



**ELECTRICITY SUPPLY CORPORATION**  
**OF MALAWI LIMITED**

Financial Statements for the year ended  
30 June 2009

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**FINANCIAL STATEMENTS**  
For the year ended 30 June 2009

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<b><u>TABLE OF CONTENTS</u></b>	<b><u>PAGE</u></b>
Report of the directors	1 - 2
Statement of directors' responsibilities	3
Independent auditor's report	4 - 5
Balance sheet	6
Income statement	7
Statement of changes in equity	8 - 9
Cash flow statement	10
Notes to the financial statements	11 - 48

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

**REPORT OF THE DIRECTORS**

For the year ended 30 June 2009

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 2009.

**ACTIVITIES**

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

	<u>2009</u> K'000	<u>2008</u> K'000
<b>FINANCIAL PERFORMANCE</b>		
Loss for the year	<u>(982,900)</u>	<u>(2,793,895)</u>

**SHARE CAPITAL**

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

	<u>2009</u>	<u>2008</u>
The shareholders and their respective holdings are:		
Malawi Government	99%	99%
MDC Limited in liquidation	<u>1%</u>	<u>1%</u>
	<u>100%</u>	<u>100%</u>

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

**AUDITOR**

Deloitte, who were re-appointed during the year, have signified their willingness to continue in office.

**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.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**REPORT OF THE DIRECTORS** (Continued)  
For the year ended 30 June 2009

**DIRECTORS**

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

Mr. D. Katsonga - Chairman	Appointed September 2009
Mr. M. Mbendera	Appointed April 2008
Prof. Dr. D. Mkandawire - Chairman	Appointed April 2008 – Term ended May 2009
Mr. D. A. Mphepo	Appointed April 2008
Mrs. J. Kamphale	Appointed April 2008
Mr. G. M. Mtaula	Appointed November 2005
Dr. E. Kayambazinthu	Appointed November 2005
Mr. S. Aipira	Appointed November 2005 – Term ended May 2009
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 2009

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: \_\_\_\_\_

**INDEPENDENT AUDITOR'S REPORT  
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 6 to 48, which comprise the balance sheet as at 30 June 2009, 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 2009, 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.

*Emphasis of matter – Going Concern*

Without qualifying our opinion, we draw attention to note 27 to the financial statements. The company has incurred a loss for the year of K983m (2008: K2,794m) and the accumulated losses at the end of the year were K10,008m (2008: K9,089m). In addition, current liabilities exceed current assets by K6,182m (2008: K4,881m). These are indicators which cast doubt over the company's ability to continue as a going concern.

6 April 2010

## ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

**BALANCE SHEET**

30 June 2009

	<u>Notes</u>	<u>2009</u> K'000	<u>2008</u> K'000
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5	25,706,028	22,521,854
Capital work in progress	6	<u>1,996,290</u>	<u>3,435,651</u>
Total non-current assets		<u>27,702,318</u>	<u>25,957,505</u>
<b>CURRENT ASSETS</b>			
Inventories	7	1,273,597	1,126,155
Receivables	8	2,579,618	2,259,522
Bank current account and cash		158,231	144,335
Bank deposit accounts		190,964	402,098
Taxation recoverable		<u>14,190</u>	<u>14,189</u>
Total current assets		<u>4,216,600</u>	<u>3,946,299</u>
<b>TOTAL ASSETS</b>		<u>31,918,918</u>	<u>29,903,804</u>
<b>EQUITY AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		100,000	100,000
Share premium		610,000	610,000
Advance contribution for share capital		12,763,159	12,763,159
Pre-incorporation reserves		391,142	391,142
Nordic Development Fund Loan		917,661	917,661
Assets reserve		39,555	77,390
Revaluation reserve		957,931	984,338
Accumulated losses		<u>(10,007,868)</u>	<u>(9,089,210)</u>
Total shareholders' equity		<u>5,771,580</u>	<u>6,754,480</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income	9	3,726,656	3,019,633
Severance allowance provision	10	2,427,917	2,264,440
Retirement benefit fund	11	688,407	643,408
Borrowings	12	5,045,268	4,871,634
HIPC funds	13	2,929,606	2,858,067
Bank borrowings	14	511,902	342,657
ESCOM Limited Pension Fund loan	15	250,000	265,868
Finance leases	16	<u>169,308</u>	<u>55,851</u>
Total non-current liabilities		<u>15,749,064</u>	<u>14,321,558</u>
<b>CURRENT LIABILITIES</b>			
Bank overdraft	17	1,247,676	957,885
Payables	18	2,743,728	1,855,413
Borrowings	12	5,711,309	5,543,444
HIPC funds	13	64,584	65,650
Bank borrowings	14	278,949	215,456
ESCOM Limited Pension Fund loan	15	194,878	118,702
Finance leases	16	132,150	46,216
Dividends payable		<u>25,000</u>	<u>25,000</u>
Total current liabilities		<u>10,398,274</u>	<u>8,827,766</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>31,918,918</u>	<u>29,903,804</u>

The financial statements were authorised for issue by the Board of Directors on 16 December 2009 and were signed on its behalf by:

..... (Director)

..... (Director)



## ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

**INCOME STATEMENT**

For the year ended 30 June 2009

	<u>Notes</u>	<u>2009</u> <u>K'000</u>	<u>2008</u> <u>K'000</u>
<b>INCOME FROM OPERATIONS</b>			
Sales of energy		7,845,764	7,147,530
Capital contributions and grants released	9	131,261	115,575
Release of Marep grants	9	<u>31,654</u>	<u>1,099,474</u>
Total income from operations		<u>8,008,679</u>	<u>8,362,579</u>
<b>OPERATING EXPENDITURE</b>			
Generation		971,989	853,041
Transmission		761,076	709,885
Distribution		3,443,456	3,126,459
Head Office		1,654,354	2,722,725
Marep costs		465,605	1,336,849
Depreciation		1,146,432	1,165,488
Interest on loans, finance leases and bank borrowings		559,416	730,544
Interest on bank overdraft		<u>207,133</u>	<u>53,470</u>
Total operating expenditure		<u>9,209,461</u>	<u>10,698,461</u>
LOSS BEFORE OTHER INCOME/(EXPENDITURE)		<u>(1,200,782)</u>	<u>(2,335,882)</u>
<b>OTHER INCOME/(EXPENDITURE)</b>			
Exchange losses	19	(234,726)	(487,454)
Increase in doubtful debt provisions		117,020	(1,424)
Loss on disposal of property, plant and equipment		(23,829)	(12,471)
Training expenses		(13,711)	(30,321)
Interest receivable		10,657	67,998
Other income		<u>362,471</u>	<u>5,659</u>
Net other income/(expenditure)		<u>217,882</u>	<u>(458,013)</u>
LOSS BEFORE TAXATION	20	(982,900)	(2,793,895)
Taxation	21	<u>-</u>	<u>-</u>
LOSS FOR THE YEAR		<u>(982,900)</u>	<u>(2,793,895)</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**STATEMENT OF CHANGES IN EQUITY**  
30 June 2009

	<u>Share capital</u> <u>K'000</u>	<u>Share premium</u> <u>K'000</u>	<u>Advance contribution for share capital</u> <u>K'000</u>	<u>Pre-incorporation reserves</u> <u>K'000</u>	<u>Nordic Development Fund loan</u> <u>K'000</u>	<u>Asset reserve</u> <u>K'000</u>	<u>Revaluation reserve</u> <u>K'000</u>	<u>Accumulated losses</u> <u>K'000</u>	<u>Total</u> <u>K'000</u>
<b><u>Year ended 30 June 2008</u></b>									
At beginning of the year	100,000	610,000	12,763,159	391,142	865,579	115,225	1,006,880	(6,355,692)	9,496,293
Loss for the year	-	-	-	-	-	-	-	(2,793,895)	(2,793,895)
Transfer to accumulated losses	-	-	-	-	-	(37,835)	-	37,835	-
Excess depreciation	-	-	-	-	-	-	(22,542)	22,542	-
Advance contribution for share capital	-	-	-	-	52,082	-	-	-	52,082
At end of the year	<u>100,000</u>	<u>610,000</u>	<u>12,763,159</u>	<u>391,142</u>	<u>917,661</u>	<u>77,390</u>	<u>984,338</u>	<u>(9,089,210)</u>	<u>6,754,480</u>
<b><u>Year ended 30 June 2009</u></b>									
At beginning of the year	100,000	610,000	12,763,159	391,142	917,661	77,390	984,338	(9,089,210)	6,754,480
Loss for the year	-	-	-	-	-	-	-	(982,900)	(982,900)
Transfer to accumulated losses	-	-	-	-	-	(37,835)	-	37,835	-
Excess depreciation	-	-	-	-	-	-	(26,407)	26,407	-
At end of the year	<u>100,000</u>	<u>610,000</u>	<u>12,763,159</u>	<u>391,142</u>	<u>917,661</u>	<u>39,555</u>	<u>957,931</u>	<u>(10,007,868)</u>	<u>5,771,580</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**STATEMENT OF CHANGES IN EQUITY** (Continued)  
 30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>Analysis of share capital</b>		
<b><u>Authorised, issued and fully paid</u></b>		
50,000,000 Ordinary shares of K2 each	<u>100,000</u>	<u>100,000</u>

**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 order to restructure the capital base of the company.

The formalities for the issuing of the shares were not completed as at the end of the year.

**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 until or unless the related land and buildings are realised.

**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 2.5% preference shares of K1 each in consideration of the loan proceeds. The loan attracts an interest rate of 3% per annum. ESCOM had not fully drawn the loan as at the end of the year.

**Assets reserve**

During the year ended 30 June 2007, the company carried out a physical verification of assets and discovered a number of assets that were not included in the asset register. These assets were booked and a special asset reserve was established which is amortised over the remaining useful lives of the related assets.

## ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

**CASH FLOW STATEMENT**

For the year ended 30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>Cash generated from operations</b> (Note 22)	1,644,316	1,660,416
Interest paid	(491,626)	(423,544)
Taxation paid	<u>-</u>	<u>(1,860)</u>
<b>Net cash generated from operations</b>	<u>1,152,690</u>	<u>1,235,012</u>
<b>Cash flows from investing activities</b>		
Expenditure on property, plant and equipment including capital work in progress	(2,936,814)	(2,801,809)
Proceeds from sale of property, plant and equipment	41	16,680
Interest received	<u>10,657</u>	<u>67,998</u>
<b>Net cash used in investing activities</b>	<u>(2,926,116)</u>	<u>(2,717,131)</u>
<b>Cash flows from financing activities</b>		
Proceeds from finance leases	320,422	67,680
Repayment of finance leases	(124,070)	(99,227)
Proceeds from borrowings	-	53,690
Advance contribution on share capital on NDF loan	-	50,888
Repayment of borrowings	-	(6,821)
Proceeds from bank borrowings	527,393	226,939
Repayments of bank borrowings	(307,286)	(371,657)
Repayment of ESCOM Limited Pension Fund loan	-	(40,000)
Proceeds from ESCOM Limited Pension Fund loan	-	400,000
Grants and capital contributions received	<u>869,938</u>	<u>741,830</u>
<b>Net cash flow from financing activities</b>	<u>1,286,397</u>	<u>1,023,322</u>
<b>Decrease in cash and cash equivalents</b>	(487,029)	(458,797)
<b>Cash and cash equivalents at beginning of the year</b>	<u>(411,452)</u>	<u>47,345</u>
<b>Cash and cash equivalents at end of the year</b>	<u>(898,481)</u>	<u>(411,452)</u>
<b><u>Analysis of cash and cash equivalents</u></b>		
Bank current accounts and cash	158,231	144,335
Bank deposit accounts	190,964	402,098
Bank overdraft	<u>(1,247,676)</u>	<u>(957,885)</u>
	<u>(898,481)</u>	<u>(411,452)</u>

## 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 of 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 or after 1 July 2008.

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

- IAS 1 *Presentation of financial statements* has been substantially rewritten, with many changes in terminology, including changes to the titles of individual financial statements and is effective for periods beginning on or after 1 January 2009;
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs on qualifying assets during the period of construction and is effective for financial statements for periods beginning on or after 1 January 2009;
- IAS 39 *Financial instruments: Recognition and measurements* and IFRS 7 *Financial instruments: Disclosures* amendments have been made in relation to reclassification of certain non-derivative financial assets and are effective for periods beginning on or after 1 January 2010;
- IFRS 2 *Share-based Payments* has been amended to clarify definition of vesting conditions and the accounting treatment of cancellation by the counterparty to a share-based arrangement and is effective for periods beginning on or after 1 January 2009;
- IFRS 9: *Financial Instruments*. This will replace IAS 39 from 1 January 2013. The new standard introduces new classification and measurement requirements for financial assets. It will be expanded prior to its effective date to cover accounting for financial liabilities as well;
- IFRIC 13 *Consumer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers and is effective for periods beginning on or after 1 January 2009;
- IFRIC 17 *Distributions of Non-cash Assets to Owners* provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders and is effective for periods beginning on or after 1 January 2010;
- IFRIC 18 *Transfers of Assets from Customers* addresses the accounting by recipients for transfers of property, plant and equipment from 'customers'. The recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 *Revenue* and is effective to transfers of assets from customers received on or after 1 July 2009; and
- There have also been terminology changes and clarifications as part of the IASB annual improvements project, to: IAS 7, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 31, IAS 32, IAS 36, IAS 38, IAS 39, IAS 40, IFRS 3, IFRS 5 and IFRS 7, and are effective for periods beginning on or after 1 January 2009.

**2. Adoption of new and revised International Financial Reporting Standards (Continued)**

The directors anticipate that other than IAS 1 and IFRS 9 these Standards and Interpretations in future periods will have no material impact on the financial statements of the company. IAS 1 will impact the disclosures in and presentation of the financial statements, whilst IFRS 9 will impact the measurement of financial instruments.

**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 convention, 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. Revaluations of land and buildings are carried out by independent valuers, 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. 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.

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 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.

**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 disposal are determined by comparing proceeds with carrying amounts and are included in the income statement.

**3.2 *Foreign currency translation***

The results and financial position of the company are expressed in Malawi Kwacha, which is the functional currency of the company and the presentation currency for the financial statements.

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

**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 '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 face value of 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.

#### Other financial liabilities

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 including 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 non-financial 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.

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 estimate 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 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 in the form of exgratia payments.

**3.13 Severance allowance**

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

<b>Number of years worked</b>	<b>Severance allowance</b>
More than 1 year but less than 10 years	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. Significant accounting policies (Continued)**

**3.14 Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets 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. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

**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 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. Whyo 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.

**4.2.3 Valuation of Property, plant and equipment**

The Company reviews the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period as described in note 3.1 above.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

**5. Property, plant and equipment**

<u>2008</u>	<u>Land and buildings</u> K'000	<u>Plant and machinery generation</u> K'000	<u>Distribution</u> K'000	<u>Other office equipment</u> K'000	<u>Motor vehicles</u> K'000	<u>Total</u> K'000
<u>COST OR VALUATION</u>						
At beginning of year	1,181,368	15,171,330	8,272,680	1,485,502	1,035,325	27,146,205
Additions	-	63,938	883,194	125,557	2,606	1,075,295
Transfers from capital work in progress	-	98,140	1,392,009	-	-	1,490,149
Marep assets write off	-	-	(1,392,009)	-	-	(1,392,009)
Write off of other assets	-	-	-	(100,801)	-	(100,801)
Disposals	-	-	-	(1,066)	(81,134)	(82,200)
At end of the year	<u>1,181,368</u>	<u>15,333,408</u>	<u>9,155,874</u>	<u>1,509,192</u>	<u>956,797</u>	<u>28,136,639</u>
<u>DEPRECIATION</u>						
At beginning of the year	-	2,153,635	1,472,300	623,013	381,529	4,630,477
Charge for the year	34,153	422,335	428,185	183,024	97,791	1,165,488
Write off of other assets - depreciation release	-	-	-	(72,971)	-	(72,971)
Marep assets - depreciation on write offs	-	-	(55,160)	-	-	(55,160)
Disposals	-	-	-	(273)	(52,776)	(53,049)
At end of the year	<u>34,153</u>	<u>2,575,970</u>	<u>1,845,325</u>	<u>732,793</u>	<u>426,544</u>	<u>5,614,785</u>
<u>NET BOOK AMOUNT</u>						
At end of the year	<u>1,147,215</u>	<u>12,757,438</u>	<u>7,310,549</u>	<u>776,399</u>	<u>530,253</u>	<u>22,521,854</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

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

<u>2009</u>	<u>Land and buildings</u> K'000	<u>Plant and machinery generation</u> K'000	<u>Distribution</u> K'000	<u>Other office equipment</u> K'000	<u>Motor vehicles</u> K'000	<u>Total</u> K'000
<u>COST OR VALUATION</u>						
At beginning of year	1,181,368	15,333,408	9,155,874	1,509,192	956,797	28,136,639
Additions	21,799	48,090	72,192	123,292	362,445	627,818
Transfers from capital work in progress	17,057	2,771,872	870,174	-	67,716	3,726,819
Reclassifications	-	118,962	(98,297)	(19,152)	(1,513)	-
Disposals	-	-	-	(221)	(33,144)	(33,365)
At end of the year	<u>1,220,224</u>	<u>18,272,332</u>	<u>9,999,943</u>	<u>1,613,111</u>	<u>1,352,301</u>	<u>32,457,911</u>
<u>DEPRECIATION</u>						
At beginning of the year	34,153	2,575,970	1,845,325	732,793	426,544	5,614,785
Charge for the year	35,442	424,280	390,653	158,758	137,299	1,146,432
Reclassifications	-	174,764	(121,853)	(31,915)	(20,834)	162
Disposals	-	-	-	(221)	(9,275)	(9,496)
At end of the year	<u>69,595</u>	<u>3,175,014</u>	<u>2,114,125</u>	<u>859,415</u>	<u>533,734</u>	<u>6,751,883</u>
<u>NET BOOK AMOUNT</u>						
At end of the year	<u>1,150,629</u>	<u>15,097,318</u>	<u>7,885,818</u>	<u>753,696</u>	<u>818,567</u>	<u>25,706,028</u>

**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.

**Valuation of land and buildings**

Land and buildings were valued as a 30 June 2007 by D.R. Wayo 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.

	<u>2009</u> K'000	<u>2008</u> K'000
Land and buildings at cost or revaluation comprises the following:		
Leasehold - at cost	38,856	-
Freehold - at 2007 valuation	104,572	104,572
Leasehold - at 2007 valuation	<u>1,076,796</u>	<u>1,076,796</u>
Total cost or valuation at end of the year	<u>1,220,224</u>	<u>1,181,368</u>

**Reclassifications**

Some reclassifications have been processed within certain asset categories to align the schedule with the detailed fixed asset register. These reclassifications do not have an impact on the net amount of property, plant and equipment.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>6. Capital work in progress</b>		
Balance at beginning of the year	3,435,651	3,271,831
Additions:		
Funded from borrowings	320,422	615,226
Funded from internal resources	1,452,028	1,017,894
Interest capitalised	-	64,160
Funded from project creditors	515,039	123,645
Exchange gains on foreign loans capitalised	<u>(31)</u>	<u>(166,956)</u>
	5,723,109	4,925,800
Transfer to property, plant and equipment	<u>(3,726,819)</u>	<u>(1,490,149)</u>
Balance at end of the year	<u>1,996,290</u>	<u>3,435,651</u>
Capital work in progress is analysed as follows:		
Projects	870,359	2,381,930
General development	<u>1,125,931</u>	<u>1,053,721</u>
Total capital work in progress	<u>1,996,290</u>	<u>3,435,651</u>
<b>7. Inventories</b>		
General stores	898,148	811,248
Goods in transit	<u>375,449</u>	<u>314,907</u>
Total inventories	<u>1,273,597</u>	<u>1,126,155</u>



ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> K'000	<u>2009</u> K'000	<u>2008</u> K'000	<u>2008</u> K'000
<b>8. Receivables</b>				
Trade receivable		3,344,017		3,205,544
Staff loans and advances		968,959		813,698
Other receivables and prepayments		<u>249,520</u>		<u>352,365</u>
Gross receivables		4,562,496		4,371,607
Doubtful debt provisions:				
- trade receivables		(1,249,450)		(1,366,385)
- government accounts		<u>(550,396)</u>		<u>(550,398)</u>
		(1,799,846)		(1,916,783)
Loans and advances impairment provision		<u>(183,032)</u>		<u>(195,302)</u>
Total receivables		<u>2,579,618</u>		<u>2,259,522</u>

Included in staff loans and advances are housing loans of K222m (2008: K233m) which are repayable over periods of up to twelve years. Staff housing loans are secured by charges over the related properties.

The Company's credit risk is primarily attributed to its trade receivables, which comprise of individual and corporate customers who use electricity throughout the country.

	<u>2009</u> K'000	<u>2008</u> K'000
<u>Movement in allowance for doubtful debts</u>		
At beginning of the year	1,916,783	1,915,359
(Decrease)/increase in the year	<u>(116,938)</u>	<u>1,424</u>
At end of the year	<u>1,799,845</u>	<u>1,916,783</u>

In determining the recoverability of a trade receivable, the company considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

There is no significant concentration of credit risk, with exposure spread over a relatively large number of customers across the country.

Included in receivables are balances with a carrying amount of K1,425m (2008: K1,071m) which are past due date at the reporting date for which the company has not provided for as in the opinion of management and based on previous experience they are considered recoverable.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<b>Government grants K'000</b>	<b>Capital contributions K'000</b>	<b>2009 Total K'000</b>	<b>2008 Total K'000</b>
<b>9. Deferred income</b>				
At beginning of the year	874,278	2,145,355	3,019,633	3,492,852
Received during the year	107,067	762,871	869,938	741,830
Marep IV grant released	(31,654)	-	(31,654)	(1,099,474)
Released to income statement during the year	<u>(49,886)</u>	<u>(81,375)</u>	<u>(131,261)</u>	<u>(115,575)</u>
At end of the year	<u>899,805</u>	<u>2,826,851</u>	<u>3,726,656</u>	<u>3,019,633</u>

	<b>2009 K'000</b>	<b>2008 K'000</b>
<b>10. Severance allowance provision</b>		
At beginning of the year	2,264,440	1,291,602
Payments made during the year	(161,859)	-
Charge for the year	<u>325,336</u>	<u>972,838</u>
At end of the year	<u>2,427,917</u>	<u>2,264,440</u>

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. The provision of K2,428m (2008: K2,264m) has been made in accordance with IAS 19, Employee Benefits, as a defined benefits scheme.

The provision is based on an actuarial valuation carried done by QED Actuaries and Consultants (Pty) Limited of South Africa represented by Giulia Tognon, Fellow of the Actuarial Society of South Africa. The key assumptions used are:

- |                              |   |   |
|------------------------------|---|---|
| a) Discount rate of interest | - | 8.5%                                      |
| b) Salary increase rate      | - | 7.0%                                      |
| c) Retirement                | - | 60 years                                  |
| d) Withdrawals               | - | 12% at age 18 reducing to nil from age 50 |
| e) Redundancy                | - | 3%  |
| f) Mortality rate            | - | SA 85/90                                  |

	<b>2009 K'000</b>	<b>2008 K'000</b>
<b>11. Retirement benefit fund</b>		
At beginning of the year	643,408	309,752
Payment made during the year	(46,924)	(30,130)
Charge for the year	<u>91,923</u>	<u>363,786</u>
At end of the year	<u>688,407</u>	<u>643,408</u>

**11. Retirement benefit fund** (Continued)

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 broadly in line with inflation. An actuarial valuation of the obligation was carried out as at 30 June 2008 by QED Actuaries and Consultants (Pty) Limited of South Africa represented by Giulia Tognon, Fellow of the Actuarial Society of South Africa.

	<u>2009</u> K'000	<u>2008</u> K'000
<b>12. Borrowings</b>		
Balance at beginning of the year	10,415,078	9,719,909
Additions: - new borrowings	-	104,578
- interest charged	364,211	440,291
- interest capitalised	-	64,140
- exchange losses on foreign loans capitalised in WIP	-	274,468
- exchange losses expensed	212,168	163,118
Less: - repayments	(1,543)	(6,821)
- interest paid	(103,540)	(170,444)
- amount transferred to HIPC funds	(70,472)	(65,650)
- movement in fair value of zero coupon bond	(59,325)	(56,429)
- NDF transfer to advance share capital	<u>-</u>	<u>(52,082)</u>
Total borrowings at end of the year	10,756,577	10,415,078
Less amounts included in current liabilities	<u>(5,711,309)</u>	<u>(5,543,444)</u>
Non-current borrowings	<u>5,045,268</u>	<u>4,871,634</u>
<u>Analysis of current borrowings</u>		
Amounts due within one year	1,727,294	1,831,605
Principal and interest in arrears	<u>3,984,015</u>	<u>3,711,839</u>
	<u>5,711,309</u>	<u>5,543,444</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>12. Borrowings</b> (Continued)		
Details of borrowings are set out below:		
<b>Government of Malawi</b>	6,316,342	6,193,251
These Malawi Kwacha loans are repayable over terms of up to 30 years and carry interest at rates varying between 3% (2008: 3%) and 12% (2008: 12%). The last payment is due in 2034.		
<b>European Investment Bank</b>	600,673	657,867
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 K64.6m (2008: K65.6m). The loan attracts interest at a rate of 3.5% (2008: 3.5%) per annum. The last installment is due in 2017. The amount is now payable to the Government of Malawi		
<b>SEB SCADA</b>	64,450	63,187
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 is on lent to ESCOM from the Government of Malawi.		
The loan attracts interest at a rate of 3% (2008: 3%) per annum.		
<b>SIDA</b>	2,161,148	2,161,148
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% (2008: 3%) per annum. Repayments commenced in 2007. The loan is on lent to ESCOM from Government of Malawi.		
<b>Development Bank of Southern Africa</b>	2,132,682	1,748,665
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% (2008: 0.9%) plus a 5% (2008: 5%) risk margin. Interest is repayable half yearly in arrears. The loan is guaranteed by the Government of Malawi.		
Fair value of zero coupon bond held with Investec Bank	(620,503)	(512,628)
<b>World Bank Project Preparatory Fund</b>	101,785	103,588
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. The loan is guaranteed by the Government of Malawi.		
Total borrowings	<u>10,756,577</u>	<u>10,415,078</u>

	<u>2009</u> K'000	<u>2008</u> K'000
<b>12. Borrowings</b> (Continued)		
The following summary indicates the repayment terms of the loans outstanding:		
<u>Dates of repayment:</u>		
Within 5 years	6,474,041	6,763,861
Between 5 and 10 years	953,415	852,461
After 10 years	<u>3,329,121</u>	<u>2,798,756</u>
	<u>10,756,577</u>	<u>10,415,078</u>
<u>The loans are repayable in:</u>		
Malawi Kwacha	6,316,342	6,193,251
Foreign currencies	<u>4,440,235</u>	<u>4,221,827</u>
	<u>10,756,577</u>	<u>10,415,078</u>

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.

#### **Defaults and breaches on Development Bank of Southern African Limited Loan**

The company has not met the requirements of Article 12.3 of the loan agreement which requires the following ratios:-

<u>Ratios</u>	<u>Required</u>	<u>Actual 2009</u>	<u>Actual 2008</u>
Debt/Equity	1:1	3.33	2.44
Debt to capital Employed ratio %	50	333	152
Liquidity ratio	1.2:1	0.28:1	0.60:1

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 DBSA may at its entire discretion, dispense with the giving of the 30 (thirty) days notice. ESCOM has obtained a waiver dated November 2009 from DBSA to prevent the loan from being recalled. Interest payments continue to be made when due on the loan.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>13. HIPC funds</b>		
Industrial Development Company of South Africa	32,051	32,051
Commonwealth Development Corporation Company plc	2,489,559	2,489,559
European Investment Bank	376,804	305,528
Eksportifinans (NORAD) –NOK	<u>89,885</u>	<u>89,885</u>
Principal amounts transferred from loans	2,988,299	2,917,023
Interest accrued on funds	<u>5,890</u>	<u>6,694</u>
Total HIPC funds at the end of the period	2,994,189	2,923,717
Less- due within one year included in current liabilities	<u>(64,583)</u>	<u>(65,650)</u>
Non-current HIPC funds	<u>2,929,606</u>	<u>2,858,067</u>
Movement in HIPC funds:		
At beginning of the year	2,923,717	2,851,373
Amount qualifying for HIPC during the period	64,583	65,650
Accrued interest on HIPC funds	<u>5,890</u>	<u>6,694</u>
At end of the year	<u>2,994,190</u>	<u>2,923,717</u>

Following Malawi's qualification for the Highly Indebted Poor Countries (HIPC) initiative from its multilateral donors in 2004, 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 to the Treasury to ESCOM, the Malawi Government advised ESCOM to credit this amount to a HIPC account held at Reserve Bank of Malawi as the loan repayments fell due. Interest has been accrued at the rates of the original loans from third parties and no objection has been received from Government to this treatment.

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.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> <b>K'000</b>	<u>2008</u> <b>K'000</b>
<b>14. Bank borrowings</b>		
Malawi Savings Bank Limited	-	49,446
National Bank of Malawi	<u>790,851</u>	<u>508,667</u>
Total bank borrowings	<u>790,851</u>	<u>558,113</u>
Analysed as:		
Amount due within one year	278,949	215,456
Amount due after one year	<u>511,902</u>	<u>342,657</u>
Total	<u>790,851</u>	<u>558,113</u>
<u>Movement in the year</u>		
At beginning of the year	558,113	701,390
New loans	527,393	226,939
Repayments	(307,286)	(371,657)
Interest charge	133,649	140,871
Interest paid	<u>(121,018)</u>	<u>(139,430)</u>
At end of the year	<u>790,851</u>	<u>558,113</u>

The borrowings carry interest of 19.5% p.a. for National Bank of Malawi (2% above 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.

	<u>2009</u> <b>K'000</b>	<u>2008</u> <b>K'000</b>
<b>15. ESCOM Limited Pension Fund loan</b>		
Loan received during the year	384,570	400,000
Interest	60,308	66,075
Repayments	-	(40,000)
Interest paid	<u>-</u>	<u>(41,505)</u>
At end of the year	<u>444,878</u>	<u>384,570</u>
<u>Analysed as:</u>		
Amount due within one year	194,878	118,702
Amount due after one year	<u>250,000</u>	<u>265,868</u>
	<u>444,878</u>	<u>384,570</u>

In September 2007, ESCOM entered into an agreement with the registered Trustees of Electricity Supply Corporation of Malawi Limited Pension Fund to advance K400 million which ESCOM used to advance to its employees who are members of the Pension Fund. The loan attracts interest of 17.5% (2008: 21%) per annum and is repayable quarterly over a period of five years.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>16. Finance leases</b>		
Leasing and Finance Company of Malawi Limited	192,370	10,660
National Bank of Malawi	<u>109,088</u>	<u>91,407</u>
Total finance leases	<u>301,458</u>	<u>102,067</u>
<u>Analysed as:</u>		
Amount due within one year	132,150	46,216
Amount due after one year	<u>169,308</u>	<u>55,851</u>
Total	<u>301,458</u>	<u>102,067</u>
<u>Movement in the year</u>		
At beginning of year	102,067	133,614
Additions	320,422	67,680
Repayments	(124,070)	(99,227)
Interest charge	61,441	18,695
Interest paid	(59,935)	(18,695)
Interest included in current liabilities	<u>1,533</u>	<u>-</u>
At end of year	<u>301,458</u>	<u>102,067</u>

The leases carry interest of 19.5% p.a. for National Bank of Malawi and 19% p.a. for Leasing and Finance Company of Malawi Limited. The leases are secured over the vehicles they finance.

	<u>2009</u> K'000	<u>2008</u> K'000
<b>17. Financing facilities</b>		
Unsecured bank overdraft facility that is reviewed annually and payable on call	450,000	50,000
The full facility was utilized as at 30 June 2009		
Secured documentary credit facility reviewed annually	50,000	50,000
Secured revolving Bank Insurance Premium	100,000	100,000
Secured long term loan	2,050,000	527,375

These facilities are secured on the following securities held by the bank and consent to be obtained from treasury.

- a. Board resolution authorising aggregate borrowing of K1,654m;
- b. Treasury consent for K521m;
- c. Lien over call accounts held with National Bank of Malawi;
- d. Bill of sale over vehicles financed under finance lease facility;
- e. Letter of undertaking by the Corporation to the bank assigning all proceeds of the Corporation's from major customers: Illovo Sugar (Malawi) Limited, Limbe Leaf Tobacco Company Limited, Unilever South East Africa (Pvt) Limited, The Bottling and Brewing Group Limited, Packaging Industries (Malawi) Limited, Blantyre Water Board; and
- f. All assets debenture for K300m.



ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>18. Payables</b>		
Trade and other payables	1,977,078	1,633,387
Project payables and retention	638,684	123,645
Consumer deposits	<u>127,966</u>	<u>98,381</u>
Total payables	<u>2,743,728</u>	<u>1,855,413</u>

Included in payables are liabilities of K733m (2008: K116m) denominated in foreign currencies. The average trade payables period is 60 days and interest is charged by most of the suppliers except for a few foreign payables used to finance some projects.

	<u>Funding of</u> <u>capital assets</u> K'000	<u>Other</u> <u>liabilities</u> K'000	<u>2009</u> K'000	<u>2008</u> K'000
<b>19. Exchange losses</b>				
Realised - short-term (payables)	-	(2,744)	(2,744)	(2,184)
Unrealised - borrowings	212,100	25,370	212,100	478,114
- short-term (payables)	-	-	<u>25,370</u>	<u>11,524</u>
Total unrealised	<u>212,100</u>	<u>25,370</u>	<u>237,470</u>	<u>489,638</u>
Total exchange losses	<u>212,100</u>	<u>22,626</u>	<u>234,726</u>	<u>487,454</u>

	<u>2009</u> K'000	<u>2008</u> K'000
<b>20. Loss before taxation</b>		

Loss before taxation is arrived at after taking into account:

Auditors' remuneration - current period	17,000	14,933
- prior period	5,834	11,395
Directors' fees	1,817	1,347
Staff costs	2,983,375	1,936,248
Severance allowance charge	325,336	972,838
Retirement benefit charge	91,923	363,786
Pension costs	<u>86,492</u>	<u>107,331</u>

**21. Taxation**

**21.1 Income tax**

The company did not earn any taxable income during the year. The company has carried forward estimated tax losses of K26.6 billion (2008: K20 billion).

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>21. Taxation</b> (Continued)		
<b>21.2 Deferred tax</b>		
A notional deferred tax asset arises as follows:		
Accelerated capital allowances	6,452,261	5,101,149
Estimated tax losses carried forward	(7,989,026)	(5,991,883)
Other temporary differences	<u>(1,040,316)</u>	<u>(727,835)</u>
Deferred tax asset	<u>(2,577,081)</u>	<u>(1,618,569)</u>
The asset has not been recognised in the financial statements in accordance with the company's accounting policy with respect to deferred tax.		
<b>22. Reconciliation of loss before interest and taxation to cash generated from operations</b>		
Loss before interest and taxation	(227,008)	(2,077,879)
Release of MAREP grant	(31,654)	(1,099,474)
Depreciation of property, plant and equipment	1,146,432	1,165,488
Loss on disposal of property, plant and equipment	23,828	12,471
MAREP assets written off	-	1,336,849
Capital contributions and grants released to the income statement	(131,261)	(115,575)
Exchange losses expensed	<u>234,726</u>	<u>487,454</u>
	1,015,063	(290,666)
Movements in working capital:		
Movement in inventories	(147,442)	42,785
Movement in receivables	(320,096)	(92,126)
Movement in payables	888,315	693,929
Movement in retirement benefit provision	44,999	333,656
Movement in severance provision	<u>163,477</u>	<u>972,838</u>
Cash generated from operations	<u>1,644,316</u>	<u>1,660,416</u>
Loss before interest and taxation is determined as follows:		
Loss before taxation	(982,900)	(2,793,895)
Interest on borrowings, financed leases and bank borrowings	559,416	730,544
Interest on bank overdraft	207,133	53,470
Interest receivable	<u>(10,657)</u>	<u>(67,998)</u>
Loss before interest and taxation	<u>(227,008)</u>	<u>(2,077,879)</u>
<b>23. Capital commitments</b>		
Authorised by the company and contracted	579,700	939,933
Authorised by the company but not contracted	<u>6,233,814</u>	<u>5,379,974</u>
Total commitments	<u>6,813,514</u>	<u>6,319,907</u>

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

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>24. Contingent liabilities</b>		
<u>Legal claims</u>	<u>270,368</u>	<u>201,643</u>

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.

Guarantees

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. Escom is unable to quantify the contingent liability payable to the various financial institutions in the event that employees default and in cases where final benefits are insufficient to repay the outstanding loan balances.

	<u>2009</u> K'000	<u>2008</u> K'000
<b>25. Related party transactions</b>		
Related party transactions are at arms length and the amounts due from and due to related parties are as follows:		
<b>Receivables</b>		
Statutory corporations	133,557	221,415
Government departments	605,579	760,699
Specific provision for bad debts	<u>(550,398)</u>	<u>(550,398)</u>
	<u>188,738</u>	<u>431,716</u>
<b>Loans</b>		
Government of Malawi including SIDA Loan (Note 12)	<u>8,477,790</u>	<u>6,193,251</u>
<b>HIPC Funds</b>		
Government of Malawi (Note 13)	<u>2,994,189</u>	<u>2,923,717</u>
Dividend payable Government of Malawi	<u>25,000</u>	<u>25,000</u>
<b>Compensation of key management staff</b>		
Salaries, bonuses and benefits	<u>83,595</u>	<u>162,275</u>
The following transactions were carried out with related parties:		
Interest on Government of Malawi loans	<u>62,580</u>	<u>79,871</u>
Sales to Statutory Corporations	721,833	689,764
Sales to Government Departments	<u>279,342</u>	<u>299,955</u>
	<u>1,001,175</u>	<u>989,719</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

**26. Financial assets and liabilities**

Accounting categories and fair values	<u>Notes</u>	<u>Held to maturity</u> K'000	<u>Loans and receivables</u> K'000	<u>Other amortised cost</u> K'000	<u>Total carrying amount</u> K'000	<u>Fair value</u> K'000
<b><u>30 June 2009</u></b>						
<b>Assets</b>						
Receivables	8	-	2,579,618	-	2,579,618	2,579,618
Bank current account and cash		-	158,231	-	158,231	158,231
Bank deposit account		42,569	-	-	42,569	42,569
Short term investments		148,395	-	-	148,395	148,395
Taxation recoverable		-	14,190	-	14,191	14,191
<b>Total financial assets</b>		<u>190,964</u>	<u>2,752,039</u>	<u>-</u>	<u>2,943,004</u>	<u>2,943,004</u>
<b>Liabilities</b>						
Borrowings		-	-	10,756,577	10,756,577	10,756,577
HIPC Funds	13	-	-	2,994,189	2,994,189	2,994,189
Bank borrowings		-	-	790,851	790,851	790,851
ESCOM Limited Pension Fund loan		-	-	444,878	444,878	444,878
Finance leases		-	-	301,458	301,458	301,458
Bank overdraft	17	-	-	1,247,676	1,247,676	1,247,676
Payables	18	-	-	2,743,728	2,743,728	2,743,728
<b>Total financial liabilities</b>		<u>-</u>	<u>-</u>	<u>19,279,357</u>	<u>19,279,357</u>	<u>19,279,357</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

**26. Financial assets and liabilities** (Continued)

Accounting categories and fair values	<u>Notes</u>	<u>Held to maturity</u> K'000	<u>Loans and receivables</u> K'000	<u>Other amortised cost</u> K'000	<u>Total carrying amount</u> K'000	<u>Fair value</u> K'000
<b><u>30 June 2008</u></b>						
<b>Assets</b>						
Receivables	8	-	2,259,522	-	2,259,522	2,259,522
Bank current account and cash		-	144,335	-	144,335	144,335
Bank deposit account		402,098	-	-	402,098	402,098
Taxation recoverable		-	14,189	-	14,189	14,189
<b>Total financial assets</b>		<u>402,098</u>	<u>2,418,046</u>	<u>-</u>	<u>2,820,144</u>	<u>2,820,144</u>
<b>Liabilities</b>						
Borrowings	12	-	-	10,415,078	10,415,078	10,415,078
HIPC Funds	13	-	-	2,923,717	2,923,717	2,923,717
Bank borrowings	14	-	-	558,113	558,113	558,113
ESCOM Limited Pension Fund loan	15	-	-	384,570	384,570	384,570
Finance leases	16	-	-	102,067	102,067	102,067
Bank overdraft	17	-	-	957,885	957,885	957,885
Payables	18	-	-	1,855,413	1,855,413	1,855,413
<b>Total financial liabilities</b>		<u>-</u>	<u>-</u>	<u>17,196,843</u>	<u>17,196,843</u>	<u>17,196,843</u>

**26. Financial risk management** (Continued)

**(a) Introduction and overview**

The Company has exposure to the following risks arising from its transactions in financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Currency risks; and
- Operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for identification, measurement, monitoring and controlling risk, and the Company's management of capital.

**Risk management framework**

The Company's approach to risk management is based on a well-established governance process and relies both on individual responsibility and collective oversight, supported by comprehensive reporting. This approach balances stringent corporate oversight with independent risk management structures within the business units.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board develops the risk appetite and risk tolerance limits appropriate to the Company's strategy and requires that management maintains an appropriate system of internal controls to ensure that these risks are managed within the agreed parameters. The Board delegates risk related responsibilities to Board committees, which are as follows: The Audit committee, Staff and Finance Committee and the Technical Committee. All Board committees have non-executive members and report regularly to the Board of Directors on their activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions on the services offered. The Company strives to maintain a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the company. The Audit Committee is assisted in these functions by senior members of management who undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board and its committees where necessary.

**26. Financial risk management (Continued)**

**(b) Credit risk**

Credit risk is the likelihood of financial loss to the Company if a customer or counterparty to financial instrument fails to meet its contractual obligations, and arises principally from the company's trade receivables. For risk management reporting purposes, the company considers and consolidates all elements of credit risk exposure such as individual obligor default risk. The Company carries a risk of loss due to default of payment by customers. Settling of bills with cheques increases the risk due to the likelihood of the cheques being dishonored by various financial institutions.

**Management of credit risk**

The Company's terms are normally 30 days and if the customers do not settle the bills before 30 days, electricity to the customer is disconnected and is only reconnected upon payment of the bill. Periodically together with the management accounts, the debtors' age analysis is reviewed and action points agreed to reduce the trade receivables. The Board of Directors has delegated this responsibility to its senior management through the Audit Committee to ensure that the risk is minimised. Some of the measures being taken to reduce the risk are:

- Installing of pre-paid meters which eliminates the debt as customers pay upfront for the service;
- Disconnecting customers' accounts with an unsettled bill of more than 30 days;
- Minimising on non-technical losses to avoid pilferage or illegal connections by physically inspecting customer's premises;
- Enforcing credit control procedures when allowing customers to make cheque payments; and
- Engaging lawyers or debt collection agencies to collect money from defaulting customers.

**Exposure of credit risk**

**Maximum exposure to credit risk**

The table below shows the maximum exposure to credit risk by class of financial instrument. Financial instruments include financial instruments defined and recognised under IAS 39 *Financial Instruments: Recognition and Measurement* as well as other financial instruments not recognised. The maximum exposure is shown gross as the nature of the debtors is such that the company holds no collateral over the receivables.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

	<u>2009</u> K'000	<u>2008</u> K'000
<b>26. Financial risk management</b> (Continued)		
<b>Gross maximum exposure</b>		
<b>Financial assets</b>		
Receivables	4,562,496	4,371,607
Bank current account and cash	158,231	144,335
Bank deposits accounts	42,569	402,098
Short term investments	148,395	-
Taxation recoverable	<u>14,190</u>	<u>14,189</u>
Total	<u>4,925,881</u>	<u>4,932,229</u>

The Company's credit risk is primarily attributed to provision of electricity on credit extended to its customers. The amounts presented in the balance sheet are net of provisions for doubtful debts as shown note 8. The specific provision represents allowances for estimated irrecoverable amounts when there is objective evidence that the asset is impaired.

The credit risks on balances with banks are limited because the counterparties are financial institutions with satisfactory credit ratings.

	<u>2009</u> K'000	<u>2008</u> K'000
<b>Trade receivables</b>		
Gross amount	3,344,078	3,205,544
Allowance for impairment losses	<u>(1,799,845)</u>	<u>(1,916,783)</u>
Carrying amount	<u>1,544,233</u>	<u>1,288,761</u>
Past due but not impaired	<u>1,425,345</u>	<u>1,071,217</u>
Past due comprises:		
60 days	93,381	99,846
60 - 90 days	66,711	73,259
90 - 120days	<u>1,265,253</u>	<u>898,112</u>
	<u>1,425,345</u>	<u>1,071,217</u>

**Past due but not impaired receivables**

These are debtors over 30 days that have not been provided for because in the opinion of management and based on past experience, some customers delay paying for their bills because either the bills are received late or the disconnection campaign has not been carried out efficiently. Receivables are considered doubtful if the account is dormant and there is evidence that there have been no billings over the past three years.



**26. Financial risk management (Continued)**

**c) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Cash flow uncertainty is the Company's major liquidity risk and it is caused mainly by two elements:

- Failing to meet revenue collection targets; and
- Sudden unexpected cash outflows i.e. paying suppliers before due dates or paying penalties or legal charges.

Liquidity risk tends to compound other risks and affects the business operations as liabilities cannot be met when they fall due. For example if customers default, the Company will have to raise cash from other sources to meet its obligations.

**Management of Liquidity Risk**

Liquidity risk is managed in addition to market, credit and other risks. Because of its tendency to compound other risks, it is impossible to isolate liquidity risk. However, the company takes the following measures to manage the risks.

- Weekly cashflow reviews by senior management to look at company liquidity and to project future net cash flows;
- Monitoring of bank balances and movements by the Treasury office to ensure a healthy cash position;
- Invoices being paid only on due dates;
- Monitoring of slow moving stocks and re order levels in order to hold stocks at appropriate levels; and
- Ensuring that debtor days do not exceed 30 days. Where 30 days are exceeded, ensuring that the customer premises are disconnected of electricity.

Other methods that are used include:

- Looking at future net cash flows on a day-by-day basis. Any day that has a sizeable negative net cash flow is of concern. Such an analysis is supplemented with stress testing by looking at net cash flows on a day-to-day basis assuming that an important counter party defaults.
- Certain techniques of asset-liability management are applied to assess liquidity risk. This is done by matching payables and receivables according to due date patterns.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

**26. Financial risk management** (Continued)

(c) **Liquidity risk** (Continued)

The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at 30 June 2009 to the contractual maturity date.

	Notes	Less than <u>1 month</u> K'000	1 - 3 <u>months</u> K'000	3 - 12 <u>months</u> K'000	Over <u>1 year</u> K000	<u>Total</u> K'000	<u>Carrying amount</u> K'000
<b>30 June 2009</b>							
<b>Assets</b>							
Receivables	8	1,140,225	741,355	162,120	535,918	2,579,618	2,579,618
Bank current account and cash		158,231	-	-	-	158,231	158,231
Bank deposits accounts		-	42,569	-	-	42,569	42,395
Investments		117,287	-	31,108	-	148,395	148,395
Taxation recoverable		-	-	14,191	-	14,191	14,191
<b>Total financial assets</b>		<u>1,415,743</u>	<u>783,924</u>	<u>207,419</u>	<u>535,918</u>	<u>2,943,004</u>	<u>2,943,004</u>
<b>Liabilities</b>							
Borrowings	12	3,995,635	-	1,772,635	6,811,111	12,579,381	10,756,577
HIPC Funds	13	-	-	70,472	3,035,627	3,106,099	2,994,189
Bank borrowing	14	147,234	96,620	318,775	337,528	900,157	790,851
ESCOM Limited Pension Fund loan	15	157,137	10,438	33,937	293,750	495,262	444,878
Finance leases	16	14,708	31,627	100,280	202,323	348,938	301,458
Bank overdraft	17	1,247,676	-	-	-	1,247,676	1,247,676
Payables	18	<u>1,986,385</u>	<u>29,087</u>	<u>600,290</u>	<u>127,966</u>	<u>2,743,728</u>	<u>2,743,728</u>
<b>Total financial liabilities</b>		<u>7,548,775</u>	<u>167,772</u>	<u>2,896,389</u>	<u>10,808,305</u>	<u>21,421,241</u>	<u>19,279,357</u>
<b>Contractual liquidity mismatch</b>		<b>(6,133,032)</b>	<b>616,152</b>	<b>(2,688,970)</b>	<b>(10,272,387)</b>	<b>(18,478,237)</b>	<b>-</b>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

**26. Financial risk management** (Continued)

	Notes	Less than <u>1 month</u> K'000	1 - 3 <u>months</u> K'000	3 - 12 <u>months</u> K'000	Over <u>1 year</u> K'000	<u>Total</u> K'000	<u>Carrying amount</u> K'000
<b>30 June 2008</b>							
<b>Assets</b>							
Receivables	8	1,285,529	248,589	93,134	632,270	2,259,522	2,259,522
Bank current account and cash		144,335	-	-	-	144,335	144,335
Bank deposits accounts		370,580	32,864	-	-	403,444	402,098
Taxation recoverable		-	-	14,189	-	14,189	14,189
<b>Total financial assets</b>		<u>1,800,444</u>	<u>281,453</u>	<u>107,323</u>	<u>632,270</u>	<u>2,821,490</u>	<u>2,820,144</u>
<b>Liabilities</b>							
Borrowings	12	3,711,839	-	2,731,436	6,257,162	12,700,437	10,415,078
HIPC Funds	13	-	-	72,343	2,891,552	2,963,895	2,923,717
Bank borrowing	14	34,661	74,577	169,270	405,709	684,217	558,113
ESCOM Limited Pension Fund loan	15	43,727	35,075	106,503	386,474	571,779	384,570
Finance leases	16	13,147	30,962	39,349	83,757	167,215	102,067
Bank overdraft	17	957,885	-	-	-	957,885	957,885
Payables	18	<u>1,096,609</u>	<u>536,780</u>	<u>123,643</u>	<u>98,381</u>	<u>1,855,413</u>	<u>1,855,413</u>
<b>Total financial liabilities</b>		<u>5,857,868</u>	<u>677,394</u>	<u>3,242,544</u>	<u>10,123,035</u>	<u>19,900,841</u>	<u>17,196,843</u>
<b>Contractual liquidity mismatch</b>		<b>(4,057,424)</b>	<b>(395,941)</b>	<b>(3,135,221)</b>	<b>(9,490,765)</b>	<b>(17,079,351)</b>	<b>(14,376,699)</b>

The contractual liquidity mismatch shows the mismatch before any adjustments are made for product and customer behavioural assumptions. The company's managers address this mismatch by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps daily.

**26. Financial risk management (Continued)**

**(d) Market risk**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimising the return on risk.

Changes in market conditions expose the Company to risks that can be favourable or unfavourable to its cash flows.

This could be unexpected changes in the rate of inflation, the state of the economy or in interest rates. For example electricity sales demand could be higher than expected due to an increase in economic activities i.e. establishment of new manufacturing companies. Changes in legislation/regulation, exchange rates or interest rates might move favourably or unfavourably to the Company's interests.

**Management of market risks**

- Marketing, Environmental and Corporate Planning departments monitor the external environment (market) to detect market changes to ensure that the Company is in line with those changes
- Prompt connection of new customers avoids alternative power usage by customers.
- Converting or replacing overdraft and floating rate finance with fixed rate finance where interest rates are expected to rise and vice versa when they are expected to fall.
- Matching foreign currency payments with foreign currency receipts which are normally paid in dollars using Mozambique and Zambia receipts.

**Exposure of interest rate risk: non-trading portfolio**

The principal risk to which non-trading portfolio are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The Company's interest rate risk is managed principally through borrowings from different banks at the best interest rates it can obtain and monitoring these loans to ensure that they are repaid on a timely basis.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the finance leases and other bank borrowings as at 30 June 2009. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at 30 June 2009 was outstanding for the whole year. A 2.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 2.5% for all bank borrowings and 0.5 % for the 3 months Jibar higher/lower and all other variables were held constant, the Corporations':

- Profit for the year ended 30 June 2009 would decrease/increase by K84.054 million (2008: decrease/increase by K58.807 million). This is mainly attributable to the Corporations' exposure to interest rates on its bank borrowings and all other loans have a fixed interest rate.

The Corporations' sensitivity to interest rates has increased during the current period mainly due to the additional loans from National Bank of Malawi following overdraft interest conversion into a loan and additional finance leases.

A summary of the Company's maturity profile gap position on non-trading portfolio is as follows:

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

**26. Financial risk management** (Continued)

	Notes	Less than <u>1 month</u> K'000	1 - 3 <u>months</u> K'000	3 - 12 <u>months</u> K'000	over <u>1 year</u> K'000	<u>Total</u> K'000	<u>Carrying amount</u> K'000
<b>30 June 2009</b>							
<b>Assets</b>							
Bank current account and cash		158,231	-	-	-	158,231	158,231
Bank deposits accounts		42,569	-	-	-	42,569	42,569
Investments		117,287	-	31,108	-	148,395	148,395
Taxation recoverable		-	-	14,191	-	14,191	14,191
<b>Total financial assets</b>		<u>318,087</u>	<u>-</u>	<u>45,299</u>	<u>-</u>	<u>363,386</u>	<u>363,386</u>
<b>Liabilities</b>							
Borrowings	12	3,995,635	-	2,731,436	6,257,162	12,700,437	10,756,577
HIPC Funds	13	-	-	70,472	3,035,627	3,106,099	2,994,189
Bank borrowing	14	147,234	96,620	318,775	337,528	900,157	790,851
ESCOM Limited Pension Fund loan	15	157,137	10,438	33,937	293,750	495,262	444,878
Finance leases	16	14,708	31,627	100,280	202,323	348,938	301,458
Bank overdraft	17	<u>1,247,676</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,247,676</u>	<u>1,247,676</u>
<b>Total financial liabilities</b>		<u>5,562,390</u>	<u>138,685</u>	<u>3,254,900</u>	<u>10,126,390</u>	<u>18,798,569</u>	<u>16,535,629</u>
<b>Contractual maturity mismatch</b>		<b>(5,244,303)</b>	<b>(138,685)</b>	<b>(3,209,601)</b>	<b>(10,126,390)</b>	<b>(18,435,183)</b>	<b>(16,172,243)</b>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

**26. Financial risk management** (Continued)

	Notes	Less than <u>1 month</u> K'000	1 - 3 <u>months</u> K'000	3 - 12 <u>months</u> K'000	over <u>1 year</u> K'000	Carrying <u>amount</u> K'000	<u>Total</u> K'000
<b>30 June 2008</b>							
<b>Assets</b>							
Bank current account and cash		144,335	-	-	-	144,335	144,335
Bank deposits accounts		370,580	32,864	-	-	403,444	403,444
Taxation recoverable		-	-	-	-	14,189	14,189
<b>Total financial assets</b>		<u>514,915</u>	<u>32,864</u>	<u>-</u>	<u>-</u>	<u>561,968</u>	<u>561,968</u>
<b>Liabilities</b>							
Borrowings	12	3,711,839	-	2,731,436	6,257,162	12,700,437	10,415,078
HIPC Funds	13	-	-	72,343	2,891,552	2,963,895	2,923,717
Bank borrowing	14	34,661	75,577	169,270	405,709	685,217	558,113
ESCOM Limited Pension Fund loan	15	43,727	35,075	106,503	386,474	571,779	384,570
Finance leases	16	13,147	30,962	39,349	83,757	167,215	102,067
Bank overdraft	17	957,885	-	-	-	957,885	957,885
<b>Total financial liabilities</b>		<u>4,761,259</u>	<u>141,614</u>	<u>3,118,901</u>	<u>10,024,654</u>	<u>18,046,428</u>	<u>15,341,430</u>
<b>Contractual maturity mismatch</b>		<b>(4,246,344)</b>	<b>(108,750)</b>	<b>(3,118,901)</b>	<b>(10,024,654)</b>	<b>(17,484,460)</b>	<b>(14,779,402)</b>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

**26. Financial risk management** (Continued)

**(e) Currency risk**

The company had the following significant foreign currency positions:

	Notes	<u>USD</u> K'000	<u>ZAR</u> K'000	<u>Swedish</u> <u>Kroner</u> K'000	<u>EURO</u> K'000	<u>Total</u> K'000
<b>30 June 2009</b>						
<b>Assets</b>						
Bank deposits accounts		<u>7,662</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,662</u>
<b>Total financial assets</b>						
<b>Liabilities</b>						
Borrowings	12	101,785	1,512,179	64,450	600,673	2,779,087
Payables	18	<u>653,420</u>	<u>25,666</u>	<u>-</u>	<u>43,969</u>	<u>723,055</u>
<b>Total financial liabilities</b>		<u>755,205</u>	<u>1,537,845</u>	<u>64,450</u>	<u>644,642</u>	<u>3,502,142</u>
<b>Net open position</b>		<b>(747,543)</b>	<b>(1,537,845)</b>	<b>(64,450)</b>	<b>(644,642)</b>	<b>(3,494,480)</b>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS** (Continued)  
30 June 2009

**26. Financial risk management** (Continued)

**(e) Currency risk** (Continued)

	Notes	<u>USD</u> K'000	<u>ZAR</u> K'000	<u>Swedish</u> <u>Kroner</u> K'000	<u>EURO</u> K'000	<u>Total</u> K'000
<b>30 June 2008</b>						
<b>Assets</b>						
Bank deposits accounts		<u>1,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,834</u>
<b>Liabilities</b>						
Borrowings	12	103,588	1,236,037	63,187	657,867	2,060,675
Payables	18	<u>54,371</u>	<u>44,501</u>	<u>-</u>	<u>17,503</u>	<u>116,375</u>
<b>Total financial liabilities</b>		<u>157,959</u>	<u>1,280,538</u>	<u>63,187</u>	<u>675,370</u>	<u>2,177,050</u>
<b>Net open position</b>		<b>(156,125)</b>	<b>(1,280,538)</b>	<b>(63,187)</b>	<b>(675,370)</b>	<b>(2,175,216)</b>

Foreign currency sensitivity analysis

The corporation is exposed mainly to South African Rand, US Dollar and the Euro as follows:

	<u>Rand impact</u>		<u>US Dollar impact</u>		<u>Euro impact</u>	
	<u>2009</u> K'000	<u>2008</u> K'000	<u>2009</u> K'000	<u>2008</u> K'000	<u>2009</u> K'000	<u>2008</u> K'000
Profit or loss	100,487	63,525 (i)	37,760	6,873 (ii)	32,232	34,255

(i) This is mainly attributable to the exposure outstanding on payables denominated in Rands and the DBSA loan outstanding as at 30 June 2009 coupled with a change in fair value of the zero coupons bond that is also denominated in Rands.

(ii) This is mainly attributable to the exposure to outstanding dollar project payables as at 30 June 2009.



**26. Financial risk management** (Continued)

**(f) Operational risk**

Operational risk arises from execution of the Corporation's business functions. As such, it is a very broad concept including fraud risks, technology risk, legal risk, physical or environmental risks, machine breakdown etc.

More specific it is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

**Management of Operational Risk**

Operational risk management is coordinated centrally but most commonly implemented in different operational units, the IT department takes care of information risks, the HR department takes care of personnel risks, etc.

**Capital risk management**

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the returns to stakeholders through the optimisation of the debt and equity balance. The entity's overall strategy remains unchanged from 2008.

The capital structure of the entity consists of debt, which includes the borrowings disclosed in the balance sheet, cash and cash equivalents and equity attributable to equity holders comprising issued capital, revaluation reserves and retained earnings as disclosed on page 8.

The company is highly geared with the bulk of loans payable to Malawi Government which is also the shareholder of the company.

**Gearing ratio**

Management reviews the capital structure on a regular basis. The gearing ratio at the year end was as follows:

	<b><u>2009</u></b> <b>K'000</b>	<b><u>2008</u></b> <b>K'000</b>
Debt (i)	19,304,357	17,227,741
Cash and cash equivalents	<u>349,195</u>	<u>546,433</u>
Net debt	<u>18,955,162</u>	<u>16,681,308</u>
Equity (ii)	<u>5,771,580</u>	<u>6,754,480</u>
Net debt to equity ratio	<u>3.28:1</u>	<u>2.47:1</u>

(i) Debt includes borrowings and overdrafts

(ii) Equity includes capital and reserves

**27. Going concern**

The Company continues to register substantial losses and its current liabilities exceeds current assets. Despite these factors, management and the board believe the company will continue as a going concern because the bulk of the loans are payable to Government which is also the shareholder. In addition, the other external loans are guaranteed by the Government. It is in the interest of the whole country to support the company, which is the sole supplier of electricity in the country.

**28. 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.

	<u>2009</u>	<u>2008</u>
Kwacha/US Dollar	140.60	140.51
Kwacha/Rand	18.81	18.24
Kwacha/Euro	<u>206.96</u>	<u>225.26</u>
Inflation rate (%)	<u>8.0</u>	<u>8.5</u>

As at 16 December 2009, the exchange rates noted above had moved as follows:

Kwacha/US Dollar	145.60
Kwacha/Rand	20.00
Kwacha/Euro	<u>212.64</u>
Inflation rate (%) - October 2009	<u>7.3</u>