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Independent Auditor's Report

To the shareholder of Botswana Development Corporation Limited

Opinion

We have audited the consolidated and separate financial statements of Botswana Development Corporation Limited (the Group and Company) set out on pages 15 to 115, which comprise the statements of financial position as at 30 June 2022, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, significant accounting policies and notes to consolidated and separate financial statements.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Botswana Development Corporation Limited as at 30 June 2022, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Standards).

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 consolidated and separate Financial Statements* section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">1) Valuation of investment properties

This key audit matter is applicable to the consolidated financial statements.

Refer to the significant accounting policy for investment properties note 1.6, the critical judgements in applying accounting policies valuation of investment properties note 1.5 and note 8 to the financial statements.</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group owns a portfolio of investment properties comprising office buildings, residential property, industrial property and mixed use properties. The carrying values of the investment properties amounted to P 1.181 million as at 30 June 2022. This accounts for 26.9% of the Group's total non-current assets and is a significant asset of the Group.

The Group's investment properties are measured at fair value based on valuations carried out by independent qualified professional valuers (the "valuers").

The valuation model considers the present value of net cash flows to be generated from the respective property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates.

Due to the significance of the value of investment properties and the estimation uncertainty and judgments involved in determining the fair values of the investment properties, the valuation of investment properties is considered to be a key audit matter in our audit of the consolidated financial statements.</td><td>Our audit procedures included the following:

• We evaluated the competence, capabilities, independence and objectivity of the external valuers, including an evaluation of controls in place for the appointment and assessment of these experts by management. This was achieved through conducting background checks, inspecting details of the valuers qualifications and experience and verifying their membership to professional bodies.

• We evaluated the appropriateness of valuation methodologies used against those applied by other valuers for similar property types.

• We obtained an understanding of the valuation process used by the valuers, including the significant assumptions and critical judgements applied in the valuation methodologies and evaluated whether these methodologies met the requirements of IFRS 13 Fair Value Measurement.</td></tr>
</table>

1) Valuation of investment properties This key audit matter is applicable to the consolidated financial statements. Refer to the significant accounting policy for investment properties note 1.6, the critical judgements in applying accounting policies valuation of investment properties note 1.5 and note 8 to the financial statements.	
Key audit matter	How the matter was addressed in our audit
	• We assessed and challenged the key inputs and assumptions in the valuation models to ensure that the significant inputs are within a reasonable range for the respective market sector and asset. This included performing the following procedures: —We traced cash flows (rental incomes) to underlying lease contracts on a sample basis; —We compared expected market rental growth and discount rates to industry data; —We compared occupancy rates and rent free or void periods to historical data. In addition, we considered whether the historical data was an appropriate indication for future inputs in line with current market conditions; and —We traced the fair values of all the Group's investment properties to the independent valuers' reports. • We tested the design and implementation of controls over management's process for reviewing the inputs and results obtained from these valuation reports, in ensuring that the movement in the property fair values are appropriately recognised. • We considered the adequacy of the disclosures made in the financial statements related to the valuation of investment properties in relation to the requirements of IAS40 *Investment Property* and IFRS 13 *Fair Value*

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1) Valuation of investment properties This key audit matter is applicable to the consolidated financial statements. Refer to the significant accounting policy for investment properties note 1.6, the critical judgements in applying accounting policies valuation of investment properties note 1.5 and note 8 to the financial statements.	
Key audit matter	How the matter was addressed in our audit
	Measurement.

2) Impairment of investments in subsidiaries and equity accounted investees This key audit matter is applicable to the separate financial statements. Refer to the significant accounting policies on investments in subsidiaries note 1.3 and equity accounted investees note 1.4 The critical accounting estimates and judgements in applying accounting policies impairment of investments in subsidiaries and equity accounted investees note 1.5 and notes 12 and 13 relating to subsidiaries and equity accounted investees respectively.	
Key audit matter	How the matter was addressed in our audit
The carrying value of the Company's investments in subsidiaries and equity accounted investees amounted to P 1.4 billion at the reporting date. This constitutes 37.7% of the Company's total non-current assets. The accumulated impairment balance on investments in subsidiaries and equity accounted investees amounted to P 148.52 million and P 16.40 million respectively. Investment in subsidiaries and equity accounted investees are carried at cost less accumulated impairment losses. Management assesses the investment in subsidiaries and equity accounted investees whenever circumstances may indicate the presence of impairment indicators considering amongst other factors the Company's carrying value to the respective net asset values of the investees. Management also takes into consideration information available at the reporting date which may have contributed to the current performance or which is expected to improve future performance of the subsidiaries and equity accounted investees. The assessment of these investments for	Our audit procedures performed included the following: • We compared the carrying values of the investment in subsidiaries and equity accounted investees with the respective net asset values per the subsidiaries and equity accounted investees' financial statements. Where the above comparison indicated a possible impairment, we discussed with management and assessed the adequacy of their impairment assessment. • We assessed and critically evaluated the future performance and growth rates applied by management in their cash flow projections, based on information available at the reporting date which included comparing expected revenue growth rates to the investees' historical performance and relevant market growth data.

2) Impairment of investments in subsidiaries and equity accounted investees This key audit matter is applicable to the separate financial statements. Refer to the significant accounting policies on investments in subsidiaries note 1.3 and equity accounted investees note 1.4 The critical accounting estimates and judgements in applying accounting policies impairment of investments in subsidiaries and equity accounted investees note 1.5 and notes 12 and 13 relating to subsidiaries and equity accounted investees respectively.	
Key audit matter	How the matter was addressed in our audit
impairment therefore requires the application of significant judgement and the use of significant assumptions, which include revenue growth rates, and other cash flow projections. Significant judgements and assumptions are also applied in determining the current market value of non-current assets held by the subsidiaries and equity accounted investees based on valuations carried out by independent qualified professional valuers (refer to the key audit matter in respect of the valuation of investment properties). Given the significance of the carrying values of the investment in subsidiaries and equity accounted investees and the significant judgements made by management, we considered the impairment of these assets to be complex with estimation uncertainty and thus a key audit matter in our audit of the separate financial statements.	• We evaluated the competencies, capabilities, independence and objectivity of the external valuers, including an evaluation of controls in place for the appointment and assessment of these experts by management. We further evaluated the appropriateness of the valuation methodologies used against those applied by other valuers for similar asset types. • We assessed the adequacy of disclosures in the separate financial statements related to investments in subsidiaries and equity accounted investees in accordance with the requirements of IAS 36, *Impairment of Assets and* IFRS 13, *Fair Value Measurement.*

3) Impairment of financial assets measured at amortised cost This key audit matter is applicable to the consolidated and separate financial statements. Refer to the significant accounting policies on financial instruments note 1.10, the critical accounting estimates and judgements in applying accounting policies loans to non-affiliates note 1.5 and note 14 relating to financial assets measured at amortised cost.	
Key audit matter	How the matter was addressed in our audit
The financial assets measured at amortised cost are included under the “other investments” financial statements caption and amount to	Our audit procedures performed included the following: • We evaluated the design and

3) Impairment of financial assets measured at amortised cost

This key audit matter is applicable to the consolidated and separate financial statements.

Refer to the significant accounting policies on financial instruments note 1.10, the critical accounting estimates and judgements in applying accounting policies loans to non-affiliates note 1.5 and note 14 relating to financial assets measured at amortised cost.

Key audit matter	How the matter was addressed in our audit
P1.43 billion and P1.78 billion at the reporting date for the Group and Company respectively. This constitutes 24.2% and 33.8% of the Group and Company's total assets respectively. The accumulated expected credit loss on these financial assets amounted to P166.97 million and P210.55 million for Group and Company respectively. The financial assets measured at amortised cost consist of loans disbursed to subsidiaries, equity accounted investees and non-affiliated entities. Loans to subsidiaries, equity accounted investees and non-affiliated entities are initially recognised at fair value and subsequently measured at amortised cost less impairment. The impairment of these loans is considered based on the Expected Credit Loss (ECL) which considers Exposure at Default, the Probability of Default and the Loss Given Default (LGD). The assessment of these loans for impairment therefore requires the application of judgement and the use of significant assumptions in determining certain inputs used in the expected credit loss computation. Given the significance of the financial assets measured at amortised cost and the significance and subjectivity of the judgements made by management in evaluating these assets for possible impairment, we considered the valuation of these assets to be a key audit matter in our audit of the consolidated and separate financial	implementation of internal controls over the impairment of loans to ensure the appropriateness of key assumptions applied, the assessment of credit risk done by the Company's risk department and the directors of the final measurement of expected credit losses applied to the loans. • We reconciled the input parameters (credit risk ratings, LGDs and exposures) applied in the expected credit loss calculation to underlying records. • We engaged our valuation specialists to assess management's expected credit loss computation on the financial assets measured at amortised cost based on the requirements applicable to IFRS 9, *Financial Instruments*. This included critically evaluating management's judgements and assumptions in determining the expected credit loss on loans to subsidiaries, associates and non-affiliates entities through performance of the following procedures: — Re-calculating the Exposure at Default based on the remaining term of each loan; — Reassess credit rating of the borrowers using approaches deemed appropriate to derive reasonable credit risk ratings for each borrower. — Comparing the unsecured Loss Given Default to global market practice.

3) Impairment of financial assets measured at amortised cost This key audit matter is applicable to the consolidated and separate financial statements. Refer to the significant accounting policies on financial instruments note 1.10, the critical accounting estimates and judgements in applying accounting policies loans to non-affiliates note 1.5 and note 14 relating to financial assets measured at amortised cost.	
Key audit matter	How the matter was addressed in our audit
statements.	— Assessing the appropriateness of the staging of the loans as well as the probability of default on each loan. • We considered the adequacy of the disclosures made in the financial statements in accordance with IFRS 9 *Financial Instruments.*

Other information

The directors are responsible for the other information. The other information comprises the general information, directors' report and the directors' responsibilities statement and approval of the financial statements, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Standards), and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate 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's 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 group and/or 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 consolidated and separate 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 and company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 consolidated and separate 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 and/or company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Certified Auditors
Practicing Member: Archibald Gumede
Certified Auditor of Public Interest Entity
BAOA Certificate Number CAP 0045 2023
Gaborone
28 June 2023