ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

Financial Statements for the year ended
30 June 2007

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
FINANCIAL STATEMENTS
For the year ended 30 June 2007

TABLE OF CONTENTS | **PAGE**

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
REPORT OF THE DIRECTORS
For the year ended 30 June 2007

The Directors have pleasure in presenting their report together with the balance sheet of Electricity Supply Corporation of Malawi Limited together with the income, equity and cash flow statements for the year ended 30 June 2007.

ACTIVITIES

The company is involved in generation, transmission and distribution of electricity.

	2007 K'000	2006 K'000 Restated
FINANCIAL PERFOMANCE		
(Loss)/profit before taxation	(827,267)	838,412
Income tax credit	-	(200)
Profit for the year	(827,267)	838,212

SHARE CAPITAL

The issued share capital of the company is K100 million divided into 50 million Ordinary shares of K2 each.

The shareholders and their respective holdings are:	2007	2006
Malawi Government	99%	99%
MDC Limited in liquidation	1%	1%
	100%	100%

MDC Limited in liquidation holds 1% in trust for the Malawi Government.

AUDITORS

The auditors, Deloitte, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ended 30 June 2008.

REGISTERED OFFICE

The registered office and principal place of business of the company is situated at the company's premises in ESCOM House, 9 Haile Selassie Road, Blantyre, Malawi

DIRECTORS

The following directors served in office during the year under review and will formally approve these financial statements:

Mr. G. M. Mtaula	Appointed November 2005	
Dr. E. Kayambazinthu	Appointed November 2005	
Mr. S. Aipira	Appointed November 2005	
Mr. A. W. Mia	Appointed January 2006	- Term ended April 2008
Chief F. J. Kapichi	Appointed November 2005	- Term ended April 2008
Dr. E. Chirwa	Appointed November 2005	- Term ended April 2008
Mr. J. G. Naphambo	Appointed November 2005	- Term ended April 2008
Mrs. N. Kalaile	Appointed November 2005	- Term ended April 2008
Apostle Dr. S. S. Ndovie	Appointed November 2005	- Term ended April 2008
Ministry of Statutory Corporations	Ex officio	
Ministry of Finance	Ex officio	
Ministry of Energy and Mines	Ex officio	

FOR AND ON BEHALF OF THE BOARD

Director: ____

Director: ____

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 30 June 2007

The Companies Act, 1984, requires the directors to prepare financial statements for each financial period, which gives a true and fair view of the state of affairs of the company as at the end of the period and of the operating results for that period.

The Act also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act, 1984.

In preparing the financial statements the directors accept responsibility for the following:

- Maintenance of proper accounting records;
- Selection of suitable accounting policies and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Compliance with applicable accounting standards, when preparing financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors also accept responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to maintain adequate systems of internal controls to prevent and detect fraud and other irregularities.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results.

Director: ____

Director: ____

REPORT OF THE INDEPENDENT AUDITORS
TO THE MEMBERS OF
ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

We have audited the financial statements of Electricity Supply Corporation of Malawi Limited as set out on pages 5 to 35, which comprise the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Electricity Supply Corporation of Malawi Limited as of 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1984 and the Public Finance Management Act, 2003.

13 February 2009

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

BALANCE SHEET

30 June 2007

	Notes	2007 K'000	2006 K'000 Restated
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	22,515,728	16,144,943
Capital work in progress	6	3,271,831	6,423,813
Total non-current assets		25,787,559	22,568,756
CURRENT ASSETS			
Inventories	7	1,168,940	920,908
Receivables	8	2,167,396	3,819,422
Bank current account and cash		100,644	18,976
Bank deposit accounts	9	347,098	363,726
Taxation recoverable		12,329	7,122
Total current assets		3,796,407	5,130,154
TOTAL ASSETS		29,583,966	27,698,910
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		100,000	100,000
Advance contribution for share capital		12,763,159	12,763,159
Pre-incorporation reserve		391,142	391,142
Nordic Development Fund Loan		865,579	777,920
Share premium		610,000	610,000
Assets reserve		115,225	153,060
Revaluation reserve		1,006,880	-
Accumulated losses		(6,355,692)	(5,566,260)
Total shareholders' equity		9,496,293	9,229,021
NON-CURRENT LIABILITIES			
Deferred income	10	3,492,852	2,980,144
Severance allowance provision	11	1,291,602	962,657
Retirement benefits provision	12	309,752	248,219
Borrowings	14	4,006,536	6,331,832
HIPC funds	16	2,705,617	2,638,687
Bank borrowings	17	359,571	-
Finance leases	18	14,239	-
Total non-current liabilities		12,180,169	13,161,339
CURRENT LIABILITIES			
Bank overdraft	19	400,397	130,897
Payables	20	1,161,784	1,663,606
Bank borrowings	17	341,819	48,450
Current portion of borrowings	14	5,713,373	3,379,774
Current portion of finance leases	18	119,375	-
Current portion of HIPC funds	16	145,756	60,623
Dividends payable		25,000	25,000
Total current liabilities		7,907,504	5,308,350
TOTAL EQUITY AND LIABILITIES		29,583,966	27,698,910

The financial statements were authorised for issue by the Board of Directors on 25 November 2008 and were signed on its behalf by:

………………………………..……… (Director) …………………………………..…(Director)

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

INCOME STATEMENT

For the year ended 30 June 2007

	Notes	2007 K'000	2006 K'000 Restated
INCOME FROM OPERATIONS			
Sales of energy		6,403,608	5,782,174
Capital contributions and grants released	10	119,276	111,040
Total income from operations		6,522,884	5,893,214
OPERATING EXPENDITURE			
Generation		846,383	717,454
Transmission		579,908	505,187
Distribution		2,298,132	2,092,994
Head Office		1,193,805	1,645,782
Depreciation		929,568	794,528
Interest on loans, finance leases and bank borrowings		172,326	190,306
Interest on bank overdraft		77,223	8,296
Total operating expenditure		6,097,345	5,954,547
PROFIT BEFORE SUNDRY (EXPENDITURE)/INCOME		425,539	61,333
SUNDRY (EXPENDITURE)/INCOME			
Exchange losses	21	(305,579)	(317,913)
Decrease/(increase) in doubtful debt provisions		(1,048,763)	152,202
Provision for PTA loan		-	62,807
Training expenses		(62,694)	(24,497)
Interest receivable		75,193	144,164
Other income		89,037	882,982
Net sundry (expenditure)/income		(1,252,806)	899,745
(LOSS)/PROFIT BEFORE TAXATION	22	(827,267)	838,412
Taxation	23	-	(200)
(LOSS)/PROFIT FOR THE YEAR		(827,267)	838,212

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

STATEMENT OF CHANGES IN EQUITY

30 June 2007

	Share capital K'000	Advance contribution for share capital K'000	Pre-incorporation reserves K'000	Nordic Development Fund loan K'000	Share premium K'000	Asset reserve K'000	General provision fund K'000	Revaluation reserve K'000	Accumulated losses K'000	Total K'000
Year ended 30 June 2006										
At 1 July 2005 as previously reported	100,000	12,763,159	391,142	440,029	610,000	-	117,779	-	(6,119,225)	8,302,884
Prior year adjustments:										
- IAS 16 adjustment	-	-	-	-	-	-	-	-	249,163	249,163
- Severance allowance	-	-	-	-	-	-	-	-	(712,298)	(712,298)
- Booking of unrecorded assets	-	-	-	-	-	213,169	-	-	-	213,169
At 1 July 2005 as restated	100,000	12,763,159	391,142	440,029	610,000	213,169	117,779	-	(6,582,360)	8,052,918
Profit for the year	-	-	-	-	-	-	-	-	838,212	838,212
Transfer	-	-	-	-	-	-	(117,779)	-	117,779	-
Transfer to accumulated losses	-	-	-	-	-	(60,109)	-	-	60,109	-
Advance contribution to share capital	-	-	-	337,891	-	-	-	-	-	337,891
At 30 June 2006	100,000	12,763,159	391,142	777,920	610,000	153,060	-	-	(5,566,260)	9,229,021
Year ended 30 June 2007										
At 1 July 2006 as previously reported	100,000	12,763,159	391,142	777,920	610,000	-	-	-	(4,925,688)	9,716,533
Prior year adjustments:										
- Severance allowance	-	-	-	-	-	-	-	-	(962,657)	(962,657)
- IAS 16 adjustment	-	-	-	-	-	-	-	-	322,085	322,085
- Booking of unrecorded assets	-	-	-	-	-	153,060	-	-	-	153,060
At 1 July 2006 as restated	100,000	12,763,159	391,142	777,920	610,000	153,060	-	-	(5,566,260)	9,229,021
Loss for the year	-	-	-	-	-	-	-	-	(827,267)	(827,267)
Transfer to accumulated losses	-	-	-	-	-	(37,835)	-	-	37,835	-
Revaluation surplus	-	-	-	-	-	-	-	1,006,880	-	1,006,880
Advance contribution for share capital	-	-	-	87,659	-	-	-	-	-	87,659
At 30 June 2007	100,000	12,763,159	391,142	865,579	610,000	115,225	-	1,006,880	(6,355,692)	9,496,293

	2007 K'000	2006 K'000
Analysis of share capital		
Authorised, issued and fully paid		
50,000,000 Ordinary shares of K2 each	100,000	100,000

Analysis of advance contribution for share capital

In 2004, Malawi Government converted the IDA loan on lent (reference number 62/425) Malawi Credit National loan and IDA on lent (65/431) to equity in a bid to restructure the capital base of the company.

The formalities for the issuing of the shares were not completed as at balance sheet date, and as at the time of signing of these accounts.

Pre-incorporation reserves

Pre-incorporation reserves are not available for distribution as they represent part of the capital introduced into the company on incorporation.

Revaluation reserve

The revaluation reserve, which represents the excess of carrying value of land and buildings over cost, is not distributable.

Nordic Development Fund Loan

This is a loan obtained from Nordic Development Fund. The loan is not repayable but ESCOM shall issue to the Government 530 million irredeemable non-cumulative 25% preference shares of K1 each in consideration of the loan proceeds. The loan attracts an interest rate at a rate of 3% per annum. ESCOM had not fully drawn the loan as at 30 June 2007.

Prior year adjustments:

- Severance allowance provision
  The company made a prior year adjustment in respect of severance allowance provision for all eligible employees following recent court rulings on the matter that have clarified the position that severance allowance and employer pension schemes are two separate employee benefits. Part of the provision has been charged against opening reserves as at 1 July 2005, since it relates to employment contracts for periods dating prior to that date as disclosed in note 11. The financial statements were restated as follows:

	2007 K'000	2006 K'000
(Loss)/profit for the year	328,945	250,359
Accumulated losses at beginning of the year	962,657	712,298

- IAS 16 adjustment
  The company has adopted IAS 16 (Revised) *Property, plant and equipment*. This has resulted in a prior year adjustment as detailed in note 2 to the financial statements.

- Booking of unrecorded assets
  The company carried out a physical verification of assets in the year under review and discovered that some assets were not included in the fixed asset register. These have been booked by creating a special reserve which will be amortised over the remaining useful lives of the related assets. The financial statements were restated as follows:

	2007 K'000	2006 K'000
(Loss)/profit for the year	(37,835)	(60,109)
Asset reserve	153,060	213,169

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

CASH FLOW STATEMENT

For the year ended 30 June 2007

	2007 K'000	2006 K'000
Cash generated from operations (Note 24)	1,755,615	1,862,943
Interest paid	(159,296)	(230,607)
Taxation paid	(5,207)	(2,301)
Net cash generated from operations	1,591,112	1,630,035
Cash flows from investing activities		
Expenditure on property, plant and equipment including capital work in progress	(3,065,465)	(1,964,113)
Interest received	75,193	144,164
Net cash used in investing activities	(2,990,272)	(1,819,949)
Cash flows from financing activities		
Proceeds from finance leases	179,571	-
Repayment of finance leases	(47,502)	(55,395)
Proceeds from non-current borrowings	-	548,095
Advance contribution on share capital on NDF loan	86,831	337,891
Repayment of non-current borrowings	(307,634)	(682,982)
Proceeds from bank borrowings	915,981	114,335
Repayments of bank borrowings	(264,539)	(151,380)
Grants and capital contributions received	631,984	519,931
Net cash flow from financing activities	1,194,692	630,495
(Decrease)/increase in cash and cash equivalents	(204,460)	440,581
Cash and cash equivalents at beginning of the year	251,805	(188,776)
Cash and cash equivalents at end of the year	47,345	251,805
Analysis of cash and cash equivalents		
Bank current account and cash	100,644	18,976
Bank deposit accounts	347,098	363,726
Bank overdraft	(400,397)	(130,897)
	47,345	251,805

1. General Information

The principal activities of the company include the generation, transmission and distribution of electricity. The company's principal place of business and the address of its registered office is ESCOM House, 9 Haile Selassie Road, P.O. Box 2047, Blantyre, Malawi.

2. Adoption of new and revised International Financial Reporting Standards

In the current year the company has adopted all the new and revised standards and interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 July 2006. The adoption of these new and revised standards and interpretations has not resulted in any change to the company's accounting policies.

In addition the company has adopted IAS 16 Revised *Property, Plant and Equipment* which became effective on 1 January 2005. Whereas previously property, plant and equipment were depreciated on a straight-line basis at the rates that would reduce book amounts to residual values estimated at purchase date, over initially anticipated useful lives of assets, the company now reassesses both the useful lives and residual values of assets annually.

The effect of this change in accounting policy in both current and prior year is as follows and the prior year financial statements have been restated accordingly:

	2007 **K'000**	**2006** **K'000**
(Loss)/profit after tax	(114,200)	72,923
Accumulated losses	322,085	249,163

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

- *IFRS 7* Financial Instruments: Disclosures; Effective for periods beginning on or after 1 January 2007;
- *IFRIC 9* Reassessment of embedded derivatives; Effective for period beginning on or after 1 June 2007;
- IAS 1 (Revised 2007), Presentation of Financial Statements. Effective for periods beginning on or after 1 January 2009;
- IAS 23 (Revised 2007), Borrowing costs. Effective for periods beginning on or after 1 January 2009;
- *IFRIC 12* Service concession arrangements. Effective for periods beginning on or after 1 January 2008; and
- *IFRIC 14* IAS19 The limit on a defined benefit asset, minimum funding requirements and their interaction. Effective for periods beginning on or after 1 January 2008.

The directors anticipate that other than IAS 1 and IFRS 7 these Standards and Interpretations in future periods will have no material impact on the financial statements of the company. These two standards will impact the disclosures and presentation of the financial statements.

3. Significant accounting policies

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation
The financial statements are prepared in terms of the historical cost convection, with the exception of land and buildings and certain financial instruments which are included at valuation. No other procedures are adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices.

3.1 *Property, plant and equipment*

Land and buildings are shown at valuation with subsequent additions at cost, less related depreciation and impairment losses. Prior to 1 July 2006, land and building were carried at cost. Revaluations of land and buildings are carried out, with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date, as economic conditions dictate, by independent valuers. The basis of valuation used is Depreciated Replacement Cost. Surpluses on revaluations are transferred to the non-distributable reserve; on realisation (either through use or disposal) of the asset, the appropriate portion of the reserve is transferred to retained profit. Deficits on revaluations are charged to the income statement, except to the extent that they relate to revaluation surpluses previously transferred to the revaluation reserve. An amount equivalent to the additional depreciation arising from revaluations is transferred annually, net of deferred tax, from the revaluation reserve to retained profit. Land and buildings comprise mainly branches and offices.

Plant and equipment is stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

All fixed assets other than land and buildings are shown at cost less related depreciation and accumulated impairment losses.

Depreciation on other assets is calculated using the straight-line method to write-off their cost to their residual values over their estimated useful lives, as follows:

Hydroelectric stations	- Civil Works	80 years
	- Generation Plant	30 years
Gas turbine plant		25 years
Thermal generation plant		10 - 15 years
Transmission and distribution lines		10 - 25 years
Moveable plant and equipment		5 - 10 years

Depreciation is not provided on freehold land and capital work in progress. The nature of buildings and location was considered. The buildings are all over the country and market values are not readily available for sale.

3. Significant accounting policies (Continued)

3.1 *Property, plant and equipment* (Continued)

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at least annually.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement.

3.2 *Foreign currency translation*

(a) Functional and presentation currency
Items included in the financial statements of the Company are measured using Malawi Kwacha, the functional currency of the primary economic environment in which the Company operates. The financial statements are presented in Malawi Kwacha, which is the Company's functional and presentation currency.

(b) Transactions and balances
Foreign currency transactions are translated into Malawi Kwacha using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

3.3 *Financial assets*
Investments are recognised and derecognised on their value date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

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 initially measured at fair value and subsequently 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 where the recognition of interest would be immaterial.

3. Significant accounting policies (Continued)

3.3 *Financial assets* (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the income statement.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

3.4 *Financial liabilities and equity instruments*

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

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.

3. Significant accounting policies (Continued)

3.4 *Financial liabilities and equity instruments* (Continued)

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 a part of an identified portfolio of financial instruments that the company manages together and has a recent:
  (i) Actual pattern of short-term profit-taking; or
  (ii) 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 company 's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

<u>Other financial liabilities</u>
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

3.5 *Provisions*
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

3.6 *Capital work in progress*
Capital work in progress is valued at cost and capitalised borrowing costs where appropriate.

3. Significant accounting policies (Continued)

3.7 *Inventories*

Inventories are valued at lower of cost and net realisable value.

Cost is determined on the following basis:-
- Consumable stores are valued at average landed cost.
- Goods in transit are valued at invoiced cost.

3.8 *Impairment of non-financial assets*

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible 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 the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

3.9 *Revenue*

Revenue arises from the sale of electricity and is recognised based on meter readings made during the period. Where meters have not been read, estimated readings (based on average usage in the previous months) are used to determine consumption.

3.10 *Deferred income*

Capital contributions from consumers and grants from Government, both of which are received in respect of property, plant and equipment costs for specific purposes, are recognised as deferred income once their receipt can be reasonably anticipated. The deferred income is taken to the income statement in equal annual instalments over the useful lives of the related assets as determined for depreciation purposes.

3. Significant accounting policies (Continued)

3.11 *Taxation*

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which these deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

3.12 *Share capital*

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders.

(c) Dividend per share
The calculation of dividend per share is based on the dividends paid to shareholders during the period divided by the number of ordinary shareholders on the register of shareholders on the date of payment.

3. Significant accounting policies (Continued)

3.13 *Retirement benefits*

The company contributes to a defined contribution pension scheme for employees. Contributions are charged to the income statement as incurred.

Additionally, the company provides retirement benefits to employees who have been with the company and its predecessor body for at least ten years.

3.14 *Severance allowance*

The company provides for severance allowance for all eligible permanent employees in line with the requirements of the Employment Act as follows:

Number of years worked	Severance allowance
More than 1 year but less than 10	2 weeks pay for each year of service
10 years or more	4 weeks pay for each year of service

Severance allowance provision is adjusted by taking into account estimates of anticipated long-term interest rates, wage inflation, and resignations based on past trends.

3.15 *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of property, plant and equipment are capitalised as part of the cost of those assets. Borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. All other borrowing costs are expensed in the period in which they are incurred.

3.16 *Provisions for claims*

Provision is made for claims made by contractors at the balance sheet date, together with related costs, according to the best estimate of any foreseeable loss made at the date the financial statements are authorised for issue. The related charge is expensed where it relates to commissioned assets.

4. Critical accounting judgements and key sources of estimation uncertainty

4.1 *Critical judgements in applying the company's accounting policies*

No critical judgements were made by management during the current period, which would have a material impact on the financial statements.

4.2 *Key sources of estimation uncertainty*

Key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet 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 discussed below.

4.2.1 Provision for doubtful debts

In arriving at the provisions for doubtful debts (note 8), management has taken into account the past payment history of the individual debtors, the willingness or otherwise of customers to acknowledge their indebtedness, together with other objective evidence of impairment as a result of one or more events that have occurred after initial debt recognition which suggest that future cash flows may be impaired. Provisioning on this basis can be subjective by nature as it requires the assessment of financial, as well as non-financial information in arriving at an impairment value, which can only be borne out by future events.

4.2.2 Valuation of Land and Buildings

Land and building were revalued as at 30 June 2007 by D.R. Whayo BSC UK, Dip (Urb Man) BA, MRICS MSIM, a chartered surveyor of Knight Frank (Malawi) Limited. The basis of valuation used was depreciated replacement cost.

5. Property, plant and equipment

	Land and buildings	Plant and machinery generation	Distribution	Other office equipment	Motor vehicles	Total
	K'000	K'000	K'000	K'000	K'000	K'000
2006						
COST						
At beginning of the year as previously reported	227,870	12,907,379	4,719,905	226,899	827,755	18,909,808
Prior year adjustment - booking unrecorded assets	-	-	-	294,808	1,877	296,685
At beginning of the year as restated	227,870	12,907,379	4,719,905	521,707	829,632	19,206,493
Additions	-	63,158	547,000	60,714	26,122	696,994
At end of the year	227,870	12,970,537	5,266,905	582,421	855,754	19,903,487
DEPRECIATION						
At beginning of year as previously reported	48,066	1,566,201	885,634	149,624	480,138	3,129,663
Prior year adjustment - booking unrecorded assets	-	-	-	83,411	105	83,516
Prior year adjustment - IAS 16	-	-	-	-	(249,163)	(249,163)
At beginning of the year as restated	48,066	1,566,201	885,634	233,035	231,080	2,964,026
Charge for the year	4,678	368,406	245,075	111,316	65,053	794,528
At end of the year	52,744	1,934,607	1,130,709	344,351	296,133	3,758,544
NET BOOK AMOUNT						
At end of the year	175,126	11,035,930	4,136,196	238,070	559,621	16,144,943

5. **Property, plant and equipment** (Continued)

2007	**Land and buildings K'000**	**Plant and machinery generation K'000**	**Distribution K'000**	**Other office equipment K'000**	**Motor vehicles K'000**	**Total K'000**
COST OR VALUATION						
At beginning of year as previously reported	227,870	12,970,537	5,266,905	287,613	853,877	19,606,802
Prior year adjustment - booking unrecorded assets	-	-	-	294,808	1,877	296,685
At beginning of the year as restated	227,870	12,970,537	5,266,905	582,421	855,754	19,903,487
Additions	4,253	75,624	795,068	100,855	179,571	1,155,371
Transfers from capital work in progress	-	2,683,836	1,875,956	578,310	-	5,138,102
Reclassifications	-	(558,667)	334,751	223,916	-	-
Revaluation during the year	949,245	-	-	-	-	949,245
At end of the year	1,181,368	15,171,330	8,272,680	1,485,502	1,035,325	27,146,205
DEPRECIATION						
At beginning of year as previously reported	52,744	1,934,607	1,130,709	200,831	618,113	3,937,004
Prior year adjustment - booking unrecorded assets	-	-	-	143,520	105	143,625
Prior year adjustment - IAS 16	-	-	-	-	(322,085)	(322,085)
At beginning of the year as restated	52,744	1,934,607	1,130,709	344,351	296,133	3,758,544
Charge for the year	4,891	395,259	284,313	159,709	85,396	929,568
Reclassifications	-	(176,231)	57,278	118,953	-	-
Revaluation during the year	(57,635)	-	-	-	-	(57,635)
At end of the year	-	2,153,635	1,472,300	623,013	381,529	4,630,477
NET BOOK AMOUNT						
At end of the year	1,181,368	13,017,695	6,800,380	862,489	653,796	22,515,728

5. Property, plant and equipment (Continued)

Siltation

The company has four generation plants, one at Wovwe on South Rukuru River and three on the Shire River. The generation plants historically experience problems with siltation which reduces dam capacities and this, in turn, impacts on electricity generation capabilities. The level of siltation varies throughout the period, with the problem at its worst during the rainy season (the period November to March). Siltation is a direct result of environmental degradation along the Shire River's catchment area.

To maintain operational capacity the company is involved in a continuous process of desiltation. This involves the dredging of the dams and during the rainy season efforts are also undertaken to remove debris from the Shire River. These efforts are set to continue for the foreseeable future. All costs associated with these efforts are expensed to the income statement as they are incurred.

There are times when load shedding is effected due to reduced generation capacity. This is largely restricted to weekends and peak times during week days.

International Accounting Standard 36, *Impairment of Assets*, requires that where there is evidence that indicates that an asset's economic performance will be less than expected then the asset is assessed for impairment. An impairment loss should then be recognised in the financial statements where appropriate. No impairment loss has been recognised in these financial statements, as for most of the period ESCOM is able to generate the power requirements of the country. In addition, such problems are a normal operational feature of hydro generation plants in relation to the environment in which they operate, hence load shedding up to a point is within the planned service levels of such plants.

Tedzani I and II

Included in property, plant and equipment is Tedzani I and II with a cost of K18.7m and net book value of K9.3m (2006: K7.5m), which has not been operational since 2001. The Hydro Power Station is currently being rehabilitated by Hydel Engineering and Construction Limited of India on a turn key basis.

As at 30 June 2007, work in progress relating to the US$16.8 million Tedzani Project is being funded by financial assistance from Hydel Engineering and Construction Limited. The outstanding balance attracts interest of 2% above libor on a reducing balance basis with a repayment period of 48 months and no Government guarantee. The last installment is due in November 2009.

The project was 55% complete as at 30 June 2007. It is envisaged that the works will be completed within the loan repayment period (December 2008).

Additional assets disclosed

During the year ESCOM carried out a physical verification exercise which revealed that there were assets in use but were never captured in the fixed assets register. These assets have a net book value of K115m (2006: K153 m). In order to bring such assets on record an Asset Reserve has been created. The reserve will be amortised over the useful lives of the related assets.

Valuation of land and buildings

Land and buildings were valued as a 30 June 2007 by D.R. Whayo BSC UK, Dip (Urb Man) BA, MRICS MSIM, a chartered surveyor of Knight Frank, (Malawi) Limited. The basis of valuation used was depreciated replacement cost.

		2007 K'000	2006 K'000
5.	**Property, plant and equipment** (Continued)		
	Land and buildings at cost or revaluation comprises the following:		
	Freehold - at 2007 valuation/cost	104,572	-
	Leasehold - at 2007 valuation/cost	1,076,796	227,870
	Total cost or valuation at end of the year	1,181,368	227,870
6.	**Capital work in progress**		
	Balance at beginning of the year	6,423,813	4,477,213
	Additions:		
	Funded from borrowings	793,709	515,282
	Funded from internal resources	711,318	642,892
	Interest capitalised	304,336	281,747
	Funded from project creditors	152,898	115,499
	Exchange losses on foreign loans capitalised	37,783	391,180
		8,423,857	6,423,813
	Work in progress written off	(13,924)	-
	Transfer to property, plant and equipment	(5,138,102)	-
	Balance at end of the year	3,271,831	6,423,813
	Capital work in progress is analysed as follows:		
	Projects	2,588,106	6,026,030
	General development	683,725	397,783
	Total capital work in progress	3,271,831	6,423,813
7.	**Inventories**		
	General stores	814,434	600,054
	Goods in transit	354,506	320,854
	Total inventories	1,168,940	920,908

8. Receivables

		2007 K'000	2006 K'000
Trade receivable		3,675,840	4,249,376
Staff loans and advances		489,947	428,963
Other receivables and prepayments		5,868	113,298
Gross receivables		4,171,655	4,791,637
Less doubtful debt provisions	- trade receivable	(1,364,961)	(541,405)
	- staff loans and advances	(88,900)	(70,894)
	- Government accounts	(550,398)	(359,916)
Total receivables		2,167,396	3,819,422

Included in staff loans and advances are housing loans of K235m (2006: K218m) which are repayable over periods of up to twelve years. Staff housing loans are secured by charges over the related properties.

9. Bank deposit accounts

	2007 K'000	2006 K'000
Standard Chartered Bank USD	17,241	1,341
Other deposits denominated in USD and MK	329,857	362,385
Total bank deposit accounts	347,098	363,726

10. Deferred income

	Government grants K'000	Capital contributions K'000	2007 Total K'000	2006 Total K'000
At beginning of the year	1,643,734	1,336,410	2,980,144	2,571,253
Received during the year	161,813	470,171	631,984	519,931
Released to income statement during the year	(52,610)	(66,666)	(119,276)	(111,040)
At end of the year	1,752,937	1,739,915	3,492,852	2,980,144

	2007 K'000	2006 K'000 Restated
11. Severance allowance provision		
At beginning of the year as previously reported	712,298	-
Prior year adjustment	250,359	712,298
At beginning of the year as restated	962,657	712,298
Charge for the year	328,945	250,359
At end of the year	1,291,602	962,657

Severance allowance provision
Section 35 (1) of the Employment Act No. 6 of 2000 requires employers to pay severance allowance to employees whose employment contracts are terminated either by mutual agreement between the employer and the employee or unilaterally by the employer.

Accordingly the company has made a provision of K1,290m in line with the Act as a defined benefit scheme under IAS 19. The liability for previous years of K962m has been recognised in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* as a prior year adjustment. In the year ended 30 June 2006, severance allowance was disclosed as a contingent liability.

A prior year restatement of K710m has been made by accruing for provision for severance pay following interpretations by the courts on when severance pay is payable in line with the Act. This restatement is net of amounts already provided for under the retirement benefit fund provision which the company has been carrying in past years. The assumptions that were used to determine the retirement fund are stated below under retirement benefit fund.

The key assumptions underlying the computation of severance pay are as follows:

- Death in service projected at 2.5%
- Retirement age – 60 years
- Discount rate – 1.5% (market rate less wage inflation)
- Resignation – 3% (based on history of staff turnover)
- Dismissal – 3% (based on history of staff turnover)

12. Retirement benefit fund

	2007 K'000	2006 K'000
At beginning of the year	248,219	199,415
Payment made during the year	(26,528)	(23,796)
Charge for the year	88,061	72,600
At end of the year	309,752	248,219

Upon retirement, employees who have worked for the company and its predecessor body for a period longer than fifteen years are entitled to one and a half years' salary as a retirement benefit. Those employees who retire after working for the company and its predecessor body for ten years or more but not exceeding fifteen years, are entitled to a retirement benefit equal to one year's salary.

The provision, which is unfunded, is based on the assumption that salaries will increase in line with inflation. An actuarial valuation of the obligation was carried out as at 1 April 2004 by QED Actuaries & Consultants (Pty) Limited. The actuarial valuation is adjusted upwards by 20% for the next three years as recommended by the valuer. The actuarial valuation assumed an interest rate of 20% for the next year per annum and general salary increases of 20% per annum due to inflation.

The current year value of this fund is K309m (2006: K248m). This represents the actuarially determined value of past services as at 30 June 2007.

13. Deferred tax

	2007 K'000	2006 K'000
A notional deferred tax asset arises as follows:		
Accelerated capital allowances	4,710,201	3,240,210
Estimated tax losses carried forward	(5,215,939)	(3,959,362)
Other temporary differences	(537,955)	(145,812)
Deferred tax asset	(1,043,693)	(864,964)

The asset has not been recognised in the financial statements in accordance with the company's accounting policy with respect to deferred tax.

14. Borrowings

		2007 K'000	2006 K'000
Balance at beginning of the year		9,711,606	8,997,878
Additions:	- new borrowings	86,831	548,095
	- interest charged	100,287	190,306
	- interest capitalised	53,216	281,747
	- exchange losses on foreign loans capitalised in WIP	25,857	433,378
	- exchange losses expensed	229,252	439,659
	- provision on PTA loans	-	(62,087)
Less:	- repayments	(307,634)	(913,589)
	- interest paid	(19,383)	-
	- amount transferred to HIPC funds	(145,756)	(47,316)
	- decrease/(increase) in fair value of zero coupon bond	73,292	(156,465)
	- NDF transfer to advance share capital	(87,659)	-
Total borrowings at end of the year		9,719,909	9,711,606
Less amounts included in current liabilities		5,713,373	3,379,774
Non-current borrowings		4,006,536	6,331,832
Analysis of current borrowings			
Amounts due within one year		2,556,578	535,516
Principal and interest in arrears		3,156,795	2,844,258
		5,713,373	3,379,774

Details of borrowings are set out in Annexure 1 to these financial statements.

The long-term loan agreement with Development Bank of South Africa (DBSA) is linked to a zero coupon bond which will appreciate over the loan term to provide for the repayment of the loan capital. Refer Annexure 1.

15. Defaults and breaches on Development Bank of Southern African Limited Loan

The company has failed to meet the requirements of Article 12.3 of the loan agreement which requires the following ratios:-

Ratios	**Required**	**Actual 2007**	**Actual 2006**
Debt/Equity	1:1	1.38:1	1.42:1
Debt to capital Employed ratio %	50	103	98
Liquidity ratio	1.2:1	0.65:1	0.98:1

Article 11 of the Agreement states that DBSA is entitled, after giving the borrower 30 days notice, to suspend draw downs from the loan or to terminate the agreement and claim from the borrower immediate payment of all outstanding amounts should the borrower commit any breach of this agreement, provided that the DBSA may at its entire discretion, dispense with the giving of the 30 (thirty) days notice. The Corporation has obtained a waiver from the Development Bank of Southern Africa (DBSA) to stop the loan from being recalled. Interest payments continue to be made when due on the loan. The company has a zero coupon bond which will be used to pay the capital.

16. HIPC funds

	2007 K'000	**2006** K'000
Industrial Development Company of South Africa	32,051	32,051
Commonwealth Development Corporation Company plc	2,489,559	2,489,559
European Investment Bank	233,571	171,823
Eksportifinans (NORAD) –NOK	89,885	-
Principal amounts transferred from loans	2,845,066	2,693,433
Interest accrued on funds	6,307	5,877
Total HIPC funds at the end of the period	2,851,373	2,699,310
Less - due within one year included in current liabilities	(145,756)	(60,623)
Non-current HIPC funds	2,705,617	2,638,687
Movement in HIPC funds:		
At beginning of the year	2,699,310	2,646,118
Amount qualifying for HIPC during the period	145,756	47,315
Accrued interest on HIPC funds	6,307	5,877
At end of the year	2,851,373	2,699,310

16. HIPC funds (Continued)

Following Malawi's qualification for the Highly Indebted Poor Countries (HIPC) initiative from its multilateral donors, certain loans that the company had from Commonwealth Development Corporation Company plc, European Investment Bank and the Industrial Development Company of South Africa were waived. The loans are now repayable to the Government. The liability is set out at the Kwacha value at the date the loans qualified for the HIPC initiative and the repayment terms remain unchanged. In a letter dated 15 February 2005 from the Secretary of Treasury to ESCOM, the Malawi Government advised ESCOM to credit this amount to a HIPC account held at Reserve Bank of Malawi as they fall due. Interest accrual has been at the rates of the original loans from third parties and no objection has been received from Government to this treatment.

The ageing of the loans has been based on the age profile of the original loans, which the government is expected to adopt.

The interest rates are 12% for IDC of South Africa, 9.25% for CDCC and 1% for the EIB Loan. The loans are payable in half yearly instalments as follows:

- IDC: 2 March and 2 September;
- CDCC: 20 June and 20 December; and
- EIB: 15 April and 15 October.

17. Bank borrowings

	2007 K'000	2006 K'000
Malawi Savings Bank Limited	126,537	-
National Bank of Malawi	574,853	48,450
Total bank borrowings	701,390	48,450
Analysed as:		
Amount due within one year	341,819	48,450
Amount due after one year	359,571	-
Total	701,390	48,450
Movement in the year		
At beginning of the year	48,450	83,888
New loans	915,981	114,335
Repayments	(264,538)	(151,379)
Interest charge	41,772	19,880
Interest paid	(40,275)	(18,274)
At end of the year	701,390	48,450

The borrowings carry interest of 21.5% p.a. for National Bank of Malawi (1% below the base rate) and 22% p.a. for Malawi Savings Bank Limited. The National Bank of Malawi borrowings, which are secured over certain land and buildings of Escom Limited, are repayable over a period of 48 months and the last installment is due on 30 June 2011. The Malawi Savings Bank loan is payable over a period of 24 months with the last installment due on 31 December 2008 and is secured over the assets (vehicles) purchased from the proceeds of the loan.

18. Finance leases

	2007 K'000	2006 K'000
Leasing and Finance Company of Malawi Limited	59,828	-
National Bank of Malawi	73,786	-
Total finance leases	133,614	-
Analysed as:		
Amount due within one year	119,375	-
Amount due after one year	14,239	-
Total	133,614	-
Movement in the year		
Additions	179,571	-
Repayments	(47,502)	-
Interest charge	23,960	-
Interest paid	(22,415)	-
At end of year	133,614	-

The leases carry interest of 21.5% p.a. for National Bank of Malawi (1% below the base rate) and 22.0% p.a. for Leasing and Finance Company of Malawi Limited. The finance leases are secured by the motor vehicles they finance. The leases are repayable over a period of two years from September 2006 to November 2008 for Leasing and Finance Company lease and from October 2006 to December 2008 for the National Bank of Malawi lease.

19. Bank overdraft

The bank overdraft is unsecured. Ministry of Finance gave its consent to the company to obtain a bank overdraft of up to K200m (2006: K200m) in line with statutory corporations borrowing requirements.

20. Payables

	2007 K'000	2006 K'000
Trade and other payables	917,720	1,398,319
Project payables and retention	168,466	218,325
Consumer deposits	75,598	46,962
Total payables	1,161,784	1,663,606

Included in payables are liabilities of K176m (2006: K233m) denominated in various foreign currencies.

21. Exchange losses

		Funding of capital assets K'000	Other liabilities K'000	2007 K'000	2006 K'000
Realised	- borrowings	2,714	-	2,714	5,527
	- short-term (payables)	-	-	-	2,043
Total realised		2,714	-	2,714	7,570
Unrealised	- borrowings	299,830	-	299,830	193,353
	- short-term (payables)	-	3,035	3,035	116,990
Total unrealised		299,830	3,035	302,865	310,343
Total exchange losses during the period		302,544	3,035	305,579	317,913

22. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after taking into account:

		2007 K'000	2006 K'000
Auditors' remuneration	- current period	15,200	13,500
	- prior period	(4,825)	5,673
Directors' fees		1,712	1,036
Staff costs		1,947,933	1,547,991
Severance allowance charge		328,945	250,359
Pension costs		58,216	117,994

23. Taxation

		2007 K'000	2006 K'000
(a)	Taxation		
	Income tax charge	-	200
(b)	Reconciliation of rate of tax	%	%
	Standard rate of tax	30	30
	Effect of deferred tax asset not recognised	(30)	(30)
	Effective tax rate	-	-

The company did not earn taxable income during the year. The company has carried forward estimated tax losses of K17.4 billion (2006: K14.8 billion).

24. Reconciliation of profit before interest and taxation to cash generated from operations

	2007 K'000	2006 K'000 Restated
Profit before interest and taxation	(652,911)	892,850
Depreciation of property, plant and equipment	929,568	794,528
Provision for PTA loan	-	(62,807)
Capital contributions and grants released to the income statement	(119,276)	(111,040)
Exchange losses taken to income statement	305,579	317,913
	462,960	1,831,444
Movements in working capital:		
Increase in inventories	(248,032)	(105,432)
Decrease/(increase) in receivables	1,652,031	(849,866)
(Decrease)/increase in payables	(501,822)	687,634
Movement in retirement benefit provision	61,533	48,804
Movement in severance provision	328,945	250,359
Cash generated from operations	1,755,615	1,862,943
Profit before interest and taxation is determined as follows:		
(Loss)/profit before taxation	(827,267)	838,412
Interest on borrowings	172,326	190,306
Interest on bank borrowings	77,223	8,296
Interest receivable	(75,193)	(144,164)
Profit /(loss)before interest and taxation	(652,911)	892,850

25. Capital commitments

	2007 K'000	2006 K'000 Restated
Authorised by the company and contracted	2,000,044	136,274
Authorised by the company but not contracted	7,363,637	3,543,674
Total commitments	9,363,681	3,679,948

Capital commitments will be financed by external borrowings together with internally generated funds.

26. Contingent liabilities

	2007 K'000	2006 K'000
Guarantees	-	29,287

The Company makes an undertaking by introducing its employees to various financial institutions to obtain personal loans. The Company undertakes to continue remitting the employees' salaries to such institutions and should there be a default on such loans, the Company's responsibility is to remit the employees' terminal benefits to the financial institutions. The Company's obligation is limited to the employees' terminal benefits. If such benefits are not adequate to cover the outstanding employees' loans, the financial institutions have no recourse against the Corporation.

	2007 K'000	2006 K'000
Legal claims	153,208	131,454

These are claims, inclusive of legal fees, by various customers against ESCOM in respect of goods damaged, etc., due to surges in power supply. The figures are estimated based on information provided by the company's lawyers.

	2007 K'000	2006 K'000
Severance allowance	-	1,270,831

The Company now makes full provision for severance pay allowance (refer note 11).

27. Related party transactions

Related party transactions are at arms length and the amounts due from and due to related parties at period ends are as follows:

	2007 K'000	2006 K'000
Receivables		
Receivables - Statutory corporations	14,345	292,216
- Government departments	731,984	679,261
Specific provision for bad debts	(550,398)	(359,916)
	195,931	611,561
Loans		
Government of Malawi	5,995,464	5,811,823
(Refer Annexure 1 to the financial statements)		
HIPC Funds		
Refer note 14 to the financial statements	2,851,373	2,699,310
Dividend payable	25,000	25,000
Compensation of key management staff		
Salaries, bonuses and benefits	62,696	44,737

28. Post balance sheet event

On 27 September 2007 ESCOM entered into an agreement with the registered Trustees of Electricity Supply Corporation of Malawi Limited Group Pension Fund and Life Assurance Fund to advance K400 million, which ESCOM used to advance to its employees who are members of the Pension Fund. The loan attracts an interest rate of 21% per annum and is payable quarterly over a period of five years. ESCOM expects to recover this amount from the fund account at the end of the loan period.

29. Exchange rates and inflation

The average of the period end buying and selling rates of the currencies most affecting the performance of the company is stated below, together with the increase in the National Consumer Price Index for the preceding year, which represents an official measure of inflation.

	2007	2006
Kwacha/US Dollar	140.60	140.36
Kwacha/Pound Sterling	289.40	265.23
Kwacha/South African Rand	20.30	20.50
Kwacha/Euro	194.12	181.53
Kwacha/Japanese Yen	1.20	1.20
Inflation rate (%)	7.4	16.1

As at 12 November 2008, the exchange rates and inflation had moved as follows:

Kwacha/US Dollar	140.60
Kwacha/Pound Sterling	224.87
Kwacha/South African Rand	15.44
Kwacha/Euro	181.50
Kwacha/Japanese Yen	1.48
Inflation rate (%)	9.3

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
BORROWINGS
30 June 2007

ANNEXURE 1

	2007 K'000	2006 K'000
Government of Malawi These Malawi Kwacha loans are repayable over terms of up to 30 years and carry interest at rates varying between 3% (2006: 3%) and 12% (2006: 12%). The last payment is due in 2034.	5,995,464	5,811,823
European Investment Bank The loan, which is denominated in Euros, was obtained from this lender and qualifies for HIPC relief. As the principal amounts fall due the amount due is transferred to a separate HIPC account. The amount converted to the HIPC loan fund was K62.1m (2006: K60.6m). The loan attracts interest at a rate of 3.5% per annum. The last installment is due in 2017.	614,498	630,382
European Investment Bank The loan is denominated in GB Pounds, Japanese Yen and Swiss Franc (CHF). It is repayable in half yearly instalments, the last of which is due in November 2007. Interest rates vary between 10% and 15% per annum. The outstanding amounts were: £nil (2006: £20,765), JPY nil (2006: JPY 9,682,846) and CHF nil (2006: CHF93,951).	18	28,556
SEB SCADA The loan is denominated in Swedish Kroner. It is repayable in half yearly instalments in April and October over a period of 25 years after a grace period of 7 years. The agreement was signed in 1997 and all interest to April 2005 will be capitalised. The loan attracts interest at a rate of 3% per annum.	47,652	51,205
SIDA This loan is in Swedish Kroners. The agreement was signed on 17 November 2000. The loan was obtained through the Malawi Government. The loan attracts interest at a rate of 3% per annum. Repayments will commence in 2007.	1,823,958	1,657,943
Nederlandse Financierings - Maatschappij Voor Ontwikkelingslanded N V (FMO)	-	182,182
Eksportfinans	-	90,850

ANNEXURE 1 (Continued)

	2007 K'000	2006 K'000
Development Bank of Southern Africa	1,644,843	1,739,067
The loan is denominated in South African Rands. The capital amount is repayable in one payment after a grace period of 15 years in 2019. The loan is secured by a Cessation and Pledge Agreement in respect of a zero coupon bond with a maturity value of the principal amount which is R79 million after 15 years. Interest is at the rate of 3 months ZAR-JIBAR-SAFEX plus operating and funding cost margin currently 0.9% plus 5% risk margin. Interest is repayable half yearly in arrears.		
Fair value of zero coupon bond held with Investec Bank	(456,199)	(529,491)
World Bank Project Preparatory Fund	49,675	49,089
The purpose of this fund is to finance the preparation activities for the Southern African Power Pool Project. The fund amount is USD 380,000.		
Total borrowings	9,719,909	9,711,606

All loans are guaranteed by the Government of the Republic of Malawi. The Government's loans are unsecured.

The following summary indicates the repayment terms of the loans outstanding:

	2007 K'000	2006 K'000
Dates of repayment:		
Within 5 years	3,496,356	4,331,359
Between 5 and 10 years	1,330,309	1,330,309
After 10 years	4,893,244	4,049,938
	9,719,909	9,711,606
The loans are repayable in:		
Malawi Kwacha	2,775,767	7,520,969
Foreign currencies	6,944,142	2,190,637
	9,719,909	9,711,606