# NAMZINC (PROPRIETARY) LIMITED

(Registration Number: 98/226)

# ANNUAL FINANCIAL STATEMENTS
# 31 March 2018

**GENERAL INFORMATION**

| | |
|---|---|
| **Country of incorporation and domicile** | NAMIBIA |
| **Nature of business and principal activities** | Owns and operates a zinc refinery. |
| **Registered office** | 24 Orban Street<br>Klein Windhoek<br>Windhoek |
| **Postal address** | PO Box 30<br>Windhoek |
| **Ultimate holding company** | Vedanta Resources Plc |
| **Holding company** | 100% held subsidiary of Skorpion Zinc (Proprietary) Limited. |
| **Bankers** | First National Bank |
| **Auditors** | Ernst & Young Namibia |
| **Company registration number** | 98/226 |
| **Preparer of annual financial statements** | The annual financial statements have been prepared under the supervision of Sharon Mthetho CA (SA) (Financial Reporting Manager). |
| **Published** | 24 April 2018 |

NAMZINC (PROPRIETARY) LIMITED

ANNUAL FINANCIAL STATEMENTS
31 March 2018

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**DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS**

The annual financial statements set out on pages 4 to 40 were approved by the board of directors on 24 April 2018 and are signed on its behalf by:

DIRECTOR

DIRECTOR

Building a better working world

Ernst & Young Namibia
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Windhoek, Namibia

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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NAMZINC (PROPRIETARY) LIMITED

### Opinion

We have audited the financial statements of Namzinc (Proprietary) Limited set out on pages 4 to 40, which comprise the directors' report, the statement of financial position as at 31 March 2018, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Namzinc (Proprietary) Limited as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Namibia.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the independence requirements applicable to performing audits in Namibia which is consistent with the International Ethics and Standards Board for Accountants' Code of Ethics for Professional Accountants (Part A and B). We have fulfilled our other ethical responsibilities in accordance with the ethical requirements applicable to performing audits in Namibia. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

The directors are responsible for the other information. The other information comprises the general information and the directors' approval on page 1. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the financial statements

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

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

F.C. Kotzé; J.J. Coetzee; A.J. Engels; B.S. Masule; J.G. van Graan; D. van der Walt; D. van Wyk
A full list of partner's names may be obtained from this office
A member firm of Ernst & Young Global Limited

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Ernst & Young

**Ernst & Young**
Partner - Jaco Coetzee
Registered Accountants and Auditors
Chartered Accountant (Namibia)

Windhoek

Date: 26 April 2018

**REPORT OF THE DIRECTORS**
**for the year ended 31 March 2018**

The directors have pleasure in presenting their report on the activities of the company for the year ended 31 March 2018.

**GENERAL REVIEW**

The company owns and operates a zinc refinery. The ore bought from Skorpion Mining Company (Proprietary) Limited is processed and refined to produce special high grade zinc. The zinc is exported either by sea via Lüderitz or by road to South Africa. The company has been granted Export Processing Zone status by the Namibian Government and is, therefore, exempt from paying taxes. The company has received dispensation to sell a limited portion of production to the Southern African Customs Union market.

The results of the company are fully set out in the attached financial statements.

The authorised share capital of 4 000 (2017: 4 000) and issued share capital of 100 (2017: 100) ordinary shares have remained unchanged during the year.

**STATEMENT OF RESPONSIBILITY**

The directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The auditors are responsible to report on the fair presentation of the financial statements and their report appears on pages 2 to 3. The financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act in Namibia.

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

The directors are satisfied that the company has access to adequate resources to remain a going concern for the foreseeable future. The company's annual financial statements on pages 4 to 40 have therefore been prepared on a going concern basis.

The company's annual financial statements were approved by the board of directors and signed on its behalf by directors on page 1.

**DIRECTORS AND SECRETARY**

The directors in office during the year and at the date of this report were as follows:

KK Rajagopal*
D Naidoo**
I Simataa***
GRA Kumar*

*Indian
**South African
***Namibian

Secretary – SGA Windhoek

STATEMENT OF FINANCIAL POSITION
as at 31 March 2018

| | Notes | 2018 N$'000 | 2017 N$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS | | 746 184 | 780 674 |
| Property, plant and equipment | 2 | 737 267 | 771 718 |
| Intangible asset | 3 | 8 733 | 8 772 |
| Other non-current assets | | 184 | 184 |
| CURRENT ASSETS | | 4 456 070 | 2 806 704 |
| Loans to related parties | 11 | 3 349 298 | 1 577 222 |
| Inventory | 4 | 381 778 | 520 064 |
| Trade and other receivables | 5 | 152 005 | 50 317 |
| Cash and cash equivalents | 6 | 572 989 | 659 101 |
| TOTAL ASSETS | | 5 202 254 | 3 587 378 |
| **EQUITY AND LIABILITIES** | | | |
| CAPITAL AND RESERVES | | 2 574 748 | 1 402 502 |
| Share capital | 7 | 1 | 1 |
| Retained income | | 2 574 747 | 1 402 501 |
| NON-CURRENT LIABILITIES | | 242 815 | 284 142 |
| Decommissioning provision | 8 | 237 683 | 278 137 |
| Restoration provision | 9 | 5 132 | 6 005 |
| CURRENT LIABILITIES | | 2 384 691 | 1 900 734 |
| Trade and other payables | 10 | 1 769 406 | 1 290 320 |
| Loans from related parties | 11 | 615 285 | 610 414 |
| TOTAL EQUITY AND LIABILITIES | | 5 202 254 | 3 587 378 |

NAMZINC (PROPRIETARY) LIMITED

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 March 2018

| | Notes | 2018<br>N$'000 | 2017<br>N$'000 |
|---|---|---|---|
| Revenue | 15 | 3 596 704 | 2 937 030 |
| Cost of sales | | (2 079 769) | (1 536 938) |
| Gross profit | | 1 516 935 | 1 400 092 |
| Other income | | 18 474 | 216 325 |
| Distribution costs | | (64 288) | (63 987) |
| Administrative expenses | | (199 235) | (434 166) |
| Other operating expenses | | - | - |
| OPERATING PROFIT BEFORE NET FINANCE COSTS | | 1 271 886 | 1 118 264 |
| Net finance costs | 12 | (99 640) | (91 479) |
| - Finance income | | 35 152 | 6 008 |
| - Finance costs | | (134 792) | (97 487) |
| **PROFIT BEFORE TAXATION** | 13 | **1 172 246** | **1 026 785** |
| Taxation | 14 | - | - |
| PROFIT FOR THE YEAR | | 1 172 246 | 1 026 785 |
| Other comprehensive income | | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **1 172 246** | **1 026 785** |

NAMZINC (PROPRIETARY) LIMITED

## STATEMENT OF CHANGES IN EQUITY
for the year ended 31 March 2018

| | | Share capital | Retained income | Total |
|---|---|---|---|---|
| | | N$'000 | N$'000 | N$'000 |
| Balance at 1 April 2016 | | 1 | 375 716 | 375 717 |
| Total comprehensive income for the year | | - | 1 026 785 | 1 026 785 |
| Balance at 31 March 2017 | | 1 | 1 402 501 | 1 402 502 |
| Total comprehensive income for the year | | - | 1 172 246 | 1 172 246 |
| Balance at 31 March 2018 | | 1 | 2 574 747 | 2 574 748 |
| | Note | 7 | | |

STATEMENT OF CASH FLOWS
for the year ended 31 March 2018

| | Notes | 2018 N$'000 | 2017 N$'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | 1 790 866 | 1 684 015 |
| Cash generated by operations | 17.1 | 1 864 663 | 1 745 253 |
| Finance income | 12 | 35 152 | 6 008 |
| Finance costs | 12 | (108 949) | (67 246) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | (65 197) | (68 497) |
| Acquisition of plant and equipment | | (65 197) | (68 497) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | (1 811 781) | (1 123 750) |
| Increase in loans to related parties | | (1 811 781) | (1 123 750) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | (86 112) | 491 768 |
| Cash and cash equivalents at the beginning of the year | | 659 101 | 167 333 |
| **CASH AND CASH EQUIVALENTS AT YEAR END** | **6** | 572 989 | 659 101 |

**1. ACCOUNTING POLICIES**

The annual financial statements are prepared on the historical cost basis except for certain financial instruments where the fair value bases of accounting are adopted. The principle accounting policies of the company which are set out below have been consistently applied and comply in all material respects with International Financial Reporting Standards ("IFRS") and the Namibian Companies Act.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The functional currency of the company is the Namibian Dollar (N$).

The company has adopted all standards and interpretations that were effective for the current year. The adoption of these standards did not have any significant effect on the financial position or results from operations cash flows or disclosures.

| New/Revised International Financial Reporting Standards | | Effective for annual periods beginning on or after | Impact on financial statements |
|---|---|---|---|
| IAS 7 | Financial Instruments: Disclosures | 1 January 2017 | None |
| IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 | None |

At the date of authorisation of these financial statements, the following Standards and Interpretations were issued but not yet effective: A reliable estimate of the impact of the adoption of the recent amendments for the group and company has not yet been determined; however, directors anticipate that the adoption of the recent standards and interpretations will have no material impact on the annual financial statements in future periods.

| New/Revised International Financial Reporting Standards | | Effective for annual periods beginning on or after |
|---|---|---|
| IFRS 16 | Leases<br>Introduction of a single lease accounting model and enhancements of disclosures | 1 January 2019 |
| IFRS 2 | Classification and Measurement of Share based Payment Transactions | 1 January 2018 |
| IAS 40 | Transfers of Investment Property | 1 January 2018 |
| IFRS 15 | Revenue from Contracts from Customers<br>Changes to revenue recognition criteria and additional disclosure requirements | 1 January 2018 |
| IFRS 9 | Financial Instruments<br>Reissue to include requirements for the classification and measurement of financial liabilities and incorporate existing recognition requirements | 1 January 2018 |

**1. ACCOUNTING POLICIES (continued)**

**1.1 Research, exploration and pre-production expenditure**

Research expenditure is written off in the period in which it is incurred until such time as an economic reserve is defined. When a decision is taken that a mining property is viable for commercial production, all further pre-production expenditure is capitalised. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production. Capitalised pre-production expenditure is amortised from the date commercial production commences over the economic life of the mine.

**1.2 Taxation**

Taxation (normal and deferred) is not applicable as the company has been granted Export Processing Zone status and is therefore exempt from paying taxes.

**1.3 Foreign currency transactions**

Transactions in foreign currency, other than the Namibian Dollar are accounted for at the rate of exchange ruling on the date of the transaction.

At each statement of financial position date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the statement of financial position date. Non-monetary items are measured in terms of historical cost in a foreign currency and are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

**1.4 Intangible assets**

The development costs related to an internally generated intangible asset are recognised as an asset only if all of the following can be demonstrate:

- It is technically feasible that the intangible asset will be completed so that it will be available for use.
- It is the intention of the company to complete the project related to the intangible asset and that once the project is completed that the company will use the intangible asset.
- The company has the ability to use the intangible asset.
- It is probable that the company will generate future economic benefits resulting from the intangible asset.
- There are adequate technical and financial resources to complete the development and use the intangible asset.
- The development costs related to the project can be measured reliably.

No costs related to the research stage of an internally generated intangible asset are capitalised. All the research costs are recognised as an expense when they were incurred.

The company’s only internally generated intangible asset is the SAP system which is amortised over the life of the mine.

**1. ACCOUNTING POLICIES (continued)**

**1.5 Financial Instruments**

***Initial recognition and measurement***

All financial instruments, including derivative instruments, are recognised on the statement of financial position. Financial instruments are initially recognised when the company becomes party to the contractual terms of the instruments and are measured at cost, which is the fair value of the consideration given (financial asset) or received (financial liability or equity instrument) for it. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement on initial recognition. Subsequent to initial recognition these instruments are measured as set out below.

***Fair value methods and assumptions***

The fair value of financial instruments traded in an organised financial market are measured at the applicable quoted prices, adjusted for any transaction costs necessary to realise the assets or settle the liabilities.

The fair value of financial instruments not traded in an organised financial market, is determined using a variety of methods and assumptions that are based on market conditions and risk existing at statement of financial position date, including independent appraisals and discounted cash flow methods. The fair value determined is adjusted for any transaction costs necessary to realise the asset or settle the liabilities.

The carrying amounts of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values due to the short-term trading cycle of these items.

The fair value methods used are consistent with the requirements of IFRS 13.

***Derecognition***

Financial assets (or a portion thereof) are derecognised when the company realises the rights to the benefits specified in the contract, the rights expire or the company surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On derecognition, the difference between the carrying amount of the financial asset and proceeds receivable and any prior adjustment to reflect fair value that had been reported in equity are included in profit and loss.

Financial liabilities (or a portion thereof) are derecognised when the obligation specified in the contract is discharged, cancelled or expires. On derecognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and amount paid for it are included in profit and loss.

**1. ACCOUNTING POLICIES (continued)**

**1.5 Financial Instruments (continued)**

***Financial assets***

The company's principal financial assets are group company loans and receivables, trade and other receivables and bank and cash balances:

**Financial assets at Fair Value Through Profit and Loss ("FVTPL")**

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired for the purpose of selling in the near future; or
- it is part of an identified portfolio of financial instruments that the company manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

**Held-to-maturity investments**

Financial assets with fixed or determinable payments and fixed maturity dates that the company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

**1. ACCOUNTING POLICIES (continued)**

**1.5 Financial Instruments (continued)**

**Available For Sale ("AFS") financial assets**

Unlisted shares and listed redeemable notes held by the company that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised through other comprehensive income to the investments revaluation reserve, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the company's right to receive the dividend is established.

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

**Loans and receivables**

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

**Group Company and related party loans and receivables**

Group company loans and receivables originated by the company are stated at amortised cost less provision for impairment, if any.

**Trade and other receivables**

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. An estimate of doubtful debts is made based on a review of all outstanding amounts at statement of financial position date and is recognised in profit or loss when there is evidence that the asset is impaired. Bad debts are written off during the period in which they are identified.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, 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. Cash and cash equivalents are measured at fair value.

**1. ACCOUNTING POLICIES (continued)**

**1.5 Financial Instruments (continued)**

***Financial assets (continued)***

**Investment in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the company has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The interim amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

***Financial liabilities***

The company's principal financial liabilities are group company loans and payables and trade and other payables:

**Financial liabilities at FVTPL**

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial liability.

**1. ACCOUNTING POLICIES (continued)**

**1.5 Financial Instruments (continued)**

**Group company loans and payables**
Group company loans and payables are recognised at amortised cost, which is the original debt less principal repayments and amortisations.

**Trade and other payables**

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

***Equity instruments***

Equity instruments issued by the company are recorded at the value of proceeds received less directly attributable costs.

***Effective interest rate method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future payments through the expected life of the financial liability or asset, or, where appropriate, a shorter period.

**1.6 Restoration, rehabilitation and environmental costs**

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the development or ongoing production of a mine. Costs arising from the installation of plant and other site preparation work, discounted to net present value, are provided for and a corresponding amount is capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are charged to the income statement over the life of the operation through the depreciation of the asset and the unwinding of the discount on the provision. The cost estimates are reviewed periodically and are adjusted to reflect known developments which may have an impact on the cost estimates or life of operations. The cost of the related asset is adjusted for changes in the provision due to factors such as updated cost estimates, new disturbance and revisions to discount rates. The adjusted cost of the asset is depreciated prospectively over the lives of the assets to which they relate. The unwinding of the discount is shown as a finance cost in the income statement.

Costs for restoration of subsequent site damage which is caused on an ongoing basis during production are provided for at their net present values and charged to the income statement as extraction progresses. Where the costs of site restoration are not anticipated to be significant, they are expensed as incurred.

**1.7 Inventory**

Inventory is valued at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution. The production cost of stocks includes an appropriate proportion of depreciation and production overheads. Cost is determined on the following bases:

- raw materials on the average cost basis;
- consumables on the weighted average cost basis; and
- finished products are valued at raw material cost, labour cost and a proportion of manufacturing overhead expenses.

**1. ACCOUNTING POLICIES (continued)**

**1.8 Property, plant and equipment**

Buildings, plant and equipment are depreciated at varying rates, on the straight-line basis over their estimated useful lives taking into account their residual values:

| | Depreciation rate | Residual value |
|---|---|---|
| Computer equipment | 33% | Nil |
| Furniture and fittings | 10% | Nil |
| Vehicles | 25% | Nil |

Land and properties in the course of construction are not depreciated.

The other mining assets are depreciated based on the following policy:

Mining and refinery properties are depreciated using the unit-of-production method based on proven and probable reserves. Depreciation is charged on new mining ventures from the date when the mining property is capable of commercial production.

Capitalised development expenditure, including the acquisition cost of freehold land and leasehold interests containing mineral resources as well as heavy equipment, is depreciated using the unit-of-production method once commercial production commences.

The per unit depreciation rate is determined annually by dividing the total of the undepreciated development expenditure and future development expenditure for the mine by the remaining proven and probable reserves based on the most current reserve study available. Where mining freehold and leasehold properties have significant value after reserves are depleted, the estimated residual value may be deducted from the amount of mining development expenditure which is subject to depreciation.

Where the economic viability of reserves has been established, but future operations are dependent upon receiving future planning permission or lease extension, management assesses, on at least an annual basis, the probability of the planning permission or lease extension being received. If it is no longer considered probable, the estimate of reserves and the unit-of-production depreciation calculation is revised accordingly.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Management consider the remaining useful life of Refinery's plant and equipment to approximate the remaining life of mine and assets were componentised accordingly.

**1.9 Impairment**

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

**1. ACCOUNTING POLICIES (continued)**

**1.9 Impairment (continued)**

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. The discount rate applied is based upon the directors' best estimate of weighted average cost of capital, with appropriate adjustment made for local conditions.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, its carrying amount is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

**1.10 Retirement benefits**

The company operates defined contribution schemes for its employees. The amount charged to profit or loss is the contributions paid or payable during the year.

Actuarial gains and losses, which can arise from differences between expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in equity. Any increase in the present value of plan liabilities expected to arise from employee service during the period is charged to operating profit. The expected return on the plan assets and the expected increase during the period in the present value of plan liabilities are included in investment income and interest expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

**1. ACCOUNTING POLICIES (continued)**

**1.11 Revenue recognition**

Revenue amounts are measured at the fair value of consideration received or receivable, after deducting trade discounts and volume rebates. Revenue from production activities is based on the final metal product sold. Revenue is recognised when the significant risks and rewards of ownership pass to the buyer.

Sales of finished product is being conducted on a Cost Insurance and Freight (CIF) basis where the risks and rewards of ownership pass to the buyer once the product crosses the ship's rail in the port of shipment, with the exception that the seller pay the cost of freight and insurance. Revenue derived through sea freight is therefore recognised on the bill of lading issue date.

Sales of finished products to SACU is made on a Delivered at Place (DAP) basis, where risks and rewards of ownership pass to the buyer once the product are delivered at the agreed place. Revenue delivered through road freight is therefore recognised on confirmation of delivery.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable. By-product sales are deducted from cost of sales.

**1.12 Accounting for leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The company as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

**1. ACCOUNTING POLICIES (continued)**

**1.12 Accounting for leases (continued)**

Rental income from operating leases is charged to profit or loss on a straight-line basis over the term of the relevant lease.

The company as lessee

Assets held under finance leases are recognised as assets of the company at their fair value at the inception of the lease or, if lower, at 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. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

**1.13 Borrowing costs**

Interest on borrowings relating to the financing of major capital projects under construction is capitalised during the construction phase as part of the cost of the project. Where funds have been borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings during the period.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**1.14 Judgements made by management**

Preparing financial statements in conformity with IFRS requires estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from these estimates.

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments, as follows:

- **Decommissioning and rehabilitation provision**
  Estimating the future costs of environment and rehabilitation obligations is complex and requires management to make estimates and judgements as most of the obligations will be fulfilled in future and contracts and laws are often not clear regarding what is required. The resulting provision is further influenced by changing technologies and environmental, safety, business and statutory considerations.

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

**1. ACCOUNTING POLICIES (continued)**

**1.14 Judgements made by management (continued)**

- **Impairment of 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 or if it is a component of a larger economic unit, the viability of that unit. Equally previously impaired assets are assessed for evidence of changes in economic circumstance that would require a reversal of impairment.

  Future cash flows expected to be generated by the assets are projected, taking into account market conditions and the expected useful lives of the assets. 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, or if an impairment is released, such release is limited to the carrying value of the assets had no such impairment occurred.

- **Valuation of financial instruments**
  The valuation of derivative financial instruments is based on the market situation at the reporting date. The value of the derivative instruments fluctuates on a daily basis and the actual amounts realised may differ materially from the value at the statement of financial position date.

- **Sulphide conversion**
  Namzinc (Proprietary) Limited has one significant capital project currently ongoing, namely the Sulphide Conversion project. The sulphide conversion project is a project which allows for the conversion of the current refinery to treat both sulphide and oxide ore in order to extract the final zinc metal.

  During the 2015 financial year, management made an assessment as to whether the sulphide conversion project is economically viable and based on this assessment commenced capitalisation and revised the estimated useful lives of the assets and the timing of the decommissioning and rehabilitation expense accordingly.

  The capital expenditure currently estimated at N$2 289 000 000 was approved by the Vedanta Resources Plc board in the 2015 financial year. At the reporting date an amount of N$173 758 080 (2017: N$127 850 821) was included in the capital work in progress related to this project.

**1.15 Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are disclosed below in note 2 and part of 1.15.

**Impairment of property, plant and equipment**

Determining whether property, plant and equipment are impaired requires an estimation of the value in use of the cash-generating unit to which it has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

**1. ACCOUNTING POLICIES**

**1.15 Key sources of estimation uncertainty (continued)**

**Life-of-Mine review & estimated life of refinery**

The life-of-mine ("LOM") plan is reviewed annually. The LOM plan takes into account an expectation of the changes in commodity prices, foreign exchange rates, fixed and variable mining cost, zinc grade and capital expenditure. The LOM was extended by an additional 18 months as a result of the inclusion of high calcium ore to resources and the slowdown of extraction to accommodate the Company's sulphide conversion project to conclude, resulting in the Mine's LOM now estimated to be 2.2 years.

Life of refining is set using the expected available ore for refining from the Gamsberg development, currently being undertaken by the sister company, Black Mountain Mining (Proprietary) Limited.

## 2. PROPERTY, PLANT AND EQUIPMENT

| 2018 | Mining properties and leases | Land and buildings | Plant and equipment | Work-in-progress | De-commissioning and restoration asset | Total |
|---|---|---|---|---|---|---|
| **Cost** | **N$'000** | **N$'000** | **N$'000** | **N$'000** | **N$'000** | **N$'000** |
| At 1 April 2017 | 204 747 | 794 288 | 3 137 227 | 200 592 | 234 783 | 4 571 637 |
| Change in estimates of decommissioning and rehabilitation provision | - | - | - | - | (67 171) | (67 171) |
| Additions – Stay in business capital | - | - | 4 164 | 61 033 | - | 65 197 |
| Transfers | - | - | 63 626 | (63 626) | - | - |
| Disposals | - | - | (2 189) | - | - | (2 189) |
| At 31 March 2018 | 204 747 | 794 288 | 3 202 828 | 197 999 | 167 612 | 4 567 474 |
| **Depreciation, amortisation and impairment** | | | | | | |
| At 1 April 2017 | 188 562 | 680 437 | 2 825 151 | - | 105 769 | 3 799 919 |
| Depreciation charge for the year | - | 4 613 | 27 525 | - | - | 32 138 |
| Disposals | - | - | (1 850) | - | - | (1 850) |
| At 31 March 2018 | 188 562 | 685 050 | 2 850 826 | - | 105 769 | 3 830 207 |
| **Net book value 31 March 2017** | 16 185 | 113 851 | 312 076 | 200 592 | 129 014 | 771 718 |
| **Net book value 31 March 2018** | 16 185 | 109 238 | 352 001 | 197 999 | 61 843 | 737 267 |

**2. PROPERTY, PLANT AND EQUIPMENT**

**2017**

| | **Mining properties and leases** | **Land and buildings** | **Plant and equipment** | **Work-in-progress** | **De-commissioning and restoration asset** | **Total** |
|---|---|---|---|---|---|---|
| **Cost** | **N$'000** | **N$'000** | **N$'000** | **N$'000** | **N$'000** | **N$'000** |
| At 1 April 2016 | 204 747 | 794 288 | 3 101 353 | 167 969 | 170 183 | 4 438 540 |
| Change in estimates of decommissioning and rehabilitation provision | - | - | - | - | 64 600 | 64 600 |
| Additions – Stay in business capital | - | - | 35 874 | - | - | 35 874 |
| Additions – Work-in-progress | - | - | - | 32 623 | - | 32 623 |
| Disposals | - | - | - | - | - | - |
| At 31 March 2017 | 204 747 | 794 288 | 3 137 227 | 200 592 | 234 783 | 4 571 637 |
| **Depreciation, amortisation and impairment** | | | | | | |
| At 1 April 2016 | 188 562 | 674 411 | 2 803 942 | - | 105 769 | 3 772 584 |
| Depreciation charge for the year | - | 6 026 | 21 309 | - | - | 27 335 |
| Disposals | - | - | - | - | - | - |
| At 31 March 2017 | 188 562 | 680 437 | 2 825 151 | - | 105 769 | 3 799 919 |
| **Net book value 31 March 2016** | 16 185 | 119 877 | 297 411 | 167 969 | 64 414 | 665 956 |
| **Net book value 31 March 2017** | 16 185 | 113 851 | 312 076 | 200 592 | 129 014 | 771 718 |

**2. PROPERTY, PLANT AND EQUIPMENT (continued)**

Details of the company's freehold and leasehold land and buildings is maintained at the registered office of the company and are available for inspection by members or their duly authorised representatives.

Mining properties and leases (Nampower assets) with a net book value of N$10 810 200 (2017: N$12 479 323), were capitalised in accordance with IAS17 and IFRIC 4. The finance lease was settled in the 2006 financial year.

The company tests the total capital investment made in the operations annually for impairment indicators.

The following cash generating unit ("CGU") has been identified:

- Mining activities
  - Skorpion Project

The recoverable amounts of the CGU's are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates, exchange rates and expected changes to commodity prices. Management estimates discount rates using pre-tax rates that reflect current market conditions of the time value of money and the risks specifically associated with the CGU's. Growth rates are based on industry growth forecasts. Changes in commodity prices are based on past practices and expectations of future changes in the market.

Key assumptions used in impairment calculations are:

| | 2018 | 2017 |
|---|---|---|
| - Foreign exchange rate (USD) | 12.47 | 14.10 |
| - Average Zinc price (USD/t) | 3 112 | 2 550 |

All figures stated above are in real terms.

At 31 March 2018, no impairment was necessary related to the Skorpion Project (2017: Nil).

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| **3. INTANGIBLE ASSET** | | |
| **Cost** | | |
| Opening balance | 20 643 | 20 643 |
| Additions | 338 | - |
| Disposals | - | - |
| Closing balance | 20 981 | 20 643 |
| **Amortisation and impairment** | | |
| Opening balance | 11 871 | 11 377 |
| Amortisation charge for the year | 377 | 494 |
| Disposals | - | - |
| Closing balance | 12 248 | 11 871 |
| **Opening net book value** | 8 772 | 9 266 |
| **Closing net book value** | 8 733 | 8 772 |

## 4. INVENTORY

| | | |
|---|---|---|
| Work-in-progress | 169 093 | 289 776 |
| Consumable stock | 208 127 | 220 956 |
| Finished products | 4 558 | 9 332 |
| | 381 778 | 520 064 |

Consumable stock is carried after a provision for obsolescence has been made as follows:

| | | |
|---|---|---|
| Balance at the beginning of the year | 54 233 | 60 468 |
| Added to/ (deducted from) operating costs | 1 521 | (6 235) |
| Balance at the end of the year | 55 754 | 54 233 |

The obsolete stock provision has been estimated based on the age of consumables and their rate of movement.

| | 2018 | 2017 |
|---|---|---|
| | N$'000 | N$'000 |

## 5. TRADE AND OTHER RECEIVABLES

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| Trade receivables | 115 184 | 29 890 |
| Prepayments | 17 292 | 13 413 |
| Other receivables | 17 934 | 4 581 |
| Value Added Tax | 1 595 | 2 433 |
| | 152 005 | 50 317 |

All receivables except for those set out below are current.

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| Trade receivables with the following values are past their due date: | | |
| 1 month past due | 63 706 | 22 038 |
| Between 1 to 2 months | 20 296 | 1 |
| Between 2 to 3 months | 111 | 37 |
| Greater than 3 months | 315 | 6 |
| | 84 428 | 22 082 |

The directors consider that the carrying amount of accounts receivable approximates their fair value.

An amount of N$28 935 286 (2017: N$20 122 224) was provided for as doubtful debt.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash and short-term deposits held by the treasury function. The carrying amounts of these assets approximate their fair value.

Bank balances and cash are denominated as follows:

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| - Local currency: | 93 760 | 94 967 |
| - Foreign currency (held in US$): | 479 229 | 564 134 |
| | 572 989 | 659 101 |

| | 2018 | 2017 |
|---|---|---|
| The average interest rates earned on cash balances and short-term deposits during the year were as follows: | **%** | **%** |
| - Local currency: | 5.62 | 4.65 |
| - Foreign currency (held in US$): | 0.94 | - |

| | 2018<br>N$'000 | 2017<br>N$'000 |
|---|---|---|
| **7. SHARE CAPITAL** | | |
| Authorised | | |
| 4 000 ordinary shares of N$1 each | 4 | 4 |
| Issued | | |
| 100 ordinary shares of N$1 each | 1 | 1 |

The unissued shares are under the control of the directors until the next annual general meeting.

## 8. DECOMMISSIONING PROVISION

| | 2018<br>N$'000 | 2017<br>N$'000 |
|---|---|---|
| Balance at beginning of year | 278 137 | 172 600 |
| Movements (deducted) from / added to decommissioning assets | (65 751) | 75 935 |
| Movements expensed to statement of profit or loss and other comprehensive income as finance costs | 25 297 | 29 602 |
| Balance at end of year | 237 683 | 278 137 |

The decommissioning provision relates to decommissioning of property, plant and equipment where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted as appropriate for new circumstances. The current estimate was discounted at a rate of 9.99% (2017: 11.31%). These costs are expected to be incurred over the remaining life-of-refinery currently being 12 years (2017: 13 years).

## 9. RESTORATION PROVISION

| | 2018<br>N$'000 | 2017<br>N$'000 |
|---|---|---|
| Balance at beginning of year | 6 005 | 16 701 |
| Movements (deducted) from / added to restoration assets | (1 419) | (11 335) |
| Movements in statement of profit or loss and other comprehensive income as finance costs | 546 | 639 |
| Balance at end of year | 5 132 | 6 005 |

Provision is made for environmental rehabilitation costs where either a legal or constructive obligation is recognised as a result of past events. Estimates are based upon costs that are regularly reviewed and adjusted as appropriate for new circumstances. The current estimate was discounted at a rate of 9.99% (2017: 11.31%). These costs are expected to be incurred over the remaining life-of-refinery currently being 12 years (2017: 13 years).

## 10. TRADE AND OTHER PAYABLES

| | 2018<br>N$'000 | 2017<br>N$'000 |
|---|---|---|
| Trade payables | 1 635 950 | 1 185 555 |
| Salary accruals | 10 836 | 12 380 |
| Other accruals | 122 620 | 92 385 |
| | 1 769 406 | 1 290 320 |

The directors consider that the carrying amounts of accounts payable approximate their fair value.

The average credit period for trade creditors is 30 days after statement. No interest is charged during this period. Thereafter certain suppliers charge interest at various rates. The company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Included in trade payables is an amount of N$1 584 870 817 (2017: N$1 078 274 232) owed to Skorpion Mining Company (Proprietary) Limited for ore purchases.

## 11. RELATED PARTIES

The company's holding company is Skorpion Zinc (Proprietary) Limited who is in turn owned by THL Zinc Namibia Holdings (Proprietary) Limited and is also incorporated in Namibia.
The ultimate holding company is Vedanta Resources Plc incorporated in the United Kingdom which in turn is controlled by Mr. Anil Agarwal and persons closely related to him.

During the year, the company entered into the following trading transactions with related parties.

| | Purchase of goods and services | | Recoveries | | Transfer of assets | |
|---|---|---|---|---|---|---|
| | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 | 2018 N$'000 | 2017 N$'000 |
| Skorpion Mining Company (Proprietary) Limited | 524 610 | 495 585 | (113 067) | (211 542) | - | - |
| Black Mountain Mining (Proprietary) Limited | 24 235 | 29 892 | (7 600) | (11 171) | - | - |
| Vedanta Resources Plc | - | 2 059 | - | - | - | - |
| Bharat Aluminium Company Limited | - | 4 452 | - | - | - | - |
| Other | - | 3 228 | - | - | - | - |
| | 548 845 | 535 216 | (120 667) | (222 713) | - | - |

**11. RELATED PARTIES (continued)**

| | Amounts due to related parties | | Amounts due from related parties | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Current | N$'000 | N$'000 | N$'000 | N$'000 |
| Black Mountain Mining (Proprietary) Limited | - | - | 787 158 | - |
| Skorpion Zinc (Proprietary) Limited | 558 427 | 554 591 | - | - |
| Vedanta Lisheen Holdings Limited | 56 858 | 55 823 | - | - |
| Monte Cello BV | - | - | 28 595 | 26 386 |
| THL Zinc Limited | - | - | 513 370 | 457 141 |
| THL Zinc Namibia Holdings (Proprietary) Limited | - | - | 12 625 | 13 739 |
| | 615 285 | 610 414 | 1 341 748 | 497 266 |
| Skorpion Mining Company (Proprietary) Limited | 1 592 614 | 1 078 274 | 3 692 128 | 2 719 956 |
| Impairement of loan | - | - | (1 684 578) | (1 640 000) |
| | 1 592 614 | 1 078 274 | 2 007 550 | 1 079 956 |
| Totals | 2 207 899 | 1 688 688 | 3 349 298 | 1 577 222 |

The loan to THL Zinc Namibia Holdings (Proprietary) Limited is unsecured, interest free and no terms of repayment have been set. The loans to THL Zinc Limited and Monte Cello BV are for a period of 1 year and carry interest at rates of 2.2% and 2% respectively. The loan to Black Mountain Mining (Proprietary) Limited is for a period of 2.5 years and carries interest at rate of 9.5%. The loan from Vedanta Lisheen Holdings Limited is for a period of 1 year and carries interest at a rate of 2% per annum.

During the current year, management has reassessed the recoverability of the loan to Skorpion Mining Company (Proprietary) Limited. As a result of Skorpion Mining Company (Proprietary) Limited's financial performance and current results management took the decision to impair the loan to Skorpion Mining Company (Proprietary) Limited by a further N$ 44 478 378 to N$1 684 578 378 (2017: N$1 640 000 000), this being the Directors' estimate of the amount that may not be repaid given the facts in evidence at the reporting date. The Directors of both companies are aware of this situation and are currently reviewing alternatives to ensure that Skorpion Mining Company (Proprietary) Limited returns to profitability. Once that has been resolved the impairment will be reassessed.

## 12. NET FINANCE COSTS

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| Finance income | 35 152 | 6 008 |
| Interest received | 35 152 | 6 008 |
| Finance costs | (108 949) | (67 246) |
| Foreign exchange loss | (107 914) | (66 429) |
| Interest paid | (1 035) | (817) |
| Decommissioning and restoration provision | (25 843) | (30 241) |
| Net finance costs | (99 640) | (91 479) |

## 13. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after taking into account the following items:

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| **Income** | | |
| Related party recoveries from Skorpion Mining Company (Proprietary) Limited | | |
| - administration fees | (49 388) | (66 882) |
| - recovery: staff costs | (63 682) | (144 661) |
| Receipts from insurers | - | (194 314) |
| **Expenditure** | | |
| Auditors' remuneration | | |
| - Audit fees | 3 261 | 2 819 |
| Depreciation of property plant and equipment | 32 138 | 27 335 |
| Amortisation of intangible asset | 377 | 494 |
| Operating leases | 1 448 | 1 748 |
| Movement in decommissioning provision | 25 297 | 29 602 |
| Movement in restoration provision | 546 | 639 |
| Staff costs | 225 726 | 236 481 |
| Number of employees at end of the year | 611 | 744 |

## 13. PROFIT BEFORE TAXATION (continued)

| | | 2018 | 2017 |
|---|---|---|---|
| **Compensation of key management personnel** | | N$'000 | N$'000 |

The remuneration of directors and key management personnel during the year was as follows:

| | | | |
|---|---|---|---|
| Directors | - managerial services | 2 380 | 1 674 |
| | - medical and pension | 345 | 127 |
| Other key management | - short-term benefits | 10 216 | 10 472 |
| | - medical and pension | 1 007 | 730 |
| | - share based payments | - | 95 |
| | | 13 948 | 13 098 |

The share-based expenses for the period are for certain employee shares or rights over shares in a Vedanta Resources Plc Group and are administered by Vedanta Limited.

The share-based awards are equity-settled as defined by IFRS 2 'Share-based Payment'. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted by an estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

## 14. TAXATION

The company has been granted Export Processing Zone status and is, therefore, exempt from paying income taxes.

## 15. REVENUE

| | | |
|---|---|---|
| Export sales | 3 104 436 | 2 540 624 |
| SACU sales | 492 268 | 396 406 |
| | 3 596 704 | 2 937 030 |

Revenue consists of export sales (invoiced in USD) and sales to customers based in the Southern African Customs Union (SACU), the majority of which are based in South Africa.

## 16. RETIREMENT BENEFITS

The company provides retirement benefits to its employees through an independent retirement fund plan, The Skorpion Zinc Provident Fund. At 31 March 2018, 611 (2017: 744) employees were members of the fund. The fund is a defined contribution fund and has been registered in Namibia in terms of the Pension Funds Act. The fund is governed by this act, which requires an actuarial valuation of the fund every three years. The previous actuarial valuation was performed as at 31 December 2015 and the fund was assessed as financially sound.

| | 2018 | 2017 |
|---|---|---|
| | N$'000 | N$'000 |
| The following contributions were expensed: | | |
| Employer contributions | 12 468 | 15 263 |
| Employee contributions | 11 868 | 11 872 |
| | 24 336 | 27 135 |

## 17. NOTES TO THE STATEMENT OF CASH FLOWS

### 17.1 RECONCILIATION OF PROFIT BEFORE TAXATION TO CASH GENERATED BY OPERATIONS

| | | |
|---|---|---|
| Profit before taxation | 1 172 246 | 1 026 785 |
| **Adjust for non-cash items:** | | |
| - Depreciation and amortisation | 32 515 | 27 829 |
| - Loan impairment | 44 578 | 280 000 |
| | 1 241 339 | 1 334 614 |
| Foreign exchange loss | 107 914 | 66 429 |
| Finance income | (35 152) | (6 008) |
| Finance costs | 26 878 | 31 058 |
| | 1 348 979 | 1 426 093 |
| **Working capital changes:** | 515 684 | 319 160 |
| Decrease / (increase) in inventory | 138 286 | (183 322) |
| (Increase) / decrease in trade and other receivables | (101 688) | 34 095 |
| Increase in trade and other payables | 479 086 | 468 387 |
| **Cash generated by operations:** | 1 864 663 | 1 745 253 |

## 18. FINANCIAL AND CAPITAL RISK MANAGEMENT

### Capital risk management

The company manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The company's overall strategy remains unchanged from 2017.

The capital structure of the company consists of a holding company loan, cash and cash equivalents and equity attributable to the equity holder, comprising issued capital and retained earnings.

Return to the shareholder is maximised, through structured dividend declarations and loan repayments, while keeping sufficient cash funds to meet normal working capital and capital expenditure requirements.

### Foreign currency management

The company's policy is not to take cover on foreign currency transactions. The company's major exposure to foreign currency fluctuations at period end was to the United States Dollar ("USD"), in relation to its trade debtors and CFC bank account, both denominated in USD. In terms of the Group risk expectations a 5% increase/decrease on USD will result in an increase/decrease of N$25 052 968 (2017: N$29 158 037) to the period's profit and loss.

The company also had exposure to foreign creditors at period end in AUD, EUR, GBP, INR and USD (2017 in USD and Euro). In terms of the group risk expectations a 5% increase/decrease in those currencies (2017 in USD and EUR) will result in a decrease/increase of N$721 816 (2017: N$412 955) to the to the period's profit and loss.

### Interest rate management

Borrowings are mostly obtained from the holding company and interest rates are managed in accordance with the policies set down by the Vedanta Resources Plc. group treasury function. Currently no interest is charged on the holding company loan.

Interest is earned on short-term funds deposited with banks and in terms of the Group risk expectations an increase/decrease of 1% in the local prime rate would result in an increase/decrease in interest earnings of N$21 824 (2017: N$866 289).

**18. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)**

**Credit risk management**

The company's exposure to credit risk includes exposure to a limited number of customers purchasing its product. Payments are collected within five days from date of sale and the exposure at any one time is therefore limited to a five-day period. No default experience has been experienced. As such the directors do not deem any provision for irrecoverable amounts to be necessary.

The company deposits cash surpluses with banks of high credit standing. The credit standing of financial institutions is evaluated from time to time.

As at 31 March 2018, all the company's cash resources were on call with the company's main bankers, First National Bank of Namibia Limited ("FNB"). FNB is a subsidiary of Rand Merchant Bank Holdings Limited and has an investment grade credit rating.

**Liquidity risk**

The company manages its liquidity risk by ensuring that it has adequate banking facilities. The company has reported positive cash flows for the current year and projections indicated this trend to be sustainable. All of the company's exposure to financial instruments is short-term in nature.

The directors note that the N$1 584 870 817 owed to Skorpion Mining Company (Proprietary) Limited included in trade and other payables is not expected to be repaid until such time as Skorpion Mining Company (Proprietary) Limited is able to settle its full debt with the company.

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

| | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|---|---|
| | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 |
| **2018** | | | | | | |
| Non-interest bearing financial liabilities: | | | | | | |
| Loans from related parties | - | - | 615 285 | - | - | 615 285 |
| Trade and other payables | - | 1 635 950 | - | - | - | 1 635 950 |
| | - | 1 635 950 | 615 285 | - | - | 2 251 235 |

**18. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)**

**Liquidity risk (continued)**

| | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|---|---|
| | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 |
| **2017** | | | | | | |
| Non-interest bearing financial liabilities: | | | | | | |
| Loans to related parties | - | - | 610 414 | - | - | 610 414 |
| Trade and other payables | - | 1 185 555 | - | - | - | 1 185 555 |
| | - | 1 185 555 | 610 414 | - | - | 1 795 969 |

**Market risk**

Commodity prices have increased in the current year, compared to the previous year average market prices obtained, which had a positive effect on the Group's results. The company however is not exposed at the period end to movements in the commodity price as the company does not have any instruments at the period end that vary with commodity prices.

**Categories of Financial instruments**

Commodity prices have IFRS 13 requires additional information regarding the methodologies employed to measure the fair value of financial instruments which are recognised or disclosed in the accounts. These methodologies are categorised per the standard as:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The below table summarises the categories of financial assets and liabilities measured at fair value: increased in the current year, compared to the previous year average market price obtained.

## 18. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

### Statement of financial position - categories of financial instruments

**2018**

| | Cash and cash equivalents | Loans and receivables | Financial assets and liabilities at amortised cost | Non-financial assets and liabilities | Total |
|---|---|---|---|---|---|
| | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 |
| **ASSETS** | | | | | |
| NON-CURRENT ASSETS | - | 184 | - | 746 000 | 746 184 |
| Property, plant and equipment | - | - | - | 737 267 | 737 267 |
| Intangible assets | - | - | - | 8 733 | 8 733 |
| Other non-current assets | - | 184 | - | - | 184 |
| CURRENT ASSETS | 572 989 | 3 384 524 | 116 779 | 381 778 | 4 456 070 |
| Loans to related parties | - | 3 349 298 | - | - | 3 349 298 |
| Inventory | - | - | - | 381 778 | 381 778 |
| Trade and other receivables | - | 35 226 | 116 779 | - | 152 005 |
| Cash and cash equivalents | 572 989 | - | - | - | 572 989 |
| TOTAL ASSETS | 572 989 | 3 384 708 | 116 779 | 1 127 778 | 5 202 254 |
| **EQUITY AND LIABILITIES** | | | | | |
| CAPITAL AND RESERVES | - | - | - | 2 574 748 | 2 574 748 |
| Share capital | - | - | - | 1 | 1 |
| Retained income | - | - | - | 2 574 747 | 2 574 747 |
| NON-CURRENT LIABILITIES | - | - | - | 242 815 | 242 815 |
| Decommissioning provision | - | - | - | 237 683 | 237 683 |
| Restoration provision | - | - | - | 5 132 | 5 132 |
| CURRENT LIABILITIES | - | - | 2 251 235 | 133 456 | 2 384 691 |
| Trade and other payables | - | - | 1 635 950 | 133 456 | 1 769 406 |
| Loans from related parties | - | - | 615 285 | - | 615 285 |
| TOTAL EQUITY AND LIABILITIES | - | - | 2 251 235 | 2 951 019 | 5 202 254 |

**18. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)**

**Statement of financial position - categories of financial instruments**

**2017**

| | Cash and cash equivalents | Loans and receivables | Financial assets and liabilities at amortised cost | Non-financial assets and liabilities | Total |
|---|---|---|---|---|---|
| | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 |
| **ASSETS** | | | | | |
| NON-CURRENT ASSETS | - | 184 | - | 780 490 | 780 674 |
| Property, plant and equipment | - | - | - | 771 718 | 771 718 |
| Intangible assets | - | - | - | 8 772 | 8 772 |
| Other non-current assets | - | 184 | - | - | 184 |
| CURRENT ASSETS | 659 101 | 1 595 216 | 32 323 | 520 064 | 2 806 704 |
| Loans to related parties | - | 1 577 222 | - | - | 1 577 222 |
| Inventory | - | - | - | 520 064 | 520 064 |
| Trade and other receivables | - | 17 994 | 32 323 | - | 50 317 |
| Cash and cash equivalents | 659 101 | - | - | - | 659 101 |
| TOTAL ASSETS | 659 101 | 1 595 400 | 32 323 | 1 300 554 | 3 587 378 |
| **EQUITY AND LIABILITIES** | | | | | |
| CAPITAL AND RESERVES | - | - | - | 1 402 502 | 1 402 502 |
| Share capital | - | - | - | 1 | 1 |
| Retained income | - | - | - | 1 402 501 | 1 402 501 |
| NON-CURRENT LIABILITIES | - | - | - | 284 142 | 284 142 |
| Decommissioning provision | - | - | - | 278 137 | 278 137 |
| Restoration provision | - | - | - | 6 005 | 6 005 |
| CURRENT LIABILITIES | - | - | 1 795 969 | 104 765 | 1 900 734 |
| Trade and other payables | - | - | 1 185 555 | 104 765 | 1 290 320 |
| Loans from related parties | - | - | 610 414 | - | 610 414 |
| TOTAL EQUITY AND LIABILITIES | - | - | 1 795 969 | 1 791 409 | 3 587 378 |

## 19. GUARANTEES AND CONTINGENT LIABILITIES

| Guarantees issued: | Maturity | Nature | Guarantor | 2018 N$'000 | 2017 N$'000 |
|---|---|---|---|---|---|
| Customs and Excise Bond | Open ended | SACU sales bond | FNB | 3 200 | 3 200 |
| Outotec GMBM | Cancelled | Cancelled | FNB | - | - |
| Oxbow Energy Solution B.V | Cancelled | Cancelled | FNB | - | - |
| Namibian Ports Authority | Upon payment or cancellation | Surety on default | FNB | 1 064 | 1 064 |
| NamPower (Proprietary) Limited - RoshSkor | Upon payment or cancellation | Surety on default | FNB | 91 | 91 |
| NamPower (Proprietary) Limited | Upon payment or cancellation | Surety on default | FNB | 18 | 18 |
| RoshSkor Township (Proprietary) Limited | Upon payment or cancellation | Surety on default | FNB | 1 159 | 1 159 |
| | | | | 5 532 | 5 532 |

## 20. UNCOVERED FOREIGN CURRENCY MONETARY ITEMS

| | 2018 US$ | 2017 US$ |
|---|---|---|
| United States Dollar | | |
| Year-end exchange rate | 11.83 | 13.41 |
| Current assets | US$'000 | US$'000 |
| - Cash and cash equivalents | 40 510 | 43 479 |
| Current liabilities | | |
| - Payables | 1 224 | 631 |

| | 2018<br>N$'000 | 2017<br>N$'000 |
|---|---|---|

**21. OPERATING LEASE COMMITMENTS**

At the statement of financial position date the company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| Within 1 year | 1 564 | 1 448 |
| Between 1 to 2 years | 1 894 | 1 564 |
| Between 2 to 5 years | - | 1 894 |
| Total | 3 458 | 4 906 |

The above relate to various operating leases over property and asset rentals. The leases have various escalation clauses, none of these have more than 10% annual escalation.

**22. CAPITAL COMMITMENTS**

Capital expenditure to be financed from own resources to be incurred:

| | 2018 N$'000 | 2017 N$'000 |
|---|---|---|
| Contracted | 32 049 | 7 440 |
| Authorised but not contracted | 2 289 000 | 2 289 000 |
| | 2 321 049 | 2 296 440 |

Included in the capital commitments is an amount of N$2 289 000 000 related to the sulphide conversion project. The project has been approved by the directors as well as the directors of Vedanta Resources Plc.

**23. DIVIDENDS**

No dividends have been declared during the year under review (2017: N$ nil).

**24. MATERIAL EVENTS AFTER YEAR END**

The directors of the company are not aware of any fact or circumstances which occurred between the date of the financial statements and the date of this report which might influence an assessment of the company's state of affairs.

**25. AUTHORISATION OF ANNUAL FINANCIAL STATEMENTS**

The financial statements were authorised by the directors and approved for issue on 24 April 2018.