ANNUAL REPORT 2014


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TABLE OF CONTENTS

Vision Mission Statement	5
Corporate Profile	6
Board of Directors	7
Executive Management	7
Chairman's Report	8
Chief Executive's Report	11
Corporate Social Responsibility	14
Description of Business Units	19
Financial Business Administration Unit	21
Supply Business Unit	23
The Network Engineering Services Business Unit	28
The Network Operation and Maintenance Business Unit	30
Human Capital Division	31
Business Strategy and Performance Management System	33
Director's Responsibilities and Approval	35
Auditor's Report	37
Director's Report	39
Financial Statements	48

VISION

Electricity for all by 2020.

MISSION

The distribution and supply of electricity within the Erongo Region.

VALUES

- Integrity
- Accountability
- Commitment
- Customer Focus
- Empowerment
- Teamwork

CORPORATE PROFILE

Envisaged as a dynamic and efficient commercialised electricity distributor for the Erongo Region, the Erongo Regional Electricity Distributor Company (Pty) Ltd, commonly known as Erongo RED, started trading on 1 July 2005 within the context of the Namibian Government's National Development Plan.

Erongo RED was formed by merging the service of electricity distribution from various municipalities and town councils in Erongo region namely the Municipality of Walvis Bay, Swakopmund, Henties Bay and Omaruru; the Town Council of Karibib, Usakos and Arandis; Erongo Regional Council; and NamPower. All these individual institutions are shareholders of Erongo RED. The initiative to create RED's was part of the Electricity Supply Industry (ESI) and Electricity Distribution Industry (EDI) restructuring Policy to distribute and supply electricity through economies of scale, pooling of human and operational capital resources to ultimately stabilize electricity prices and ensure reasonable, affordable and cost reflective tariffs to electricity consumers.

The company purchases electricity from NamPower for both urban and rural customers. The electricity is transmitted and distributed to different customers ranging from large industrial customers, businesses to the residential customers. Erongo RED uses about 15% of the total electricity requirement of Namibia. Electricity industry in Namibia is regulated by Electricity Control Board of Namibia, thus Erongo RED operates under the set regulations.

The core business of the Erongo RED is to distribute and supply electricity within the mighty region of Erongo. Erongo RED received a distribution and supply licence which is valid until 2030. The company also received a generation licence in 2006 for embedded power generation for a 220 kW wind generator near Walvis Bay, the first known network-connected wind generator in Namibia.

BOARD OF DIRECTORS


Mr. I .Tjombonde (Chairperson)
Representing NamPower


Mr.T.N. Nambala
(Vice Chairperson)
Representing Walvis Bay
Municipality


Mr. R. Junias
Representing Walvis Bay
Municipality


Mr. L. //Garoeb
Representing Swakopmund
Municipality


Mr. E. Wetha
Representing Erongo
Regional Council


Mr. M. Skini
Representing Henties Bay
Municipality


Mr. F. Hartzenberg
Representing Swakopmund
Municipality


Ms. R. Kaura
Representing Omaruru
Municipality


Mr. R Kahimise (CEO)
Ex-officio

ERONGO RED EXECUTIVE MANAGEMENT


Mr. R Kahimise (CEO)
Chief Executive Officer


Mr. F. Vries
Executive Manager:
Finance and Administration


Mr. C. Tjizo
Executive Manager: Network
Operations and Maintenance


Mr. N. Niemand
Executive Manager:
Supply Business


Mr. V. Bissett
Acting Executive Manager:
Network Engineering


Mr. B. Nangolo
Senior Manager: Business
Strategy & Performance
Management System


Mr. F. Newaya
Acting Senior Manager: Human
Capital and Corporate Services

"We are working to make this not just a successful business, but an essential organization that is a catalyst for the regional and national economic development."

Isac Tjombonde | Chairman

CHAIRMAN'S REPORT

One of the primary roles of Erongo RED's Board is to oversee the development of a dynamic and forward looking strategy and to ensure the execution thereof, while maintaining the highest standards of corporate governance. The year under review marked an important milestone for Erongo RED as the company went through the process of realignment in order to position the company strategically and to respond and adapt to the needs of our shareholders and customers alike.

Notwithstanding inherent industry related challenges, we have met most of our expectations and in some cases exceeded them. The company's revenue increased by 14 percent in the current financial year ended 30 June 2014, from N$673,059,893 in 2013 to N$767,906,078 in the year under review. The company recorded a net profit after tax for the year ended June 30, 2014 of N$55,680,273. This represented an increase of 26% from the net profit after tax of the prior year of N$ 44,168,555. This increase is driven by the growth in revenues of 14% and operating expenditures remaining flat compared to the previous year.

Company cash flows from operating activities decreased by 75% from N$ 84,175,490 in the prior year to N$ 21,260,587 for the year ended June 30, 2014 attributable to the reclassification of un-cashed cheques to trade and other payables in the previous year and inventories to property plant and equipment.

While it is important to reinvest in ERONGO RED's future strategic operations, the company was able to declare N$ 8 million as dividends to shareholders during the period under review.

The company is extremely proud of the excellent performance achieved in most areas of the business in the period under review. However, we must also address those parts of our business that need improvement, with two specific challenges receiving our attention. The first challenge involves keeping abreast with the advancing technology. We have noticed an interesting development, whereby customers are migrating from making walk-in payments, to preferring electronic payment options, as well as a shift from traditional paper-based snail-mail accounts to electronic bills.

We have embraced digital technology by expanding our prepayment vending footprint through cellphone vending, and have upgraded the company website to a more interactive website and customer focus, allowing customers to view their profiles and to engage the company on improving service delivery. Our SCADA system implemented in 2010 for Walvis Bay is also operating efficiently hence the need to extend this service to other areas in Erongo Region. This digital technology assists the company in making its grid more resilient when responding to power outages in our area of operations.

The second biggest challenge being addressed is to systematically provide electricity to our citizens in the more remote regions of Namibia where there is presently no access to electricity. Hence, the challenges facing Erongo RED and the society it serves

Isac Tjombonde | Chairman

are highly linked as the organization is continuously expected to improve electricity access to our consumer value proposition at the lowest cost, while the production cost of the commodity is increasing due to demand outstripping supply. In order for Erongo RED to appropriately respond to the needs of its customers, data analytics is used in profiling customers with the aim of devising lasting solutions of bringing the unconnected to the grid.

We are cognisant of the importance of electricity not only for household usage but for industrial usage as well. As we have learned throughout our history, the key to success is getting the big things right, innovating and investing accordingly, and challenging ourselves to come up with smart solutions. For three consecutive years, Erongo RED has been able to pass tariff increases between 2% and 3% lower than the national utility (NamPower) tariff increases in order to reduce the impact of high electricity cost on our customers.

As part of our vision to bring electricity to all by the year 2020, Erongo RED has during the period under review focused on providing electricity to people who were never connected to the grid. Over N$ 3 million was spent on electrification projects in Uis, Karibib, Omaruru and Usakos. Between June 2013 and June 2014, more than 300 houses were connected in these towns. Settlements such as Otjimbingwe and Okombahe have also been earmarked for electrification in the next financial year.
The progress we are making on these strategic imperatives is highly encouraging. We are confident in our vision, our mission and our corporate values and we will continue to push ourselves to the limit in order to meet the expectations from our shareholders as well as our customers.

Every generation of Erongo RED has the opportunity and, I believe, the responsibility to invent a new Erongo RED. This is our time.

We are working to make this not just a successful business, but an essential organization that is a catalyst for the regional and national economic development.

I am deeply proud of the entire ERONGO RED family which includes our shareholders for their unwavering support. Together we share in the excitement about the company's bright future and the shared opportunity we have to build our company, our brand, our Erongo RED.


ERONGO
red

"More customers than ever tell us that they are satisfied with our service; the number of complaints has also decreased significantly as most of the customer queries are now solved at the Call Centre."

Robert Kahimise | CEO

CHIEF EXECUTIVE OFFICER'S REPORT 2013/2014

It has truly been an honour to lead Erongo RED since becoming the Chief Executive Officer in July 2013, and I want to thank the Board of Directors for making my transition to CEO smooth and seamless. The fiscal year under review was a year of strong growth and continued momentum for Erongo RED. We focused on the implementation and execution of our strategies, and our results demonstrate that we performed extremely well. We achieved strong top and bottom-line growth, meeting or exceeding in some cases significantly all targets of our original fiscal 2013/2014 annual financial outlook.

While we are very proud of our financial outlook of the company, we will continue to improve and harness our skills and experience to leapfrog the growth of the company, which will be particularly important given the challenges faced by the electricity supply industry. We are committed to improve service delivery. Our top priority remains our clients and ensuring that they receive the highest service from any of our employees. In the period under review, we continued to attract new clients and expand relationships with existing clients through the new consumer connection and "power to the people" project.

The year 2014 was a year of internal transition and we are pleased that this was achieved smoothly and without any impact on the business, another indication of the underlying strength and robustness of our organization. The executive management team was re-aligned with some of our executives moving to other business units while others kept their positions. We were also very pleased to say that all job titles of our executives have been changed from General Managers to Executive Managers. This was mainly to align ourselves with the industry.

As in previous years, we did not let the growing demand for electricity distract us from fulfilling our mandate and preparing our company for the future. We stayed focused on our mandate to distribute and supply electricity. In the year under review, we have introduced new ways of communicating with our customers by investing in a Call Centre and SMS platform. In our quest to enhance our customer experience, we have started with the pilot Call Centre. During the period under review, the pilot Call Centre logged 18 360 calls and astounding 93% of these calls where resolved immediately.

We have received good feedback and commendations from our customers who were assisted through the Call Centre. Furthermore, the number of complaints have also declined significantly as most of the customer's queries are now resolved at the Call Centre. Our focus is on helping clients address electrical related queries, such as accounts, power outages, billing, payments, while serving the full spectrum of their needs.

Investing in our electricity infrastructure is very important for the continuation of the business. In the year under review, we prioritized our investments around specific projects where we see opportunity for greater return and where we can make a difference in the lives of our people.

The upgrading work on the Walvis Bay bulk upgrade is progressing well. To date, Erongo RED has invested over N$60 million in this project. The company continues to contribute to the government efforts in curtailing poverty in the country through subsidised electricity to the pensioners. About 4 447 pensioners and low income earners are currently benefiting

Robert Kahimise | CEO

through subsidised electricity tariffs. In addition as part of our efforts to bring electricity to all by 2020, we have energised 337 houses with electricity in Uis, Omaruru, Karibib and Usakos.

In the period under review, we have strengthened our commitment to running Erongo RED as a high-performance business. We have upgraded our networks to optimize delivery of service across all our customers, and we further streamlined internal operations as part of our ongoing implementation of performance management system.

The company continues to attract skilled and experienced workers. During the period under review, we have also expanded our workforce, growing our headcount to approximately 293 staff members. And we invested considerably in the training and professional development of our people to ensure that all of our employees have the necessary skills to serve our clients at the highest level.

We also remain highly committed to improve the livelihood of the communities in which we operate through our corporate social responsibility efforts. Most notable was our annual soccer school tournament initiative in partnership with Kuisebmund Secondary School in which we attracted approximately over 400 learners from 26 schools across the country. Through this initiative, we aimed to create opportunities for school children to showcase their talents. Additionally, our Corporate Social Responsibility Committee contributed more than N$600 000 by mid-2014 to support our corporate citizenship efforts through sponsorship of various community activities. Other corporate social initiatives included bursary scheme, job attachment training for students from vocational training centres and sponsorship of electricity at various events.

In closing, I want to thank my fellow colleagues at Erongo RED for their hard work, discipline and dedication to our clients and to Erongo RED this past year, without which our success would not have been possible. A special vote of thanks also goes to our Board of Directors and Shareholders for their continued support. Together, we are making Erongo RED a stronger, more successful company and, in doing so, driving forward our vision of "electricity to all by 2020" for a better Erongo region.

CORPORATE SOCIAL RESPONSIBILITY:

Underlying all Erongo RED's policies and practices is our accountability towards the communities in which we operate. We at Erongo RED believe in the involvement and commitment towards the upliftment of our people. Erongo RED's Corporate Social Responsibility predominantly focuses its funding on the communities that are directly involved with the company's operations. Support is rendered in five key areas, namely:

- **Education and Training** – E.g. Bursaries, job attachments and training material.
- **Community Support** – E.g. Orphanages, old age homes and community centres.
- **Environment** – E.g. 'Clean up' campaigns, community assistance during droughts.
- **Events and Functions** – E.g. Sponsorships of temporary electricity connections for events and functions.
- **Sport** - Sponsoring a personality e.g. soccer star, to be Erongo RED's brand ambassador and community involvement through sponsoring community sports tournaments.

During the period under review, Erongo RED sponsored community related activities worth over N$600 000. Below is the list of the activities sponsored during the year under review:

APPLICANT	DESCRIPTION	AMOUNT (N$)
Kuisebmund Community Project	Donation of 20 chairs and 2 tables	N$ 3 830.80
T-shirts for staff members	Golf Day by Walvis Bay Municipality	N$ 280.00
Office of the Governor	Fundraising Dinner/Pledge	N$ 20 000.00
Rugby Academy	Medals & Trophies	N$ 2 038.00
Welwitchia Paralympics	Regional Championships	N$ 3 000.00
Pink Trees	Henties Bay Fish Festival	N$ 1 000.00
Usakos Junior Secondary School	Text books	N$ 3 313.75
Coastal Clean-up	Staff participation	N$ 4 955.31
Erongo Youth Forum	Youth forum in Erongo	N$ 48 436.81
Walvis Bay Municipality	Walvis Bay Business Breakfast	N$ 1 900.00
Kuisebmund Primary School	Prize-giving ceremony	N$ 2 555.00
Okamatapati Secondary School	Snacks for visit to Erongo RED	N$ 1 365.00
Omaruru Oasis Festival	Gala Dinner	N$ 5 000.00
Erongo Rugby Academy	Player of the year	N$ 1 000.00
Namib Youth Choir	Performance at Dinner	N$ 5 000.00
Vrede Rede Primary School	Prize-giving Ceremony	N$ 3 444.64
Caitlyn	Gymnastics Championships	N$ 12525.94
NG Kerk Meersig	Golf Day	N$ 1600.00

Spelquizbee	Annual Schools Competition	N$ 169 900.00
Arandis Town Council	Christmas Party for Pensioners	N$ 15 000.00
Henties Bay Silver Hair Committee	Year-end function for Seniors	N$ 15 000.00
Office of the Governor	World Aids Day celebrations in Uis (Rent a toilet)	N$ 6 532.00
Erongo RED	Handing over of electrified houses in Uis	N$ 52 240.00
AMEU	Sponsorship towards dinner	N$20 000.00
Kuisebmund Secondary School	Soccer Tournament 2014	N$ 78 623.38
Office of the Governor	Teachers Regional Awards	N$ 5 781.55
Ms. Doreen	Financial assistance towards tuition fee	N$ 7 500.00
Erongo Youth Forum	Gender Based Violence (GBV) event - Omaruru	N$ 44 722.00
Office of the Governor	Governor's Soccer Cup	N$ 5 000.00
Corne Engelbrecht	Shotokan Karate Championships	N$ 5 000.00
De Duine Sec School	Projector and Speakers	N$ 5 749.00
Erongo Regional Council	Independence Celebrations	N$ 10 000.00
Ritja Career Fair	Annual Career Fair	N$ 19 600.00
NBC	Damara/Nama Radio Outreach	N$ 5 000.00
Omatjete Primary School	3 Pole Lights	N$ 17 433.11
Erongo Regional Council	Electrical Connections for Okombahe Bakery	N$ 21 257.20
		N$ 625 583.49

Municipality of Swakopmund	Women's Market Day	6 July 2013
Erongo Regional Council	Swakopmund Mini-Expo	12 – 13 September 2013
SAIMSA GAMES	SAIMSA Games in Swakopmund	21 – 28 September 2013
Duneside High School	Annual Sports Day	10 October 2013
NED GEREF Kerk	Temporary Electricity Towards Church Braai	25 – 26 October 2013
Swakopmund Christian School	Entrepreneur's Day	26 October 2013
Walvis Bay Municipality	Walvis Bay Expo	30 Oct – 2 Nov 2013
Duneside High School	Athletics	07 – 08 February 2014
Welwitchia School Sport Zone	Athletics	8 March 2014
Namibia Gymnastic Federation	All Africa Championships	26 April – 2 May 2014
Karibib Town Council	KTTF Fair	29 – 31 May 2014
Ovaherero Traditional Authority	Kuisebmond Stadium	20 – 22 June 2014

Being a Corporate Citizen, Erongo RED has since the establishment of its CSR committee invested in a number of projects. Chief amongst the sponsorships done to date is education. Erongo RED is strongly attentive in making a difference to the Namibian youth by rewarding hard-working and dedicated students with bursaries. Since 2012, Erongo RED sponsored five (5) full bursaries to students from various regions studying in the fields of finance, electrical engineering and law.

In addition, Erongo RED granted 10 apprenticeships to students from various vocational training centres, such as the Namibian Institute of Mining and Technology (NIMT), giving them the opportunity to gain practical skills through job attachment programmes.

Kuisebmond Community Centre

Handing over of Bursaries

NACOMA - Beach Clean Up Campaign

Erongo Red KSS Soccer Tournament 2014

Donation to Namibian Police

DESCRIPTION OF BUSINESS UNITS

The **Office of the CEO** is responsible for the overall administration of Erongo RED and coordinates all the activities of the company. The office also serves as the communication link between the Shareholders, its EXCO and the business units of Erongo RED. The following divisions and sections report directly to the office of the CEO: Human Capital and Corporate Services, Public Relations and Marketing Section, Business Strategy and Performance Management, Company Secretary/Legal Advisor and Internal Auditor.

The **Supply Business Unit** is responsible for service performance, revenue performance, energy management, metering and billing. In addition, the Supply Business Unit is also responsible for providing excellent customer service to all our customers through various customer care centres and call centre.

The **Network Operation and Maintenance Business Unit** is responsible for system availability, a control centre, quality of supply and network maintenance. The Business Unit is also responsible for the Low Voltage (LV) and Medium Voltage (MV) construction and maintenance.

The **Finance and Administration Business Unit** is responsible for the financial administration and reporting systems, stores and procurement, financial risk management and debt management as well as treasury functions.

The **Network Engineering Business Unit** is responsible for system capacity adequacy, design and planning integrity, project management and ICT requirements for the company.

Human Capital and Corporate Service Division is responsible for human resources/ labour matters, all SHE related issues, archiving, security and property maintenance.

“The company’s financial outlook remains positive, but will require continuous strict control to maintain and improve its financial position and stakeholder value”

Mr. Freddie Vries - Executive Manager: Finance and Administration

THE FINANCIAL ADMINISTRATION BUSINESS UNIT

The Financial Administration Business Unit is responsible for the financial administration and reporting systems, stores and procurement, financial risk management, fleet control and asset administration, financing and loan administration as well as working capital management.

During the past year, the Business Unit implemented new strategies to balance the responsibilities of cost control, working capital management and generating acceptable returns on funds employed. Particular attention is being paid to the long-term capital projects’ progress to monitor and plan for expected cash outflows. Successful negotiations of the DBN loan have provided the required impetus to the bulk upgrade projects, including Lithops, Walvis Bay and the Swakop South Water Scheme.

Real growth in terms of units sold of about 4% contributed to the total growth in Revenues of 14% to N$767,9 million (2013: N$673 million) over the 2012/2013 financial year. However, the impact of increasing NamPower tariffs resulted in a further decline in the GP% form 40% in 2012/2013 financial year to 38% in 2013/2014 financial year. The main contributing factors include:

- Subsidisation of certain customers
- Impact of increases in NamPower energy purchases
- 50% subsidisation of Local Authority Surcharges (i.e. excluded from the ORM submitted to the ECB)

Whilst the company is committed to providing access to electricity through subsidisation of certain customer groups and by absorbing the impact of NamPower increases, this places additional downward pressure on our profit margins and could eventually impact the company’s sustainability.

In spite of the reduction in gross profit margins, the company was able to record a growth of 26% in profit to N$ 55,7 million (2013: N$44,1 million). This is attributable to continuously improving our spending patterns and subjecting all purchases to the Procurement Policy and Procedures.

The cost of electricity purchases forms the biggest portion of total costs, and increased from 60% in 2013 to 63% of total revenues for the year under review. Continued cost-efficiency strategies resulted in operating costs remaining flat compared to 2013.

Operating profit increased significantly by 38,28% to N$ 74.7 million (2013: N$ 54.0 million) due to the increase in sales revenue and the operating costs remaining flat compared to 2013. The cash injection provided by the DBN loan improved the cash position of the company, coupled with continuous monitoring of policies aimed at cost containment and optimal working capital management.

The company’s total assets grew by 7% to N$ 786.6 million (2013: N$ 735.7 million). Own-funded capital expenditure almost doubled to N$ 61.7 million (2013: N$ 35.8 million), and N$ 3.1 million of this amount was spent on the Power to the People Projects throughout the region.

The company’s financial outlook remains positive, but will require continuous strict control to maintain and improve its financial position and stakeholder value.

“We respect and truly honor the customer’s rights to be treated fairly and honestly and that is why it is such a pleasure being responsible for excellent customer service”

Mr. Nico Niemand - Executive Manager: Supply Business

THE SUPPLY BUSINESS UNIT

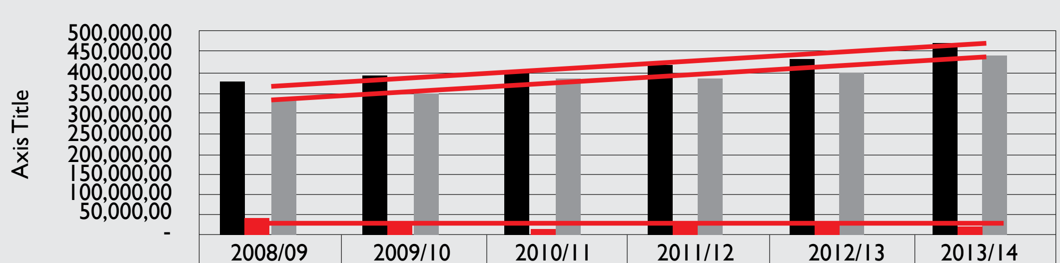
The Supply Business Unit is responsible for customer service performance, revenue performance, billing services, rate determination and implementation, revenue protection and collection, energy management and metering. The business unit is tasked with the responsibility to ensure accurate metering of electricity consumption, implementing of reasonable and cost-reflective tariffs, customer service and revenue protection services. We respect and truly honor the customers rights to be treated fairly and honestly and that is why it is such a pleasure being responsible for excellent customer service. During the period under review the business unit took on a diverse range of activities including among others:

- Continuation of the Call Centre into Phase 2.
- Continuation of documenting and mapping of the Business Processes; 69% of processes have been documented and mapped for the year under review.
- Roll out of prepaid meters, the total number installed for the year was 2 999 of which 2 147 are free installations of 30A and below connections.
- Total prepaid customer base recorded 16 162 by end of June 2014.
- Total conversion of 271 Bulk customers and 359 three phase customers to AMR system, totaling 630 meters since implementation of this project.
- Installation of three phase time of use meters was 76 during the period under review; thus far 1 556 Time of Use (TOU) meters have been installed since implementation of this project.
- The continuation of the pensioner’s tariff with no tariff increases.
- The introduction and testing of Grid in-feeds mainly rooftop solar systems. The total number of in-feed customers for the period under review was 82 and the kWh imported was 668 533 units which is less than 1% of the total units consumed for the period under review.

Due to industrial activities taking place in the fishing and mining industries, there has been significant increase in electricity demand in the region. Erongo RED is vigorously upgrading its network and capacity in various towns to accommodate the sharp increase in electricity demand. In the period under review, Erongo RED has sold 441,591,324 units compared to 399,177,977 units in 2013. This was an 11% increase in units sold. Our losses are at 7% which is within the acceptable regulated standards of 10% benchmark.

Figure 1

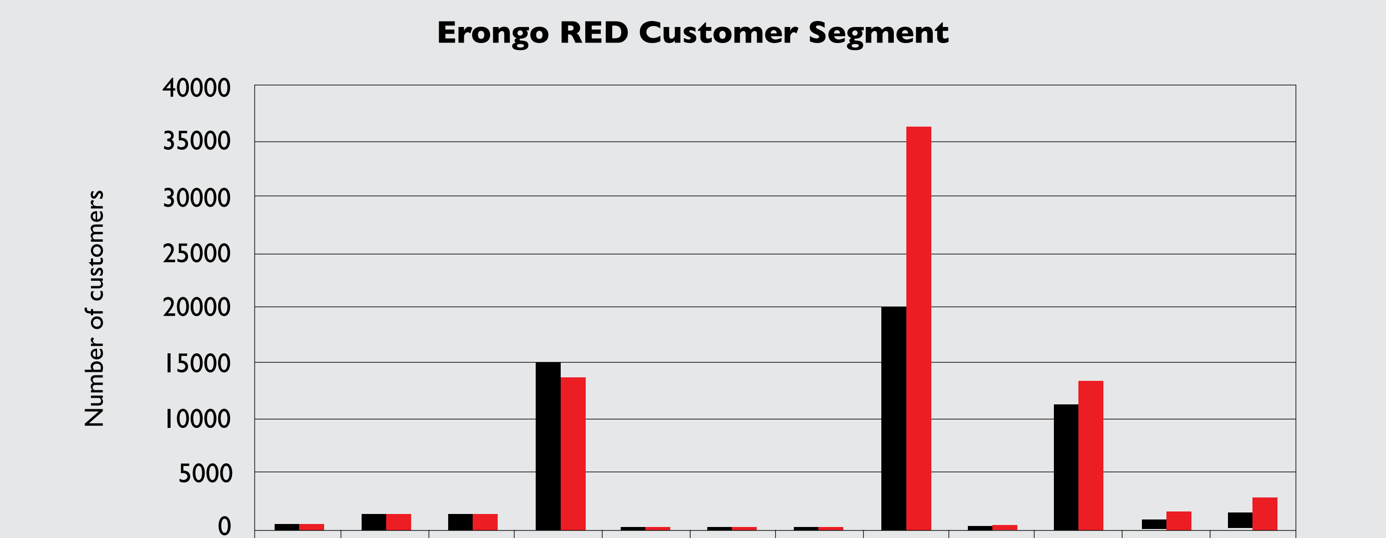
Purchases vs Sales & Loss Ratio



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
kWh Purchased	376,200,49	391,164,97	399,886,60	424,673,81	432,122,94	473,397,13
kWh Losses	42,385,168	37,267,688	15,526,489	35,975,177	32,949,965	31,805,809
kWh Sold	333,815,33	353,897,28	384,360,11	388,698,64	399,172,97	441,591,32
Loss%	11%	10%	4%	8%	8%	7%

Figure 1, depicts the units purchased from NamPower, annual units sold and the annual units lost. Energy losses are within the allowed benchmark rate of 10%.

Figure 2



	Bulk Consum-er	Business Single Phase	Business Three Phase	Domestic Single Phase	Intitutio-nal Single Phase	Intitutio-nal Three Phase	Intitutio-nal Bulk	Interact-ive sundry owner	PPM Business Single Phase	PPM Domestic Single Phase	PPM Pensioner	Conventi-onal Pensioner
■ 2012/2013	239	1359	1490	15224	64	76	21	20143	253	11280	785	1349
■ 2013/2014	253	1374	1539	13751	64	79	21	36364	347	13213	1573	2874

Erongo RED is subsidising the Pensioner tariffs and from Figure 2 above, we can see a considerable increase in the number of registered pensioners in 2014. The cost to Erongo RED for subsidising the Pensioner tariff was approximately N$ 5.3 million and N$ 12.3 million in the respective years.

Furthermore, Erongo RED introduced the free pre-paid meter installation project three years ago aiming to encourage low income earners as well as low consuming customers to convert from conventional electricity to pre-paid electricity in order to benefit from the subsidised or pensioner tariff.

Figure 3

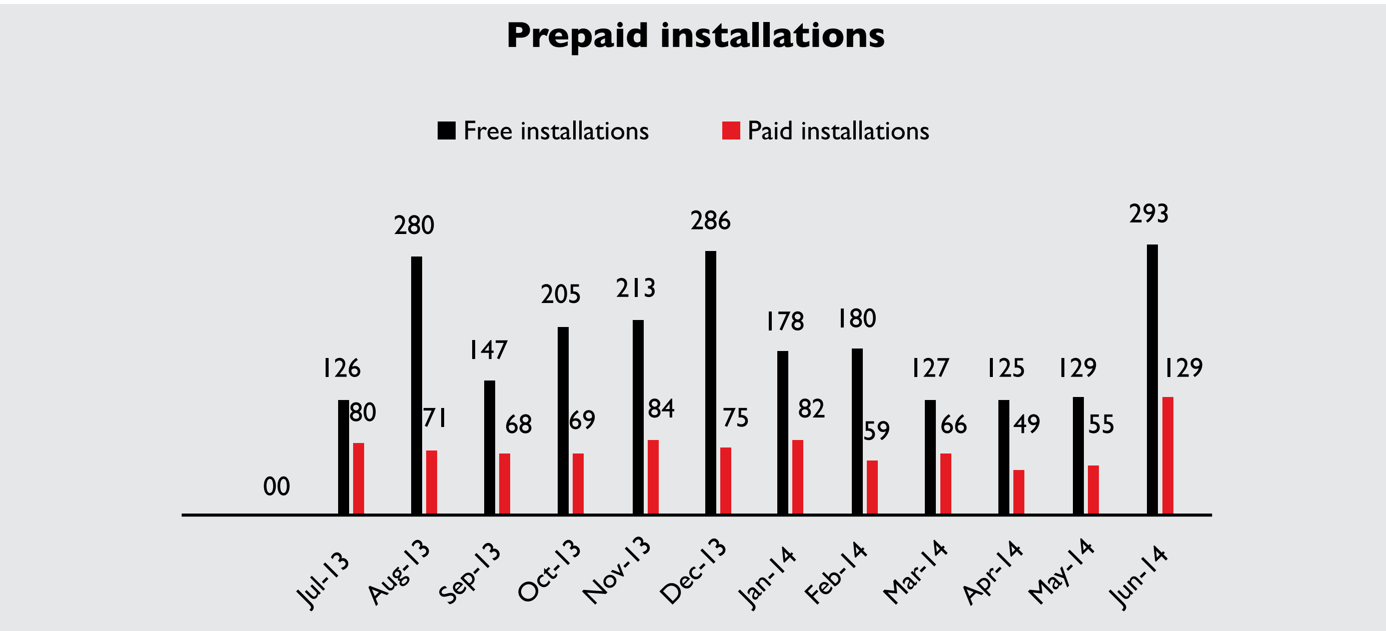


Figure 3, illustrates the number of free Pre-paid installations versus the paid Pre-paid installations. What can be derived from the figure is that the free installations are peaking throughout the year meaning customers are becoming aware of the advantages especially with regard to the inclining block tariff where the 1st step and 2nd step tariffs are subsidised by the organisation.

Call Centre:

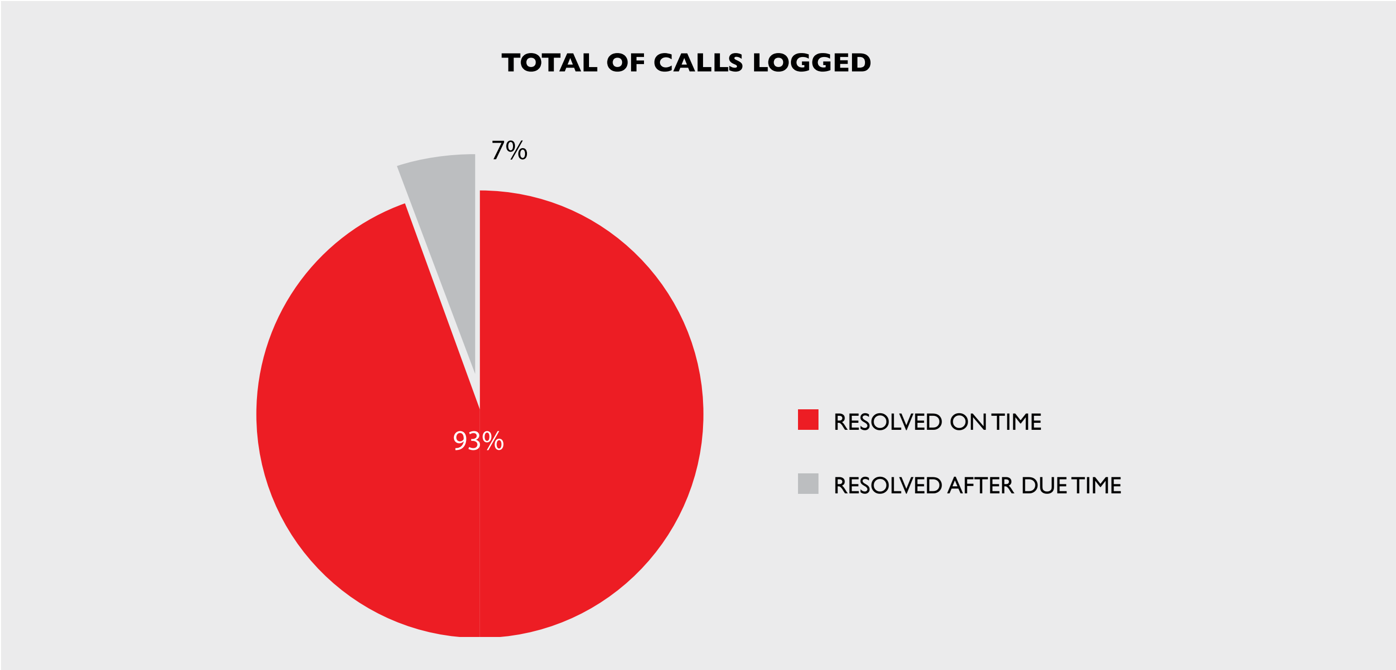
Erongo RED started a Call Centre Pilot Project during 2012 with the aim of responding timeously to the customers' enquiries. For the period under review, 93% of the Calls logged were resolved immediately while only 7% were resolved afterwards as depicted below in Table 2 and Figure 4. The Call Centre has a toll free number (0819600) that has been in operation since March 2014.

CALL LOGGING SUMMARY PERIOD JULY 2013 TILL JUNE 2014

Table 2

NO. OF CALLS LOGGED	18 360
Resolved on Time (93%)	16962
Resolved after due time (7%)	1396

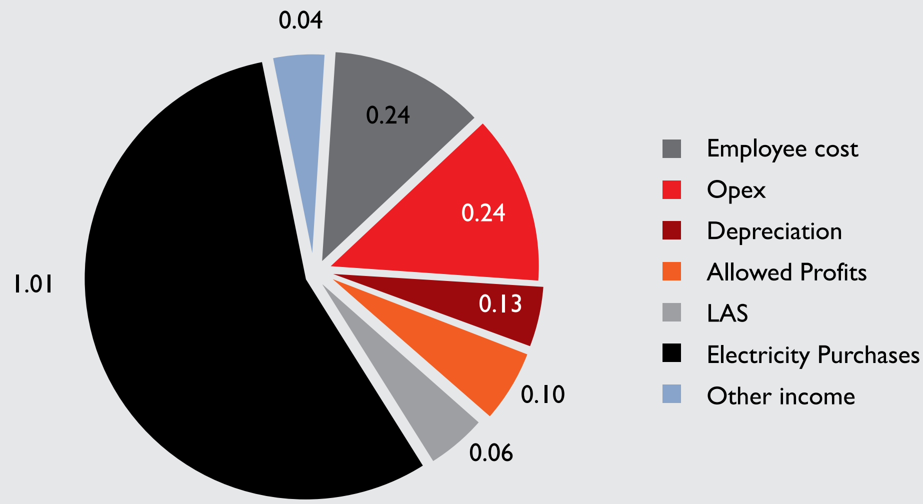
Figure 4



Tariffs:

For the period under review, Erongo RED has managed to harmonize 95 % of the tariffs as per the Business Unit main objective regarding tariffs, with the exception of Uis and Erongo Regional Council.

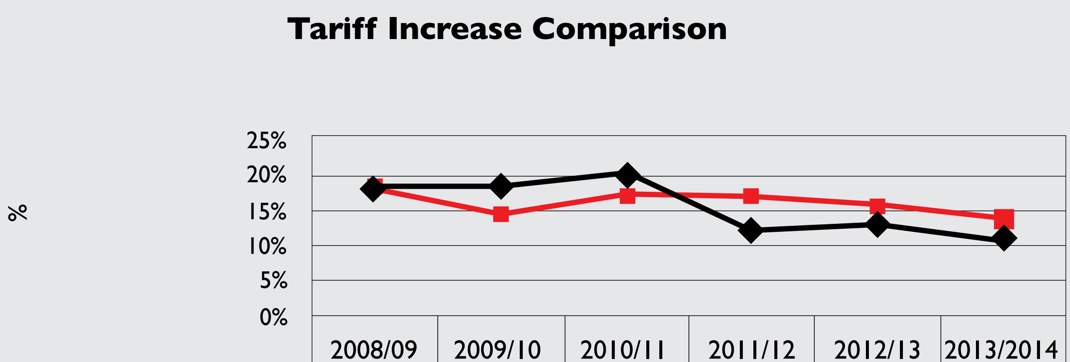
Figure 5, depicts a breakdown of the Erongo RED retail tariff:



The average retail tariff for Erongo RED is N$1.78, more than 60% of our revenue was spend on Electricity purchases.

The average price for electricity continues to increase annually. In the last 3 years electricity price for Erongo RED has increased on average by 16%. Erongo RED has implemented measures to cushion the impact of electricity increases by introducing inclining block tariff system and in-feed tariff. The graph below shows the average electricity price pattern over the last 5 year period.

Figure 6



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/2014
Erongo Red Tarriff inc %	18%	18%	20%	12%	13%	11%
NamPower Tariff inc %	18%	15%	18%	18%	17%	13%

The above graph depicts the NamPower tariff increases over the last 5 years in comparison to Erongo RED tariff increases during the same period. Erongo RED approved tariff increase of 11% which was 2% below the national average 13% increase by NamPower in 2013/2014 financial year.

"At Erongo RED, we are determined to continuously invest, design and develop our infrastructure to create robust infrastructures for next generation"

Mr. Vermaas Bissett - Acting Executive Manager: Network Engineering

THE NETWORK ENGINEERING SERVICES BUSINESS UNIT

Network Engineering Business Unit is responsible for system capacity adequacy, design and planning integrity, project and asset management, and ICT requirements. At Erongo RED we are determined to continuously invest, design and develop our infrastructure to create robust infrastructures for the next generation.

For the period 1 July 2013 to 30 June 2014, a total amount of over N$113 million was approved for capital projects.

This comprises a total of 41 projects. During this period, 6 projects were fully completed while 8 projects relate to continuous improvement projects. At 30 June 2014, a total of 25 projects were in progress and near completion. 2 Projects could not commence and were carried forward to the next financial year.

The following table depicts "approved budget" with "Year-To-Date Expenditure with Commitments"

Project Breakdown	Approved Budget	YTD Expenditure & Commitments
Yearly - Continuous	NAD 9 574 992	NAD 6 818 521
Completed	NAD 2 072 250	NAD 2 248 812
In progress	NAD 100 719 708	NAD 79 373 676
Not commenced yet	NAD 860 000	NAD 0
Number of Projects	NAD 113 226 950	NAD 88 441 009

In the period under review the Business Unit was involved in the following capital projects:

- Electrification Project, Henties Bay – Erongo RED has completed the electrification of 20 Houses in the Omdel Residential Area of Henties Bay to the value of N$294000. These houses did not have electricity, Erongo RED have installed and supplied free pre-payment meters and upgraded the metering kiosk with new kiosks in the electrified area.
- Erongo RED also conducted a Land development project that included the Reticulation of Medium and Low Voltage Electrical services and Electrification of the Omdel Extension 3. Around 318 residential and business ervens were connected in this project as well as the provision and installation of free prepaid meters in the existing houses. The project was carried out to the value of N$7.6 million.
- Swakopmund Extension Phase 10 – phase 2. This is a land development project where by Erongo RED together with Swakopmund municipality jointly developed the Extension 10 – phase 2, industrial area. This project was valued at around N$26 million.
- Erongo RED also completed the project that involved the Supply and Installation of Streetlights along the Henties Bay road. A total of 43 250W HPS lights were successfully installed to improve the lighting on the exit road from Swakopmund towards Henties Bay. The project was carried to a cost of N$1.1 million.
- Erongo RED also undertook a project for the provision of electrical infrastructure to the Swakopmund Rubbish Dump site. To this effect a Substation building was constructed to the value of N$294 960. The second phase of the project will include the installation of Electrical equipment. This project is expected to be completed in the 2014/15 financial year.
- The first portion of the Swakopmund Bulk upgrade was also completed, where by the New Feld intake station building was built to the amount of N$4.5 million.

- The New Intake Substation for Swakopmund commenced with the appointment of the electrical contractor. This will provide for new switchgear to provide additional capacity to the town, in a more reliable means. This will be a fully automated substation with SCADA that will allow for more effective and efficient control of the network. The upgrade is currently in progress and is expected to be completed in December 2015.

- The Walvis Bay Bulk Upgrade has also commenced, and the New Paratus Intake Substation building was completed to the amount of N$5 million. This building will house the new substation for the town.

- The contract for the equipment for the new Walvis Bay Intake Substation was awarded to the electrical contractor. The solution comprises a double busbar, three section 11kV switchboard. It is believed to be the largest solution in the world on 11kV and is a necessity for the evacuation of 120MW for current and future requirements.The substations will be advanced and sophisticated with full automation and SCADA functionality. The solution will also be based on latest IEC61850 standards which will be the first deployment for Erongo RED. The substation is expected to be completed by the end of 2015. The entire upgrade for the town of Walvis Bay which incorporates the NamPower portion is expected to be completed by January 2017.

- During the period under review, Erongo RED also undertook a Power to The People Project. The aim of this project was to bring electricity to the houses in the towns of Uis, Omaruru, Karibib and Usakos that previously did not have access to electricity. Hence 165 houses were electrified in Uis, 52 in Omaruru, 32 in Karibib and 71 houses were electrified Usakos. The total project cost was around N$3.5 million.

- Construction of Garages at the Technical Building in Walvis Bay to the amount of N$2 million was also successfully completed.

- Renovations of the New Customer Care Office in Kuiseb-mund. This project was completed and was operational for the period under review. The renovations cost Erongo RED around N$200 000.

- The replacement of switchgear at two Primary Substations namely, Welwitchia in Swakopmund and 18th Road in Walvis Bay, was successfully awarded to an electrical contractor. Replacement of this switchgear and the buildings was expected to be completed in 2015.

"The division has been able to respond timely and restore electricity outages swiftly. The Control Centre continues to optimize the SCADA system to other towns by connecting new substations to the system"

Mr. Claude Tjizo - Executive Manager: Network Operations and Maintenance

THE NETWORK OPERATION AND MAINTANANCE BUSINESS UNIT

Network Operations and Maintenance Business Unit is responsible for system availability, a control centre, quality of supply and network maintenance. The Business Unit was involved in normal operations, maintenance and upgrading of the electrical network during the period under review and achieved the following:

Maintenance:
The maintenance division is responsible for regular inspection, maintenance and repair of low, medium and high voltage faults on the electrical network within Erongo Region. During the period under review, the departments have spent a total of N$ 8.7 million compared to N$ 8.3 million in 2013 on the maintenance of electrical infrastructure within Erongo region. The increase of expenditure was mainly due to fault rectification, maintenance on aging infrastructure, replacement of vandalized equipment, upgrading of electrical infrastructure due to the increase in electrical demand.

The list below shows mainly the maintenance work carried out during the period under review in various towns and settlements:

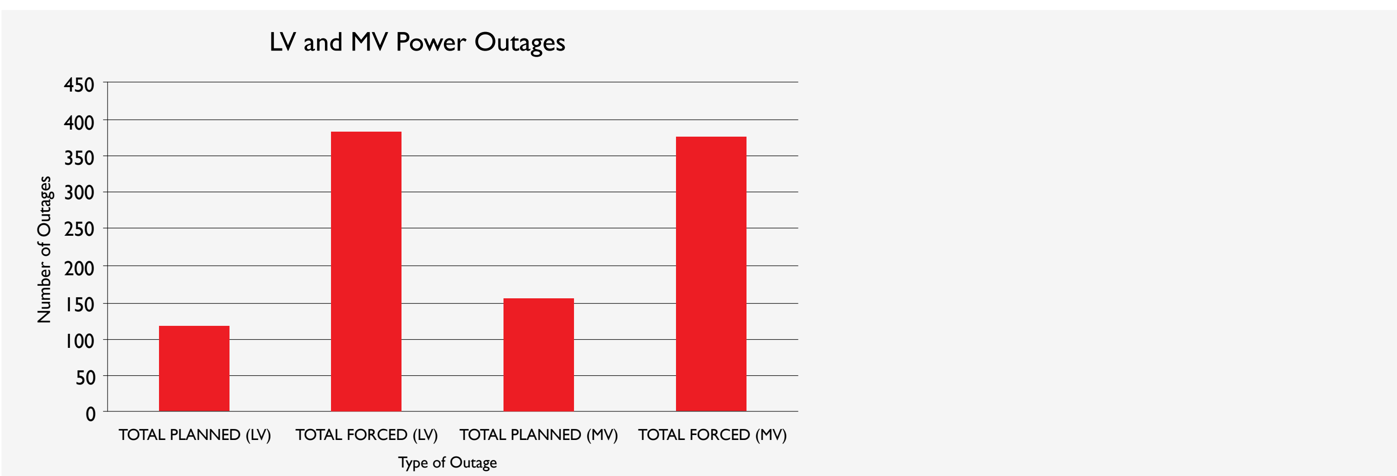
- Replacement of broken kiosk – considerable efforts have been made to repair all the broken kiosks across the region.
- Replace stolen earth wire in substations – during the period under review numerous substations were broken, vandalized and earthing wire was removed by thieves. The stolen earth wires in the substations have been replaced.
- Install alarm at various substations – in a move to address vandalism and tampering of electrical infrastructure, new alarm devices have been installed in some of the main substations.
- Network Faults (cable and reticulations) – Erongo RED responded within the reasonable accepted time to restore electricity to the affected customers.
- Streetlights, Traffic Lights and High Mast Lights – routine inspections and maintenance have been carried out on the streetlights, traffic lights and high mast lights.

Construction:
The year under review was a busy year for the construction division due to increase in demand for electricity by residential and business customers. Electricity is a cornerstone of economic growth and social development; the construction division worked hard to ensure that some of the planned capital and operational projects were completed.

Control Centre:
The Control Centre is responsible for the safe operation and efficient performance of the low and medium voltage network. Currently the Control Centre has 5 personnel and plans are underway to expand the Control Centre to a 24-hour manned Control Centre. The Control Centre is equipped with the state-of-the-art software (SCADA) system.

In the period under review the division has been able to respond timely and restore electricity outages swiftly. The Control Centre continues to optimize the SCADA system to other towns by connecting new substations to the system.

The table below shows the total number of planned and forced outages and faults reported during the period under review:



"Erongo RED continues to enjoy a sound labour relationship with the Union namely: the Mine Workers Union of Namibia (MUN) and this can be attributed to the continuous engagement between the Company and the Union with the view to discuss and resolve issues before they get out of hand"

Mr. Festus Newaya - Acting Senior Manager: Human Capital and Corporate Services

THE HUMAN CAPITAL DIVISION

The Human Capital and Corporate Services Division is responsible for recruitment, employee relations and payroll matters. Erongo RED views employees as assets and not a cost to the organization. Looking at people as assets is part contemporary human resource management. Since inception, Erongo RED's total workforce has grown and for the period under review stood at 293 employees in positions ranging from unskilled, semi-skilled, skilled, specialised, management and senior management.

For the period under review, the Human Capital Division notably worked on securing permanent employment and retaining skills. In addition, the division also implemented initiatives aimed at offering internal staff opportunities to grow within the company.

The graduate training programme was successfully implemented and it is worth noting that currently one female trainee is on the programme. This programme provides graduates with a professional development programme within their specialized field; in order to develop competent graduates (in this case an Engineer) that meet the needs and aspiration of the company as well as that of Engineer-in-Training and the Namibian economy at large.

Below are some of the activities undertaken by the Human Capital Division during the period under review:

- **Training and Development**

Erongo RED is a strong advocate of training and development of its staff members. Investment in human capital is a cornerstone to achieving strategic objectives. During the period under review, about 81 employees were subjected to various skills upgrading training interventions.

Furthermore, twenty (20) first line managers attended the Management Development Programme (MDP) facilitated by the Polytechnic of Namibia and the University of Witwatersrand. This is part of the company's commitment to develop future leaders of the company.

- **Safety Health and Environment**

In accordance with the relevant legislation and commitment of Erongo RED to ensure safety health and environment compliance the Safety Health and Environment Officer has been appointed to coordinate all Safety Health and Environment activities for Erongo RED.

In addition, the safety health and environmental representatives have been appointed within specific businesses to create awareness and promote a safety conduct among peers. The wellness of our employees remains a strategic pillar for Erongo RED. A healthy employee is a productive employee; hence the implementation of a wellness programme remains a priority for the human capital division.

- **Policy Formulation & Review**

In order to keep abreast with internationally acceptable best practices, Erongo RED continues to develop and review exciting policies. During the period under review, six (6) existing Human Resources Policies were reviewed and three (3) new policies were developed and approved by the Board of Directors.

- **Recruitment and Promotions**

During the period under review, the customer base of Erongo RED continued to grow tremendously. As a result the company needed to position itself in effectively addressing customer's needs, and one of the initiatives undertaken was the appointment of more staff members, resulting in the following:

(i) Appointments (Permanent)	:17
(ii) Appointments (Fixed Term Contracts)	:8
(iii) Appointments (Trainees)	:25
(iv) Promotions	:1
(v) Graduate Trainees	:1

- **Labour Turnover**

Labour turnover remains relatively low at Erongo RED. We are regarded as the employer of choice due to the developmental opportunities and competitive remuneration and benefits that we provide to our staff members.

During the period under review, the following cases of labour turnover were recorded:

(i) Resignations : 4
(ii) Early Retirements : 2
(iii) Normal Retirement : 1
(iv) Dismissals : 2
(v) Contract expiry : 42

It is worth noting that the high number of contract expiry was due to trainees that Erongo RED appointed on fixed term contracts as part of its social responsibility as well as for relief staff that was appointed from time to time.

- **Labour Relations**

Erongo RED continues to enjoy a sound labour relationship with the Union namely: the Mine Workers Union of Namibia (MUN) and this can be attributed to the continuous engagement between the Company and the Union with the view to discuss and resolve issues before they get out of hand. Furthermore, Erongo RED promotes positive behaviour amongst its staff members and employees are subjected to corrective measures of discipline aimed at improving behaviour and not only punitive.

The company has a zero tolerance to misbehaviour. Following cases were recorded during the period under review:

(i) Corrective Actions :5
(ii) Suspensions :1
(iii) Dismissal :2

The company has a zero tolerance to misconducts and the Human Capital Division was planning to embark upon a process of educating staff members to promote positive behaviour in order to achieve zero or minimal disciplinary cases at Erongo RED.

“Performance Management System can increase an organization’s competitiveness and maximize its productivity. Not only that, it can also increase morale and create stronger teams and propel top performers onto successful careers”

Mr. Bennie Nangolo - Senior Manager Business Strategy and Performance Management System

BUSINESS STRATEGY AND PERFORMANCE MANAGEMENT SYSTEM

The Performance Management Policy was approved on 05 March 2013 by the Board of Directors. The approval of the said policy has paved the way for the implementation of the Performance Management System (PMS). Therefore, the company recognised the importance of the PMS, which was developed taking due, cognisance of a variety of imperativessuch as our mission, vision and core values. Performance Management System can increase an organization’s competitiveness and maximize its productivity. Not only that, it can also increase morale and create stronger teams and propel top performers onto successful careers.

The initial phase of PMS was implemented on a trial basis applicable from Top grade to C1 grade with no incentives linked. There is a reward and recognition policy that was in a draft format for the year under riview which was expected to be forwarded to the board for approval in the new financial year.

Erongo RED’s PMS is based on the Balance Scorecard methodology, hence a variety of Key Performance Areas were developed as guided by the PMS policy in order to assess and measure the company on the following outputs and goals:

- Financial – its financial sustainability and the securing of funds.
- Customer/Stakeholder – enhancing customer relations, improving Quality of Supply and Service and how the company will deliver a customer focused Erongo RED.
- Internal business processes i.e. Distribution and Supply Management - maintaining and creating and operating its network infrastructure, developing and implementing Electrification Master Plan, implementing Asset Management Plan, ensuring good corporate governance and ensuring business continuity /risk management.
- Learning & Growth (human focus, or learning and development) – transforming its organisational culture, implementing empowerment and retention strategies of staff and how the company will keep abreast and implement technologies to supports core business functions.

The CEO’s ultimate obligation is to lead the Company in achieving set goals by achieving the specific objectives identified in the Strategic Plan. Erongo RED Strategic Plan Premium or Strategic Area of Priority is reflecting our targets and actual achievement for 2013 -2014 fiscal year as follows:

STRATEGIC AREA OF PRIORITY	STRATEGIC PREMIUM (TARGET) 2013 - 2014	ACTUAL ACHIEVED
Secure Funding	(N$100M)	(270 Million)
% Increase in Sales (Dollar Value)	15%	14.36%
Enhance Customer/Stakeholders Satisfaction	60%	73%
Tariff increase to be less than Supplier Average Increase	1-5%	Minus 3% (Average)
Develop and Implement Electrification Master Plan	Urban: Number of connected residents = 600	1340
	Rural: Number of connected residents = 200	472
Lost Time Injuries(LTI)	<1	Zero LTI was recorded
Maintain and Operate Network Infrastructure	Progress against Master Maintenance Plan = >75%	65%
Transform organisational culture	Establish Entropy level (baseline) = 35%	35%


ERONGO
red
CiP
stallation Products

Erongo Regional Electricity Distributor Company (Proprietary) Limited

(Registration number 2004/074)
Annual Financial Statements for the year ended June 30, 2014

Directors' Responsibilities and Approval

The directors are required in terms of the Namibian Companies Act, No 28 of 2004 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The directors are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on page 4.

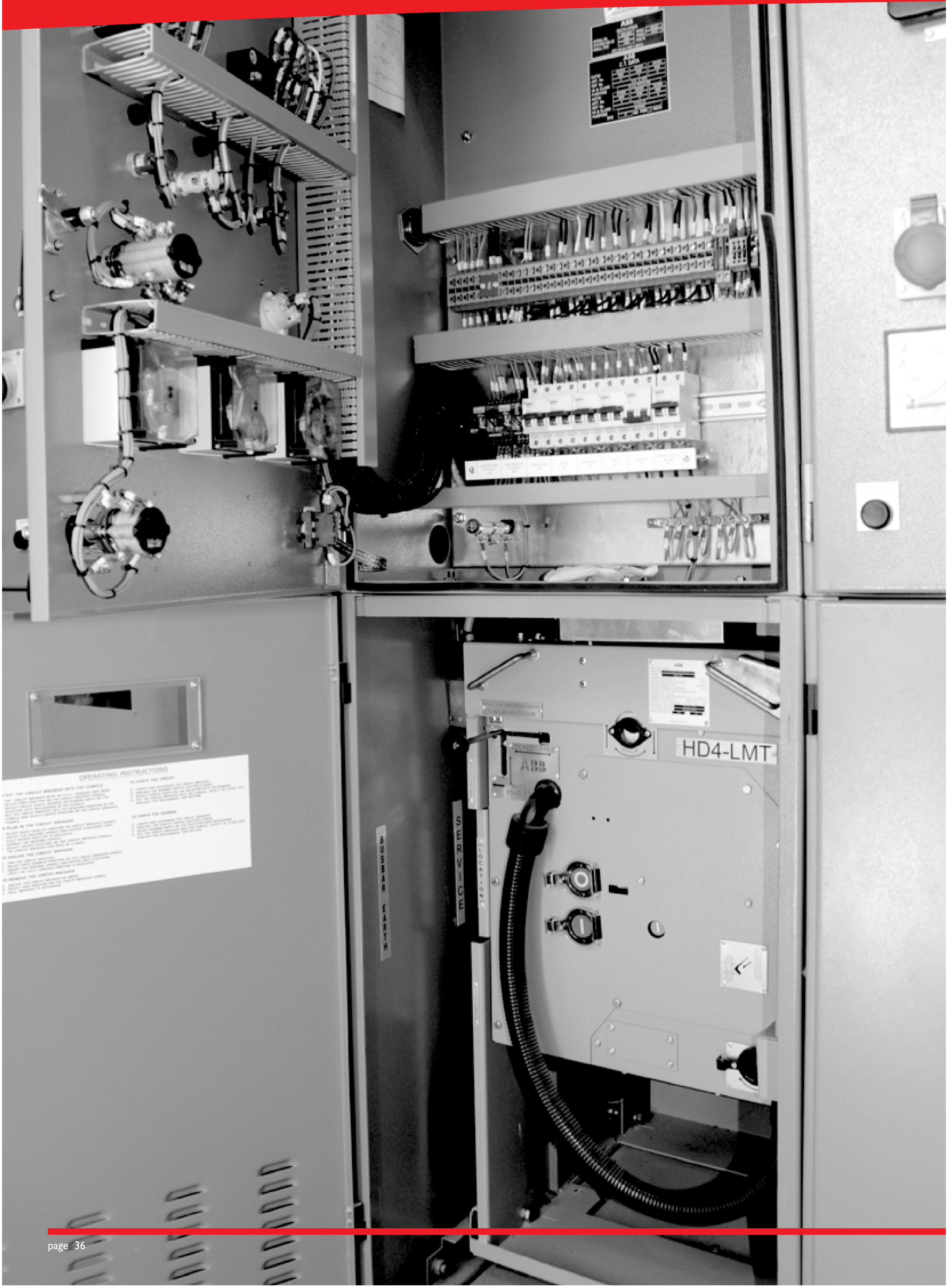
The annual financial statements set out on pages 5 to 37, which have been prepared on the going concern basis, were approved by the directors on November 14, 2014 and were signed on its behalf by:

Director

Director

Walvis Bay

Friday, November 14, 2014



HD4-LMT
SERVICE
BUSBAR EARTH
OPERATING INSTRUCTIONS

AUDITORS REPORT

"The Auditors of the company are Price Waterhouse Coopers Walvis Bay. They have audited the company for the year ended 30 June 2014 and have expressed an unqualified opinion on the annual financial statements of the company, dated 14 November 2014. The audit report is available for inspection at the company's offices"


2007
ALSTOM
kWh
1 Phase 2 Wire 50Hz IEC60521 Class 2.0
Type C12 240V 20(80)A 150rev/kWh
No.AL013050
FLAT 1
FLAT 2
2007
ALSTOM
kWh
1 Phase 2 Wire 50Hz IEC60521 Class 2.0
Type C12 240V 20(80)A 150rev/kWh
No.AL013064
FLAT 2
FLAT 3
PRE PAID
2007
kWh
1 Phase 2 Wire 50Hz IEC60521 Class 2.0
Type C12 240V 20(80)A 150rev/kWh
No.AL013051
FLAT 4
FLAT 5
2007
ALSTOM
kWh
1 Phase 2 Wire 50Hz IEC60521 Class 2.0
Type C12 240V 20(80)A 150rev/kWh
PRE PAID
No.AL013079
FLAT 5

Directors' Report

BUSINESS AND OPERATIONS

The company is primarily engaged in the distribution and supply of electricity to commercial and residential customers and other related activities in the Erongo Region and operated principally in Namibia.

Within the context of the Government's National Development Plan, the Ministry of Mines and Energy has formulated a White Paper on Energy Policy in 1998 which, amongst others, provides for the rationalisation of the electricity distribution industry through the formation of regional electricity distributors as a means of improving service delivery and efficiency within the electricity sector.

The supply and distribution licenses have come into force on 1 August 2005 and shall continue in operation from the date of its commencement for a period of 5 and 25 years respectively, unless cancelled or transferred sooner under section 30 of the Electricity Act. In terms of section 21(2) of the Electricity Act No 4 of 2007, these licenses may be renewed upon expiration of the periods.

FINANCIAL RESULTS

Review of financial results and activities

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Namibian Companies Act, No 28 of 2004. The accounting policies have been applied consistently compared to the prior year.

The company recorded a net profit after tax for the year ended June 30, 2014 of N$55,680,273. This represented an increase of 26% from the net profit after tax of the prior year of N$ 44,168,555.

Company revenue increased by 14% from N$ 673,059,893 in the prior year to N$ 767,906,078 for the year ended June 30, 2014.

Company cash flows from operating activities decreased by 75% from N$ 84,175,490 in the prior year to N$ 21,260,587 for the year ended June 30, 2014.

Background

Erongo RED operates in a regulated environment, which means that the Electricity Control Board (ECB) approves tariff applications by licensees on an annual basis. The ECB is tasked with ensuring that none of the licensees in Namibia make excessive profits (i.e. protecting the interests of the consumer), while also ensuring the long-term sustainability of the entity providing the service.

The establishment of Erongo RED in 2005 coincided with Cabinet's policy to fast-track the implementation of cost-reflective tariffs for NamPower, as well as the higher energy supply deficit experienced throughout Southern Africa. As Namibia imports close to 60% of its energy needs from SADC, these high generation / import costs had to be passed on from NamPower to its customers (including Erongo RED), who in turn, passed these costs on to consumers.

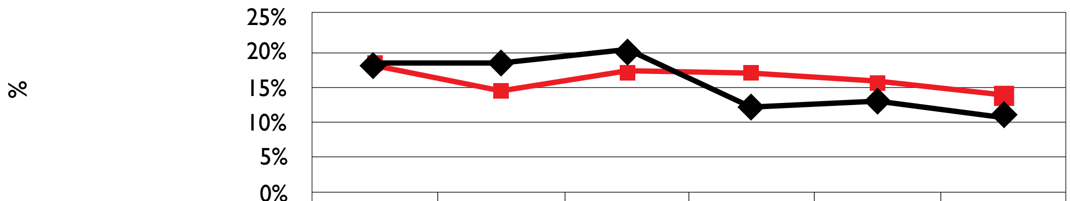
The following graphs illustrate this:

Erongo Regional Electricity Distributor Company (Proprietary) Limited

(Registration number 2004/074)
Annual Financial Statements for the year ended 30 June 2014

Directors' Report

Tariff Increase Comparison



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/2014
Erongo Red Tarriff inc %	18%	18%	20%	12%	13%	11%
NamPower Tariff inc %	18%	15%	18%	18%	17%	13%

The **Tariff Comparison %** graph portrays the average tariff increase granted to NamPower by the ECB, compared to the average tariff increase granted to Erongo RED. In view of the above, Erongo RED's requested tariff increases have been fairly consistent with those of NamPower. In 2010 and 2011, the ECB granted Erongo RED some relief with an increase in excess of that granted to NamPower. However, as from 2012 onwards, Erongo RED's tariff increases were lower than that of NamPower in order to reduce the impact of electricity increases on our customers.

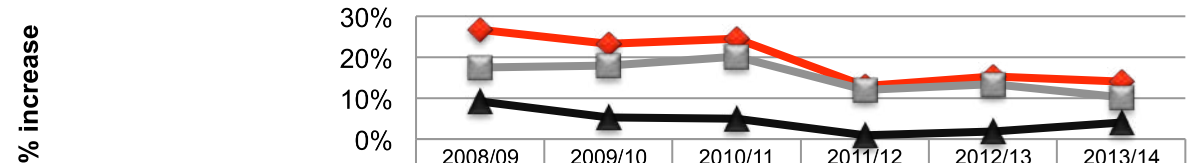
The actual impact of the increase passed on to Erongo RED by NamPower was not fully anticipated in the ORM, further reducing gross profit available for operational and infrastructure purposes.
However, the increases requested from the ECB by Erongo RED, and the increases granted to NamPower, did not always correlate in N$ value. The following graphs illustrate what was requested from the ECB (as indicated in the Operating and Reporting Manual – ORM) compared to the actual impact on Erongo RED and its customers.

Due to these differences, ECB implemented a Revenue Reconciliation project to reconcile the possible negative or positive financial impacts on an annual basis.

- **Actual Impact – Sales**

Actual increases in revenues fluctuated as expected with the growth in units sold. With improved forecasting techniques, the difference between expected revenues and actual revenues has reduced, resulting in greater forecasting accuracy.

Actual impact - Sales

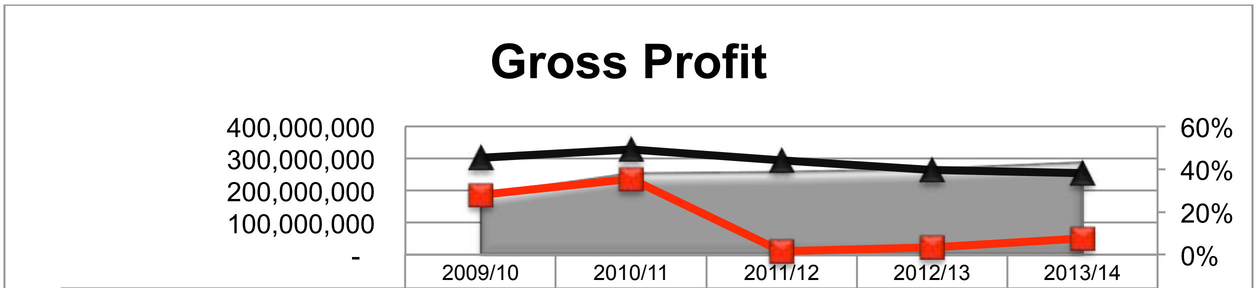


	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Actual Revenue % increase	27%	23%	25%	13%	15%	14%
ORM Average expected increase	18%	18%	20%	12%	13%	10%
Units sold % growth	9%	5%	5%	1%	2%	4%

Current Results Compared to Previous Years' Results
The results of operations for the year are set out in the statement of comprehensive income.

Directors' Report

- **Gross Profit %**



	2009/10	2010/11	2011/12	2012/13	2013/14
GROSS PROFIT (N$)	187,882,440	254,603,791	258,510,525	267,255,877	287,248,490
GROSS PROFIT (% growth)	28%	36%	2%	3%	7%
GP%	45%	49%	44%	40%	38%

In the graph above, the N$ Gross Profit area indicates that although GP has continued to increase over the past two years, the % year-on-year growth shows a significant decline in real terms (i.e. total GP has not been keeping up with inflation).

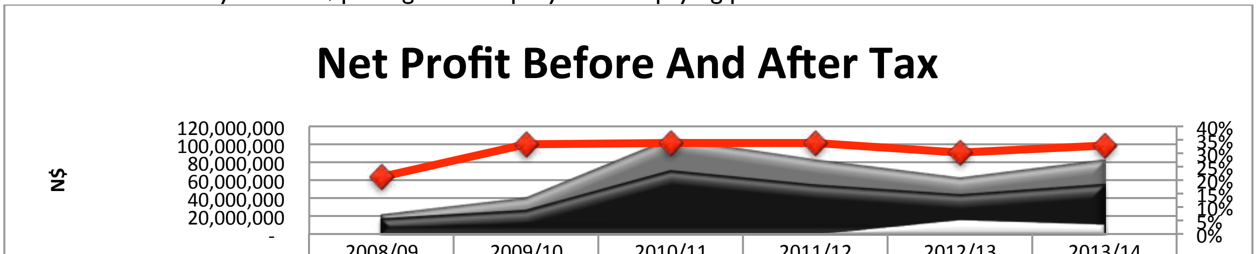
Following the successful catch-up levy for Walvis Bay in 2011, the GP % normalised to 44% in 2012. However, due to various contributing factors, GP% has fallen to 40% and 38% for the 2013 and 2014 financial years respectively. These factors include, but are not limited to:

- subsidisation of certain customer groups.
- unanticipated impact of increases in NamPower energy purchases.
- 50% subsidisation of LA Surcharges (i.e. excluded from the ORM submitted to the ECB), linked to complete redesign of tariff structure in 2012.

- **Net Profit Before and After Tax**

Profit before tax improved significantly in 2011, partly due to the catch-up levy, and partly due to the additional N$ 28.1 million added to the company's revenue requirement for the Walvis Bay Bulk Upgrade. Downward pressure on tariffs, and increased operational costs resulted in reduced net profits during 2012 and 2013. The increase in profits during 2014 is mainly due to the containment of administrative costs.

In the fourth year of operations, the average tax rate increased to the normal company tax rate. At this stage, the assessed loss steadily reduced, placing the company in a tax-paying position in 2013 and 2014.



	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Profit before Tax	22,565,048	41,037,334	106,609,818	82,885,179	63,220,480	82,889,087
Net Profit After Tax	17,778,190	27,345,208	70,519,071	54,819,798	44,168,555	55,680,273
Current income tax	-	-	-	41,907	16,154,322	10,776,315
Effective Tax Rate %	21%	33%	34%	34%	30%	33%

Directors' Report

PUBLIC LIGHTING COSTS

Erongo RED continues to carry the cost of electricity consumed as well as the cost of insuring and maintaining all streetlights and traffic lights within the Erongo region. Thousands of units are consumed in this way every year, which do not have to be paid for by the various municipalities and councils within the region.

PREPAID SALES COMMISSION

Initially when Erongo RED implemented the Syntell prepaid vending system, a 4% service commission was deducted from the customer's tendered amount when buying prepaid electricity from third-party vendors. However, as from 2011, this commission was absorbed by Erongo RED, effectively restoring the customer's purchasing power and reducing the impact of increases.

POWER TO THE PEOPLE AND LAND DEVELOPMENT PROJECTS

As part of its current vision to supply electricity to every household in the Erongo region by 2020, Erongo RED embarked on the Power to the People Project to provide electrification to households that never previously had electricity for decades. The table below shows the number of new connections made under this project for the year and the costs thereof:

TOWNS	NUMBER OF HOUSES CONNECTED	COST
OMARURU	51	N$ 228 255.00
KARIBIB	32	N$ 295 664.00
USAKOS	71	N$ 438 058.50
HENTIES BAY	20	N$ 258 960.00
UIS	163	N$ 513 987.69
MATERIAL COST		N$ 1 450 406.94
TOTAL	**337**	**N$ 3 185 332.13**

Erong RED also embarked on a land development project that was rolled out in Swakopmund and Henties Bay. The company spent N$ 23 million on servicing industrial land in Swakopmund, and a further N$ 7 million on servicing residential land in Henties Bay.

CORPORATE SOCIAL RESPONSIBILITY

Erongo RED spends approximately N$ 700,000 per annum ploughing back into the community through corporate social responsibility initiatives. The company also invests in education through its bursary scheme, graduate programme and job attachment programme.

WALVIS BAY BULK UPGRADE

Pursuant to a new connection charge policy of NamPower approved by its Board of Directors on 23 October 2012, NamPower is to finance the deep connection of the Walvis Bay bulk supply upgrade and thus relieving Erongo RED from the greater part of this financing obligation.

Although this decision has substantially reduced the total amount required for the upgrade, Erongo RED will still need to pay for the shallow connection using the funds already collected through the increased tariff granted by the ECB.

Directors' Report

The total cost of completing the upgrade has been estimated at approximately N$ 500 million, of which the shallow connection Erongo RED is responsible for, amounts to N$ 130 million. During January 2013, upon signing the agreement, an upfront amount of N$ 56 million was paid over to NamPower. Further payments were made amounting to N$ 28 million in 2013 and N$ 34 million in 2014. The final down-payment of N$11.5 million is secured by an N$ 11 million guarantee over the amounts set aside in the Unit Trust for the Bulk Upgrade.

The estimated costs for other planned bulk supply upgrades include the Swakopmund bulk supply upgrade estimated at approximately N$ 500 million, the Lithops bulk supply upgrade estimated at N$ 81 million and the Arandis bulk supply upgrade estimated at N$ 5.5 million.

PROPERTY, PLANT AND EQUIPMENT

Electricity distribution and supply assets to the value of N$ 265 963 582 were acquired from the shareholders by formal transfer agreements. The assets were transferred at fair market value. The assets are in possession and under control of Erongo RED, being employed in pursuance of its economic activities, since December 2005. Erongo RED has instructed its legal practitioners to attend to the process to transfer ownership of the land and buildings by registration, where applicable. The process is underway.

Certain shareholders have registered concern regarding the ownership of certain properties, especially since the deed registration has not yet taken place. The assets of concern are Land and Buildings which relate to Walvis Bay Municipality and Swakopmund Municipality respectively. The inclusion of these assets as part of Erongo RED's property, plant and equipment was done based on amongst other considerations on the principle of reporting transactions in terms of their substance and not just in terms of their legal form.

The electricity and distribution assets were re-valued by Africon Namibia (Proprietary) Limited, an independent valuator for N$ 265 963 582. The valuation was used to determine the assets deemed cost at 1 July 2005.

There have been no changes in the nature of property, plant and equipment of the Company or in the policy regarding their use.

DIVIDEND

No dividend has been declared and paid to shareholders during the financial year (2013: N$ 16 000 000).

AUTHORISED AND ISSUED SHARE CAPITAL

There were no changes in authorised and issued share capital of the company during the year under review. The signed Shareholders Agreement further states that share certificates will only be issued in accordance with the Shareholders Agreement on full payment of the agreed upon initial capital contributions.

BAD DEBTS

Specific provision was made in the financial statements to write off amounts owing to the company by companies that are experiencing financial difficulties. Efforts to recover these amounts are still ongoing, and therefore any amounts received in future will be recorded as bad debts recovered.

The company implemented a Debt Management initiative to disconnected residential consumers. The initiative is two-fold in that it assists in reducing the debt of disconnected customers with arrear accounts, and also converts them into consuming customers thereby maintaining a long-term sustainable relationship.

Directors' Report

DIRECTORS

The directors of the company during the year and to the date of this report are as follows:

Directors	Nationality	Appointed	Resigned
I Tjombonde (Nampower)	Namibian	03-Apr-08	
P Hamman (Henties Bay) **	Namibian	03-Feb-11	03-Jan-13
V Kahua (Omaruru)	Namibian	05-Dec-11	16-Dec-13
E Wetha (Minority shareholders)	Namibian	12-Jun-12	
M Jankowski (Swakopmund)	Namibian	15-Oct-12	06-Feb-13
F Hartzenberg (Swakopmund)	Namibian	15-Oct-12	
CBN Botha (Walvis Bay) **	Namibian	08-Nov-12	03-Apr-13
T Nambala (Walvis Bay)	Namibian	08-Nov-12	
S Masiza (Walvis Bay) * **	Namibian	19-Nov-12	05-Nov-13
M Skini (Henties Bay)	Namibian	03-Jan-13	
L Garoeb (Swakopmund)	Namibian	01-Apr-13	
R Junias (Walvis Bay) *	Namibian	04-Dec-13	
W Rencs (Swakopmund) **	Namibian	28-Apr-09	11-Oct-12
CBN Botha (Swakopmund) **	Namibian	24-Feb-11	11-Oct-12

Alternate Directors	Nationality	Appointed	Resigned
SK Kathindi (Alternate to WJ Rencs)	Namibian	27-Jul-05	11-Oct-12
AM Pretorius (Alternate to E Wetha) **	Namibian	25-Aug-06	19-May-12
M Skini (alternate for P Hamman)	Namibian	22-Feb-11	03-Jan-13
T Elago (Alternate to CBN Botha)	Namibian	01-Mar-11	11-Oct-12
R Kaura (Alternate to V Kahua)	Namibian	01-Jul-10	
L Joel (Alternate to F Hartzenberg)	Namibian	15-Oct-12	
S Masiza (Alternate to CBN Botha) **	Namibian	06-Nov-12	19-Nov-12
R Junias (Alternate to T Nambala) **	Namibian	06-Nov-12	04-Dec-13

* - Appointment not registered with Registrar of Companies
** - Resignation not registered with Registrar of Companies

EVENTS SUBSEQUENT TO THE YEAR END

On 7 July 2014, the company entered into a power supply agreement with Namibia Power Corporation Limited, where the aforementioned agrees to supply power to the company from the Sekel Duin and Lithops Substations. The capital contribution to be made under the supply agreement for the Lithops substation amounts to N$ 81,359,539. The capital contribution of N$ 163,931,350 for the Sekel Duin substation will be customer funded and the company will therefore not incur additional debt, and will therefore have no impact on the company's gearing ratio.

On 26 September 2014 the company secured a 10 year term loan amounting to N$ 280 million with the Development Bank of Namibia. The interest rate on the loan is linked to prime plus 1%. The loan will be utilized to fund the Walvis Bay and Swakopmund electricity bulk upgrades and other capital expenditure.

Directors' Report

GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

SECRETARY

The secretary of the company is Sage Secretarial Services (Pty) Ltd.

Business address:
61 Bismarck Street
Windhoek
Namibia

Postal address:
PO Box 2184
Windhoek
Namibia

AUDITORS

PricewaterhouseCoopers will continue in office in accordance with section 278 (2) of the Companies Act.

Erongo Regional Electricity Distributor Company (Proprietary) Limited
(Registration number 2004/074)
Annual Financial Statements for the year ended June 30, 2014

General Information

Country of incorporation and domicile	Namibia
Nature of business and principal activities	Distribution and supply of electricity to commercial and resdential customers and other related activities
Company registration number	2004/074
Director	As per directors' report
Registered office	61 Bismarck Street Windhoek Namibia
Postal address	P O Box 2925 Walvis Bay Namibia
Bankers	Bank Windhoek Ltd First National Bank of Namibia Ltd
Auditors	PricewaterhouseCoopers Registered Accountants and Auditors Chartered Accountants (Namibia) PwC, a partnership duly organised according to the laws of the Republic of Namibia (hereafter referred to as "PwC", "we", "us", "our")
Secretary	Sage Secretarial Services (Pty) Ltd
Tax reference number	3728814-01-1
Lawyers	Kinghorn Assosciates

Statement of Financial Position as at June 30, 2014

	Note(s)	2014 N$	2013 N$
Assets			
Non-Current Assets			
Property, plant and equipment	2	458,410,803	392,131,068
Current Assets			
Loans to related parties	3	42	40
Trade and other receivables	4	178,761,967	164,647,243
Prepayments	5	113,424,759	83,418,660
Cash and cash equivalents	6	1,099,413	30,955,434
Financial assets at fair value through profit and loss	7	34,915,341	64,600,387
		328,201,522	**343,621,764**
Total Assets		**786,612,325**	**735,752,832**
Equity and Liabilities			
Equity			
Share capital	8	12,500,000	12,500,000
Other reserves		417,398,860	377,695,142
Retained earnings		96,023,726	68,443,453
		525,922,586	**458,638,595**
Liabilities			
Non-Current Liabilities			
Borrowings	9	14,359,374	17,789,895
Deferred income tax liability	10	82,556,194	66,123,695
Post employment benefit obligation	11	4,369,000	7,580,484
		101,284,568	**91,494,074**
Current Liabilities			
Loans from related parties	3	79,484	396,562
Borrowings	9	3,378,695	3,770,609
Trade and other payables	12	149,868,518	165,256,763
Income tax liability	13	6,078,474	16,196,229
		159,405,171	**185,620,163**
Total Liabilities		**260,689,739**	**277,114,237**
Total Equity and Liabilities		**786,612,325**	**735,752,832**

Erongo Regional Electricity Distributor Company (Proprietary) Limited

(Registration number 2004/074)
Annual Financial Statements for the year ended June 30, 2014

Statement of Comprehensive Income

	Note(s)	2014 N$	2013 N$
Revenue	14	767,906,078	673,059,893
Cost of sales	15	(480,657,588)	(405,804,016)
Gross profit		**287,248,490**	**267,255,877**
Other income		5,430,255	3,147,612
Administrative expenses		(217,942,448)	(216,357,825)
Operating profit	16	**74,736,297**	**54,045,664**
Finance income	17	5,149,430	7,981,276
Finance costs	18	(1,895,640)	(2,102,322)
Profit before income tax		**77,990,087**	**59,924,618**
Income tax expense	19	(25,592,144)	(17,931,332)
Profit for the year		**52,397,943**	**41,993,286**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial gain on remeasurement of severance pay provision		4,899,000	3,295,862
Income tax relating to items that will not be reclassified		(1,616,670)	(1,120,593)
Total items that will not be reclassified to profit or loss		**3,282,330**	**2,175,269**
Other comprehensive income for the year net of taxation		**3,282,330**	**2,175,269**
Total comprehensive income for the year		**55,680,273**	**44,168,555**
Total comprehensive income distributable to:			
Non-distributable reserve		28,100,000	28,100,000
Equity holders of the entity		27,580,273	16,068,555
		55,680,273	**44,168,555**

Erongo Regional Electricity Distributor Company (Proprietary) Limited

(Registration number 2004/074)
Annual Financial Statements for the year ended June 30, 2014

Statement of Changes in Equity

	Share capital	Non-distributable reserve	Development reserve	Total reserves	Retained earnings	Total equity
	N$	N$	N$	N$	N$	N$
Balance at July 01, 2012	**12,500,000**	**68,870,021**	**281,271,845**	**350,141,866**	**68,374,898**	**431,016,764**
Profit for the year	-	-	-	-	41,993,286	41,993,286
Other comprehensive income	-	-	-	-	2,175,269	2,175,269
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**44,168,555**	**44,168,555**
Transfer between reserves	-	28,100,000	-	28,100,000	(28,100,000)	-
Donated assets realised	-	-	(546,724)	(546,724)	-	(546,724)
Dividends	-	-	-	-	(16,000,000)	(16,000,000)
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**28,100,000**	**(546,724)**	**27,553,276**	**(44,100,000)**	**(16,546,724)**
Balance at July 01, 2013	**12,500,000**	**96,970,021**	**280,725,121**	**377,695,142**	**68,443,453**	**458,638,595**
Profit for the year	-	-	-	-	52,397,943	52,397,943
Other comprehensive income	-	-	-	-	3,282,330	3,282,330
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**55,680,273**	**55,680,273**
Transfer between reserves	-	28,100,000	-	28,100,000	(28,100,000)	-
Donated assets capitalised	-	-	12,569,423	12,569,423	-	12,569,423
Donated assets realised	-	-	(965,705)	(965,705)	-	(965,705)
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**28,100,000**	**11,603,718**	**39,703,718**	**(28,100,000)**	**11,603,718**
Balance at June 30, 2014	**12,500,000**	**125,070,021**	**292,328,839**	**417,398,860**	**96,023,726**	**525,922,586**
Note(s)	8					

Erongo Regional Electricity Distributor Company (Proprietary) Limited
(Registration number 2004/074)
Annual Financial Statements for the year ended June 30, 2014

Statement of Cash Flows

	Note(s)	2014 N$	2013 N$
Cash flows from operating activities			
Cash generated from operations	21	38,900,847	78,296,536
Interest received		5,149,430	7,981,276
Interest paid		(1,895,640)	(2,102,322)
Tax paid	23	(20,894,070)	-
Net cash from operating activities		**21,260,567**	**84,175,490**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(88,355,458)	(89,097,953)
Proceeds on disposal of property, plant and equipment	2	89,621	20,350
Donated assets capitalised		12,569,423	
Donated assets realised		(965,705)	(546,724)
Proceeds from loans from related parties	3	-	59,563
Repayment of loans from related parties	3	(317,080)	(2,732,690)
Movement of financial assets	7	29,685,046	32,814,063
Net cash to investing activities		**(47,294,153)**	**(59,483,391)**
Cash flows from financing activities			
Finance lease payments	9	(3,822,435)	(1,650,343)
Dividends paid	22	-	(16,000,000)
Net cash to financing activities		**(3,822,435)**	**(17,650,343)**
Total cash, cash equivalents and bank overdrafts movement for the year		**(29,856,021)**	**7,041,756**
Cash, cash equivalents and bank overdrafts at the beginning of the year		30,955,434	23,913,678
Total cash, cash equivalents and bank overdrafts at end of the year	6	**1,099,413**	**30,955,434**

Accounting Policies

1. Basis of preparation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, and the Namibian Companies Act, No 28 of 2004. The annual financial statements have been prepared on the historical cost basis, except for accounting for financial assets at fair value through profit and loss, and incorporate the principal accounting policies set out below. They are presented in Namibia Dollar.

These accounting policies are consistent with the previous year.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

(i) Key sources of estimation uncertainty

The comany makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following estimates and assumptions are made by the company:

Asset lives and residual values

Property, plant and equipment are depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments considered issues such as future market conditions, the remaining useful life of the asset and projected disposal values.

Impairment of non-financial assets

Property, plant and equipment are considered for impairment if there is reason to believe that impairment may be necessary. Factors taken into consideration in reaching such a decision include the economic viability of the asset itself and where it is a component of a larger economic unit, the viability of the unit itself.

Future cashflow expected to be generated by the assets are projected, taking into account market conditions and the expected useful life of each asset. The present value of these cash flows, determined using an appropriate discount rate, is compared to the current net asset value and, if lower, the assets are impaired to the present value.

Provision for severance pay

The provision for severance pay from services includes assumptions of expected withdrawal probabilities, average annual increases and market yields.

None of the above estimates and assumptions have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

(ii) Judgements in applying the company's accounting policies

No judgements in applying the company's accounting policies that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year were made during the year.

1.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.2 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Land is not depreciated. Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	25-50 years
Plant and equipment	5-20 years
Motor vehicles	5-10 years
Office and computer equipment	5-30 years
Distribution network assets	5-50 years

Major spare parts and stand by equipment which are expected to be used for more than one period are included in the cost of property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment

The residual value, useful life and depreciation method of each asset are reviewed and adjusted if appropriate at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. An asset's carryng amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amou

1.3 Financial instruments

Classification

The company classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss - designated
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through profit or loss - designated
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Accounting Policies

1.3 Financial instruments (continued)

Initial recognition and measurement

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Subsequent measurement

Financial instruments at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in profit or loss for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Derecognition

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.

Impairment of financial assets

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Accounting Policies

1.3 Financial instruments (continued)

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Trade and other payables are classified at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Cash and cash equivalents are classified as loans and receivables.

1.4 Income tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be availables against which the deductible temporary difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Income tax expenses

Current tax and deferred taxes are recognised in the same component of total comprehensive income (ie. continuing operations, discontinued operations, or other comprehensive income) or equity as the transaction or other event that resulted in the tax expense.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Accounting Policies

1.5 Leases (continued)

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

1.6 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Development reserve

The reserve was created in respect of grant funded assets received for infrastructure erected by developers in order to receive supply of electricity. Grant funded assets received are released to profit and loss over a period of 30 years, which is the deemed useful lives of the assets.

Non-distributable reserve

The non-distributable reserve was created in respect of the additional levy allowed by the Electricity Control Board in order to raise funds for the Walvis Bay bulk upgrade as these funds are specifically for this project.

1.7 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.8 Provisions and contingencies

Provisions are recognised when:

- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Accounting Policies

1.8 Provisions and contingencies (continued)

The provision for severance pay is raised in terms of the requirements of the Labour Act where there is a duty to pay the equivalent of one week's salary for every year of employment in the case of death, or retirement over the age of 65. The future probable outflow of economic benefit cannot be determined exactly and probabilities are applied based on past employment trends.

1.9 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Sale of goods is recognised when the company has deleivered products to the customer, the cusomer has accepted the product and collectability of the related receivable is reasonably assured.

Service revenue

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

Interest income

Revenue is recognised as interest accrues (using the effective interest method, that is, the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Grant funded assets

Grant funded assets income relates to the fair value of the assets transferred to the company by the developers, net of value added tax and other rebates. Such income is recognised over the useful lives of the assets, which is estimated at 30 years, once the risk and rewards of ownership of the individual components installed passes to the company.

1.10 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.11 Dividend distribution

Dividend distributions to the company's shareholders are recognised in the annual financial statements in the period which the dividends are approved by the directors of the company.

Notes to the Annual Financial Statements

2. Property, plant and equipment

	2014			2013		
	Cost	**Accumulated depreciation**	**Carrying value**	**Cost**	**Accumulated depreciation**	**Carrying value**
Land	11,547,140	-	11,547,140	11,547,140	-	11,547,140
Buildings	54,762,098	(2,691,520)	52,070,578	45,298,734	(1,873,577)	43,425,157
Plant and equipment	12,216,188	(5,142,630)	7,073,558	11,876,854	(4,677,238)	7,199,616
Motor vehicles	16,486,797	(6,992,497)	9,494,300	16,486,797	(5,993,718)	10,493,079
Office and computer equipment	24,741,885	(13,122,241)	11,619,644	20,132,845	(10,117,790)	10,015,055
Distribution network	695,078,392	(353,460,822)	341,617,570	622,590,771	(338,681,270)	283,909,501
Work in progress	24,988,013	-	24,988,013	25,541,520	-	25,541,520
Total	**839,820,513**	**(381,409,710)**	**458,410,803**	**753,474,661**	**(361,343,593)**	**392,131,068**

Reconciliation of property, plant and equipment - 2014

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Total**
Land	11,547,140	-	-	-	11,547,140
Buildings	43,425,157	9,463,364	-	(817,943)	52,070,578
Plant and equipment	7,199,616	339,334	-	(465,392)	7,073,558
Motor vehicles	10,493,079	-	-	(998,779)	9,494,300
Office and computer equipment	10,015,055	4,609,040	-	(3,004,451)	11,619,644
Distribution network	283,909,501	74,497,227	(151,403)	(16,637,755)	341,617,570
Work in progress	25,541,520	(553,507)	-	-	24,988,013
	392,131,068	**88,355,458**	**(151,403)**	**(21,924,320)**	**458,410,803**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Total**
Land	11,547,140	-	-	-	11,547,140
Buildings	42,504,032	1,604,877	-	(683,752)	43,425,157
Plant and equipment	6,351,299	1,415,141	-	(566,824)	7,199,616
Motor vehicles	8,530,785	2,435,086	-	(472,792)	10,493,079
Office and computer equipment	11,559,382	1,209,568	(117,069)	(2,636,826)	10,015,055
Distribution network	240,244,306	60,817,933	(1,463,032)	(15,689,706)	283,909,501
Work in progress	3,926,172	21,615,348	-	-	25,541,520
	324,663,116	**89,097,953**	**(1,580,101)**	**(20,049,900)**	**392,131,068**

Pledged as security

The company's obligations under finance leases are secured over certain motor vehicles and equipment with a net book value of N$ 28,187,502 (2013: N$ 27,707,750). Not all items in motor vehicles and equipment serve as security, only the amounts disclosed.

A register containing the information required by paragraph 22(3) of Schedule 4 of the Companies Act is available for inspection at the registered office of the company.

Included in Land and Buildings are substations of which the deed registration on the name of the company has not been completed. The inclusion of these assets are based on the principle of reporting the transactions based on substance and not legal form only.

Erongo Regional Electricity Distributor Company (Proprietary) Limited
(Registration number 2004/074)
Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 N$	2013 N$

3. Loans to (from) related parties

Municipality of Swakopmund	17	17
Municipality of Usakos	(75,560)	(151,475)
Municipality of Omaruru	2	2
Municipality of Henties Bay	1	1
Municipality of Karibib	20	20
Municipality of Arandis	2	(241,163)
Uis Town Council	(3,924)	(3,924)
	(79,442)	**(396,522)**

These loans are interest free, unsecured and are repayable on demand.

Current assets	42	40
Current liabilities	(79,484)	(396,562)
	(79,442)	**(396,522)**

4. Trade and other receivables

Trade receivables	142,918,814	135,820,394
Provision for doubtful debts	(14,300,000)	(17,455,700)
VAT	49,458,862	46,282,549
Other receivables	684,291	-
	178,761,967	**164,647,243**

Trade and other receivables pledged as security

Trade and other receivables were pledged as security for overdraft facilities of N$ 56,294,739 (2013: N$46,009,352) of the company.

Fair value of trade and other receivables

At 30 June 2014, the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets.

Trade and other receivables past due but not impaired

Trade receivables which are more than 30 days due are considered to be past due. At 30 June 2014, N$ 24,392,254 (2013: N$ 12,790,804) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

Between 30 and 60 days	6,084,400	4,373,560
Between 60 and 90 days	2,399,149	2,047,125
More than 90 days	15,908,705	6,370,119
	24,392,254	**12,790,804**

Trade and other receivables impaired

During the year ended 30 June 2014, trade receivables of N$ 4,469,822 previously impaired were recovered from trade debtors already provided for (2013: N$ 6,791,348 was written off).

As of June 30, 2014, trade and other receivables of N$14,300,000 (2013: N$ 17,455,700) were past due and provided for.

Notes to the Annual Financial Statements

	2014 N$	2013 N$

5. Prepayments

Prepayments were made for the upgrade of the Swakopmund and Walvis Bay Electricity Grids.

	2014 N$	2013 N$
Namibia Power Corporation Limited - Swakopmund	5,368,792	5,364,800
Namibia Power Corporation Limited - Walvis Bay	108,055,967	78,053,860
	113,424,759	**83,418,660**

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2014 N$	2013 N$
Cash on hand	1,099,413	705,442
Bank balances	-	30,249,992
	1,099,413	**30,955,434**

Interest at the prime overdraft rate less 2% is charged on the company's banking facility and interest of 5.6% is received on positive bank balances

The company has access to an overdraft facility of N$ 55,000,000 and an autocard facility of N$ 200,000. The date of review of the facilities was 27 November 2013. At year-end the company had utilised N$ 4,946,749 of the overdraft facility and long term facilities of N$ 1,094,739.

The bank overdraft facility is secured as follows:

- 1st Bond N$ 1,9 million over Portion 205 Rem of Erf No 23B Walvis Bay Industrial Property
- Cession of Fire Policy & Nasria of N$ 366 million
- Cession of book debts
- Deed and cession of pledge for N$ 11,000,000 covering own FNB Unit Trust Money Market Investments

Guarantees provided by First National Bank to Namibia Power Corporation Limited amounted to N$ 57,009,532 at year end, which are in effect until cancelled.

7. Financial assets at fair value through profit and loss

	2014 N$	2013 N$
At fair value through profit or loss - designated		
FNB Namibian Unit Trusts Money Market Fund	34,915,341	64,600,387
Current assets		
Designated as at fair value through profit or loss (fair value through income)	34,915,341	64,600,387

Fair value information

Fair values are determined annually at statement of financial position date.

The unit trusts serve as security for the overdraft facilities as per note 7.

	2014 N$	2013 N$
Restriction on unit trust bulk upgrade payable to Namibia Power Corporation Limited		
First National Bank Unit Trusts	11,000,000	46,009,352

Erongo Regional Electricity Distributor Company (Proprietary) Limited

(Registration number 2004/074)
Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 N$	2013 N$
8. Share capital		
Authorised		
30 000 000 Ordinary shares of N$1 each	30,000,000	30,000,000
Issued		
12 500 000 Ordinary shares of N$1 each	12,500,000	12,500,000

9. Borrowings

Minimum lease payments due		
- within one year	3,378,695	3,770,609
- in second to fifth year inclusive	14,359,374	14,281,995
- later than five years	-	3,507,900
Present value of minimum lease payments	**17,738,069**	**21,560,504**
Non-current liabilities	14,359,374	17,789,895
Current liabilities	3,378,695	3,770,609
	17,738,069	**21,560,504**

The Company has entered into finance leases for certain motor vehicles and equipment.

Interest rates are linked to prime less 1% at the contract date. All leases have fixed repayments and with an effective interest rate of 8.25% (2013: 8.25%).

The company's obligations under finance leases are secured over certain motor vehicles and equipment with a net book value of N$ 28,187,502 (2013: N$ 27,707,750).

10. Deferred income tax liability

Deferred income tax liability	(82,556,194)	(66,123,695)
Accelerated capital allowances for income tax purposes	(79,437,112)	(69,593,170)
Post employment benefit obligation	6,579,099	6,857,853
Consumables	(12,191,470)	(10,009,043)
Customer deposits	2,493,289	6,620,665
	(82,556,194)	**(66,123,695)**

Reconciliation of deferred income tax liability

At beginning of year	(66,123,695)	(63,226,093)
Other temporary differences	(16,432,499)	(4,901,350)
Adjustment due to rate change	-	2,003,748
	(82,556,194)	**(66,123,695)**

Notes to the Annual Financial Statements

	2014 N$	2013 N$

11. Post employment benefit obligation

Reconciliation of provision for severance pay

	2014 N$	2013 N$
Opening Balance	7,580,484	7,613,394
Discount rate adjustment	-	1,498,499
Current service cost	1,097,516	1,097,852
Past service cost	-	(183,319)
Benefit payments	(88,000)	-
Interest charge	678,000	849,919
Actuarial gains	(4,899,000)	(3,295,861)
	4,369,000	**7,580,484**

An actuarial gain of N$ 4,899,000 arose during the year to 30 June 2014. This gain is broken down as follows:

i) The retirement age for current and subsequent employees changed during the current financial year from 65 years to 60 years. The use of an early retirement assumption resulted in an actuarial gain of N$ 4,422,000.

ii) Allowing for withdrawals and deaths resulted in an actuarial gain of N$ 4,706,000.

iii) The previous valuation was based on basic salaries and not total cost to company. The change from basic salary (increased by 8.36%) to total cost to company salaries resulted in an actuarial loss of N$ 2,793,000.

iv) Allowing for a promotional salary scale in our model resulted in an actuarial loss of N$ 3,635,000.

v) The change in the "gap" between the discount rate and the salary inflation rate from 0.04% to 1.4% resulted in an actuarial gain of N$ 1,790,000.

vi) A residual actuarial gain of N$ 409,000.

Key assumptions:

The key assumptions used to determine the past service liability and the service cost are as follows:

- A discount rate of 9.9% per annum

- A salary inflation rate of 8.5% per annum

12. Trade and other payables

	2014 N$	2013 N$
Trade payables	38,287,148	35,185,147
Accrued leave pay	13,236,342	7,205,536
Accrued bonus	2,055,500	2,017,224
Other accrued expenses		317,938
Uncashed cheques	73,727,056	88,929,432
Deposits received from customers	22,562,472	31,601,486
	149,868,518	**165,256,763**

Fair value of trade and other payables

At 30 June 2014, the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these liabilities.

The carrying amounts of trade and other payables are denominated in Namibia Dollar.

13. Current income tax payable

The current tax balance is made up as follows:

Notes to the Annual Financial Statements

	2014 N$	2013 N$

13. Current income tax payable (continued)

Current tax payable	6,078,474	16,196,229

14. Revenue

Sale of electricity	767,906,078	673,059,893

The revenue generated during the year under review was charged in line with the approved rates of the Electricity Control Board of Namibia.

15. Cost of sales

Purchase of electricity	480,657,588	405,804,016

The purchase of electricity included under cost of sales were procured from Namibia Power Corporation Limited in line with the approved rates of the Electricity Control Board of Namibia.

16. Operating profit

Operating profit for the year is stated after accounting for the following:

Operating lease charges		
Lease rentals on operating leases		
• Contractual amounts	5,775,380	5,246,275
Employee costs	113,403,464	98,282,921
Depreciation on property, plant and equipment	21,924,320	20,049,900
Loss on disposal of property, plant and equipment	61,782	1,559,751
Amount expensed in respect of past service liability:		
- Service cost	1,098,000	914,533
- Net interest on the net defined benefit liability	678,000	849,919
Expenses by nature		
Cost of sales	480,657,588	405,804,016
Employee costs	118,302,464	101,578,783
Depreciation, amortisation and impairments	21,924,320	20,049,900
Advertising	3,903,071	2,289,279
Lease rentals on operating lease	5,775,380	5,246,275
Transport and freight	84,926	68,384
L.A. Surcharges	47,059,365	47,122,428
Bad debts	-	6,791,348
Repairs and maintenance	8,737,280	5,570,867
Other expenses	12,155,642	27,640,561
Total administrative expenses	**217,942,448**	**216,357,825**
Total cost of sales and administrative expenses	**698,170,858**	**618,865,979**

Notes to the Annual Financial Statements

	2014 N$	2013 N$

17. Finance income

Bank	2,793,449	6,149,657
Interest charged on trade and other receivables	2,355,981	1,831,619
	5,149,430	**7,981,276**

18. Interest paid

Trade and other payables	361,496	29,858
Bank	1,534,144	2,072,464
	1,895,640	**2,102,322**

19. Income tax expense

Major components of the income tax expense

Current		
Local income tax - current period	10,776,315	16,154,322
Deferred		
Originating and reversing temporary differences	16,432,499	2,897,603
	27,208,814	**19,051,925**

Reconciliation of the income tax expense

Reconciliation between accounting profit and tax expense.

Accounting profit	77,990,087	59,924,618
Tax at the applicable tax rate of 33% (2013: 34%)	27,353,399	21,494,963
Tax effect of adjustments on taxable income		
Disallowable expenses	(144,585)	(439,290)
Adjustment to deferred tax due to rate change	-	(2,003,748)
	27,208,814	**19,051,925**

The income tax rate of 34% in 2013 was reduced to 33% in 2014.

20. Auditors' remuneration

Fees	660,665	543,126
Tax and secretarial services	2,308	6,553
	662,973	**549,679**

Notes to the Annual Financial Statements

	2014 N$	2013 N$

21. Cash (used in) generated from operations

	2014 N$	2013 N$
Profit before taxation	77,990,087	59,924,618
Adjustments for:		
Depreciation and amortisation	21,924,320	20,049,900
Loss on sale of plant and equipment	61,782	1,559,751
Interest received	(5,149,430)	(7,981,276)
Interest paid	1,895,640	2,102,322
Movements in provisions	(3,211,484)	(32,910)
Actuarial gain on remeasurement of severance pay provision	4,899,000	3,295,862
Changes in working capital:		
Inventories	-	28,107,516
Trade and other receivables	(14,114,724)	(24,186,256)
Prepayments	(30,006,099)	(73,053,860)
Trade and other payables	(15,388,245)	68,510,869
	38,900,847	**78,296,536**

22. Dividends paid

	2014 N$	2013 N$
Dividends	-	(16,000,000)

No dividends were declared and paid by the Company during the year under review (2013: 128 cents per share).

23. Tax refunded (paid)

	2014 N$	2013 N$
Balance at beginning of the year	(16,196,229)	(41,907)
Current tax for the year recognised in profit or loss	(10,776,315)	(16,154,322)
Balance at end of the year	6,078,474	16,196,229
	(20,894,070)	**-**

24. Commitments

Authorised capital expenditure

On 14 May 2014, the directors approved capital commitments of N$ 149,244,383 (inclusive of VAT) relating to the bulk upgrade of the electricity infrastructure in the Walvis Bay and Swakopmund areas.

25. Related parties

Relationships

The municipalities and councils below are all shareholders of the company.

The related party transactions were carried out at terms and conditions agreed upon between the parties.

Notes to the Annual Financial Statements

25. Related parties (continued)

Related party balances

	2014 N$	2013 N$
Related party amounts included in trade receivables		
Arandis Town Council	254,448	911,930
Erongo Regional Council	220,003	253,274
Municipality of Henties Bay	114,735	115,301
Municipality of Karibib	160,943	167,277
Municipality of Omaruru	117,918	201,706
Municipality of Swakopmund	453,804	1,069,557
Uis Village Council	24,462	15,164
Municipality of Usakos	372,959	415,334
Municipality of Walvis Bay	1,787,481	1,592,818
Related party amounts included in trade payables		
Arandis Town Council	-	568
Erongo Regional Council	-	2,971
Municipality of Henties Bay	-	198,089
Municipality of Karibib	5,994	34,024
Municipality of Omaruru	2,206	81,067
Municipality of Swakopmund	1,567	1,162,699
Uis Village Council	34,467	3,497
Municipality of Usakos	942	104,108
Municipality of Walvis Bay	-	2,340,891
Namibia Power Corporation Limited	66,469,193	82,367
Prepayments made to related parties		
Namibia Power Corporation Limited	34,507,014	83,418,660
Loans to (from) related parties		
Municipality of Swakopmund	17	17
Municipality of Usakos	(75,560)	(151,475)
Municipality of Omaruru	2	2
Municipality of Henties Bay	1	1
Municipality of Karibib	20	20
Municipality of Arandis	2	(241,163)
Uis Town Council	(3,924)	(3,924)

Notes to the Annual Financial Statements

	2014 N$	2013 N$

25. Related parties (continued)

Related party transactions

	2014 N$	2013 N$
Purchases from related parties		
Namibia Power Corporation Limited	480,657,588	405,804,016
LA Surcharges paid to related parties		
Arandis Town Council	289,998	283,888
Erongo Regional Council	-	110,101
Municipality of Henties Bay	2,365,724	2,365,724
Municipality of Karibib	319,282	311,525
Municipality of Omaruru	941,302	941,301
Municipality of Swakopmund	13,873,702	13,873,701
Uis Village Council	79,958	82,835
Municipality of Usakos	1,249,299	1,249,299
Municipality of Walvis Bay	27,940,100	27,904,050
Revenue and other income from related parties		
Arandis Town Council	523,526	530,825
Erongo Regional Council	365,267	233,759
Municipality of Henties Bay	691,195	717,670
Municipality of Karibib	168,469	140,158
Municipality of Omaruru	991,082	886,606
Municipality of Swakopmund	8,861,955	4,568,086
Uis Village Council	41,432	30,575
Municipality of Usakos	372,959	367,801
Municipality of Walvis Bay	9,717,679	8,106,830
Compensation to directors and other key management		
Directors' remuneration	2,119,812	1,883,227
Key management	15,258,504	12,545,764
	17,378,316	**14,428,991**

The directors' remuneration for the current year is made up as follows:

Retainer fee	730,087
Sitting fee	971,885
Subsistence and travelling allowance	417,840

Key management personnel are those persons having authoriy and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Key management of the company include:

- SU Hambira
- M Maartens
- JV Bisset
- R Kahimise
- F Mbango
- JF Iyambo
- DM Hoabeb
- B Nangolo
- N Niemand
- FK Vries
- C Tjizo
- R Ouseb
- TP Gaoses
- KN Andima

Notes to the Annual Financial Statements

26. Risk management

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 for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Financial risk management

The company’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the comany's financial performance.

The financial risk management function is carried out by local management.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, company treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the company’s financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At June 30, 2014	**Less than 1 year**	**Between 1 and 2 years**
Loans from related parties	79,484	-
Interest bearing borrowings	3,378,695	14,359,374
Trade and other payables	150,416,416	-

At June 30, 2013	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**
Loans from related parties	396,562	-	-
Interest bearing borrowings	3,770,609	14,281,995	3,507,900
Trade and other payables	165,256,763	-	-

Interest rate risk

As the company has no significant interest-bearing assets or liabilities, the company’s income and operating cash flows are substantially independent of changes in market interest rates.

The company has no significant assets or liabilities presented at fair value that exposes the company to fair value interest rate risk.

The company is not exposed to material cash flow interest rate risk.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, financial instruments and trade debtors. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Credit quality of financial assets:

i) Cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by refernce to external credit ratings (if available) or historical information about counterparty default rates:

Notes to the Annual Financial Statements

26. Risk management (continued)

Credit rating	**2014** **N$**	**2013** **N$**
First National Bank Namibia Limited - A1+	(1,597,848)	30,140,174
Bank Windhoek Limited - A1+	2,709,180	109,818

The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

ii) Financial assets at fair value

The credit quality of financial assets that are neither past due nor impaired can be assessed by refernce to external credit ratings (if available) or to historical information about counterparty default rates:

Credit rating	**2014** **N$**	**2013** **N$**
FNB Namibia Unit Trusts Money Market Fund	34,915,341	64,600,387

iii) Trade receivables	**2014** **N$**	**2013** **N$**
Trade receivables	128,618,814	118,364,694

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

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

The decision to impair ovedue amounts is assessed on the probability of recovery based on the customer's credit risk profile.

Progress on the collection process is reviewed on a regular basis and if it is evident that the amount will not be recovered, it is recommended for write-off in terms of the company's delegation of authority. The process of recovery or the costs of such action will exceed the benefits to be derived.

In addition the following strategies are currently in operation and are successful of non-paying customers. These include:

- disconnections
- conversion to prepayment
- use of debt collectors
- payment arrangements
- focus on early identification and letters of demand

With respect to trade and other receivables that are neither past due nor impaired, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Interest charged on all arrear debts of N$ 2,355,981 (2013: N$ 1,180,150) was credited to profit or loss within finance income.

Foreign exchange risk

The company does not operate in foreign currencies and is not exposed to foreign currency risk.

Notes to the Annual Financial Statements

26. Risk management (continued)

Commodity price risk

The company is exposed to commodity price risk where commodities are used indirectly as a component of plant, equipment or inventory (e.g. copper). The exposure where commodities formed a part of plant, equipment or inventory was relatively small at year end, but may increase as the capital expansion programme progresses.

The company needs to manage exposure to commodity price risk as a result of fluctuation in the price at which power is procured from Namibia Power Corporation Limited.

The company is allowed by law to re-evaluate the tariffs charged to customers once a year. Any increases in the price charged by Namibia Power Corporation Limited for electricity purchased, can therefore be compensated by increases in the tariffs charged. The company is thus not significantly exposed to commodity price risk in this regard.

27. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2014

	Loans and receivables	Fair value through profit or loss - designated	Total
Loans to related parties	42	-	42
Financial assets at fair value through profit and loss	-	34,915,341	34,915,341
Trade and other receivables	129,303,105	-	129,303,105
Cash and cash equivalents	1,099,413	-	1,099,413
	130,402,560	**34,915,341**	**165,317,901**

2013

	Loans and receivables	Fair value through profit or loss - designated	Total
Loans to related parties	40	-	40
Financial assets at fair value through profit and loss	-	64,600,387	64,600,387
Trade and other receivables	118,364,694	-	118,364,694
Cash and cash equivalents	30,955,434	-	30,955,434
	149,320,168	**64,600,387**	**213,920,555**

28. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2014

	Financial liabilities at amortised cost	Total
Loans from related parties	79,484	79,484
Other financial liabilities	17,738,069	17,738,069
Trade and other payables	150,416,416	150,416,416
	168,233,969	**168,233,969**

Notes to the Annual Financial Statements

28. Financial liabilities by category (continued)

2013

	Financial liabilities at amortised cost	Total
Loans from related parties	396,562	396,562
Other financial liabilities	21,560,504	21,560,504
Trade and other payables	165,256,763	165,256,763
	187,213,829	**187,213,829**

29. Fair value information

Fair value hierarchy

The table below analyses assets and liabilities carried at fair value. The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the company can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

Levels of fair value measurements

Level 1

Recurring fair value measurements

Assets	Note(s)	**2014 N$**	**2013 N$**
Financial assets designated at fair value through profit or loss			
FNB Namibian Unit Trusts Money Market Fund	7	34,915,341	64,600,387

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date.

Notes to the Annual Financial Statements

30. Events after the reporting period

The following events after the reporting period are considered material for disclosure purposes:

i) On 7 July 2014, the company entered into a power supply agreement with Namibia Power Corporation Ltd, where the aforementioned agrees to supply power to the company from the Sekel Duin and Lithops Substations. The capital contribution to be made under the supply agreement for the Lithops substation amounts to N$ 81,359,539. The capital contribution of N$ 163,931,350 for the Sekel Duin substation will be customer funded and the company will therefore not incur additional debt, and will therefore have no impact on the company's gearing ratio.

ii) On the 26th September 2014 the company secured a 10 year term loan of N$ 280 million with the Development Bank of Namibia. The interest rate is linked to prime plus 1%. The loan will be utilized to finance the Wavis Bay and Swakopmund bulk upgrades and other capital expenditure.

The loan is secured as follows:

- Negative pledge over assets
- Cession of Escrow Account accruing to a balance of N$ 50,000,000 over a period of 5 years
- 1st CCMB over Erf 657, No 91 Hage Geingob Avenue, Walvis Bay registered to the value of N$ 50,000,000
- Cession of Fire Cover Policy over Erf 657, No 91 Hage Geingob Avenue, Walvis Bay, and
- Bank's interest to be noted on assets financed under the Suspensive Sale Agreement Facility

31. New Standards and Interpretations

31.1 Standards and interpretations effective in the current year

In the current year, the company has adopted the following standards and interpretations that are effective for the current financial year and were applied where relevant to its operations:

• IFRS 10 Consolidated Financial Statements	January 01, 2013
• IAS 27 Separate Financial Statements	January 01, 2013
• IFRS 11 Joint Arrangements	January 01, 2013
• IFRS 12 Disclosure of Interests in Other Entities	January 01, 2013
• IFRS 13 Fair Value Measurement	January 01, 2013
• IAS 19 Employee Benefits Revised	January 01, 2013
• Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	January 01, 2013
• Government Loans (Amendment to IFRS 1)	January 01, 2013
• Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance.	January 01, 2013

31.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company’s accounting periods beginning on or after July 01, 2014 or later periods.

Management has not yet determined to what extent the improvements and amendments to the standards will impact the company.

• IFRS 9 Financial Instruments	January 01, 2015
• Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	January 01, 2014
• IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets	January 01, 2014
• IFRIC 21 Levies	January 01, 2014
• IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	January 01, 2014
• IFRS 10, IFRS 12 and IAS 27 – Investment Entities	January 01, 2014
• IFRS 9 - Financial Instruments (2009)	January 01, 2018
• IFRS 9 - Financial Instruments (2010)	January 01, 2018
• Amendments to IFRS 9 - Financial Instruments (2011)	January 01, 2018
• Amendment to IAS 19 regarding defined benefit plan	July 01, 2014

Notes to the Annual Financial Statements

31. New Standards and Interpretations (continued)

- IFRS 15 - Revenue from contracts with customers January 01, 2017

There are numerous other new standards or amendments to existing standards that are not yet effective for the Company. Each of these has been assessed, and will not have a material impact on the financial statements.

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