             | -           | -         | -             | (723 737)                    | 15 741 269                                | 36 181 968              | (20 440 699)                              |
| Power station civil works                                                              | 291 775                                | -           | -         | -             | (70 026)                     | 221 749                                   | 1 746 852               | (1 525 103)                               |
| Freehold land                                                                          | 1 410 931                              | -           | -         | -             | -                            | 1 410 931                                 | 1 410 931               | -                                         |
| Buildings and staff housing                                                            | 22 250 549                             | -           | -         | 23 404 167    | (1 054 020)                  | 44 600 696                                | 54 163 514              | (9 562 818)                               |
| Leasehold buildings                                                                    | -                                      | -           | -         | -             | -                            | -                                         | 74 277                  | (74 277)                                  |
| Canal, weirs, conduits and valves                                                      | 11 648 131                             | -           | -         | 1 026 089     | (573 013)                    | 12 101 207                                | 27 912 191              | (15 810 984)                              |
| Generation plant                                                                       | 91 020 427                             | -           | -         | 932 606       | (2 626 873)                  | 89 326 160                                | 105 530 378             | (16 204 218)                              |
| Substations, transformers and<br>Switchgear                                            | 332 292 191                            | -           | -         | 35 312 240    | (18 347 779)                 | 349 256 652                               | 497 033 639             | (147 776 987)                             |
| Distribution and transmission                                                          | 519 098 771                            | -           | -         | 115 475 501   | (35 497 148)                 | 599 077 124                               | 806 038 098             | (206 960 974)                             |
| Motor vehicles                                                                         | 10 633 598                             | -           | -         | 8 764 257     | (3 361 816)                  | 16 036 039                                | 43 987 234              | (27 951 195)                              |
| Radio and communication equipment                                                      | 8 894 864                              | -           | -         | 4 211 320     | (3 287 490)                  | 9 818 694                                 | 74 699 732              | (64 881 038)                              |
| Computer equipment                                                                     | 11 619 019                             | -           | -         | 29 750 762    | (8 641 211)                  | 32 728 570                                | 74 680 729              | (41 952 159)                              |
| Site works and roads, servitudes,<br>furniture, small ,plant, tools and<br>instruments | 2 703 325                              | -           | (1)       | 3 025 429     | (1 120 899)                  | 4 607 854                                 | 32 332 890              | (32 725 036)                              |
| Capital work-in-progress                                                               | 60 803 736                             | 235 393 840 | -         | (221 902 371) | -                            | 74 295 205                                | 74 295 205              | -                                         |
|                                                                                        | 1 089 132 323                          | 235 393 840 | (1)       | -             | (75 304 012)                 | 1 249 222 150                             | 1 835 087 638           | (585 865 488)                             |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 12 PROPERTY, PLANT AND EQUIPMENT

|                                      | Carrying<br>amount at<br>01 April 2011 | Additions    | Transfers     | Net carrying<br>Amount at<br>31 Mar. 2012 | Cost at<br>31 Mar. 2012 |
|--------------------------------------|----------------------------------------|--------------|---------------|-------------------------------------------|-------------------------|
| <b>AS AT 31 MARCH 2012</b>           |                                        |              |               |                                           |                         |
| Capital work-in-progress comprises:- |                                        |              |               |                                           |                         |
| - Rural Electrification Project      | -                                      | 13 855 860   | (9 345 428)   | 4 510 432                                 | 4 510 432               |
| - Other projects (maintained)        |                                        |              |               |                                           |                         |
| Operating – capacity)                | 41 127 756                             | 174 207 612  | (155 952 965) | 59 382 403                                | 59 382 403              |
| - Prepayment Project                 | -                                      | 10 814 483   | (10 814 483)  | -                                         | -                       |
| - Siphuphe Internet Supply System    | 5 977 848                              | 133 455      | (6 111 303)   | -                                         | -                       |
| - Manzini North Substation & Lines   | -                                      | -            | -             |                                           |                         |
| Environmental Survey                 | 9 210 106                              | -            | (1 566 126)   | 7 643 980                                 | 7 643 980               |
| Rural electrification - Phase 9      | 76 514                                 | 3 425 788    | (743 912)     | 2 758 390                                 | 2 758 390               |
| Microwave radio project              | 4 411 512                              | 1 163 549    | (5 575 061)   | -                                         | -                       |
| Services-                            | 31 629 693                             | (31 629 693) | -             | -                                         | -                       |
| Partitions                           | -                                      | 163 400      | (163 400)     | -                                         | -                       |
|                                      | 60 803 736                             | 235 393 840  | (221 902 371) | 74 295 205                                | 74 295 205              |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Included in the entity's property, plant and equipment are assets with zero net book values which are still being used by the entity. Summarised details of these assets are as follows:

|                          | 2012<br>E     | 2011<br>E     |
|--------------------------|---------------|---------------|
| Cost                     | 168 568 312   | 123 429 320   |
| Accumulated depreciation | (168 568 312) | (123 429 320) |
| Net carrying amount      | -             | -             |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| AS AT 31 MARCH 2011                                   | Carrying<br>amount at<br>01 April 2010 | Additions      | Disposals | Transfers           | Depreciation<br>for the year | Net carrying<br>Amount at<br>31 Mar. 2011 | Cost at<br>31 Mar. 2011 | Accumulated<br>Depreciation<br>at 31.3.11 |
|-------------------------------------------------------|----------------------------------------|----------------|-----------|---------------------|------------------------------|-------------------------------------------|-------------------------|-------------------------------------------|
|                                                       | E                                      | E              | E         | E                   | E                            | E                                         | E                       | E                                         |
| Dam and Spillway                                      | 17 188 742                             | -              | -         | -                   | (723 737)                    | 16 465 006                                | 36 181 968              | (19 716 962)                              |
| Power station civil works                             | 361 801                                | -              | -         | -                   | (70 076)                     | 291 775                                   | 1 746 852               | (1 455 077)                               |
| Freehold land                                         | 1 410 931                              | -              | -         | -                   | -                            | 1 410 931                                 | 1 410 931               | -                                         |
| Buildings and staff housing                           | 20 090 257                             | -              | -         | 2 862 998           | (702 706)                    | 22 250 549                                | 30 879 790              | (8 629 241)                               |
| Leasehold buildings                                   | -                                      | -              | -         | -                   | -                            | -                                         | 74 277                  | (74 277)                                  |
| Canal, weirs, conduits and valves                     | 12 210 906                             | -              | -         | -                   | (562 775)                    | 11 648 131                                | 26 886 102              | (15 237 971)                              |
| Generation plant                                      | 92 882 970                             | -              | -         | 734 912             | (2 597 454)                  | 91 020 427                                | 104 597 771             | (13 577 344)                              |
| Substations, transformers and<br>Switchgear           | 303 110 198                            | -              | -         | 45 955 300          | (16 773 307)                 | 332 292 191                               | 461 721 399             | (129 429 208)                             |
| Distribution and transmission                         | 411 112 549                            | -              | -         | 135 626 024         | (27 639 802)                 | 519 098 771                               | 690 562 597             | (171 463 826)                             |
| Motor vehicles                                        | 840 268                                | -              | (2 458)   | 11 707 833          | (1 912 045)                  | 10 633 598                                | 35 841 901              | (25 208 303)                              |
| Radio and communication equipment                     | 12 066 835                             | -              | -         | 2 017 829           | (5 189 800)                  | 8 894 864                                 | 70 488 412              | (61 593 548)                              |
| Computer equipment                                    | 10 466 426                             | -              | -         | 4 586 718           | (3 434 126)                  | 11 619 019                                | 44 929 967              | (33 310 948)                              |
| Site works and roads, servitudes,<br>furniture, small | 832 148                                | -              | (1)       | 2 356 439           | (485 261)                    | 2 703 325                                 | 34 307 462              | (31 604 137)                              |
| plant, tools and instruments                          |                                        |                |           |                     |                              |                                           |                         |                                           |
| Capital work-in-progress                              | 38 571 292                             | 228 080 497    | -         | (205 848 053)       | -                            | 60 803 736                                | 60 803 736              | -                                         |
| <b>921 145 323</b>                                    | <b>228 080 497</b>                     | <b>(2 459)</b> | <b>-</b>  | <b>(60 091 039)</b> | <b>1 089 132 323</b>         | <b>1 600 433 165</b>                      | <b>(511 300 842)</b>    |                                           |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| AS AT 31 MARCH 2011                  | Carrying<br>amount at<br>01 April 2010 | Additions          | Transfers            | Net carrying<br>Amount at<br>31 Mar. 2011 | Cost at<br>31 Mar. 2011 |
|--------------------------------------|----------------------------------------|--------------------|----------------------|-------------------------------------------|-------------------------|
| Capital work-in-progress comprises:- |                                        |                    |                      |                                           |                         |
| - Rural Electrification Project      | 1 433 801                              | 1 136 407          | (2 570 208)          | -                                         | -                       |
| -Other projects (maintained)         |                                        |                    |                      |                                           |                         |
| Operating – capacity)                | 11 287 514                             | 136 848 765        | (107 008 523)        | 41 127 756                                | 41 127 756              |
| - Prepayment Project                 | -                                      | 37 362 308         | (37 362 308)         | -                                         | -                       |
| -Sikhuphe Internat Supply System     | -                                      | 5 977 848          | -                    | 5 977 848                                 | 5 977 848               |
| -Manzini North Substation & Lines    | 25 849 978                             | 5 334 368          | (31 184 346)         | -                                         | -                       |
| Environmental Survey                 | -                                      | 9 210 106          | -                    | 9 210 106                                 | 9 210 106               |
| Rural electrification- Phase 9       | -                                      | 2 113 787          | (2 037 273)          | 76 514                                    | 76 514                  |
| Microwave radio project              | -                                      | 4 411 512          | -                    | 4 411 512                                 | 4 411 512               |
| Services-                            | 24 554 705                             | (24 554 705)       | -                    | -                                         | -                       |
| Partitions                           | -                                      | 1 130 690          | (1 130 690)          | -                                         | -                       |
|                                      | <b>38 571 293</b>                      | <b>228 080 497</b> | <b>(205 848 053)</b> | <b>60 803 736</b>                         | <b>60 803 736</b>       |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Distribution and transmission assets are stated after deducting net customers' contributions of E214 581 644 (2011: E226 030 390).

Land costing E 23 288 (2011: E23 288) on which buildings costing E 443 520 (2011: E 443 520) have been erected, has not yet been registered in the name of the Company.

Buildings costing E173 307 (2011: E 173 307) have been erected on land which has not yet been acquired by the Company but which the Swaziland Government has consented to transfer to the Company. The Government is in the process of transferring the land in question to the Company.

Parts of the Lumphohlo-Ezulwini and Maguga Dam hydro-electric schemes are situated on land owned by the Swazi Nation. The Company has authority to use land on which the hydroelectric schemes are situated.

As a condition of a loan, the Company has undertaken to retain title to and possession of all assets acquired under the 400 kV Integration Project until the loan is fully repaid by 15 October 2020. The encumbered assets amount to E 222 606 220(2011: E222 606 220).

### 13 INVESTMENT IN JOINT VENTURE

|                                                                                  | 2012<br>E    | 2011<br>E    |
|----------------------------------------------------------------------------------|--------------|--------------|
| Balance at beginning of year                                                     | 137 727 295  | 141 262 254  |
| Share of profit for the year (Note 13.1)                                         | 34 767 001   | 20 416 888   |
| Exchange differences                                                             | 18 241 700   | (13 681 347) |
| Dividends received                                                               | (13 864 000) | (10 270 500) |
| Balance at end of year (Note 13.1)                                               | 176 871 996  | 137 727 295  |
| The carrying value of the investment comprises:                                  |              |              |
| Cost of investment                                                               | 90 271 236   | 90 271 236   |
| Accumulated post-acquisition gains                                               | 74 410 249   | 53 507 248   |
| Accumulated foreign exchange gains/(losses) on translation of Company's interest | 12 190 511   | (6 051 189)  |
|                                                                                  | 176 871 996  | 137 727 295  |

The investment in joint venture does not include any goodwill as at 31 March 2012.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 13 INVESTMENT IN JOINT VENTURE (CONTINUED)

**13.1** In terms of a shareholders' agreement signed on 20 May 2000, the Company agreed to acquire a one third interest in a Mozambiquean company Motraco-Companhia de Transmissao de Mozambique S.A.R.L. ("Motraco").

The authorized share capital of Motraco is US\$39.5 million (E373.6 million). At 31 March 2012 share subscription requests totalling US\$ 13 166 667 (E 97.8 million) had been made by Motraco and the subscriptions have been paid in full. The company's 33% interest in Motraco was translated at average and closing exchange rates of E7.46 and E7.69 (2011:E7.07 and E6.77) respectively.

|                                                                            | <b>Aggregate<br/>amount<br/>US\$</b> | <b>Company's<br/>33%<br/>Interest<br/>US\$</b> | <b>Company's<br/>33%<br/>Interest<br/>E</b> |
|----------------------------------------------------------------------------|--------------------------------------|------------------------------------------------|---------------------------------------------|
| <b>Statement of financial position –<br/>31 December 2011</b>              |                                      |                                                |                                             |
| Non current assets                                                         | <b>96 080 189</b>                    | <b>32 026 730</b>                              | <b>246 365 618</b>                          |
| Current assets                                                             | <b>47 416 432</b>                    | <b>15 805 477</b>                              | <b>121 583 634</b>                          |
| <b>Total assets</b>                                                        | <b>143 496 621</b>                   | <b>47 832 207</b>                              | <b>367 949 252</b>                          |
| Non current liabilities                                                    | <b>(44 455 129)</b>                  | <b>(14 818 376)</b>                            | <b>(113 991 270)</b>                        |
| Current liabilities                                                        | <b>(30 063 138)</b>                  | <b>(10 021 046)</b>                            | <b>(77 085 986)</b>                         |
| <b>Total liabilities</b>                                                   | <b>(74 518 267)</b>                  | <b>(24 839 422)</b>                            | <b>(191 077 256)</b>                        |
| <b>Net asset value</b>                                                     | <b>68 978 354</b>                    | <b>22 992 785</b>                              | <b>176 871 996</b>                          |
| <b>Statement of comprehensive income –<br/>year ended 31 December 2011</b> |                                      |                                                |                                             |
| Revenue                                                                    | <b>27 244 103</b>                    | <b>9 081 368</b>                               | <b>67 743 068</b>                           |
| Gross profit                                                               | <b>15 459 008</b>                    | <b>5 153 003</b>                               | <b>38 439 158</b>                           |
| Net finance costs                                                          | <b>152 603</b>                       | <b>48 868</b>                                  | <b>379 460</b>                              |
| Tax                                                                        | <b>(1 629 431)</b>                   | <b>(543 144)</b>                               | <b>(4 051 617)</b>                          |
| <b>Profit for the year</b>                                                 | <b>13 982 180</b>                    | <b>4 640 727</b>                               | <b>34 767 001</b>                           |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 13 INVESTMENT IN JOINT VENTURE (CONTINUED)

13.1 The Company's share of the results of its principal joint venture, which is unlisted, and its share of the assets (including goodwill and liabilities) are as follows:

|                                                                            | Aggregate<br>amount<br>US\$ | Company's<br>33%<br>Interest<br>US\$ | Company's<br>33%<br>Interest<br>E |
|----------------------------------------------------------------------------|-----------------------------|--------------------------------------|-----------------------------------|
| <b>Statement of financial position –<br/>31 December 2010</b>              |                             |                                      |                                   |
| <b>Non current assets</b>                                                  | 103 176 425                 | 34 392 142                           | 232 982 685                       |
| Current assets                                                             | 48 603 515                  | 16 201 172                           | 109 751 597                       |
| <b>Total assets</b>                                                        | 151 779 940                 | 50 593 314                           | 342 734 282                       |
| Non current liabilities                                                    | (53 931 021)                | (17 977 007)                         | (121 782 548)                     |
| Current liabilities                                                        | (36 856 361)                | (12 285 454)                         | (83 224 439)                      |
| <b>Total liabilities</b>                                                   | (90 787 382)                | (30 262 461)                         | (205 006 987)                     |
| <b>Net asset value</b>                                                     | 60 992 558                  | 20 330 853                           | 137 727 295                       |
| <b>Statement of comprehensive income –<br/>year ended 31 December 2010</b> |                             |                                      |                                   |
| Revenue                                                                    | 22 790 078                  | 7 596 693                            | 53 706 845                        |
| Gross profit                                                               | 12 729 431                  | 4 243 144                            | 29 998 037                        |
| Net finance costs                                                          | (2 959 948)                 | (986 649)                            | (6 975 381)                       |
| Tax                                                                        | (1 105 737)                 | (368 579)                            | (2 605 768)                       |
| <b>Profit for the year</b>                                                 | 8 663 746                   | 2 887 916                            | 20 416 888                        |

### 14 OTHER ASSETS

Other assets comprise balances for Rural electrification and Counterpart funds at bank contributed by the Swaziland Government and the Republic of China through the Swaziland Government for the Rural Electrification Project.

|                                         | 2012<br>E         | 2011<br>E  |
|-----------------------------------------|-------------------|------------|
| Rural electrification funds (Note 14.1) | 26 060 165        | 30 333 301 |
| Counterpart funds (Note 14.3)           | 15 911 272        | 15 238 118 |
| Probec call account (Note 14.2)         | 1 829 784         | 111 560    |
|                                         | <b>43 801 221</b> | 45 682 979 |

Other assets comprises of restricted cash that is utilised to fund the Rural Electrification Projects

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 14 OTHER ASSETS (CONTINUED)

|                                                                                                                                    | 2012<br>E    | 2011<br>E    |
|------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| <b>14.1 Rural electrification fund</b>                                                                                             |              |              |
| <b>The analysis of the balance on the fund at 31 March 2012 is as follows:</b>                                                     |              |              |
| Cumulative contributions received from the Swaziland Government                                                                    | 18 453 425   | 18 453 425   |
| Cumulative contributions received from consumers                                                                                   | 18 375       | 18 375       |
| Cumulative contributions received from Republic of China through the Government of Swaziland for the Rural electrification project | 74 878 861   | 62 269 111   |
|                                                                                                                                    | 93 350 661   | 80 740 911   |
| Total interest received to date                                                                                                    | 7 305 880    | 6 326 991    |
| Deduct costs of projects capitalised                                                                                               | (74 596 376) | (56 734 601) |
|                                                                                                                                    | 26 060 165   | 30 333 301   |
| <b>The analysis of movements fund bank balances during the year is as follows:</b>                                                 |              |              |
| Fund balance at beginning of year                                                                                                  | 30 333 301   | 11 753 867   |
| Add interest received for the year                                                                                                 | 978 889      | 546 130      |
| To finance capital expenditure                                                                                                     | (17 861 775) | (8 929 319)  |
| Fund received from the Republic of China through the Government of Swaziland for the Rural electrification project                 | 12 609 750   | 26 962 623   |
|                                                                                                                                    | 26 060 165   | 30 333 301   |

### 14.2 Probec call account

This relates to money received by the company from Probec to assist low income groups in SADC with improved access to sustainable and affordable electricity.

During the year the financing agreement came to an end. The project is now financed by the government of Swaziland. The balance of the account as at 31 March 2012 was E1 829 784 (2011: E111 560).

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 14 OTHER ASSETS (CONTINUED)

|                                                                                                            | 2012<br>E          | 2011<br>E  |
|------------------------------------------------------------------------------------------------------------|--------------------|------------|
| <b>14.3 Counterpart fund</b>                                                                               |                    |            |
| <b>The analysis of the balance on the fund at 31 March 2012 is as follows:</b>                             |                    |            |
| Balance at beginning of the year                                                                           | 15 238 118         | 14 477 209 |
| Contributions received from interest differential on loans to the Company (refer notes (i) and (ii) below) | 1 630 408          | -          |
| Interest received on deposits                                                                              | 673 154            | 760 909    |
|                                                                                                            | <b>17 541 680</b>  | 15 238 118 |
| Funds utilised to defray operating expenditure                                                             | <b>(1 630 408)</b> | -          |
| Balance at end of year                                                                                     | <b>15 911 272</b>  | 15 238 118 |

#### (i) Swaziland Government Loan No.4

In terms of the agreements for Swaziland Loan No.4 (from Kreditanstalt für Wiederaufbau, Germany, and lent by the Swaziland Government), the difference between interest calculated at 2% and interest charged at 3% on the loan is not to be paid to lenders, but is to be used by the Company for projects particularly worthy of promotions from the aspect of development policy. The balance at year end is set to be used by the Company for this purpose. The loan was settled by March 2011.

#### (ii) European Investment Bank – 400 KV Integration Project

In terms of the agreements for European Investment Bank – 400 KV Integration Project loan, the difference between interest calculated at 3% and interest charged at 5.57% on the loans is not to be paid to lenders, but is to be used by the Company for projects particularly worthy of promotions from the aspect of development policy.

Capital items funded from the Counterpart fund are transferred to grants received and the relevant assets are brought to account at their actual cost. The grants received are recognised in the statement of financial position. The transfer to the balance sheet is done once off when the grants are received and are released to capital projects when the assets are constructed.

### 15 INVENTORIES

|                               | 2012<br>E          | 2011<br>E  |
|-------------------------------|--------------------|------------|
| Stores                        | 60 337 272         | 70 346 709 |
| Write-down for obsolete stock | <b>(1 419 938)</b> | (598 622)  |
| <b>Net realisable value</b>   | <b>58 917 334</b>  | 69 748 087 |

The Company sold scrapped inventory to independent retailers amounting E 372 880 (2011: E 2 458). The amount received has been included as "other income" in profit or loss.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 15 INVENTORIES

Inventory issues is part of the total repairs and maintenance amounting to E56 945 802 (2011: E39 407 855) recognised in the statement of comprehensive income as repairs and maintenance.

### 16 TRADE AND OTHER RECEIVABLES

|                                                                       | 2012<br>E    | 2011<br>E    |
|-----------------------------------------------------------------------|--------------|--------------|
| Electricity receivables                                               | 158 843 088  | 183 741 455  |
| Provision for impairment of electricity receivables                   | (40 757 883) | (32 127 988) |
| Net electricity receivable                                            | 118 085 205  | 151 613 467  |
| Other receivables (refer to 16.1)                                     | 46 827 117   | 50 428 707   |
| Provision for impairment of other receivables                         | (6 688 551)  | (4 225 735)  |
| Net other receivables                                                 | 40 138 566   | 46 202 972   |
| Prepayments                                                           | 3 576 675    | 11 922 793   |
|                                                                       | 43 715 241   | 58 125 765   |
|                                                                       | 161 800 446  | 209 739 232  |
| <b>16.1 Other receivables include the following:</b>                  |              |              |
| Capital contribution debtors                                          | 32 286 584   | 32 461 606   |
| Staff debtors                                                         | 623 144      | 864 000      |
| Projects prepayments                                                  | 4 797 646    | 5 469 517    |
| Other sundry debtors                                                  | 9 119 743    | 11 633 584   |
|                                                                       | 46 827 117   | 50 428 707   |
| <b>The fair values of trade and other receivables are as follows:</b> |              |              |
| Net electricity receivable                                            | 118 085 205  | 151 613 467  |
| Net other receivable                                                  | 40 138 566   | 46 202 972   |
| Prepayments                                                           | 3 576 675    | 11 922 793   |
|                                                                       | 161 800 446  | 209 739 232  |

The carrying amounts of the above trade and other receivables approximate fair value due to the short term thereof. There is no concentration of credit risk with respect to trade and other receivables, as the Company has a large number of customers that are industry dispersed. The Company's historical experience in collection of trade and other receivables falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses is inherent in the Company's trade and other receivables. The maximum exposure to credit risk at the reporting date is the fair value of each class of trade and other receivables mentioned above.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 16 TRADE AND OTHER RECEIVABLES (CONTINUED)

Electricity receivables and other receivables that are less than three months past due are not considered impaired. As of 31 March 2012, Electricity and other receivables of E58 827 724 and E16 272 815 (2011: E97 941 161 and E16 617 190) respectively were past due but not impaired. These relate to a number of independent clients for whom there is no recent history of default and though delay, they eventually settle their debts.

**The ageing analysis of these trade and other receivables that are past due but not impaired is as follows:**

|             | Electricity receivables |            | Other trade receivables |            |
|-------------|-------------------------|------------|-------------------------|------------|
|             | 2012                    | 2011       | 2012                    | 2011       |
|             | E                       | E          | E                       | E          |
| 1 -2 months | <b>31 568 920</b>       | 61 651 376 | -                       | 1 736 520  |
| 3 months    | <b>27 258 804</b>       | 36 289 785 | <b>16 272 815</b>       | 14 880 670 |
|             | <b>58 827 724</b>       | 97 941 161 | <b>16 272 815</b>       | 16 617 190 |

As of 31 March 2012, Electricity receivables and other receivables of E 40 757 883 and E 6 688 551 (2011: 32 127 988 and E 4 225 735) were impaired and provided for. The amount of the provision for electricity receivable and other receivables was E40 757 883 and E 6 688 551 (2011: E32 127 988 and E4 225 735) respectively. The individually impaired trade and other receivables were mainly relating to domestic, industrial, commercial and irrigation customers which are in unexpectedly difficult economic situations. The ageing of these receivables is as follows:

**The ageing analysis of these trade and other receivables is as follows:**

|               | Electricity receivables |            | Other trade receivables |           |
|---------------|-------------------------|------------|-------------------------|-----------|
|               | 2012                    | 2011       | 2012                    | 2011      |
|               | E                       | E          | E                       | E         |
| 0 -3 months   | -                       | -          | -                       | -         |
| Over 3 months | <b>40 757 883</b>       | 32 127 988 | <b>6 688 551</b>        | 4 225 735 |
|               | <b>40 757 883</b>       | 32 127 988 | <b>6 688 551</b>        | 4 225 735 |

**The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:**

|                    |                    |             |
|--------------------|--------------------|-------------|
| Emalangeneni (SZL) | <b>161 800 446</b> | 209 739 232 |
|--------------------|--------------------|-------------|

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 16 TRADE AND OTHER RECEIVABLES (CONTINUED)

**Movements on the Company's provision for impairment of electricity receivables and other receivables are as follows:**

|                                                                          | Electricity receivables |              | Other trade receivables |           |
|--------------------------------------------------------------------------|-------------------------|--------------|-------------------------|-----------|
|                                                                          | 2012                    | 2011         | 2012                    | 2011      |
|                                                                          | E                       | E            | E                       | E         |
| At 1 April 2011                                                          | <b>32 127 988</b>       | 56 820 916   | <b>4 225 735</b>        | 4 225 735 |
| Provision for trade and other receivables impairment                     | <b>14 144 242</b>       | -            | <b>2 462 816</b>        | -         |
| Trade and other receivables written off during the year as uncollectible | <b>(5 514 347)</b>      | (20 640 560) | -                       | -         |
| Unused amounts reversed                                                  | -                       | (4 052 368)  | -                       | -         |
| At 31 March 2012                                                         | <b>40 757 883</b>       | 32 127 988   | <b>6 688 551</b>        | 4 225 735 |

Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash. The other classes within trade and other receivables do not contain impaired assets.

### 17 USL ELECTRICITY PREPAYMENT

|                                                          | 2012                | 2011       |
|----------------------------------------------------------|---------------------|------------|
|                                                          | E                   | E          |
| Ubombo Sugar Limited Power Purchase Agreement Prepayment | <b>140 000 000</b>  | 40 000 000 |
| Current                                                  | <b>10 000 000</b>   | 10 000 000 |
| Non-Current                                              | <b>130 000 000</b>  | 30 000 000 |
| Total prepayment                                         | <b>140 000 000</b>  | 40 000 000 |
| Opening balance                                          | <b>40 000 000</b>   | -          |
| Addition                                                 | <b>110 000 000</b>  | 40 000 000 |
| Amortisation                                             | <b>(10 000 000)</b> | -          |
| Closing balance                                          | <b>140 000 000</b>  | 40 000 000 |

Swaziland Electricity Company Limited has purchased an exclusive right to buy surplus electricity from Ubombo Sugar Limited (USL). The total cost of that exclusive right will amount to E150 000 000. As at 31 March 2012 the entity had paid E150 000 000(2011:E40 000 000 to Ubombo Sugar Limited. The contract period is 15 years, that is, up to 30 April 2026. However, either party can elect to terminate the contract early after 8 years with a portion of E150 000 000 being refunded based on the number of years of the 15 that were not taken up. USL has issued a guarantee provided by its parent company, Illovo Sugar Limited for an amount of E150 000 000.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 17 USL ELECTRICITY PREPAYMENT (CONTINUED)

USL has lodged a performance security in favour of SEC to the value of E150 000 000. This was achieved by issuing mortgage bond sureties over USL Property up to the total value of the payment received. For every year that elapses the performance security can be reduced to the unamortised portion of the E150 000 000.

### 18 CASH AND CASH EQUIVALENTS

|                          | 2012<br>E         | 2011<br>E   |
|--------------------------|-------------------|-------------|
| Cash at bank             | 15 066 252        | 12 099 313  |
| Short-term bank deposits | 68 210 552        | 196 314 845 |
| Petty cash               | 110 250           | 80 750      |
|                          | <b>83 387 054</b> | 208 494 908 |

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

|                           |                   |             |
|---------------------------|-------------------|-------------|
| Cash and cash equivalents | 83 916 084        | 208 523 553 |
| Bank overdrafts (Note 24) | (529 030)         | (28 645)    |
|                           | <b>83 387 054</b> | 208 494 908 |

Available cash is invested in interest bearing bank accounts.

### 19 SHARE CAPITAL

The share capital of the Company consists of the following:

#### Authorised

|                                        |                    |             |
|----------------------------------------|--------------------|-------------|
| 433 493 841 ordinary shares at E1 each | <b>433 493 841</b> | 433 493 841 |
|----------------------------------------|--------------------|-------------|

#### Issued

|                                        |                    |             |
|----------------------------------------|--------------------|-------------|
| 433 493 841 ordinary shares at E1 each | <b>433 493 841</b> | 433 493 841 |
|----------------------------------------|--------------------|-------------|

There were no authorised and unissued shares at year end.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

|                                                                                                                                                                                                                                                        | 2012<br>E          | 2011<br>E    |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------|
| <b>20 FOREIGN EXCHANGE TRANSLATION RESERVE</b>                                                                                                                                                                                                         |                    |              |
| Opening balance                                                                                                                                                                                                                                        | <b>5 317 015</b>   | 16 262 092   |
| Forex gains/losses charge ( <i>refer to Note 11</i> )                                                                                                                                                                                                  | <b>18 241 700</b>  | (13 681 346) |
| Tax effect                                                                                                                                                                                                                                             | <b>(3 648 340)</b> | 2 736 269    |
| Closing balance                                                                                                                                                                                                                                        | <b>19 910 375</b>  | 5 317 015    |
| <p>The foreign exchange translation reserve arises from the translation of Motraco, a Joint Venture Company, which is a Mozambican registered company that uses the US Dollar as its reporting currency.</p>                                           |                    |              |
| <b>21 DEFERRED GRANT INCOME</b>                                                                                                                                                                                                                        |                    |              |
| <p>Deferred income comprises unutilised balances of Rural electrification contributed by Swaziland Government and Republic of China through the Government of Swaziland for the Rural Electrification Project.</p>                                     |                    |              |
| Balance at beginning of year                                                                                                                                                                                                                           | <b>109 788 001</b> | 105 977 552  |
| Grants realised in statement of comprehensive income (Note 5.1)                                                                                                                                                                                        | <b>(5 673 094)</b> | (5 118 870)  |
| Rural electrification grant received                                                                                                                                                                                                                   | <b>17 861 775</b>  | 8 929 319    |
|                                                                                                                                                                                                                                                        | <b>121 976 682</b> | 109 788 001  |
| <b>22 OTHER DEFERRED INCOME</b>                                                                                                                                                                                                                        |                    |              |
| <p>Other deferred income comprises unutilised balances of Rural electrification and Counterpart funds at bank contributed by Swaziland Government and Republic of China through the Government of Swaziland for the Rural Electrification Project.</p> |                    |              |
| Rural Electrification funds (Note 14)                                                                                                                                                                                                                  | <b>26 060 165</b>  | 30 333 301   |
| Counterpart funds (Note 14)                                                                                                                                                                                                                            | <b>15 911 272</b>  | 15 238 118   |
| Probec call account (Note 14)                                                                                                                                                                                                                          | <b>1 829 784</b>   | 111 560      |
|                                                                                                                                                                                                                                                        | <b>43 801 221</b>  | 45 682 979   |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

|                                                                                                                                                                                                                                                   | 2012<br>E          | 2011<br>E   |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------|
| <b>23 DEFERRED REVENUE</b>                                                                                                                                                                                                                        |                    |             |
| Deferred electricity revenue (23.1)                                                                                                                                                                                                               | 20 654 781         | 11 547 496  |
| Deferred contributions from customers towards infrastructure (23.2)                                                                                                                                                                               | 3 347 798          | 9 372 709   |
|                                                                                                                                                                                                                                                   | <b>24 002 579</b>  | 20 920 205  |
| <b>23.1 Deferred electricity revenue</b>                                                                                                                                                                                                          |                    |             |
| Deferred electricity revenue comprises unearned prepaid electricity revenue from domestic and small commercial customers. The company utilises an internally generated model to establish an estimate of unearned revenue from prepaid customers. |                    |             |
| <b>23.2 Deferred contributions from customers towards infrastructure</b>                                                                                                                                                                          |                    |             |
| Deferred contributions from customers towards infrastructure relate to fees for connection received in advance from prospective electricity customers. These fees are recognised as revenue when the connections are completed.                   |                    |             |
| <b>24 BORROWINGS</b>                                                                                                                                                                                                                              |                    |             |
| <b>Current</b>                                                                                                                                                                                                                                    |                    |             |
| Bank overdrafts (Note 18)                                                                                                                                                                                                                         | 529 030            | 28 645      |
| Shareholder's loan (Note 24.1)                                                                                                                                                                                                                    | 11 240 181         | 11 240 181  |
| Current portion of long term borrowings (Note 24.2)                                                                                                                                                                                               | 25 131 584         | 24 555 826  |
|                                                                                                                                                                                                                                                   | <b>36 900 795</b>  | 35 824 652  |
| <b>Non current</b>                                                                                                                                                                                                                                |                    |             |
| Long term borrowings (Note 24.2)                                                                                                                                                                                                                  | 271 966 729        | 284 538 511 |
| <b>Total borrowings</b>                                                                                                                                                                                                                           | <b>308 867 524</b> | 320 363 163 |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

|                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 2012<br>E          | 2011<br>E   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------|
| <b>24 BORROWINGS (CONTINUED)</b>                                                                                                                                                                                                                                                                                                                                                                                                                           |                    |             |
| <b>24.1 Shareholder's loan</b>                                                                                                                                                                                                                                                                                                                                                                                                                             |                    |             |
| Liability for the civil works component of the Maguga Dam Hydroelectric Project.                                                                                                                                                                                                                                                                                                                                                                           | <b>11 240 181</b>  | 11 240 181  |
| The E 11.2 million above was paid by the Government of Swaziland during the construction of the Maguga Dam Hydroelectric Project. There is uncertainty regarding the treatment of this amount but it is currently disclosed as borrowings and is payable to the Government of Swaziland. It is not certain what precise charge, if any, will be levied on the Company by the Government of Swaziland as there are no specified terms regarding the amount. |                    |             |
| <b>24.2 Long term borrowings</b>                                                                                                                                                                                                                                                                                                                                                                                                                           |                    |             |
| Current portion                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>25 131 584</b>  | 24 555 826  |
| Non current portion                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>271 966 729</b> | 284 538 511 |
| Total long term loans (Note 24)                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>297 098 313</b> | 309 094 337 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

## 24 BORROWINGS (CONTINUED)

### 24.2.1 Long term borrowings analysis (continued)

|                                                                                      |    | Term in<br>years | Interest<br>rate | Final<br>redemption<br>date | Opening<br>amount<br>E | Received<br>E | Repaid<br>E  | Interest<br>adjustment<br>E | Foreign<br>exchange<br>adjustments<br>E | Closing<br>balance<br>E |
|--------------------------------------------------------------------------------------|----|------------------|------------------|-----------------------------|------------------------|---------------|--------------|-----------------------------|-----------------------------------------|-------------------------|
| <b>As at 31 March 2012</b>                                                           |    |                  |                  |                             |                        |               |              |                             |                                         |                         |
| <b>Foreign currency</b>                                                              |    |                  |                  |                             |                        |               |              |                             |                                         |                         |
| Swaziland Loan No.6 - 24.3.2 (a)                                                     | 30 | 8.0              | 30.06.2015       | 1 635 639                   | -                      | (379 666)     | 25 119       | 70 741                      | 1 351 833                               |                         |
| European Investment Bank-Motraco<br>Project loan - 24.3.2 (b)                        | 20 | *                | 10.06.2019       | 56 118 307                  | -                      | (5 406 400)   | 3 336 787    | 9 803 099                   | 63 851 793                              |                         |
| European Investment Bank –<br>400 kV Integration Project loan - 24.3.2 (c)           | 20 | 5.57             | 15.10.2020       | 62 661 376                  | -                      | (4 039 750)   | 1 904 714    | 334 002                     | 60 860 342                              |                         |
| European Investment Bank – 400 kV<br>Integration Project loan (Phase 1) - 24.3.2 (d) | 17 | 3.0**            | 16.11.2020       | 28 423 529                  | -                      | (2 573 529)   | 285 500      | 1 082 087                   | 27 217 587                              |                         |
|                                                                                      |    |                  |                  |                             | 148 838 851            | -             | (12 399 345) | 5 552 120                   | 11 289 929                              | 153 281 555             |
| <b>Local currency</b>                                                                |    |                  |                  |                             |                        |               |              |                             |                                         |                         |
| Swaziland Government Loan No.10 - 24.3.2 (e)                                         | 25 | 8.0              | 1.04.2014        | 254 000                     | -                      | (254 000)     | -            | -                           | -                                       |                         |
| Swaziland Government Loan No.11 - 24.3.2 (f)                                         | 25 | 8.0              | 1.04.2015        | 450 000                     | -                      | (450 000)     | -            | -                           | -                                       |                         |
| Development Bank of Southern Africa 400 kV<br>Integration Project - 24.3.2 (g)       | 20 | ***              | 05.03.2023       | 9 551 486                   | -                      | (1 404 604)   | 669 876      | -                           | 8 816 758                               |                         |
| Public Service Pension Fund - 24.3.2 (h)                                             | 10 | ****             | 15.09.2021       | 150 000 000                 | -                      | (18 024 658)  | 3 024 658    | -                           | 135 000 000                             |                         |
|                                                                                      |    |                  |                  |                             | 160 255 486            | -             | (20 133 262) | 3 694 534                   | -                                       | 143 816 758             |
| <b>Total long term borrowings</b>                                                    |    |                  |                  |                             | 309 094 337            | -             | (32 532 607) | 9 246 654                   | 11 289 929                              | 297 098 313             |

\* This loan contains an embedded derivative liability. Refer to note 25A.

\*\* This loan contains an embedded derivative liability. Refer to note 25C.

\*\*\* Floating rate at 6 months ZAR- JIBAR- SAFEX plus 135 basis points.

\*\*\*\* Floating rate at prime minus 2.8% per annum, with a floor of 8% and a cap of 12% per annum. The loan also contains an embedded derivative liability note 24B.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

## 24 BORROWINGS (CONTINUED)

### 24.2.1 Long term borrowings analysis (continued)

| As at 31 March 2011                                                               | Term in years | Interest rate | Final redemption date | Opening amount E   | Received E        | Repaid E            | Interest adjustment E | Foreign exchange adjustments E | Closing balance E  |
|-----------------------------------------------------------------------------------|---------------|---------------|-----------------------|--------------------|-------------------|---------------------|-----------------------|--------------------------------|--------------------|
| <b>Foreign currency</b>                                                           |               |               |                       |                    |                   |                     |                       |                                |                    |
| Swaziland Loan No.6 - 24.3.2 (a)                                                  | 30            | 8.0           | 30.06.2015            | 2 041 839          | -                 | (379 666)           | 40 837                | (67 371)                       | 1 635 639          |
| European Investment Bank-Motraco Project loan - 24.3.2 (b)                        | 20            | *             | 10.06.2019            | 54 621 542         | -                 | (4 015 440)         | 2 963 016             | 2 549 189                      | 56 118 307         |
| European Investment Bank - 400 kV Integration Project loan - 24.3.2 (c)           | 20            | 5.57          | 15.10.2020            | 69 353 803         | -                 | (3 918 200)         | 1 287 669             | (4 061 896)                    | 62 661 376         |
| European Investment Bank - 400 kV Integration Project loan (Phase 1) - 24.3.2 (d) | 17            | 3.0**         | 16.11.2020            | 31 908 412         | -                 | (2 573 529)         | 319 084               | (1 230 438)                    | 28 423 529         |
|                                                                                   |               |               |                       | 157 925 596        | -                 | (10 886 835)        | 4 610 606             | (2 810 516)                    | 148 838 851        |
| <b>Local currency</b>                                                             |               |               |                       |                    |                   |                     |                       |                                |                    |
| Swaziland Government Loan No.7 - 24.3.2                                           | 17            | 2.0           | 1.04.2011             | 1 733 948          | -                 | (1 733 948)         | -                     | -                              | -                  |
| Swaziland Government Loan No.10 - 24.3.2 (e)                                      | 25            | 8.0           | 1.04.2014             | 317 500            | -                 | (63 500)            | -                     | -                              | 254 000            |
| Swaziland Government Loan No.11 - 24.3.2 (f)                                      | 25            | 8.0           | 1.04.2015             | 540 000            | -                 | (90 000)            | -                     | -                              | 450 000            |
| Development Bank of Southern Africa 400 kV Integration Project - 24.3.2 (g)       | 20            | ***           | -                     | 10 286 216         | -                 | (734 730)           | -                     | -                              | 9 551 486          |
| Public Service Pension Fund - 24.3.2 (h)                                          | 10            | ****          | 15.09.2021            | 75 000 000         | 75 000 000        | -                   | -                     | -                              | 150 000 000        |
|                                                                                   |               |               |                       | 87 877 664         | 75 000 000        | (2 622 178)         | -                     | -                              | 160 255 486        |
| <b>Total long term borrowings</b>                                                 |               |               |                       | <b>245 803 260</b> | <b>75 000 000</b> | <b>(13 509 013)</b> | <b>4 610 606</b>      | <b>(2 810 516)</b>             | <b>309 094 337</b> |

\* This loan contains an embedded derivative liability. Refer to note 25A.

\*\* This loan contains an embedded derivative liability. Refer to note 25C.

\*\*\* Floating rate at 6 months ZAR- JIBAR- SAFEX plus 135 basis points.

\*\*\*\* Floating rate at prime minus 2.8% per annum, with a floor of 8% and a cap of 12% per annum. The loan also contains an embedded derivative liability note 24B.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 24 BORROWINGS (CONTINUED)

#### 24.2.2 Long term borrowings descriptions

##### (a) *Swaziland Government Loan No.6*

This loan was secured with assistance of the Government of Swaziland for the rehabilitation of the national electricity network after Cyclone Démonia. The amount received for this loan was DM 1 500 000. The term of the loan is 20 years. Final redemption of this loan is 30 June 2015.

Interest which is at a rate of 8% per annum, is payable half yearly. The loan is repayable in 40 equal half yearly instalments.

The spot rate when the loan was secured was E1 = DM 1.6376. The Company had an agreement with the Government of Swaziland that if the Lilangeni appreciates against the Deutsche Mark, the amount payable by the Company would remain fixed at the exchange rate of E1 = DM 1.6376. This agreement further stated that should the Lilangeni depreciate against the Deutsche Mark, the foreign additional foreign exchange losses incurred by the Government of Swaziland would be converted into a loan to the Company at an annual interest rate of 8%.

The Company accounts for this loan at amortised cost

##### (b) *European Investment Bank – Motraco Project Loan*

On 15 July 1999, the Company signed an €8 200 000 loan agreement with the European Investment Bank (EIB). The purpose of this loan was to enable the Company to finance a significant part of its investment in the shares of Companhia de Transmissão de Moçambique, S.A.R.L. (Motraco). Motraco is a joint venture between Electricidade de Moçambique (EDM), Swaziland Electricity Company (SEC) and Eskom of South Africa. The principal objective of the joint venture is the transmission of electricity via its power transmission system from South Africa to the Mozal Aluminium Smelter.

The Company's original subscription in the shares of Motraco is €8 200 000.

EIB's return on the loan was not structured like a normal loan where a stated rate of interest would be payable by the Company on a periodic basis until the full settlement of the loan. Instead EIB described this loan as a Conditional Loan on Risk Capital Resources with the following key terms:

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 24 BORROWINGS (CONTINUED)

#### 24.2.2 Long term borrowings descriptions (continued)

##### (b) *European Investment Bank – Motraco Project Loan (continued)*

- If the Company sells the shares in Motraco before 10 June 2019, the Company will repay EIB an amount in Euros equal to the Company's original subscription in Motraco equity plus 50% of any gain arising from the proceeds of the sale of the Company's shares in Motraco.
- If the Company holds the shares in Motraco until 10 June 2019, the Company will repay EIB an amount in Euros equal to the lesser of the current value of Company's shares in Motraco and an amount equal to the Company's original drawdown in EIB plus 50% of any notional gain arising from the valuation of Company's shares in Motraco. On an annual basis, the Company will remit to EIB 50% of any dividends received from Motraco. This will happen until 10 June 2019 or until sale of the shares in Motraco or until voluntary early settlement of the loan.
- If the Company decides to voluntarily settle the loan early without disposing the shares in Motraco, the amount payable by the Company would be the higher of the outstanding balance and an amount equal to the Company's original subscription in Motraco equity plus 50% of any notional gain arising from the valuation of Company's shares in Motraco.
- If Motraco becomes insolvent, is liquidated or wound up, no further remuneration will accrue to EIB and the Company will make no further repayments of the principal on the loan. However, the Company will have to remit to EIB any final distributions arising from the liquidation or winding of Motraco.

The Company received the loan in two instalments: a €5 400 000 instalment received on 30 November 1999 and a €2 800 000 instalment received on 20 August 2002.

The Company intends to hold the investment in Motraco shares until at least 10 June 2019, the maturity date of the EIB loan.

The Company has adopted the following accounting treatment in terms of International Accounting Standard 39 - "Financial Instruments: Recognition and Measurement" (IAS 39) regarding the EIB loan:

- To account for the original subscription of €8 200 000 which is at least repayable on 10 June 2019 as a borrowing accounted for at amortised cost. The €1 000 000 difference between the €8 200 000 disbursements received and the €9 200 000 repayable, would be considered to constitute a nominal interest equivalent on the €8 200 000 principal. On initial recognition, the Company discounted the two loan disbursements at market related rates on the dates they were received. Applying amortised cost, the Company is accruing interest on these discounted values until 10 June 2019, at which point in time the discounted loan values plus the accumulated interest will equal €9 200 000. The Company is charging the interest to profit or loss on an annual basis and crediting it to the loan.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 24 BORROWINGS (CONTINUED)

#### 24.2.2 Long term borrowings descriptions (continued)

##### (b) *European Investment Bank – Motraco Project Loan (continued)*

- To separate the cash outflows related to the loan that are dependent on the company value of Motraco on 10 June 2019 when the loan is settled, because they meet the definition of an embedded derivative. Refer to note 50A for the values attached to this embedded derivative and how it has been determined and accounted for.
- In the year under review the Company paid European Investment Bank E 4.015 million as part of the financing arrangement.

##### (c) *European Investment Bank – 400kV Integration Project Loan*

This loan was secured for the purposes of funding the Company's Transmission Project. The amount received for this loan was €10 000 000. The term of the loan is 20 years. Final redemption of this loan is on 15 October 2020.

Interest is payable on 15 April and 15 October each year. The agreement states that the interest rate should be the greater of 3% and a rate determined by subtracting the 3.06% interest rate subsidy from the standard rate of interest applicable at the date the loan was issued. The loan is repayable in semi-annual instalments payable on 15 April and 15 October each year.

The Company has to maintain a ratio of at least 1:3 for its own funds to borrowings and a ratio of at least 1.5:1 for its annual debt service coverage.

The Government of Swaziland guarantees the Company's performance of its obligation in relation to this loan and indemnifies the European Investment Bank against all losses.

The company accounts for this loan at amortised cost.

##### (d) *European Investment Bank – 400KV Integration Project Loan Phase 1*

This loan was secured for the purposes of funding the 400KV Integration Project. The amount received for this loan was €5 000 000. The term of the loan is 17 years commencing on 02 July 2001. Final redemption of this loan is on 16 November 2020.

Interest which is at a rate of 3% per annum, is payable on 15 November each year. The loan is repayable in 17 equal instalments payable on 15 November each year.

The Company has to maintain a ratio of at least 1:3 for its own funds to borrowings and a ratio of at least 1.5:1 for its annual debt service coverage.

The Government of Swaziland guarantees the Company's performance of its obligation in relation to this loan and indemnifies the European Investment Bank against all losses.

The company accounts for this loan at amortised cost.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 24 BORROWINGS (CONTINUED)

#### 24.2.2 Long term borrowings descriptions (continued)

(e) *Swaziland Government Loan No.10*

This loan was secured for the purposes of funding infrastructure improvements. The amount received for this loan was E1 270 000. The term of the loan is 20 years.

Interest which is at a rate of 8% per annum, is payable on 31 March each year. The loan is repayable in 20 equal instalments of E63 500 payable on 31 March each year. The loan was settled during the year under review.

The company accounts for this loan at amortised cost.

(f) *Swaziland Government Loan No.11*

This loan was secured for the purposes of funding infrastructure improvements. The amount received for this loan was E1 800 000. The term of the loan is 20 years.

Interest which is at a rate of 8% per annum, is payable on 31 March each year. The loan is repayable in 20 equal instalments of E90 000. The loan was settled during the year under review.

The company accounts for this loan at amortised cost.

(g) *Development Bank of Southern Africa (DBSA) Loan*

This loan was secured for the purposes of funding the 400kV Integration Phase II Project. The amount received for this loan was E97 135 000. The term of the loan is 20 years commencing from 05 March 2003 with a two years grace period.

Interest which is at a rate of 6 months ZAR-JIBAR-SAFEX plus 135 basis points for the risk margin, is payable on 01 April and 01 October each year. The Company has an option to convert the rate from the floating rate to fixed rate of interest. The fixed rate of interest is determined at the DBSA base rate plus 135 basis points. The DBSA base rate is market related rate.

The loan is repayable in 36 equal half yearly instalments payable on 01 April and 01 October each year.

The company accounts for this loan at amortised cost.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 24 BORROWINGS (CONTINUED)

#### 24.2.2 Long term borrowings descriptions (continued)

(h) *The Public Service Pension Fund loan*

This loan was secured for the purposes of funding capital projects which will promote and facilitate economic growth and development in Swaziland.

The loan bears interest at a floating rate; at the prime rate then prevailing from time to time minus 2.8% per annum; such said floating rate being subject to a fixed interest range with a floor of 8% per annum and a cap of 12% per annum. The loan is repayable in 10 equal instalments of E15 million starting 31 December 2011.

The loan was drawn down as follows;

-E75 000 000 on the 18th of September 2009.

-E75 000 000 on the 17th of December 2010.

#### 24.3 Maturity of borrowings

The maturity of the borrowing is as follows:

|                         | Within 1 year<br>E | 2 to 5 years<br>E  | Over 5 yrs<br>E    | Total<br>E         |
|-------------------------|--------------------|--------------------|--------------------|--------------------|
| <b>At 31 March 2012</b> |                    |                    |                    |                    |
| Bank overdraft          | 529 030            | -                  | -                  | 529 030            |
| Shareholders loan       | 11 240 181         | -                  | -                  | 11 240 181         |
| Foreign borrowings      | 10 131 584         | 41 807 342         | 110 159 387        | 162 098 313        |
| Local borrowings        | 15 000 000         | 60 000 000         | 60 000 000         | 135 000 000        |
| <b>Total borrowings</b> | <b>36 900 795</b>  | <b>101 807 342</b> | <b>170 159 387</b> | <b>308 867 524</b> |
| <b>At 31 March 2011</b> |                    |                    |                    |                    |
| Bank overdraft          | 28 645             | -                  | -                  | 28 645             |
| Shareholders loan       | 11 240 181         | -                  | -                  | 11 240 181         |
| Foreign borrowings      | 9 402 326          | 26 093 981         | 122 894 031        | 158 390 338        |
| Local borrowings        | 15 153 499         | 60 550 500         | 75 000 000         | 150 703 999        |
| <b>Total borrowings</b> | <b>35 824 651</b>  | <b>86 644 481</b>  | <b>197 894 031</b> | <b>320 363 163</b> |

Foreign borrowings totalling E88 078 129 (2011: E 91 084 905) are guaranteed by the Swaziland Government.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

|                                                                                                                                                                                                                                                                                                                           | 2012<br>E         | 2011<br>E  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------|
| <b>25 EMBEDDED DERIVATIVES</b>                                                                                                                                                                                                                                                                                            |                   |            |
| <b>Embedded Derivative Assets</b>                                                                                                                                                                                                                                                                                         |                   |            |
| Embedded derivative asset – The Electricity Wheeling agreement (24D)                                                                                                                                                                                                                                                      | -                 | 5 840 907  |
| Embedded derivative asset – Power Supply Agreement with Electricidade De Mocambique E.P. (25E)                                                                                                                                                                                                                            | <b>8 868 095</b>  | -          |
| Embedded derivative liability – Public Service Pension Fund Loan (25B)                                                                                                                                                                                                                                                    | -                 | 146 951    |
|                                                                                                                                                                                                                                                                                                                           | <b>8 868 095</b>  | 5 987 858  |
| <b>Embedded Derivative liabilities</b>                                                                                                                                                                                                                                                                                    |                   |            |
| Embedded derivative liability – EIB loan (24A)                                                                                                                                                                                                                                                                            | <b>85 958 367</b> | 18 359 769 |
| Embedded derivative liability – Public Service Pension Fund Loan (25B)                                                                                                                                                                                                                                                    | <b>3 590 510</b>  | -          |
| Embedded derivative asset – Power Supply Agreement with Electricidade De Mocambique E.P. (25E)                                                                                                                                                                                                                            | -                 | 1 368 485  |
| Embedded derivative liability – 400 kV integration project EIB Loan (25C)                                                                                                                                                                                                                                                 | <b>1 089 337</b>  | 1 229 577  |
| Embedded derivative asset – The Electricity Wheeling agreement (24D)                                                                                                                                                                                                                                                      | <b>2 520 344</b>  | -          |
|                                                                                                                                                                                                                                                                                                                           | <b>93 158 558</b> | 20 957 831 |
| <b>25A. Embedded derivative liability - EIB loan</b>                                                                                                                                                                                                                                                                      |                   |            |
| Management has confirmed that the Company has the intention and ability to hold the investment in the Motraco shares until 10 June 2019, which is the maturity of the EIB Project loan. Based on this representation from management, the Company has determined the value of the embedded derivative as presented below: |                   |            |
| Fair value at beginning of the year                                                                                                                                                                                                                                                                                       | <b>18 359 769</b> | 12 215 136 |
| Fair value adjustment based on changes in the company value of Motraco and passage of time                                                                                                                                                                                                                                | <b>67 598 598</b> | 6 144 633  |
| Fair value at end of the year                                                                                                                                                                                                                                                                                             | <b>85 958 367</b> | 18 359 769 |

The fair value of the embedded derivative liability represents an estimate of the present value of the EIB loan cash outflows that will be dependent on the market value of Motraco when the Company settles the EIB loan on 10 June 2019.

To estimate the market value of Motraco on 10 June 2019 for purposes of determining the embedded derivative, the Company has applied the discounted cash flow method. Discount rates used were market related rates. The value of the embedded derivative will be reassessed at each statement of financial position date until 10 June 2019. Changes in the fair value of the embedded derivative liability are recognised in profit or loss.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 25B. Embedded derivative liability/ (asset) – Public Service Pension Fund Loan

Interest is accrued on the loan at the rate at which the interest is payable, being at prime less 2.8% should this fall within the range of 8% to 12%. Where the floating interest rate is outside of the collar, interest is accrued at a rate of 8% or 12% as is applicable. On 11 September 2009, when the loan was obtained the prime interest rate was 10% and hence the applicable floating interest rate on the PSPF loan was 7.2%. Since the applicable floating interest rate is outside of the collar range of 8% and 12%, the embedded interest rate collar is considered to be in-the-money at inception thereby resulting in an embedded derivative. The value of the embedded derivative as presented below:

|                                                                                        | 2012<br>E | 2011<br>E |
|----------------------------------------------------------------------------------------|-----------|-----------|
| Fair value at beginning of the year                                                    | (146 951) | (629 958) |
| Fair value adjustment based on changes in the interest rate collar and passage of time | 3 443 559 | 483 007   |
| Fair value at end of the year                                                          | 3 590 510 | (146 951) |

The fair value of the embedded derivative liability represents an estimate of the present value of the PSPF loan cash outflows that will be dependent on the prime rate. Changes in the fair value of the embedded derivative liability are recognised in profit or loss.

### 25C. Embedded derivative liability – 400 kV integration project EIB Loan

On 2 July 2001, the Kingdom of Swaziland entered into a Finance Contract with European Investment Bank (EIB) in connection with funding in respect of a project consisting of the study, engineering, construction and operation of overhead transmission lines as well as the reinforcement of part of the national power transmission grid in Swaziland (the "Project"). The Project is to be funded from a number of sources, including a conditional loan from the EIB ("the EIB Loan") to the value of EUR5 million.

The loan was granted in accordance with the provisions of the Second Financial Protocol to the Fourth APC-EC Convention of Lome, signed between certain states in Africa, the Caribbean and the Pacific, and the Member States of the European Community. Interest is payable by the Kingdom of Swaziland semi-annually in arrears on 15 November at a rate of 3% per annum. The Finance Contract specifies that interest on the loan is payable at a rate that is the greater of:

- 3% per annum; or
- the standard interest rate applicable at the date the loan was issued less an interest rate subsidy of 3.06%. At the time of draw down on the loan, the standard interest rate was 5.57%. After having deducted the subsidy of 3.06%, this will result in interest being payable at a rate of 2.51%.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 25 EMBEDDED DERIVATIVES (CONTINUED)

#### 25C. Embedded derivative liability – 400 kV integration project EIB Loan (continued)

The interest rate floor embedded in the funding agreement ensures that the interest rate that will ultimately be fixed on draw down of the loan (determined as the EIB standard rate less 3.06%) does not fall below 3%. In situations where the EIB standard interest rate decreases below 6.06%, the interest rate floor will be triggered, resulting in a modification of the cash flows on the loan compared to those that would have been payable had the interest rate been fixed based on the EIB standard interest rate thereby resulting in an embedded derivative.

The value of the embedded derivative as presented below:

|                                                                                        | 2012<br>E | 2011<br>E |
|----------------------------------------------------------------------------------------|-----------|-----------|
| Fair value at beginning of the year                                                    | 1 229 577 | 1 515 899 |
| Fair value adjustment based on changes in the interest rate collar and passage of time | (140 240) | (286 322) |
| Fair value at end of the year                                                          | 1 089 337 | 1 229 577 |

The fair value of the embedded derivative liability represents an estimate of the present value of the EIB loan cash outflows that will be dependent on the changes in the interest rate payable on the loan. Changes in the fair value of the embedded derivative liability are recognised in profit or loss.

#### 25D. Embedded derivative asset – The Electricity Wheeling agreement

On 1 September 1999, the Swaziland Electricity Company Limited ("the SEC") entered into an Electricity Wheeling Agreement with the Motraco-Mozambique Transmission Company ("Motraco") in connection with the wheeling of electricity by Motraco to the SEC at a new substation called Edwaleni II. The duration of the agreement is 25 years commencing from the end of the month when the Commercial Operation Date of the last asset required for the supply of wheeling services to the SEC occurs, that is, was 1 September 1999.

The prices to be charged by Motraco and to be paid by the SEC for electricity wheeled consists of fixed and variable charge for wheeling, variable charge for emergency wheeling, surcharge and reactive power rates.

The annual escalation of the wheeling charges by US inflation will result in a variation of cash flows over the life of the contract, since the fixed charges payable will change depending on movements in the US inflation index. This result in a shifting of the risk associated with increases in prices from Motraco to the SEC thereby resulting in an embedded derivative.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 25 EMBEDDED DERIVATIVES (CONTINUED)

#### 25D. Embedded derivative asset – The Electricity Wheeling agreement (continued)

The value of the embedded derivative as presented below:

|                                                                          | 2012<br>E   | 2011<br>E    |
|--------------------------------------------------------------------------|-------------|--------------|
| Fair value at beginning of the year                                      | (5 840 907) | 14 625 103   |
| Fair value adjustment based on changes in the US PPI and passage of time | 8 361 251   | (23 409 299) |
| Fair value at end of the year                                            | (2 520 344) | (5 840 907)  |

The fair value of the embedded derivative liability represents an estimate of the present value of the Wheeling purchases future cash outflows that will be dependent on the changes in the US PPI.

Changes in the fair value of the embedded derivative liability are recognised in profit or loss

#### 25E. Embedded derivative asset – Power Supply Agreement with Electricidade De Mocambique E.P.

On 23 December 2009, the Swaziland Electricity Company Limited ("the SEC") entered into an Power Supply Agreement with Electricidade De Mocambique E.P. (EDM) in connection the sale of surplus power from EDM to the SEC. The contract is for the period 1 January 2011 to 31 December 2011, and is renewable annually. All Electricity charges are denominated in USc per kWh, and vary depending on whether the electricity is supplied at peak or at off-peak times.

The foreign exchange element of the transaction causes some or all of the cash flows that otherwise would be required by the electricity supply contract to be modified according to prevailing foreign exchange rates. This exposure arises from the date of committing to the supply contract to the date of invoice of the related electricity charges. As such, financial risk in the form of currency risk is effectively shifted between the SEC and EDM depending on the direction in which the USD/ZAR exchange rate moves thereby resulting in an embedded derivative.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 25 EMBEDDED DERIVATIVES (CONTINUED)

#### 25E. Embedded derivative (asset)/liability – Power Supply Agreement with Electricidade De Mocambique E.P. (continued)

The value of the embedded derivative as presented below:

|                                                                                          | 2012<br>E    | 2011<br>E   |
|------------------------------------------------------------------------------------------|--------------|-------------|
| Fair value at beginning of the year                                                      | 1 368 485    | 4 294 337   |
| Fair value adjustment based on changes in the USD/ZAR exchanges rate and passage of time | (10 236 580) | (2 925 852) |
| Fair value at end of the year                                                            | (8 868 095)  | 1 368 485   |

The fair value of the embedded derivative liability represents an estimate of the present value of the Electricity purchases cash outflows that will be dependent on the changes in the foreign exchange rates between the USD/ZAR

Changes in the fair value of the embedded derivative liability are recognised in profit or loss

At 31 March 2012, Borrowings included an amount of E96 894 686 (2011: E 100 636 391 ) in respect of a long term loan due in foreign currency, which has been hedged using the cross currency and interest rate swap as stipulated above.

The Company entered into a range of derivative instruments, foreign currency swaps and interest rate swaps, arrangement with Standard Corporate and Merchant Bank and Investec Capital Market to hedge against foreign exchange risk on its foreign currency based commitment with the European Investment Bank and Kreditanstalt für Wiederaufbau.

|                                             | Financial assets |            | Financial liabilities |           |
|---------------------------------------------|------------------|------------|-----------------------|-----------|
|                                             | 2012<br>E        | 2011<br>E  | 2012<br>E             | 2011<br>E |
| <b>Cross currency interest rate swaps:-</b> |                  |            |                       |           |
| Foreign currency swaps                      | 34 095 381       | 26 238 488 | 140 023               | 45 229    |
| Interest rate swaps – fair value hedges     | -                | -          | 5 529 769             | 4 503 851 |
|                                             | 34 095 381       | 26 238 488 | 5 669 792             | 4 549 080 |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 26 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

#### a) Foreign currency swaps – fair value hedge

Gains and losses on the foreign currency swaps are recognized in profit or loss since the swaps are used as a fair value hedge. The foreign currency swap was taken of the European Investment bank -400kV Integration Project Loan (Phase 1) (Note 24.3.2(c)) and the European Investment bank -400kV Integration Project Loan (Note 24.3.2(d)). The loans are at a fixed rate. The nominal values of the cross currency swaps are Euro 5 161 396 and Euro 513 571 with a maturity dates of 30/06/2015

#### b) Interest rate swaps – fair value

At 31 March 2012, the fixed interest rates varied from 2% to 8% (2011: 2% to 8%), and the main floating rates are at 6 months ZAR – JIBAR-SAFEX minus 315 basis points. Gains and losses are recognised in profit or loss since the swaps are used as a fair value hedge. The interest rate swap was taken for the Development Bank of Southern Africa 400kV integration project loan (Note 24 .3.2(i)) The loan is at a fixed rate. The nominal value of the interest rate swap is E 69 869 800 with a maturity date 15/10/2020.

**Movements and analysis of gains or losses arising from fair value hedges is as follows:**

|                                                       | Financial assets  |             | Financial liabilities |           |
|-------------------------------------------------------|-------------------|-------------|-----------------------|-----------|
|                                                       | 2012              | 2011        | 2012                  | 2011      |
|                                                       | E                 | E           | E                     | E         |
| Fair value at the beginning of the year               | <b>26 238 488</b> | 33 948 954  | 4 549 080             | 4 852 244 |
| Utilised or terminated fair value hedging instruments | -                 | -           | -                     | -         |
| Fair value gains or (losses) on fair value hedges     | <b>7 856 893</b>  | (7 710 466) | <b>1 120 712</b>      | (303 164) |
| Fair value at the end of the year                     | <b>34 095 381</b> | 26 238 488  | <b>5 669 792</b>      | 4 549 080 |

The maximum exposure to credit risk at reporting date is the fair value of the derivative asset in the statement of financial position.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 27 PROVISIONS FOR OTHER EMPLOYEE BENEFITS

|                                          | 2012<br>E         | 2011<br>E  |
|------------------------------------------|-------------------|------------|
| Leave pay provision (27.1)               | 10 979 664        | 16 648 217 |
| Gratuity provision(27.2)                 | 6 190 086         | 3 362 733  |
| Performance bonus provision(27.3)        | 7 795 705         | 8 703 144  |
| Voluntary Exit Scheme Provision(27.4)    | 2 751 899         | 12 879 212 |
| Long term service awards provision(27.5) | 635 651           | -          |
|                                          | <b>28 353 005</b> | 41 593 306 |

#### 27.1 Leave pay provision

The leave pay provision relates to vested leave pay to which employees are entitled. The provision arises as employees render services that increase their entitlement to future compensated leave. The provision is utilised when employees, who are entitled to leave pay, leave the employment of the Company or when accrued entitlement is utilised, by taking day(s) off.

|                         |                   |             |
|-------------------------|-------------------|-------------|
| Opening balance         | 16 648 217        | 17 869 503  |
| Provisions used         | (1 716 434)       | (3 020 897) |
| Unused amounts reversed | (3 952 119)       | -           |
| Current year provision  | -                 | 1 799 611   |
| Closing balance         | <b>10 979 664</b> | 16 648 217  |

#### 27.2 Gratuity provision

Provision is made for payments in accordance with an Executive and Senior Management employee contracts for the year ended 31 March 2012. The gratuity provision is determined by reference to the contractual agreements. The cash flow is expected to occur at the end of employment contract.

|                         |                  |           |
|-------------------------|------------------|-----------|
| Opening balance         | 3 362 733        | 702 101   |
| Provisions used         | (921 552)        | -         |
| Unused amounts reversed | -                | -         |
| Current year provision  | 3 748 905        | 2 660 632 |
| Closing balance         | <b>6 190 086</b> | 3 362 733 |

#### 27.3 Performance bonus provision

The bonus provision consists of performance-based bonuses, which are determined with reference to the overall company performance with regard to a set of pre-determined key measures. Bonuses are payable annually.

|                         |                  |             |
|-------------------------|------------------|-------------|
| Opening balance         | 8 703 144        | 5 968 064   |
| Provisions used         | (7 441 195)      | (5 968 064) |
| Unused amounts reversed | -                | -           |
| Current year provision  | 6 533 756        | 8 703 144   |
| Closing balance         | <b>7 795 705</b> | 8 703 144   |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 27 PROVISIONS FOR OTHER EMPLOYEE BENEFITS (CONTINUED)

#### 27.4 Voluntary Exit Package provision

Provision is made for payments in accordance with the entity's policy on voluntary exit scheme. The cash flow is expected to occur within the next 12 months from year end.

|                         | 2012<br>E    | 2011<br>E  |
|-------------------------|--------------|------------|
| Opening balance         | 12 879 212   | -          |
| Provisions used         | (13 005 507) | -          |
| Unused amounts reversed | -            | -          |
| Additional provision    | 2 878 194    | 12 879 212 |
| Closing balance         | 2 751 899    | 12 879 212 |

#### 27.5 Long term service awards provision

Provision is made for payments in accordance with the entity's policy on long term service awards. The long term service awards provision consists of one month basic salary or a portion thereof, which is determined by reference to the number of years of service. The cash flow is expected to occur within the next 12 months from year end.

|                         |         |   |
|-------------------------|---------|---|
| Opening balance         | -       | - |
| Provisions used         | -       | - |
| Unused amounts reversed | -       | - |
| Additional provision    | 635 651 | - |
| Closing balance         | 635 651 | - |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 28 EMPLOYEE RETIREMENT BENEFITS OBLIGATION

|                                                                                                                                                         | 2012<br>E          | 2011<br>E          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Retirement benefit (asset)                                                                                                                              | (4 804 424)        | (3 611 531)        |
| The amount of employee retirement benefit obligation recognised in the statement of financial position is determined as follows:                        |                    |                    |
| Present value of plan obligations                                                                                                                       | 154 703 001        | 156 263 977        |
| Fair value of plan assets                                                                                                                               | (150 111 780)      | (146 396 046)      |
| Present value of unfunded obligations                                                                                                                   | 4 591 221          | 9 867 931          |
| Unrecognised actuarial loss                                                                                                                             | (9 395 645)        | (13 479 462)       |
| <b>(Asset) in the statement of financial position</b>                                                                                                   | <b>(4 804 424)</b> | <b>(3 611 531)</b> |
| The Company makes contributions to a defined benefit plan that provides pension benefits for permanent employees upon retirement.                       |                    |                    |
| The movements in asset recognised in the statement of financial position are as follows:                                                                |                    |                    |
| Asset at beginning of year                                                                                                                              | (3 611 531)        | (1 887 368)        |
| Contributions to the fund                                                                                                                               | (7 985 329)        | (8 757 949)        |
| Expense recognised in profit or loss (Note 7)                                                                                                           | 6 792 436          | 7 033 786          |
| Asset in the statement of financial position                                                                                                            | (4 804 424)        | (3 611 531)        |
| The defined benefit expense of E6 792 436 (2011:E7 033 786) has been recognised under administrative expenses in the statement of comprehensive income. |                    |                    |
| Movement in the defined benefit obligation over the year is as follows:                                                                                 |                    |                    |
| Beginning of year                                                                                                                                       | 156 263 977        | 152 553 307        |
| Current service cost                                                                                                                                    | 6 369 628          | 6 848 545          |
| Interest cost                                                                                                                                           | 13 402 474         | 12 780 529         |
| Contributions by plan participants                                                                                                                      | 2 690 475          | 2 950 792          |
| Benefits paid                                                                                                                                           | (18 367 959)       | (24 754 776)       |
| Actuarial (gains)/losses                                                                                                                                | (5 655 594)        | 5 885 580          |
| <b>End of year</b>                                                                                                                                      | <b>154 703 001</b> | <b>156 263 977</b> |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 28 EMPLOYEE RETIREMENT BENEFITS OBLIGATION (CONTINUED)

|                                                                                                                                                              | 2012<br>E          | 2011<br>E          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| The movement in the fair value of plan assets of the year is as follows:                                                                                     |                    |                    |
| Beginning of year                                                                                                                                            | 146 396 046        | 144 790 772        |
| Expected return on assets                                                                                                                                    | 12 979 666         | 12 595 288         |
| Employer contributions                                                                                                                                       | 7 985 328          | 8 757 949          |
| Employee contributions                                                                                                                                       | 2 690 475          | 2 950 792          |
| Benefits paid                                                                                                                                                | (18 367 959)       | (24 754 776)       |
| Actuarial(losses)/ gains                                                                                                                                     | (1 571 776)        | 2 056 021          |
| <b>End of the year</b>                                                                                                                                       | <b>150 111 780</b> | <b>146 396 046</b> |
| There were no actuarial losses recognised during the year due to the fact that the cumulative unrecognised actuarial losses were within the corridor limits. |                    |                    |
| The amounts recognised in profit or loss areas follows:                                                                                                      |                    |                    |
| Current service costs                                                                                                                                        | 6 369 628          | 6 848 545          |
| Interest on obligation                                                                                                                                       | 13 402 474         | 12 780 529         |
| Expected return on plan assets                                                                                                                               | (12 979 666)       | (12 595 288)       |
| Total, included in employee costs (Note 7)                                                                                                                   | 6 792 436          | 7 033 786          |
| The actual return from the plan assets                                                                                                                       | 6 407 890          | 14 651 309         |
| Expected return on assets                                                                                                                                    | 12 979 666         | 12 595 288         |
| Actuarial (losses)/gains                                                                                                                                     | (6 571 776)        | 2 056 021          |
| The principal actuarial assumptions for defined benefit obligations as at statement of financial position date (expressed as weighted averages):             |                    |                    |
| Discount rate at 31 March                                                                                                                                    | 9.1%               | 9.1%               |
| Expected return on plan assets at 31 March                                                                                                                   | 9.1%               | 9.1%               |
| Future salary increases                                                                                                                                      | 6.5%               | 6.5%               |
| Future pension increases                                                                                                                                     | 2.1%               | 2.1%               |
| Inflation                                                                                                                                                    | 8.8%               | 4.5%               |
| Plan assets are comprised as follows:                                                                                                                        |                    |                    |
|                                                                                                                                                              | 2012<br>E          | 2011<br>E          |
| Managed funds                                                                                                                                                | 150 202 178        | 147 590 744        |
| Net current liabilities                                                                                                                                      | (90 398)           | (1 194 698)        |
|                                                                                                                                                              | 150 111 780        | 146 396 046        |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 28 EMPLOYEE RETIREMENT BENEFITS OBLIGATION (CONTINUED)

|                                                                                                                                                                                                                                                                                     | 2012<br>E           | 2011<br>E           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| The managed funds comprises of the following;                                                                                                                                                                                                                                       |                     |                     |
| African Alliance- Portfolio fund                                                                                                                                                                                                                                                    | 69 543 842          | 69 985 285          |
| African Alliance- Lilangeni Fund                                                                                                                                                                                                                                                    | 111 421             | 6 739 520           |
| African alliance- Managed fund                                                                                                                                                                                                                                                      | 57 785 714          | 54 691 203          |
| Inyatsi Bond                                                                                                                                                                                                                                                                        | 10 425 825          | 10 000 000          |
| Greystone Private equity                                                                                                                                                                                                                                                            | 6 600 000           | 5 000 000           |
| SBC Shares                                                                                                                                                                                                                                                                          | 5 000 000           | -                   |
| Standard bank current account                                                                                                                                                                                                                                                       | 735 376             | 1 174 736           |
|                                                                                                                                                                                                                                                                                     | <b>150 202 178</b>  | <b>147 590 744</b>  |
| The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investments. Expected yields on fixed interest investments are based on gross redemption yields as at the statement of financial position date. |                     |                     |
| The actuarial position of the fund as at year end was as follows:                                                                                                                                                                                                                   |                     |                     |
| Present value of defined benefit obligation                                                                                                                                                                                                                                         | 154 703 001         | 156 263 977         |
| Fair value of plan assets                                                                                                                                                                                                                                                           | (150 111 780)       | (146 396 046)       |
| <b>Deficit</b>                                                                                                                                                                                                                                                                      | <b>4 591 221</b>    | <b>9 867 931</b>    |
| <b>29 DEFERRED INCOME TAX</b>                                                                                                                                                                                                                                                       |                     |                     |
| Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:             |                     |                     |
| Deferred tax assets:                                                                                                                                                                                                                                                                |                     |                     |
| - Deferred tax asset to be recovered in less than 12 months                                                                                                                                                                                                                         | (30 706 547)        | (28 536 643)        |
| - Deferred tax asset to be recovered after more than 12 months                                                                                                                                                                                                                      | -                   | -                   |
|                                                                                                                                                                                                                                                                                     | <b>(30 706 547)</b> | <b>(28 536 643)</b> |
| Deferred tax liabilities:                                                                                                                                                                                                                                                           |                     |                     |
| - Deferred tax liability to be recovered in less than 12 months                                                                                                                                                                                                                     | -                   | -                   |
| - Deferred tax liability to be recovered after more than 12 months                                                                                                                                                                                                                  | 179 549 847         | 174 191 766         |
|                                                                                                                                                                                                                                                                                     | <b>179 549 847</b>  | <b>174 191 766</b>  |
| <b>Deferred tax liabilities (net)</b>                                                                                                                                                                                                                                               | <b>148 843 300</b>  | <b>145 655 123</b>  |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 29 DEFERRED INCOME TAX

|                                                                      | 2012<br>E          | 2011<br>E          |
|----------------------------------------------------------------------|--------------------|--------------------|
| The gross movement on the deferred income tax account is as follows: |                    |                    |
| Beginning of year                                                    | 145 655 123        | 113 400 466        |
| Profit or loss charge (note 8)                                       | 6 836 517          | 34 990 926         |
| Other comprehensive income charge (note 8)                           | (3 648 340)        | (2 736 269)        |
| <b>End of year</b>                                                   | <b>148 843 300</b> | <b>145 655 123</b> |
| Non current tax (asset)/liability                                    |                    |                    |
| Accelerated tax depreciation                                         | 160 788 367        | 148 040 256        |
| Prepayments                                                          | -                  | 15 576 838         |
| Retirement benefit asset                                             | 1 441 327          | 1 083 460          |
| Withholding tax on Motraco unremitted earnings                       | 17 320 152         | 9 491 212          |
| Provisions for other employee benefits                               | (8 505 901)        | (12 477 992)       |
| Doubtful debt allowance                                              | (14 233 930)       | (10 906 117)       |
| Interest on EIB loan                                                 | (1 770 280)        | (1 688 285)        |
| Deferred revenue                                                     | (6 196 435)        | (3 464 249)        |
|                                                                      | (11 945 067)       | (2 385 133)        |
| <b>Deferred tax liabilities (net)</b>                                | <b>148 843 300</b> | <b>145 655 123</b> |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 29 DEFERRED TAXATION (CONTINUED)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

| <b>Deferred tax liabilities</b>         | <b>Accelerated<br/>tax<br/>depreciation<br/>E</b> | <b>Pre-<br/>payments<br/>E</b> | <b>Retirement<br/>benefit<br/>asset<br/>E</b> | <b>Withholding<br/>tax on<br/>Motraco<br/>unremitted<br/>earnings<br/>E</b> | <b>Total<br/>E</b> |
|-----------------------------------------|---------------------------------------------------|--------------------------------|-----------------------------------------------|-----------------------------------------------------------------------------|--------------------|
| At 1 April 2010                         | 125 450 907                                       | 4 972 192                      | 566 211                                       | 10 198 204                                                                  | 141 187 514        |
| Charged/(credited) to<br>profit or loss | 22 589 349                                        | 10 604 646                     | 517 249                                       | (706 992)                                                                   | 33 004 252         |
| At 31 March 2011                        | 148 040 256                                       | 15 576 838                     | 1 083 460                                     | 9 491 212                                                                   | 174 191 766        |
| Charged to profit or loss               | 12 748 111                                        | (15 576 838)                   | 357 868                                       | 7 828 940                                                                   | 5 358 081          |
| At 31 March 2012                        | 160 788 367                                       | -                              | 1 441 328                                     | 17 320 152                                                                  | 179 549 847        |

| <b>Deferred tax<br/>assets</b>                                  | <b>Provisions<br/>for other<br/>employee<br/>benefits<br/>E</b> | <b>Doubtful<br/>debt<br/>allowance<br/>E</b> | <b>Tax losses<br/>E</b> | <b>Interest<br/>on<br/>EIB loan<br/>E</b> | <b>Deferred<br/>revenue<br/>E</b> | <b>Total<br/>E</b> |
|-----------------------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------|-------------------------|-------------------------------------------|-----------------------------------|--------------------|
| At 1 April 2010<br>(Credited)/<br>charged to<br>profit or loss  | (7 361 900)                                                     | (18 313 995)                                 | (25 277)                | (1 375 421)                               | (710 455)                         | (27 787 048)       |
|                                                                 | (5 116 092)                                                     | 7 407 878                                    | 25 277                  | (312 864)                                 | (2 753 794)                       | (749 595)          |
| At 31 March 2011<br>(Credited)/<br>charged to<br>profit or loss | (12 477 992)                                                    | (10 906 117)                                 | -                       | (1 688 285)                               | (3 464 249)                       | (28 536 643)       |
|                                                                 | 3 972 091                                                       | (3 327 813)                                  | -                       | (81 995)                                  | (2 732 187)                       | (2 169 904)        |
| At 31 March 2012                                                | (8 505 901)                                                     | (14 233 930)                                 | -                       | (1 770 280)                               | (6 196 436)                       | (30 706 547)       |

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

The Company has recognised deferred tax on the unremitted earnings of the joint venture company (note 13) because there is a 20% withholding tax payable when these earnings are distributed by the joint venture company.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 30 INCOME TAX (ASSET)/LIABILITY

|                                     | 2012<br>E    | 2011<br>E  |
|-------------------------------------|--------------|------------|
| Opening balance                     | 29 371 054   | 12 688 029 |
| Income tax charge (refer to note 8) | 26 971 682   | 16 683 025 |
| Tax paid                            | (70 090 500) | -          |
|                                     | (13 747 764) | 29 371 054 |

### 31 TRADE AND OTHER PAYABLES

|                                     |             |             |
|-------------------------------------|-------------|-------------|
| Trade payables and accrued expenses | 105 277 315 | 92 844 625  |
| Project payables                    | 5 432 463   | -           |
| Capital contribution deposit        | 33 687 038  | 34 086 971  |
|                                     | 144 396 816 | 126 931 596 |

### 32 NOTES TO THE CASH FLOW STATEMENT

#### 32.1 Reconciliation of cash generated by operations to net income:-

|                                                                          |              |              |              |
|--------------------------------------------------------------------------|--------------|--------------|--------------|
| Profit before income tax                                                 |              | 114 659 925  | 239 676 537  |
| <b>Adjustment for non-cash items and separately discloseable items :</b> |              |              |              |
|                                                                          | <b>Notes</b> |              |              |
| Grant amortisation                                                       | 21           | (5 673 094)  | (5 118 870)  |
| Share of profits of joint venture company                                |              | (34 767 001) | (20 416 888) |
| Defined benefit plan expense                                             |              | 6 792 436    | 7 033 786    |
| Depreciation                                                             | 12           | 75 304 012   | 60 091 039   |
| Amortisation                                                             |              | 10 000 000   | -            |
| Fair value gains on derivative financial instruments                     | 26           | (6 736 181)  | 7 407 301    |
| Fair value adjustment – embedded derivatives                             | 25           | 69 356 490   | 20 788 336   |
| Non cash interest on EIB loan                                            |              | 3 336 787    | 9 347 316    |
| Unrealised foreign exchange gains - loans                                |              | 9 903 173    | (5 931 932)  |
| Finance cost on local and foreign denominated loans                      |              | 23 840 120   | 24 410 071   |
| Interest income                                                          |              | (12 174 406) | (12 540 644) |
| Profit on disposal of property, plant and equipment                      | 32.3         | (816 970)    | (3 290 153)  |
|                                                                          |              | 253 025 291  | 321 455 899  |
| <b>Changes in working capital:</b>                                       |              | 66 076 778   | (31 643 535) |
| Increase/(decrease) in trade and other receivables                       |              | 47 938 788   | (42 633 620) |
| Decrease in inventories                                                  |              | 10 830 753   | 14 527       |
| (Decrease)/increase in provisions for other employee benefits            |              | (13 240 301) | 17 053 638   |
| Increase in deferred revenue                                             |              | 17 465 163   | 8 261 085    |
| increase /(decrease) in trade and other payables                         |              | 3 082 375    | (14 339 165) |
| Net cash outflows from operating activities                              |              | 319 102 069  | 289 812 364  |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 32 NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

|                                                                                           | 2012<br>E          | 2011<br>E   |
|-------------------------------------------------------------------------------------------|--------------------|-------------|
| <b>32.2 Additions to property, plant and equipment</b>                                    |                    |             |
| Total additions – per note 12                                                             | 235 393 840        | 228 080 497 |
|                                                                                           | <b>235 393 840</b> | 228 080 497 |
| <b>32.3 Proceeds from disposal of property, plant and equipment</b>                       |                    |             |
| In the cash flow statement, proceeds from sale of property, plant and equipment comprise: |                    |             |
| Net carrying amount (note 12)                                                             | -                  | 2 458       |
| Profit on disposal of property, plant and equipment                                       | 816 970            | 3 290 153   |
| Proceeds on disposal                                                                      | <b>816 970</b>     | 3 292 611   |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 33A Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category as defined in IAS 39 and by statement of financial position heading.

|                                          | Loans and<br>receivables<br>E | Financial<br>assets and<br>liabilities at<br>amortised<br>cost<br>E | Financial<br>assets and<br>liabilities at fair<br>value through<br>profit loss<br>E | Available<br>For sale<br>investment<br>E | Total<br>E  |
|------------------------------------------|-------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------------------------------|------------------------------------------|-------------|
| <b>As at 31 March 2012</b>               |                               |                                                                     |                                                                                     |                                          |             |
| <b>Financial assets</b>                  |                               |                                                                     |                                                                                     |                                          |             |
| Cash and cash equivalents                | 83 387 054                    | -                                                                   | -                                                                                   | -                                        | 83 387 054  |
| Derivative financial instruments – swaps | -                             | -                                                                   | 34 095 381                                                                          | -                                        | 34 095 381  |
| Trade and other receivables              | 158 223 771                   | -                                                                   | -                                                                                   | -                                        | 158 223 771 |
|                                          | 241 610 825                   | -                                                                   | 34 095 381                                                                          | -                                        | 275 706 206 |
| <b>Financial liabilities</b>             |                               |                                                                     |                                                                                     |                                          |             |
| Borrowings                               | -                             | 308 867 524                                                         | -                                                                                   | -                                        | 308 867 524 |
| Embedded derivative liability            | -                             | -                                                                   | 85 958 367                                                                          | -                                        | 85 958 367  |
| Derivative financial instruments – swaps | -                             | -                                                                   | 5 669 792                                                                           | -                                        | 5 669 792   |
| Trade and other payables                 | -                             | 144 396 816                                                         | -                                                                                   | -                                        | 144 396 816 |
|                                          | -                             | 453 264 340                                                         | 91 628 159                                                                          | -                                        | 544 892 499 |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 33A Analysis of financial assets and liabilities by measurement basis (continued)

|                                          | Loans and<br>receivables<br>E | Financial<br>assets and<br>liabilities at<br>amortised<br>cost<br>E | Financial<br>assets and<br>liabilities at fair<br>value through<br>profit loss<br>E | Available<br>For sale<br>investment<br>E | Total<br>E         |
|------------------------------------------|-------------------------------|---------------------------------------------------------------------|-------------------------------------------------------------------------------------|------------------------------------------|--------------------|
| <b>As at 31 March 2011</b>               |                               |                                                                     |                                                                                     |                                          |                    |
| <b>Financial assets</b>                  |                               |                                                                     |                                                                                     |                                          |                    |
| Cash and cash equivalents                | 208 494 908                   | -                                                                   | -                                                                                   | -                                        | 208 494 908        |
| Derivative financial instruments – swaps | -                             | -                                                                   | 26 238 488                                                                          | -                                        | 26 238 488         |
| Trade and other receivables              | 197 816 439                   | -                                                                   | -                                                                                   | -                                        | 197 816 439        |
|                                          | <b>406 311 347</b>            | <b>-</b>                                                            | <b>26 238 488</b>                                                                   | <b>-</b>                                 | <b>432 549 835</b> |
| <b>Financial liabilities</b>             |                               |                                                                     |                                                                                     |                                          |                    |
| Borrowings                               | -                             | 320 363 163                                                         | -                                                                                   | -                                        | 320 363 163        |
| Embedded derivative liability            | -                             | -                                                                   | 18 359 769                                                                          | -                                        | 18 359 769         |
| Derivative financial instruments – swaps | -                             | -                                                                   | 4 549 080                                                                           | -                                        | 4 549 080          |
| Trade and other payables                 | -                             | 126 931 596                                                         | -                                                                                   | -                                        | 126 931 596        |
|                                          | <b>-</b>                      | <b>447 294 759</b>                                                  | <b>22 908 849</b>                                                                   | <b>-</b>                                 | <b>470 203 608</b> |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 33B Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to internal credit risk ratings. The entity's financial assets, grouped according to internal credit risk ratings, are as follows:

|                                                             | Trade and<br>other<br>receivables<br>E | Other<br>assets<br>E | Cash and<br>cash<br>equivalents<br>E | Derivatives<br>designated<br>as fair value<br>hedging<br>instruments<br>E | Total<br>E         |
|-------------------------------------------------------------|----------------------------------------|----------------------|--------------------------------------|---------------------------------------------------------------------------|--------------------|
| <b>As at 31 March 2012</b>                                  |                                        |                      |                                      |                                                                           |                    |
| <b>Counterparties without<br/>external credit ratings:-</b> |                                        |                      |                                      |                                                                           |                    |
| - Low Risk                                                  | 55 635 271                             | 43 801 221           | 83 387 054                           | 34 095 381                                                                | 216 918 927        |
| - General Credit risk                                       | 68 370 793                             | -                    | -                                    | -                                                                         | 68 370 793         |
| - High risk                                                 | 37 794 382                             | -                    | -                                    | -                                                                         | 37 794 382         |
|                                                             | <b>161 800 446</b>                     | <b>43 801 221</b>    | <b>83 387 054</b>                    | <b>34 095 381</b>                                                         | <b>323 084 102</b> |
| <b>As at 31 March 2011</b>                                  |                                        |                      |                                      |                                                                           |                    |
| <b>Counterparties without<br/>external credit ratings:-</b> |                                        |                      |                                      |                                                                           |                    |
| - Low Risk                                                  | 74 162 863                             | 45 682 979           | 208 494 908                          | 26 238 488                                                                | 354 579 238        |
| - General Credit risk                                       | 37 082 784                             | -                    | -                                    | -                                                                         | 37 082 784         |
| - High risk                                                 | 20 288 957                             | -                    | -                                    | -                                                                         | 20 288 957         |
|                                                             | <b>131 534 604</b>                     | <b>45 682 979</b>    | <b>208 494 908</b>                   | <b>26 238 488</b>                                                         | <b>411 950 979</b> |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 33B Credit quality of financial assets (continued)

The credit risk rating of financial assets is based on the following:

- Low risk** - This category is utilised for fully performing accounts that are classified as current and a month due. All accounts for the Government of Swaziland are included in this category.
- General risk** - This category is for all customer accounts that are 60-91 days, where a moderate risk taken, exclusive of Government of Swaziland accounts.
- High risk** - This category is for all high risk customers and comprises all customers that are over 91 days due exclusive of Government of Swaziland accounts.

The table below shows the credit risk for the financial instruments. These table shows the short and long term rating of the counter parties:

| Country                          | Correspondence Bank                  | Currency  | Short Term Rating | Long Term Rating |
|----------------------------------|--------------------------------------|-----------|-------------------|------------------|
| <b>Cash and Cash Equivalents</b> |                                      |           |                   |                  |
| Kingdom of Swaziland             | Standard Bank of Swaziland           | Lilangeni | F2                | BBB              |
| Kingdom of Swaziland             | Nedbank                              | Lilangeni | F2                | BBB-             |
| Kingdom of Swaziland             | First National Bank                  | Lilangeni | F2                | BBB-             |
| Kingdom of Swaziland             | Stanlib                              | Lilangeni | Not rated         | Not rated        |
| Kingdom of Swaziland             | African Alliance                     | Lilangeni | Not rated         | Not rated        |
| <b>Borrowings</b>                |                                      |           |                   |                  |
| Kingdom of Swaziland             | Public Service Pension Fund          | Lilangeni | Not rated         | Not rated        |
| Federal Republic of Germany      | European Investment Bank             | Euro      | F+1               | AAA              |
| The Republic of South Africa     | Development Bank of Southern Africa  | Rands     | F2                | A-               |
| Federal Republic of Germany      | Kreditanstalt Fur Wiederraufbau      | Euro      | F+1               | AAA              |
| <b>Derivatives</b>               |                                      |           |                   |                  |
| Kingdom of Swaziland             | Investec and capital markets         | Lilangeni | Not rated         | Not rated        |
| Kingdom of Swaziland             | Standard Corporate and Merchant Bank | Lilangeni | F2                | BBB              |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 34 COMMITMENTS

|                                                                                                          | 2012<br>E          | 2011<br>E   |
|----------------------------------------------------------------------------------------------------------|--------------------|-------------|
| <b>34.1 Capital Commitments</b>                                                                          |                    |             |
| Capital expenditure approved at statement of financial position date but not yet incurred is as follows: |                    |             |
| Approved capital expenditure (Note 34.1.1)                                                               | <b>203 078 313</b> | 192 205 350 |

This expenditure will be financed from debt and internally generated funds and is expected to be incurred and due for completion within the next three years.

**Details of capital commitments are as follows:-**

#### 34.1.1 Network upgrades

The Company has an approved capital expenditure budget of E 203 million (2011: E 192 million) to cater for routine additions to the network during the 2011/2012 financial year. E91.9 million of the capital expenditure have been contracted for at year end and all this capital expenditure will be financed from current resources and external borrowings.

#### 34.2 Right of use for electricity wheeling on 400kV line

For the next 7 years, the Company has committed to a fixed monthly charge of US \$ 105 034 (2011: US\$ 89 755) for right of use of the 400kV line. These monthly charges are being funded from internal resources. The right of use for electricity escalates annually by US inflation.

#### 33.3 Motraco wheeling agreement

In terms of an electricity wheeling agreement between Motraco and Swaziland Electricity Company, the Company pledged shares to the value of US\$ 2 million to Motraco as security that the electricity wheeling service at Edwaleni II will not discontinue. On the fourth anniversary date of Swaziland Electricity Company taking supply at Edwaleni II and every year thereafter, the amount of such secured shares shall be reduced by US\$ 200 000.

#### 34.4 Power Purchase Agreement

In terms of the power purchase agreement with Ubombo Sugar Limited, the company paid E 150 million for an exclusive right to purchase all excess power guaranteed by USL up to 2026 at a base price agreed to from 2011. This commitment will be funded from internally generated resources.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 34 COMMITMENTS (CONTINUED)

#### 34.4 Supply of energy

Swaziland Electricity Company entered into long-term agreements with, ESKOM, a supplier for electricity purchases.

In January 2011 the company signed a Power Purchase Agreement with USL until 2026. The agreement was an exclusive right to the company to purchase excess electricity from USL. The company is obliged to take excess electricity from USL.

### 35 GUARANTEES AND CONTINGENCIES

#### 35.1 Litigations

Legal cases pending with potential liability for claims were in process against the Company at year end. The Company is disputing these claims and has indicated that it intends to defend any legal action which may be instituted. On the basis of the evidence available it appears that no obligation is present and the claims are therefore disclosed as a contingent liability.

| 2012<br>E   | 2011<br>E   |
|-------------|-------------|
| 1.3 million | 4.8 million |

### 36 RELATED PARTY TRANSACTIONS

The Company is wholly owned and controlled by the Swaziland Government, which own 100% of its shares.

The related party disclosure is required in terms of IAS 24, Related Parties Disclosures.

The related parties of Swaziland Electricity Company Limited consist mainly of government departments, state-owned enterprises, subsidiaries of Swaziland Electricity Company Limited, as well as key management personnel and members of board of directors of Swaziland Electricity Company Limited or its shareholder and close family members of these related parties.

In addition, related parties comprise a joint venture company, Motraco, and post-retirement benefit plans for the benefit of employees.

The following transactions were carried out with related parties:-

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 36 RELATED PARTY TRANSACTIONS (CONTINUED)

|                                                                                                       | 2012<br>E  | 2011<br>E  |
|-------------------------------------------------------------------------------------------------------|------------|------------|
| <b>36.1 Government grant funding for electrification</b>                                              |            |            |
| Cumulative contributions received for Rural Electrification Projects (Note 14.1)                      | 18 453 425 | 18 453 425 |
| <b>36.2 Purchases of goods and services</b>                                                           |            |            |
| Joint venture, Motraco, wheeling charges (Note 4)                                                     | 16 909 391 | 16 071 918 |
| Employee pension fund costs (Note 28)                                                                 | 6 792 436  | 7 033 786  |
|                                                                                                       | 23 701 827 | 23 105 704 |
| Goods and services are bought from related parties on an arm's length basis at market-related prices. |            |            |
| <b>36.3 Interest expenses</b>                                                                         |            |            |
| Shareholder, Government of Swaziland                                                                  | 23 467     | 101 110    |
| <b>36.4 Year-end balances arising from transactions</b>                                               |            |            |
| <b>(i) Receivables from related parties</b>                                                           |            |            |
| Government Departments                                                                                | 62 495 963 | 40 269 742 |
| The Government departments include government ministries and parastatals.                             |            |            |
| Joint venture, Motraco                                                                                |            |            |
| - Costs incurred on behalf of Motraco                                                                 | -          | 1 075 830  |

Interest receivable on financial market instruments is in accordance with normal market practice.

#### **(ii) Provision for doubtful debts for related parties**

There is no provision for doubtful debt, nor bad debts written off during the year that relates to related parties.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 36 RELATED PARTY TRANSACTIONS (CONTINUED)

|                                                                                                                                                                                                                                                                                                                                                                                                  | 2012<br>E          | 2011<br>E  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------|
| <b>(iii) Payables to related parties:</b>                                                                                                                                                                                                                                                                                                                                                        |                    |            |
| Shareholder, including Government Departments<br>-PEU Management Fess                                                                                                                                                                                                                                                                                                                            | <b>1 533 917</b>   | 1 079 900  |
| - Long term loans                                                                                                                                                                                                                                                                                                                                                                                | -                  | 704 000    |
| - Shareholders loan                                                                                                                                                                                                                                                                                                                                                                              | <b>11 2410 181</b> | 11 240 181 |
| Joint venture, Motraco<br>- Electricity wheeling charges                                                                                                                                                                                                                                                                                                                                         | <b>5 758 807</b>   | 1 263 642  |
| Employee Pension Fund (contributions)                                                                                                                                                                                                                                                                                                                                                            | <b>7 985 329</b>   | 8 757 949  |
| <p>The provision of funds to the Swaziland Electricity Company Limited by the Government of Swaziland is based on long term agreement that enable the Company to obtain financing below the normal market interest rate (prime lending rate). The Swaziland Government offer financing with interest rate ranging between 2% and 8%, which is below the prime lending rate of 9% (2011:10%).</p> |                    |            |
| <b>36.5 Transactions with key management personnel</b>                                                                                                                                                                                                                                                                                                                                           |                    |            |
| <p>Key management are those charged with planning, directing and controlling the activities of the company, directly or indirectly. Transactions with key management personnel include salaries, bonuses, gratuities and director's fees. Compensation paid to key management is shown below:</p>                                                                                                |                    |            |
| <b>Board and related fees</b>                                                                                                                                                                                                                                                                                                                                                                    | <b>539 635</b>     | 383 075    |
| <b>Executive Management:</b>                                                                                                                                                                                                                                                                                                                                                                     |                    |            |
| Short term employee benefits                                                                                                                                                                                                                                                                                                                                                                     | <b>5 710 330</b>   | 5 926 669  |
| Gratuity-net (Provision)                                                                                                                                                                                                                                                                                                                                                                         | <b>331 630</b>     | 1 223 745  |
|                                                                                                                                                                                                                                                                                                                                                                                                  | <b>6 581 595</b>   | 7 533 489  |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 37 PRIOR YEAR ADJUSTMENTS

#### 37.1 Adjustment of PSPF loan to appropriate measurement basis and the recognition of the related embedded derivative

To account for the PSPF loan (details of which are described in note 24.3.2(h)) in its financial Statements, the Company adopted the following accounting treatment since 18 September 2009:

The funding obtained by the SEC was being accounted for as a loan liability carried at amortised cost. Interest is accrued on the loan at the rate at which the interest is payable, being at prime less 2.8% should this fall within the range of 8% to 12%. Where the floating interest rate is outside of the collar, interest is accrued at a rate of 8% or 12% as is applicable. The Company has not identified any embedded derivatives arising in respect of the PSPF agreement.

The above accounting treatment was not in terms of International Financial Reporting Standards. In terms of International Accounting Standard 39 - "Financial Instruments:

Recognition and Measurement" (IAS 39), the correct accounting treatment would have been:

- On initial recognition the loan is recognised at fair value and subsequently measured at amortised cost using the effective interest rate. The accrued interest would be charged to the income statement on an annual basis and credited to the loan.
- To separate the embedded derivative related to the PSPF loan. The PSPF Loan is composed of two sets of cashflows being the principal loan of E150 000 000 and the change in the interest prime rate which has an impact on the interest rate collar. It is the second component above that results in an embedded derivative in terms of IAS 39.

During the current year, the Company recognised adjustments to implement the above accounting treatment which is in terms of International Financial Reporting Standards. The Company has recognised these adjustments retrospectively. The effects of the adjustments are tabulated below:

|                                                             | 2012<br>E   | 2011<br>E |
|-------------------------------------------------------------|-------------|-----------|
| Effects on years presented (2012 and 2011);                 |             |           |
| <b>Statement of financial position</b>                      |             |           |
| Increase in embedded derivative (liability)/asset           | (3 590 510) | 146 951   |
| Decrease in deferred income tax liabilities                 | -           | -         |
| <b>Statement of comprehensive income</b>                    |             |           |
| Recognition of fair value adjustment on embedded Derivative | (3 443 559) | 483 007   |
| Decrease in income tax expense or increase                  | -           | -         |
| (Increase)/decrease in profit for the year                  | (3 443 559) | 483 007   |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 37 PRIOR YEAR ADJUSTMENTS (CONTINUED)

#### 37.1 Adjustment of PSPF loan to appropriate measurement basis and the recognition of the related embedded derivative (continued)

2010  
E

Effects on years prior to 2011:

##### Statement of financial position

|                                             |                |
|---------------------------------------------|----------------|
| Increase in embedded derivative asset       | 629 958        |
| Decrease in deferred income tax liabilities | -              |
| Increase in retained earnings               | <u>629 958</u> |

#### 37.2 Adjustment of 400kV integration project loan to appropriate measurement basis and the recognition of the related embedded derivative

To account for the EIB loan (details of which are described in note 24.3.2(d)) in its financial Statements, the Company adopted the following accounting treatment since 1 July 2001:

The funding obtained by the SEC is currently being accounted for as a loan liability carried at amortised cost. Interest is accrued on the loan at the specified rate of 5.64%. The Company has not identified any embedded derivatives arising in respect of the EIB Loan Agreement.

The above accounting treatment was not in terms of International Financial Reporting Standards. In terms of International Accounting Standard 39 - "Financial Instruments: Recognition and Measurement" (IAS 39), the correct accounting treatment would have been:

On initial recognition the loan is recognised at fair value and subsequently measured at amortised cost using the effective interest rate. The accrued interest would be charged to the income statement on an annual basis and credited to the loan.

The EIB Loan is composed of two sets of cashflows being the principal loan of €5 million and the change in the EIB prevailing standard interest rate which has in an impact on the greater of 3% or EIB standard interest rate less subsidy of 3.06% payable on the loan. It is the second component above that result in an embedded derivative in terms of IAS 39

During the current year, the Company recognised adjustments to implement the above accounting treatment which is in terms of International Financial Reporting Standards. The Company has recognised these adjustments retrospectively. The effects of the adjustments are tabulated below:

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 37 PRIOR YEAR ADJUSTMENTS (CONTINUED)

#### 37.2 Adjustment of 400kV integration project loan to appropriate measurement basis and the recognition of the related embedded derivative (continued)

|                                                             | 2012<br>E | 2011<br>E |
|-------------------------------------------------------------|-----------|-----------|
| Effects on years presented (2012 and 2011);                 |           |           |
| <b>Statement of financial position</b>                      |           |           |
| Increase in embedded derivative liability                   | 1 089 337 | 1 229 577 |
| Decrease in deferred income tax liabilities                 | -         | -         |
| <b>Statement of comprehensive income</b>                    |           |           |
| Recognition of fair value adjustment on embedded Derivative | (140 240) | (286 322) |
| Decrease in income tax expense or increase                  | -         | -         |
| Decrease in profit for the year                             | (140 240) | (286 322) |
| Effects on years prior to 2011:                             |           |           |
| <b>Statement of financial position</b>                      |           |           |
| Increase in embedded derivative liability                   |           | 1 515 899 |
| Decrease in deferred income tax liabilities                 |           | -         |
| Decrease in retained earnings                               |           | 1 515 899 |

#### 37.3 Adjustment of Electricity wheeling charges to appropriate measurement basis and the recognition of the related embedded derivative

To account for the electricity wheeling charges in its financial statements, the Company adopted the following accounting treatment since 1 September 1999:

The wheeling charges payable by the SEC are recorded on a monthly basis as they are incurred. Since the charges are denominated in USD, the charges are translated to SZL at the monthly closing exchange rate. The Company has not identified any embedded derivatives arising in respect of the Electricity Wheeling Agreement.

The above accounting treatment was not in terms of International Financial Reporting Standards. In terms of International Accounting Standard 39 - "Financial Instruments: Recognition and Measurement" (IAS 39), the correct accounting treatment would have been:

On initial recognition the electricity wheeling charges are recognised at fair value and subsequently measured at amortised cost. The USD denominated charges are translated to SZL at the monthly closing rate.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 37 PRIOR YEAR ADJUSTMENTS (CONTINUED)

#### 37.3 Adjustment of Electricity wheeling charges to appropriate measurement basis and the recognition of the related embedded derivative (continued)

To separate the embedded derivative related to the electricity wheeling charges. The wheeling charges are composed of two sets of cashflows being the payments for the monthly electricity charges and the changes in the US PPI inflation. It is the second component above that result in an embedded derivative in terms of IAS 39.

During the current year, the Company recognised adjustments to implement the above accounting treatment which is in terms of International Financial Reporting Standards. The Company has recognised these adjustments retrospectively. The effects of the adjustments are tabulated below:

|                                                             | 2012<br>E   | 2011<br>E  |
|-------------------------------------------------------------|-------------|------------|
| Effects on years presented (2012 and 2011);                 |             |            |
| <b>Statement of financial position</b>                      |             |            |
| Increase in embedded derivative (liability)/ asset          | (2 520 344) | 5 840 907  |
| Decrease in deferred income tax assets                      | -           | -          |
| <b>Statement of comprehensive income</b>                    |             |            |
| Recognition of fair value adjustment on embedded Derivative | (3 320 563) | 8 784 196  |
| Decrease in income tax expense                              | -           | -          |
| (Decrease)/increase in profit for the year                  | (3 320 563) | 8 784 196  |
| Effects on years prior to 2011:                             |             | 2010<br>E  |
| <b>Statement of financial position</b>                      |             |            |
| Increase in embedded derivative asset                       |             | 14 625 103 |
| Decrease in deferred income tax assets                      |             | -          |
| Increase in retained earnings                               |             | 14 625 103 |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 37 PRIOR YEAR ADJUSTMENTS (CONTINUED)

#### 37.4 Adjustment of Electricity charges to appropriate measurement basis and the recognition of the related embedded derivative

To account for the electricity wheeling charges in its financial statements, the Company adopted the following accounting treatment since 1 January 2010:

The electricity charges are currently recorded as and when they are incurred at the invoice price in ZAR. The Company has not identified any embedded derivatives arising in respect of the Power Supply Agreement.

The above accounting treatment was not in terms of International Financial Reporting Standards. In terms of International Accounting Standard 39 - "Financial Instruments: Recognition and Measurement" (IAS 39), the correct accounting treatment would have been:

On initial recognition the electricity charges are recognised at fair value and subsequently measured at amortised cost. The USD denominated charges are translated to SZL at the monthly closing rate.

To separate the embedded derivative related to the electricity charges. The electricity charges is composed of two sets of cashflows being the payments for the monthly electricity charges and the changes in the exchange rate between the US Dollar and ZAR. It is the second component above that result in an embedded derivative in terms of IAS 39.

During the current year, the Company recognised adjustments to implement the above accounting treatment which is in terms of International Financial Reporting Standards. The Company has recognised these adjustments retrospectively. The effects of the adjustments are tabulated below:

|                                                                | 2012<br>E | 2011<br>E   |
|----------------------------------------------------------------|-----------|-------------|
| Effects on years presented (2012 and 2011);                    |           |             |
| <b>Statement of financial position</b>                         |           |             |
| Increase in embedded derivative asset/(liability)              | 8 868 095 | (1 368 485) |
| Decrease in deferred income tax assets                         | -         | -           |
| <b>Statement of comprehensive income</b>                       |           |             |
| Recognition of fair value adjustment on embedded<br>Derivative | 7 499 610 | (2 925 852) |
| Decrease in income tax expense                                 | -         | -           |
| Increase/(decrease) in profit for the year                     | 7 499 610 | (2 925 852) |

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2012

### 37 PRIOR YEAR ADJUSTMENTS (CONTINUED)

#### 37.3 Adjustment of Electricity charges to appropriate measurement basis and the recognition of the related embedded derivative (continued)

2010  
E

Effects on years prior to 2011:

##### Statement of financial position

|                                        |           |
|----------------------------------------|-----------|
| Increase in embedded derivative asset  | 4 294 337 |
| Decrease in deferred income tax assets | -         |
|                                        | <hr/>     |
| Increase in retained earnings          | 4 294 337 |
|                                        | <hr/>     |

### 38 CHANGE IN ACCOUNTING TREATMENT

In the year, the company changed its accounting treatment for contracts containing embedded derivatives to comply with the requirements of IAS 39. The change in accounting treatment is explained in detail in Note 37 above. The change will provide reliable and more relevant financial information and also comply with the requirements of International Financial Reporting Standards.

Therefore, the change has been made retrospectively and comparatives have been restated accordingly

2011

##### Statement of comprehensive income

E

|                                                      |              |
|------------------------------------------------------|--------------|
| Net profit before the change in accounting treatment | 202 646 289  |
| Fair value adjustments for embedded derivatives      | (14 643 703) |
|                                                      | <hr/>        |
| Net profit after change in accounting treatment      | 188 002 586  |
|                                                      | <hr/>        |

##### Statement of financial position

|                                                                                                                                          |              |
|------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Net embedded derivative liability before change as at 1 April 2010                                                                       | (18 359 769) |
| Fair value adjustments for embedded derivatives recognized in statement of financial position in the year ended 31 March 2011 (restated) | (14 643 703) |
| Total cumulative effects from prior years (31 March 2010)                                                                                | 18 033 499   |
|                                                                                                                                          | <hr/>        |
| Net embedded Derivative liability after the change as at 31 March 2011                                                                   | (14 969 973) |
|                                                                                                                                          | <hr/>        |

##### Statement of changes in equity

The effect on equity has been detailed on the statement of changes in equity.

### 39 EVENTS AFTER THE REPORTING PERIOD

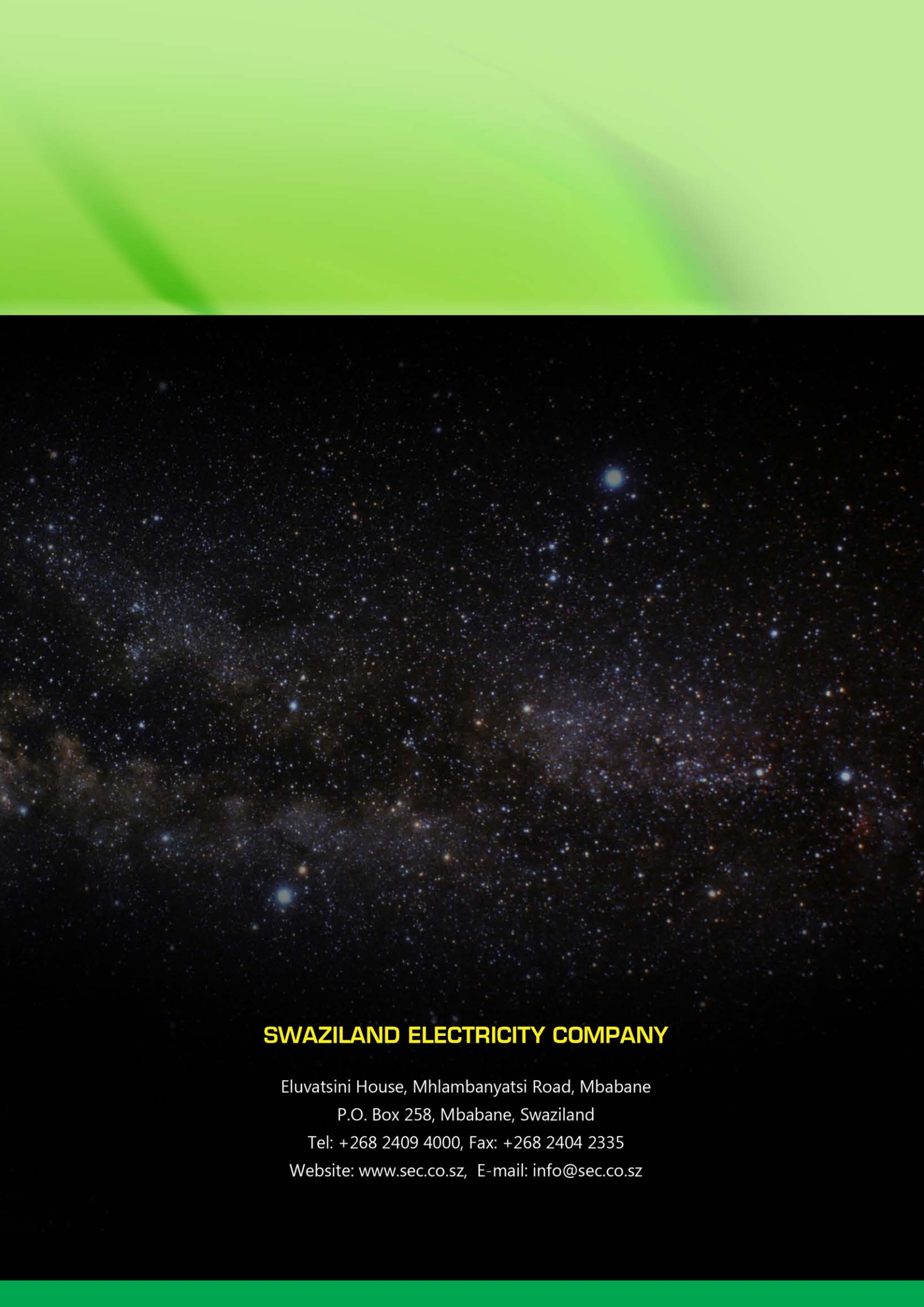
There are no events which have occurred between the balance sheet date and the date of this report which have a material impact on these financial statements.

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Edited by:



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## **SWAZILAND ELECTRICITY COMPANY**

Eluvatsini House, Mhlambanyatsi Road, Mbabane

P.O. Box 258, Mbabane, Swaziland

Tel: +268 2409 4000, Fax: +268 2404 2335

Website: [www.sec.co.sz](http://www.sec.co.sz), E-mail: [info@sec.co.sz](mailto:info@sec.co.sz)