# THL ZINC NAMIBIA HOLDINGS (PROPRIETARY) LIMITED

(Registration Number: 98/227)

# CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS
# 31 March 2017

## GENERAL INFORMATION

| | |
|---|---|
| **Country of incorporation and domicile** | NAMIBIA |
| **Nature of business and principal activities** | Exploration, development, treatment, production and sale of zinc and associated minerals concentrates. |
| **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 THL Zinc Limited, a company incorporated in Mauritius. |
| **Bankers** | First National Bank |
| **Auditors** | Ernst & Young Namibia |
| **Company registration number** | 98/227 |
| **Preparer of annual financial statements** | The annual financial statements have been prepared under the supervision of Sharon Mthetho CA (SA) (Financial Reporting Manager). |
| **Published** | 01 June 2017 |

THL ZINC NAMIBIA HOLDINGS (PROPRIETARY) LIMITED

GROUP ANNUAL FINANCIAL STATEMENTS
31 March 2017

CONTENTS



DIRECTORS' APPROVAL OF THE GROUP ANNUAL FINANCIAL STATEMENTS

The group annual financial statements set out on pages 4 to 46 were approved by the board of directors on 01 June 2017 and are signed on their behalf by:

DIRECTOR

DIRECTOR

Ernst & Young Namibia
Cnr Otto Nitzsche and Maritz Streets
Box 1857
Windhoek, Namibia

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Registration No.: 9410
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## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THL ZINC NAMIBIA HOLDINGS (PROPRIETARY) LIMITED

### Opinion

We have audited the consolidated and separate financial statements of THL Zinc Namibia Holdings (Proprietary) Limited set out on pages 4 to 46, which comprise the directors' report, the consolidated statement of financial position as at 31 March 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of THL Zinc Namibia Holdings (Proprietary) Limited as at 31 March 2017, 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 (Parts 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.

### Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements, the directors are responsible for assessing the group and 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.

### Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 consolidated and separate 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 group'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 group and 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 group or 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 my 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

01 June 2017

**REPORT OF THE DIRECTORS**
**for the year ended 31 March 2017**

The directors have pleasure in presenting their report on the activities of the company and the group for the year ended 31 March 2017.

**GENERAL REVIEW**

The company was incorporated in Namibia on 16 June 1998, for the purpose of owning investments in companies involved in mineral exploration, mining and beneficiation. The company's holding company is THL Zinc Limited, a company incorporated in Mauritius. 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.

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

The authorised share capital of 4 000 (2016: 4 000) and issued share capital of 820 (2016: 820) ordinary shares have remained unchanged during the year.

The following companies are wholly owned subsidiaries of THL Zinc Namibia Holdings (Proprietary) Limited:

**Skorpion Zinc (Proprietary) Limited**

This company is a holding company, and its significant wholly owned subsidiaries are:

**Skorpion Mining Company (Proprietary) Limited**

This company is the holder of Mining Licence ML108 which holds the exclusive right to mine precious, base and rare metals over a certain portion of land in the Karas region, near Rosh Pinah. The mining licence was issued on 28 July 2000 for a period of twenty-five years. The company mines zinc ore by conventional open pit method. The ore is sold to Namzinc (Proprietary) Limited. The company also conducts exploration activities.

**Namzinc (Proprietary) Limited**

This 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.

Other subsidiaries, joint ventures and investments are listed in note 5 and 6 of the annual financial statements.

**REPORT OF THE DIRECTORS (continued)**
**for the year ended 31 March 2017**

**DIVIDENDS**

During the year under review no dividends (2016: N$ nil) were declared.

**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 3 to 4. 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 and group'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 and group has access to adequate resources to remain a going concern for the foreseeable future. The group and company annual financial statements on pages 4 to 46 have therefore been prepared on a going concern basis.

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

**PROPERTY, PLANT AND EQUIPMENT**

Capital expenditure during the year amounted to N$89.2 million (2016: N$400.5 million).

**DIRECTORS AND SECRETARY**

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

| | |
|---|---|
| KK Rajagopal* | |
| S L Bajaj* | Resigned 20 July 2016 |
| M Munroe** | Resigned 13 January 2017 |
| D Naidoo** | |
| I Simataa*** | |
| G R A Kumar* | Appointed 20 July 2016 |

*Indian
**South African
***Namibian

Secretary – SGA Windhoek

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**as at 31 March 2017**

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| **ASSETS** | | | | | |
| NON-CURRENT ASSETS | | 1 128 547 | 1 308 271 | 257 582 | 257 582 |
| Property, plant and equipment | 3 | 1 093 813 | 1 265 796 | - | - |
| Intangible asset | 4 | 8 772 | 9 266 | - | - |
| Investments | 5, 6 | 11 910 | 17 508 | 257 582 | 257 582 |
| Related party receivables | 11 | 14 052 | 15 701 | - | - |
| CURRENT ASSETS | | 2 009 613 | 845 819 | 1 002 211 | 1 000 034 |
| Group company loans | 11 | 483 095 | - | - | - |
| Related party receivables | 11 | - | - | 999 648 | 999 648 |
| Inventory | 9 | 748 580 | 543 730 | - | - |
| Trade and other receivables | 10 | 106 740 | 131 431 | 94 | 91 |
| Taxation | 22.2 | 413 | 442 | 112 | 102 |
| Cash and cash equivalents | 12 | 670 785 | 170 216 | 2 357 | 193 |
| NON-CURRENT ASSETS HELD FOR SALE | 8 | 150 000 | - | - | - |
| TOTAL ASSETS | | 3 288 160 | 2 154 090 | 1 259 793 | 1 257 616 |
| **EQUITY AND LIABILITIES** | | | | | |
| CAPITAL AND RESERVES | | 2 440 077 | 1 451 647 | 1 245 281 | 1 245 627 |
| Share capital | 13 | 1 | 1 | 1 | 1 |
| Share premium | 13 | 960 049 | 960 049 | 960 049 | 960 049 |
| Retained income | | 1 480 027 | 491 597 | 285 231 | 285 577 |
| NON-CURRENT LIABILITIES | | 458 678 | 373 791 | - | - |
| Deferred taxation | 7 | - | - | - | - |
| Decommissioning provision | 14 | 385 010 | 243 892 | - | - |
| Restoration provision | 15 | 73 668 | 129 899 | - | - |
| CURRENT LIABILITIES | | 389 405 | 328 652 | 14 512 | 11 989 |
| Trade and other payables | 16 | 336 774 | 261 129 | 23 | 61 |
| Related party payables | 11 | - | - | 14 489 | 11 928 |
| Group company loans | 11 | 52 631 | 67 523 | - | - |
| TOTAL EQUITY AND LIABILITIES | | 3 288 160 | 2 154 090 | 1 259 793 | 1 257 616 |

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**for the year ended 31 March 2017**

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| Revenue | 2 | 2 939 673 | 2 408 303 | - | - |
| Cost of sales | | (1 673 325) | (1 739 294) | - | - |
| Gross profit | | 1 266 348 | 669 009 | - | - |
| Other income | 23 | 216 333 | 18 394 | - | - |
| Distribution costs | | (64 030) | (83 771) | - | - |
| Administrative expenses | | (260 199) | (305 694) | (422) | (394) |
| Other operating expenses | | (56 550) | (46 051) | - | - |
| OPERATING PROFIT / (LOSS) | | 1 101 902 | 251 887 | (422) | (394) |
| Net finance (costs) / income | 17 | (107 875) | 6 512 | 76 | 149 |
| - Finance income | | 6 267 | 41 683 | 76 | 149 |
| - Finance costs | | (114 142) | (35 171) | - | - |
| Share of (loss) / profit in Joint Ventures | | (5 597) | 487 | - | - |
| PROFIT / (LOSS) BEFORE TAXATION | 18 | 988 430 | 258 886 | (346) | (245) |
| Taxation | 19 | - | - | - | - |
| PROFIT / (LOSS) FOR THE YEAR | | 988 430 | 258 886 | (346) | (245) |
| Other comprehensive income | | - | - | - | - |
| TOTAL COMPREHENSIVE INCOME / ( LOSS) FOR THE YEAR | | 988 430 | 258 886 | (346) | (245) |

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**for the year ended 31 March 2017**

| | | Share capital | Share premium | Retained income | Total |
|---|---|---|---|---|---|
| | | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| **GROUP** | | | | | |
| Balance at 1 April 2015 | | 1 | 960 049 | 232 711 | 1 192 761 |
| Comprehensive income for the year | | - | - | 258 886 | 258 886 |
| Balance at 31 March 2016 | | 1 | 960 049 | 491 597 | 1 451 647 |
| Comprehensive income for the year | | | | 988 430 | 988 430 |
| Balance at 31 March 2017 | | 1 | 960 049 | 1 480 027 | 2 440 077 |
| | **Note** | **13** | **13** | | |
| **COMPANY** | | | | | |
| Balance at 1 April 2015 | | 1 | 960 049 | 285 822 | 1 245 872 |
| Comprehensive loss for the year | | - | - | (245) | (245) |
| Balance at 31 March 2016 | | 1 | 960 049 | 285 577 | 1 245 627 |
| Comprehensive loss for the year | | - | - | (346) | (346) |
| Balance at 31 March 2017 | | 1 | 960 049 | 285 231 | 1 245 281 |
| | **Note** | **13** | **13** | | |

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**for the year ended 31 March 2017**

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | 1 086 155 | 374 640 | (397) | (15 569) |
| Cash generated / (utilised) by operations | 22.1 | 1 147 110 | 337 231 | (463) | (15 718) |
| Finance income | | 6 267 | 41 683 | 76 | 149 |
| Finance costs | | (67 251) | (4 263) | - | - |
| Taxation received / (paid) | 22.2 | 29 | (11) | (10) | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | (585 586) | (399 611) | 2 561 | (16 600) |
| Additions to property, plant and equipment | | (89 247) | (400 495) | - | - |
| Decrease in loans due from related parties | | 1 648 | - | 2 561 | - |
| (Decreases) / increases in Group Company loans | | (497 987) | 884 | - | (16 600) |
| **NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS** | | 500 569 | (24 971) | 2 164 | (32 169) |
| Cash and cash equivalents at the beginning of the year | | 170 216 | 195 187 | 193 | 32 362 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 12 | 7 | 170 216 | 2 357 | 193 |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS**
**for the year ended 31 March 2017**

## 1. ACCOUNTING POLICIES

The annual financial statements are prepared on the historical cost basis except for certain financial instruments where the fair value basis of accounting is adopted. The principal accounting policies of the company and group, which are set out below, have been consistently applied and comply in all material respects with International Financial Reporting Standards ("IFRS"). Historical cost is generally based on the fair value consideration given in exchange for goods and services. The functional currency of the company is the Namibian Dollar (N$).

The company and group has adopted all standards and interpretations that were effective for the current year noted on the table below. 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** |
|---|---|---|---|
| IFRS 5 | Non-current assets Held for Sale and Discontinued Operations<br>— Clarity that a change in the manner of disposal of a non-current asset or disposal group held for sale does not result in a change of classification as held for sale. | 1 January 2016 | None |
| IFRS 7 | Financial Instruments: Disclosures | 1 January 2016 | None |
| IFRS 10 | Consolidated Financial Statements<br>— Amendments for investment entities | 1 January 2016 | None |
| IFRS 11 | Joint Arrangements<br>— Guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business | 1 January 2016 | None |
| IAS 1 | Presentation of Financial Statements<br>— Encouragement to entities to apply professional judgement in determining what information to disclose in their financial statements | 1 January 2016 | None |
| IAS 16 | Financial Instruments: Presentation<br>— Amendments relating to the offsetting of financial assets and financial liabilities | 1 January 2016 | None |
| IAS 19 | Defined Benefit Plans: Employee Contributions<br>— Clarity of the requirements of to determine the discount rate in a regional market sharing the same currency. | 1 January 2016 | None |
| IAS 27 | Consolidated and Separate Financial Statements<br>— Amendments to allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements | 1 January 2016 | None |
| IAS 28 | Investments in Associates and Joint Ventures | 1 January 2016 | None |
| IAS 34 | Interim Financial Reporting | 1 January 2016 | None |
| IAS 38 | Intangible Assets<br>— Clarity on the principles and the basis for the calculation of depreciation and amortisation | 1 January 2016 | None |
| IFRS 12 | Disclosure of Interests in Other Entities<br>— Amendments for investment entities | 1 January 2016 | None |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 1. ACCOUNTING POLICIES (continued)

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, except for disclosure to the annual financial statements.

| **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 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 |
| IAS 7 | Financial Instruments: Disclosures | 1 January 2017 |
| IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses | 1 January 2017 |
| IFRS 2 | Classification and Measurement of Share based<br>Payment Transactions | 1 January 2018 |
| IAS 40 | Transfers of Investment Property | 1 January 2018 |

### 1.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability affect those returns through its power over the entity.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or disposal as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation, unless the amount involved are not material in which case this fact is disclosed.

**Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred, and equity instruments issued by the Group in exchange for control, plus any costs directly attributable to the business combination. The acquiree’s identifiable assets and liabilities that meet the conditions for recognition are recognised at their fair values at the acquisition date.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 1 ACCOUNTING POLICIES (continued)

### 1.1 Basis of consolidation (continued)

**Business combinations (continued)**

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets and liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities exceed the cost of the business combination, the excess is recognised immediately in profit or loss.

**Interest in joint arrangements**

A joint arrangement can either be a joint venture or a joint operation. A joint venture is an arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group reports its interest in joint ventures using the equity method, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinuing Operations. Joint ventures are recognised initially at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of profit or loss.

Where the Group transacts with its joint ventures, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

### 1.2 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 preproduction expenditure is capitalised. Capitalisation of pre-production expenditure ceases when the mining property is capable of commercial production. Capitalised preproduction expenditure is amortised from the date commercial production commences over the economic life of the mine.

### 1.3 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred taxation is provided on the statement of financial position liability method in respect of net temporary differences arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of assessable tax profit. In general, deferred taxation liabilities are recognised for all taxable temporary differences and deferred taxation assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 1 ACCOUNTING POLICIES (continued)

### Taxation (continued)

Deferred taxation is calculated at the rate that is expected to apply to the period when the asset is realised or the liability is settled. Deferred taxation is charged or credited in the statement of comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

### 1.4 Foreign currency transactions

Transactions in foreign currency, other than 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 retranslated 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 retranslated.

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.

### 1.5 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 group 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 reporting 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.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 1. ACCOUNTING POLICIES (continued)

### 1.5 Financial instruments (continued)

***Derecognition***

Financial assets (or a portion thereof) are derecognised when the group realises the rights to the benefits specified in the contract, the rights expire or the group 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.

***Financial assets***

The group's principal financial assets are group company loans and receivables, trade and other receivables, investments 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 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 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 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.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 1. ACCOUNTING POLICIES (continued)

### 1.5 Financial instruments (continued)

***Financial assets (continued)***

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

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 Group 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.

**Available For Sale ("AFS") financial assets**
Unlisted shares and listed redeemable notes held by the Group 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 Group'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 and related party loans and receivables originated by the group are stated at amortised cost.

**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.

**1. ACCOUNTING POLICIES (continued)**

**1.5 Financial instruments (continued)**

***Financial assets (continued)***

**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. Cash and cash equivalents are measured at fair value.

**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 group 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 group'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.

## 1. ACCOUNTING POLICIES (continued)

### 1.5 Financial instruments (continued)

***Financial liabilities (continued)***

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.

**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 group are recorded at the value of proceeds received less directly attributable costs.

### 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 and work in progress are 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 and metal ore on the average cost basis; or
- 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.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 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% | 25% |

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

The other mining and refining 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.

### 1.9 Impairments

At each reporting date, the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 1 ACCOUNTING POLICIES (continued)

### 1.9 Impairments (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 Vedanta Resources plc group's 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

Contributions to the company's retirement fund are charged as an expense as they fall due.

### 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.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Income from by-product sales is included as other income.

## 1. ACCOUNTING POLICIES (continued)

### 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.

<u>The group as lessee</u>

Assets held under finance leases are recognised as assets of the group 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 group'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 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 Group's only internally generated is the SAP system is amortised over the life of the mine.

### 1.14 Stripping costs

Stripping costs to be recognised as part of an asset (either as inventory or as non-current asset), if the following conditions are met:

- It is probable that the future economic benefits (improved access to an ore body) associated with the stripping activity will follow to the entity;
- The entity can identify the component of an ore body for which access has been improved; and
- The costs relating to the improved access to that component can be measured reliably.

To the extent that the benefit creates improved access to ore to be mined in future periods, the entity must recognise these production stripping costs as non-current.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 1. ACCOUNTING POLICIES (continued)

### 1.15 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.

### 1.16 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. Significant assumptions include cost per cubic meter of rehabilitated land and the volume of waste rock to be rehabilitated. Each change of cost assumption by N$ 1/$m^3$, would result in a N$9 million movement to the rehabilitation liability.

- **Asset lives and residual values**
  Property, plant and equipment is 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.

- **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.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 1. ACCOUNTING POLICIES (continued)

### 1.16 Judgements made by management (continued)

- **Exploration costs-Gergarub**
  Skorpion Mining Company (Pty) Ltd and Rosh Pinah Zinc Corporation Ltd concluded a Memorandum of Understanding, signed 20 June 2005 (with subsequent amendments), on various aspects of Zinc exploration and development of Resource on each party's Exploration Prospecting License areas.

  As part of the company's exploration activities the Gergarub deposits were discovered. Based on certain trigger points Rosh Pinah Zinc Corporation Ltd is required to contribute to certain past and future expenses.

  Management assessed the project to be economically viable and elected to capitalise expenses related to the feasibility study of the project. At the reporting date, an amount of N$ 48 075 289 (2016: N$48 078 659) was included in capital work in progress related to this project.

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

  During the prior 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 assets and timing of decommissioning and rehabilitation expense accordingly.

  The capital expenditure is currently estimated at N$2 289 332 800 was approved by the Vedanta Resources Plc board during the previous year. At the reporting date an amount of N$ 127 850 821 (2016: N$127 850 821) was included in the capital work in progress related to this project.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 1. ACCOUNTING POLICIES (continued)

### 1.17 Non-current assets held for sale

Property, plant and equipment held for sale or which is part of a disposal group held for sale is not depreciated. Property, plant and equipment held for sale is carried at the lower of its carrying value and fair value less disposal cost and is presented separately on the face of the statement of financial position.

### 1.18 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.

**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.

**Life-of-Mine review and 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 Namzinc sulphide conversion project to conclude, resulting in the Mine's LOM now estimated to be 2.8 years.

Life of refinery is set using the expected available ore for refining from the Gamsberg development, currently being undertaken by the company's sister company, Black Mountain Mining Company.

**Deferred tax assets**
Deferred tax assets are recognised to the extent it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimated based on assumptions regarding economic growth, commodity prices and inflation. No deferred tax was raised in the current year.

**Inventory**
The metal content of the ore stockpiles is determined using estimates as indicated in note 9.

## 2. REVENUE

**Business activities**

The group's principal activities are mining and producing of special high grade zinc and form part of the other mining and industrial category in the Vedanta Resources Plc group. The group's revenue derives from one significant operation, the production of zinc. All information contained in the statement of profit or loss and other comprehensive income and statement of financial position relate to this activity.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 3. PROPERTY, PLANT AND EQUIPMENT

| | Group 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Mining properties and leases | Land and buildings | Plant and equipment | Work-in-progress | De-commissioning and restoration costs | Total |
| | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 | N$'000 |
| **Cost** | | | | | | |
| At 1 April 2016 | 425 416 | 863 747 | 4 227 099 | 239 703 | 219 473 | 5 975 438 |
| Transfers from / (to) assets held for sale | - | - | (466 066) | - | - | (466 066) |
| Change in estimates of decommissioning and rehabilitation provision | - | - | - | - | 37 996 | 37 996 |
| Additions – stay in business capital | - | 13 561 | 51 580 | 24 106 | - | 89 247 |
| Disposals | - | - | - | - | - | - |
| At 31 March 2017 | 425 416 | 877 308 | 3 812 613 | 263 809 | 257 469 | 5 636 615 |
| **Depreciation, amortisation and impairment** | | | | | | |
| At 1 April 2016 | 247 896 | 737 413 | 3 570 072 | - | 154 261 | 4 709 642 |
| Impairment loss | - | - | 56 550 | - | - | 56 550 |
| Depreciation charge for the year | 44 682 | 8 558 | 39 436 | - | - | 92 676 |
| Transfers from / (to) assets held for sale | - | - | (316 066) | - | - | (316 066) |
| At 31 March 2017 | 292 578 | 745 971 | 3 349 992 | - | 154 261 | 4 542 802 |
| **Net book value 31 March 2017** | 132 838 | 131 337 | 462 621 | 263 809 | 103 208 | 1 093 813 |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 3. PROPERTY, PLANT AND EQUIPMENT

| | Group 2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Mining properties and leases** | **Land and buildings** | **Plant and equipment** | **Work-in-progress** | **De-commissioning and restoration costs** | **Total** |
| | **N$'000** | **N$'000** | **N$'000** | **N$'000** | **N$'000** | **N$'000** |
| **Cost** | | | | | | |
| At 1 April 2015 | 266 558 | 861 451 | 4 109 087 | 118 833 | 154 263 | 5 510 192 |
| Transfers to / (from) work-in-progress | - | 2 296 | 117 338 | (119 634) | - | - |
| Change in estimates of decommissioning and rehabilitation provision | - | - | - | - | 65 210 | 65 210 |
| Additions – stay in business capital | 158 858 | - | 1 132 | 240 504 | - | 400 494 |
| Disposals | - | - | (458) | - | - | (458) |
| At 31 March 2016 | 425 416 | 863 747 | 4 227 099 | 239 703 | 219 473 | 5 975 438 |
| **Depreciation, amortisation and impairment** | | | | | | |
| At 1 April 2015 | 242 743 | 730 287 | 3 476 539 | - | 152 270 | 4 601 839 |
| Depreciation charge for the year | 5 153 | 7 126 | 93 949 | - | 1 991 | 108 219 |
| Disposals | - | - | (416) | - | - | (416) |
| At 31 March 2016 | 247 896 | 737 413 | 3 570 072 | - | 154 261 | 4 709 642 |
| **Net book value 31 March 2016** | 177 520 | 126 334 | 657 027 | 239 703 | 65 212 | 1 265 796 |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

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

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

Mining properties and leases with a net book value of N$ 12 479 323 (2016: N$12 479 323), were capitalised in accordance with IAS17 and IFRIC 4. The finance lease was settled in the 2006 financial year.

The Group tests the total capital investment made in the mining sector annually for impairment or more frequently if there is an indication that the capital investment made might be impaired.

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

- Mining and refinery 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 resource availability, 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:

| | 2017 | 2016 |
|---|---|---|
| - Foreign exchange rate (USD) | 14.10 | 15.15 |
| - Average Zinc price (UDS/t) | 2 550 | 2 047 |
| - Inflation rate | 8.73% | 5.00% |
| - Discount rate | 10.31% | 10.31% |

All figures stated above are in real terms. Successful conversion of the refinery to a dual stream sulphide/oxide refinery at cost approved. (See note 27)

At 31 March 2017, no impairment was necessary related to the Skorpion Project (2016 Nil).

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 4. INTANGIBLE ASSET

| | 2017 N$'000 | 2016 N$'000 |
|---|---|---|
| **Group** | | |
| **Cost** | | |
| Opening Balance | 20 643 | 20 643 |
| Closing Balance | 20 643 | 20 643 |
| **Amortisation and impairment** | | |
| Opening Balance | 11 377 | 9 556 |
| Amortisation charge for the year | 494 | 1 821 |
| Closing Balance | 11 871 | 11 377 |
| Opening Net Book Value | 9 266 | 11 087 |
| Closing Net Book Value | 8 772 | 9 266 |

Intangible assets relate to SAP implementation expenses which are carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the units of production method over the estimated life of mine. The effects of any revision are recognised in profit or loss when the changes arise.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 5. SUBSIDIARY COMPANIES

| Shares at cost | Percentage held | Company 2017 N$ '000 | Company 2016 N$ '000 |
|---|---|---|---|
| **Directly held** | | | |
| Skorpion Zinc (Proprietary) Limited | 100% | 460 945 | 460 945 |
| Less: Impairment | | (203 363) | (203 363) |
| **Indirectly held** | | | |
| Skorpion Mining Company (Proprietary) Limited | 100% | - | - |
| Amica Guest House (Proprietary) Limited | 100% | - | - |
| Namzinc (Proprietary) Limited | 100% | - | - |
| **Total shares at cost** | | **257 582** | **257 582** |

## 6. INVESTMENTS

| UNLISTED | | Group N$ '000 | Group N$ '000 |
|---|---|---|---|
| Shares at cost | | | |
| 50 Ordinary shares of N$1 each in RoshSkor Township (Proprietary) Limited | 50% | - | - |
| Accumulated share of profit in joint venture | | 6 709 | 11 949 |
| Shares at cost | | | |
| 69 Ordinary shares of N$1 each in Rosh Pinah Health Care | 69% | 9 587 | 9 587 |
| Rosh Pinah Health Care (Proprietary) Limited (Share premium of N$138 946.13 per share) | | | |
| Accumulated share of losses in joint venture | | (4 386) | (4 028) |
| **Total investment in joint ventures** | | **11 910** | **17 508** |

**Additional information on investments:**

| Investment | % Held | Nature | Principal activities |
|---|---|---|---|
| Skorpion Zinc (Proprietary) Limited | 100% | Subsidiary | Investment company |
| Skorpion Mining Company (Proprietary) Limited | 100% | Subsidiary | Mining and exploration |
| Amica Guest House (Proprietary) Limited | 100% | Subsidiary | Accommodation and catering services |
| Namzinc (Proprietary) Limited | 100% | Subsidiary | Zinc ore refinery |
| RoshSkor Township (Proprietary) Limited | 50% | Joint venture | Development and delivery of utilities |
| Rosh Pinah Health Care (Proprietary) Limited | 69% | Joint venture | Leasing out of medical equipment and building and conducting services related thereto. |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 7. DEFERRED TAXATION

| | Group 2017 N$ '000 | Group 2016 N$ '000 | Company 2017 N$ '000 | Company 2016 N$ '000 |
|---|---|---|---|---|
| Liability at beginning of the year | - | - | - | - |
| Statement of profit or loss and other comprehensive income movement | - | - | - | - |
| Liability at end of the year | - | - | - | - |
| Deferred tax liability / (asset) arises from: | | | | |
| Fixed asset allowances | 30 661 | 38 165 | - | - |
| Prior year adjustment | 110 822 | - | - | - |
| Prepayments | 752 | 1 353 | - | - |
| Restoration provision | - | (23 664) | - | - |
| Other items | 64 943 | (1 137) | - | - |
| Decommissioning provision | - | (17 706) | - | - |
| Tax loss utilised | (207 178) | 2 989 | - | - |
| | - | - | - | - |

At 31 March 2017, a deferred tax asset of N$540 257 818 (2016: N$476 761 000) was not recognised because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

The company adjusted the disclosure on deferred tax asset at 31 March 2017 necessitated by a revision in the deferred tax computation done at 31 March 2016. The adjustment has no impact on the Statements of Financial Position and Statements of Profit or Loss and Other Comprehensive Income.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| **8. NON-CURRENT ASSETS HELD FOR SALE** | | | | |
| Assets held for sale | 150 000 | - | - | - |

Skorpion Mining Company signed a letter of intent with Basil Read to outsource its mining operations to Basil Read. The agreement stipulates that Basil Read would take over the mining equipment of Skorpion Mining Company. The carrying value of assets immediately prior to reclassification as held for sale was N$206 550 014, and the assets were taken over at a value of N$150 000 000 resulting in an impairment loss of N$56 550 014 being recognized in other operating expenses in statement of profit or loss and other comprehensive income for the year ended 31 March 2017. The assets are held at fair value.

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| **9. INVENTORY** | | | | |
| Work in progress | 312 159 | 130 074 | - | - |
| Consumable stock | 266 274 | 249 778 | - | - |
| Finished zinc metal | 47 534 | 30 845 | - | - |
| Mining stockpile and Copper Cement | 122 613 | 133 033 | - | - |
| | 748 580 | 543 730 | - | - |

Stockpiles are valued by estimating the zinc content in tons and applying the average cost method to the tons in stock. Zinc content of stockpiles is quantified by performing geological samples on the stockpiles in order to determine the grade (expressed as a percentage). This percentage is then applied to the total tons of ore in the stockpile. At year end the estimation of grade and zinc content was:

| | | | | |
|---|---|---|---|---|
| Stacker/reclaimer | | | | |
| - Average grade (%) | 9.54 | 6.86 | - | - |
| - Zinc content (tons) | 2 071 | 1 431 | - | - |
| Mining Stockpile | | | | |
| - Average grade (%) | 7.55 | 5.63 | - | - |
| - Zinc content (tons) | 25 286 | 13 777 | - | - |

Consumable stock is carried after a provision for obsolescence has been made.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 9. INVENTORY (continued)

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| Balance at the beginning of the year | 68 404 | 80 799 | - | - |
| Deducted from operating profit | (6 308) | (12 395) | - | - |
| Balance at the end of the year | 62 096 | 68 404 | - | - |

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |

## 10. TRADE AND OTHER RECEIVABLES

| | | | | |
|---|---|---|---|---|
| Trade receivables | 13 238 | 23 443 | - | - |
| Prepayments | 15 417 | 16 329 | - | - |
| Other receivables | 36 186 | 59 296 | - | - |
| Value added tax | 41 899 | 32 363 | 94 | 91 |
| | 106 740 | 131 431 | 94 | 91 |

No allowance has been made for irrecoverable amounts as the amounts past due date are immaterial.

Trade and other receivables with the following values are past their due date:

| | | | | |
|---|---|---|---|---|
| Within one month | 22 046 | 17 341 | - | - |
| Between 1 to 2 months | 23 | 1 183 | - | - |
| Between 2 to 3 months | 37 | 139 | - | - |
| Greater than 3 months | 4 220 | 4 218 | - | - |
| | 26 326 | 22 881 | - | - |

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

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 11. RELATED PARTIES

| | |
|---|---|
| Ultimate holding company | Vedanta Resources Plc (refer to Report of directors for full discussion on control) |
| Holding company | THL Zinc Limited |
| Subsidiaries | Refer to notes 5 and 6. |
| Other related companies | All companies in the Vedanta Ltd and Vedanta Resources Plc groups respectively. |

**Related party balances**

**Amounts owing (to) / by related parties**

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| Skorpion Zinc (Pty) Ltd* | - | - | 983 048 | 983 048 |
| Skorpion Mining Company (Pty) Ltd* | - | - | 16 600 | 16 600 |
| RoshSkor Township (Pty) Ltd* (Note 6) | 13 908 | 15 557 | - | - |
| Rosh Pinah Health Care (Pty) Ltd* (Note 6) | 144 | 144 | - | - |
| | 14 052 | 15 701 | 999 648 | 999 648 |

*The loans are unsecured, interest free and have no set terms of repayment.

**Short-term loans / other receivables / (other payables)**

| | Group | | Company | |
|---|---|---|---|---|
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| Vedanta Resources Plc Group | | | | |
| - THL Zinc Ltd | 452 211 | - | - | - |
| - Black Mountain Mining (Pty) Ltd* | 4 448 | - | - | - |
| - Monte Cello BV | 26 436 | - | - | - |
| | 483 095 | - | - | - |
| | | | | |
| - Vedanta Lisheen Holdings Ltd | (52 631) | - | - | - |
| - Skorpion Zinc (Pty) Ltd | - | - | (750) | (750) |
| - Black Mountain Mining (Pty) Ltd* | - | (67 523) | - | - |
| - Namzinc (Pty) Ltd | - | - | (13 739) | (11 178) |
| | (52 631) | (67 523) | (14 489) | (11 928) |

*The balances are for management fees charged and or reimbursement of expenses.

The loans to THL Zinc Ltd and Monte Cello BV are for a period of 1 year and carry interest at rates of 2.2% and 2 % respectively.

The loan from Vedanta Lisheen Holdings Ltd is for a period of 1 year and carries interest at a rate of 2% per annum.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 11. RELATED PARTIES (continued)

**Purchases of goods and services**

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| Vedanta Resources Plc | | | | |
| - Black Mountain Mining (Pty) Ltd | 29 892 | 55 393 | - | - |
| - Vedanta Resources Plc | 2 059 | 1 071 | | |
| - Bharat Aluminium Company Ltd | 4 452 | - | - | - |
| - Other | 3 228 | 1 172 | - | - |
| | 39 631 | 57 636 | - | - |

## 12. 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.

| | Group | | Company | |
|---|---|---|---|---|
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| Bank balances and cash are denominated as follows: | | | | |
| - Local currency: | 106 651 | 22 410 | 2 357 | 193 |
| - Foreign currency (held in US$): | 564 134 | 147 806 | - | - |
| | 670 785 | 170 216 | 2 357 | 193 |
| The average interest rates earned on local currency denominated balances during the year were as follows: | **%** | **%** | **%** | **%** |
| - Local currency: | 4.65 | 4.65 | 4.45 | 4.45 |
| - Foreign currency (held in US$): | - | - | - | - |

## 13. SHARE CAPITAL AND PREMIUM

| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
|---|---|---|---|---|
| Authorised | | | | |
| 4 000 ordinary shares of N$1 each | 4 | 4 | 4 | 4 |
| 1 000 5% redeemable preference shares | 1 | 1 | 1 | 1 |
| Issued | | | | |
| 820 ordinary shares (2016: 820) of N$1 each | 1 | 1 | 1 | 1 |
| Share premium | 960 049 | 960 049 | 960 049 | 960 049 |
| | 960 050 | 960 050 | 960 050 | 960 050 |

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

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

| | Group | | Company | |
|---|---|---|---|---|
| | 2017<br>N$ '000 | 2016<br>N$ '000 | 2017<br>N$ '000 | 2016<br>N$ '000 |
| **14. DECOMMISSIONING PROVISION** | | | | |
| Balance at beginning of year | 243 892 | 163 819 | - | - |
| Movements in decommissioning assets | 101 321 | 61 405 | - | - |
| Movements expensed to statement of comprehensive income | 39 797 | 18 668 | - | - |
| Balance at end of year | 385 010 | 243 892 | - | - |

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 10.07% (Mining) and 11.31% (Refinery) (2016: 9.58% (Mining) and 10.66% (Refinery). These costs are expected to be incurred over the remaining Life-of-mine currently being 13 (2016:13.5) (Refinery) and 2.8 (2016:4) (Mining) years.

| | Group | | Company | |
|---|---|---|---|---|
| **15. RESTORATION PROVISION** | | | | |
| Balance at beginning of year | 129 899 | 113 854 | - | - |
| Cash restoration cost incurred | - | - | | |
| Changes in estimate (deducted) / capitalised | (63 325) | 3 805 | - | - |
| Movements expensed to statement of comprehensive income | 7 094 | 12 240 | - | - |
| Balance at end of year | 73 668 | 129 899 | - | - |

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. These costs are expected to be incurred over the remaining Life-of-mine currently being 13 (2016:13.5) (Refinery) and 2.8 (2016:4) (Mining) years.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |

## 16. TRADE AND OTHER PAYABLES

| | | | | |
|---|---|---|---|---|
| Trade and other payables | 122 820 | 69 620 | - | - |
| Royalty accrual | 1 686 | 3 126 | - | - |
| Salary accruals | 14 188 | 69 082 | - | - |
| Advance receipts | 50 277 | - | - | - |
| Other accruals | 107 354 | 82 825 | 23 | 61 |
| Other provisions | 40 449 | 36 476 | - | - |
| | 336 774 | 261 129 | 23 | 61 |

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

## 17. NET FINANCE INCOME

| | | | | |
|---|---|---|---|---|
| Finance income | 6 267 | 41 683 | 76 | 149 |
| Bank | 6 267 | 2 092 | 76 | 149 |
| Net foreign exchange gain | - | 39 591 | - | - |
| Less: Finance costs | 114 142 | 35 171 | - | - |
| Bank | 822 | 4 263 | - | - |
| Net foreign exchange loss | 66 429 | - | - | - |
| Decommissioning provision | 46 891 | 30 908 | - | - |
| Net finance (costs) / income | (107 875) | 6 512 | 76 | 149 |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 18. PROFIT BEFORE TAXATION

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

| | Group 2017 N$ '000 | Group 2016 N$ '000 | Company 2017 N$ '000 | Company 2016 N$ '000 |
|---|---|---|---|---|
| **Expenditure** | | | | |
| Auditors' remuneration: | | | | |
| - Audit fees | 3 341 | 2 442 | - | - |
| - SEC related audits | 331 | 584 | | |
| Depreciation and amortisation of property, plant and equipment | 93 170 | 110 040 | - | - |
| By-product sales | (17 339) | (18 394) | | |
| Impairment loss | 56 550 | - | | |
| Loss on disposal of property, plant and equipment | - | 42 | - | - |
| Receipt from insurers | (194 314) | - | - | - |
| Staff costs | 382 386 | 252 553 | - | - |
| Number of employees at 31 March 2017 | 744 | 805 | - | - |

**Compensation of key management personnel**

Key management comprise the directors of the company as well as the members of the executive committee of the Skorpion project.

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

| | Group 2017 N$ '000 | Group 2016 N$ '000 | Company 2017 N$ '000 | Company 2016 N$ '000 |
|---|---|---|---|---|
| Directors remuneration | | | | |
| Directors – managerial services | | | | |
| - managerial services | 1 674 | 1 733 | - | - |
| - medical and pension | 127 | 57 | - | - |
| Other key management | | | | |
| - managerial services | 10 472 | 14 475 | - | - |
| - medical and pension | 730 | 753 | - | - |
| - share based payments | 95 | 135 | - | - |
| Total | 13 098 | 17 153 | - | - |

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

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |

## 19. TAXATION

| | | | | |
|---|---|---|---|---|
| Namibian Normal Taxation | | | | |
| Current taxation: current year | - | - | - | - |
| Deferred taxation: current year | - | - | - | - |
| | - | - | - | - |
| | | | | |
| Reconciliation of tax rate | % | % | % | % |
| - standard statutory tax rate | 32.0 | 32.0 | 32.0 | 33.0 |
| - Increase in unrecognised deferred tax | 8.7 | 54.1 | - | - |
| - income not subject to taxation | - | - | - | - |
| - unutilised tax loss | - | - | (32.0) | (32.0) |
| - subsidiary exempt from tax | (40.7) | (86.1) | - | - |
| Effective tax rate | - | - | - | - |

A subsidiary of the company, Namzinc (Proprietary) Limited has been granted Export Processing Zone status and is therefore exempt from paying taxes.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 20. RETIREMENT BENEFITS

The group provides retirement benefits to its employees through an independent retirement fund plan, The Skorpion Zinc Provident Fund. At 31 March 2017, 744 (2016: 853) 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.

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| The following contributions were expensed: | | | | |
| Employer contributions | 15 263 | 14 494 | - | - |
| Employee contributions | 11 872 | 13 442 | - | - |
| | 27 135 | 27 936 | - | - |

## 21. FINANCIAL RISK AND CAPITAL MANAGEMENT

### Capital risk management

The Group 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 group's overall strategy remains unchanged from 2016.

The capital structure of the group consists of cash and cash equivalents and equity, comprising issued capital and retained earnings.

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

### Foreign currency management

The group's policy is to only take cover on large foreign currency capital purchases with long lead times. The Group's major exposure to foreign currency is to the United States Dollar ("USD"), in relation to trade receivables and cash in its 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$29 158 037 (2016: N$7 580 773) to the statement of profit or loss and other comprehensive income results.

The group also has exposure to foreign creditors at year end in USD (2016 in USD and Euro). In terms of the Group risk expectations a 5% increase/decrease on USD (2016 in USD and EUR) will result in a decrease/increase of N$412 955 (2016: N$1 014 000) to the year's statement of profit or loss and other comprehensive income results.

### Interest rate management

Borrowings, should these be required, will be requested from the holding company or from external parties and interest rates are managed in accordance with the policies set down by the Vedanta Resources Plc. Group treasury function.

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 rate would result in an increase/decrease in interest earnings of N$866 289 (2016: N$193 386) for the Group.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

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

### Credit risk management

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

The group 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 2017, all the group's cash resources were on call with the group'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 group manages its liquidity risk by ensuring that it has access to adequate cash resources to meet its obligations. The group has reported positive operating cash flows for the current year and projections indicate this trend to be sustainable.

### Market risk

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

### Categories of financial instruments

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.

All the categories of financial assets and liabilities measured at fair value identified on the table below are measured using level 1.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

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

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

**Group 2017**

| | Available for sale financial assets N$ '000 | Cash and cash equivalents N$ '000 | Loans and receivables N$ '000 | Financial liabilities at amortised cost N$ '000 | Non-financial assets and liabilities N$ '000 | Total N$ '000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| NON-CURRENT ASSETS | - | - | 14 052 | - | 1 114 495 | 1 128 547 |
| Property, plant and equipment | - | - | - | - | 1 093 813 | 1 093 813 |
| Intangible Asset | - | - | - | - | 8 772 | 8 772 |
| Investments | - | - | 14 052 | - | 11 910 | 25 962 |
| CURRENT ASSETS | - | 670 785 | 532 520 | - | 806 308 | 2 009 613 |
| Inventory | - | - | - | - | 748 580 | 748 580 |
| Group company receivables | - | - | 483 095 | - | - | 483 095 |
| Trade and other receivables | - | - | 49 425 | - | 57 315 | 106 740 |
| Taxation | - | - | - | - | 413 | 413 |
| Bank balances and cash | - | 670 785 | - | - | - | 670 785 |
| Non-Current Assets Held For Sale | - | - | - | - | 150 000 | 150 000 |
| **TOTAL ASSETS** | **-** | **670 785** | **546 572** | **-** | **2 070 803** | **3 288 160** |
| **EQUITY AND LIABILITIES** | | | | | | |
| CAPITAL AND RESERVES | - | - | - | - | 2 440 077 | 2 440 077 |
| Share capital | - | - | - | - | 1 | 1 |
| Share premium | - | - | - | - | 960 049 | 960 049 |
| Retained income | - | - | - | - | 1 480 027 | 1 480 027 |
| NON-CURRENT LIABILITIES | - | - | - | - | 458 678 | 458 678 |
| Decommissioning provision | - | - | - | - | 385 010 | 385 010 |
| Restoration provision | - | - | - | - | 73 668 | 73 668 |
| CURRENT LIABILITIES | - | - | - | 298 679 | 90 726 | 389 405 |
| Trade and other payables | - | - | - | 246 048 | 90 726 | 336 774 |
| Group Company Loans Payable | - | - | - | 52 631 | - | 52 631 |
| **TOTAL EQUITY AND LIABILITIES** | | | | **298 679** | **2 989 481** | **3 288 160** |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

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

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

**Group 2016**

| | Available for sale financial assets | Cash and cash equivalents | Loans and receivables | Financial liabilities at amortised cost | Non-financial assets and liabilities | Total |
|---|---|---|---|---|---|---|
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| **ASSETS** | | | | | | |
| NON-CURRENT ASSETS | - | - | 15 701 | - | 1 292 570 | 1 308 271 |
| Property, plant and equipment | - | - | - | - | 1 265 796 | 1 265 796 |
| Intangible Asset | - | - | - | - | 9 266 | 9 266 |
| Investments | - | - | 15 701 | - | 17 508 | 33 209 |
| CURRENT ASSETS | - | 170 216 | 82 739 | - | 592 864 | 845 819 |
| Inventory | - | - | - | - | 543 730 | 543 730 |
| Trade and other receivables | - | - | 82 739 | - | 48 692 | 131 431 |
| Taxation | - | - | - | - | 442 | 442 |
| Bank balances and cash | - | 170 216 | - | - | - | 170 216 |
| TOTAL ASSETS | - | 170 216 | 98 440 | - | 1 885 434 | 2 154 090 |
| **EQUITY AND LIABILITIES** | | | | | | |
| CAPITAL AND RESERVES | - | - | - | - | 1 451 647 | 1 451 647 |
| Share capital | - | - | - | - | 1 | 1 |
| Share premium | - | - | - | - | 960 049 | 960 049 |
| Retained income | - | - | - | - | 491 597 | 491 597 |
| NON-CURRENT LIABILITIES | - | - | - | - | 373 791 | 373 791 |
| Deferred taxation | - | - | - | - | - | - |
| Decommissioning provision | - | - | - | - | 243 892 | 243 892 |
| Restoration provision | - | - | - | - | 129 899 | 129 899 |
| CURRENT LIABILITIES | - | - | - | 256 445 | 72 207 | 328 652 |
| Trade and other payables | - | - | - | 256 445 | 72 207 | 328 652 |
| TOTAL EQUITY AND LIABILITIES | - | - | - | 256 445 | 1 897 645 | 2 154 090 |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 22. NOTES TO THE STATEMENTS OF CASH FLOW

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |
| Profit (loss) before taxation | 988 430 | 258 886 | (346) | (245) |
| Adjust for non-cash items | | | | |
| Depreciation and amortisation | 93 170 | 110 040 | - | - |
| Impairment loss | 56 550 | - | - | - |
| Loss on disposal of property, plant and equipment | - | 42 | - | - |
| Share of loss / (profit) in joint ventures | 5 597 | (487) | - | - |
| Finance income | (6 267) | (2 092) | (76) | (149) |
| Other non-cash items | 4 | - | - | - |
| Finance costs | 47 712 | 35 171 | - | - |
| Foreign exchange gains | 66 429 | (39 591) | - | - |
| | 1 251 625 | 361 969 | (422) | (394) |
| Working capital changes | (104 515) | (24 738) | (41) | (15 324) |
| Inventory | (204 850) | (22 841) | - | - |
| Trade and other receivables | 24 691 | 18 917 | (4) | 1 |
| Trade and other payables | 75 644 | (20 814) | (37) | (15 325) |
| Cash generated / (utilised) by operations | 1 147 110 | 337 231 | (463) | (15 718) |

### 22.2 TAXATION PAID

| | Group 2017 | Group 2016 | Company 2017 | Company 2016 |
|---|---|---|---|---|
| Balance at beginning of the year - receivable | 442 | 431 | 102 | 102 |
| Charge per statement of comprehensive income | - | - | - | - |
| Balance at end of the year - receivable | (413) | (442) | (112) | (102) |
| Taxation received / (paid) | 29 | (11) | (10) | - |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 23. OTHER INCOME

Included in Other Income in the Statement of Profit or Loss and Other Comprehensive income are the following items:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$'000 | N$'000 | N$'000 | N$'000 |
| Insurance receipts | 194 314 | - | - | - |
| Scrap metal sales | 21 422 | - | - | - |
| Rental and other income | 597 | - | - | - |
| | 216 333 | - | - | - |

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 24. GUARANTEES AND CONTINGENT LIABILITIES

| | | | | Group | | Company | |
|---|---|---|---|---|---|---|---|
| | | | | 2017 | 2016 | 2017 | 2016 |
| | | | | N$'000 | N$'000 | N$'000 | N$'000 |
| **Guarantees issued:** | **Guarantor** | **Maturity** | **Nature** | | | | |
| Customs and Excise Bond | FNB | Open ended | SACU sales bond | 3 200 | 3 200 | - | - |
| Outotec GMBM | FNB | Cancelled | Cancelled | - | 5 699 | - | - |
| Oxbow Energy Solution B.V | FNB | Cancelled | Cancelled | - | 32 551 | | |
| Namibian Ports Authority | FNB | Upon payment or cancellation | Surety on default | 1 184 | 1 184 | - | - |
| NamPower (Pty) Ltd - RoshSkor | FNB | Upon payment or cancellation | Surety on default | 91 | 91 | - | - |
| NamPower (Pty) Ltd | FNB | Upon payment or cancellation | Surety on default | 18 | 18 | - | - |
| RoshSkor Township (Pty) Ltd | FNB | Upon payment or cancellation | Surety on default | 1 159 | 1 159 | - | - |
| | | | | 5 652 | 43 902 | - | - |
| | | | | | | | |
| Contingent Liabilities: | | | | | | | |
| Ministry of Finance | | | | 2 470 | 2 470 | - | - |
| RoshSkor Township (Pty) Ltd | | | | 6 000 | - | - | - |
| | | | | 8 470 | 2 470 | - | - |

The contingent liability relates to a claim for refund of proportionate costs incurred on the Gergarub Project by Skorpion Mining Company (Proprietary) Limited's joint venture partner, Rosh Pinah Zinc Corporation (Proprietary) Limited (RPZC). Skorpion Mining Company (Proprietary) Limited believes it's not liable for the costs, as RPZC was not authorised to incur the expenses. The likelihood of reimbursement of the N$6 million claimed by RPZC is considered to be remote. The contingent liability is for penalties and interest that could potentially be payable to the Ministry of Finance.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

## 25. UNCOVERED FOREIGN CURRENCY MONETARY ITEMS

| | Group | | Company | |
|---|---|---|---|---|
| | | | | 2016 |
| United States Dollar | | | | |
| Year-end exchange rate | 13.41 | 15.06 | 13.41 | 15.06 |
| | US$ ‘000 | US$ ‘000 | US$ ‘000 | US$ ‘000 |
| Current assets | | | | |
| - Bank balances and cash | 43 479 | 9 826 | | - |
| Current liabilities | | | | |
| - Payables | 631 | 1 367 | - | - |

## 26. OPERATING LEASE COMMITMENTS

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

| | N$'000 | N$'000 | N$'000 | N$'000 |
|---|---|---|---|---|
| Within 1 year | 1 617 | 3 740 | - | - |
| Between 1 to 2 years | 1 750 | 7 851 | - | - |
| Between 2 to 5 years | 1 894 | 4 362 | - | - |
| | 5 261 | 15 953 | - | - |

Operating leases are in relation to the use of Spitskop Wes farm to mine limestone, as well as for the lease of various other assets where the useful lives of such assets significantly exceed the period of the leased asset. None of the operating leases have escalation rates of more than 10% per annum.

**CONSOLIDATED NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS (continued)**
**for the year ended 31 March 2017**

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | N$ '000 | N$ '000 | N$ '000 | N$ '000 |

## 27. CAPITAL COMMITMENTS

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

| | | | | |
|---|---|---|---|---|
| Contracted | 8 894 | 4 912 | - | - |
| Authorised but not contracted | 2 289 120 | 2 289 120 | - | - |
| | 2 298 014 | 2 294 032 | - | - |

Included in the capital commitments is an amount of N$ 2 289 120 000 related to the sulphide conversion project. The project has been approved by the directors as well as the directors of Vedanta Resources Plc.

## 28. DIVIDENDS

| | | | | |
|---|---|---|---|---|
| During the year dividends of the following values were declared: | - | - | - | - |

## 29. MATERIAL EVENTS AFTER YEAR END

The directors 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 group's company's state of affairs.

## 30. AUTHORISATION OF ANNUAL FINANCIAL STATEMENTS

The group and separate company financial statements were authorised by the Directors and approved for issue on 01 June 2017.