2014
ANNUAL REPORT

ELECTRICITY SUPPLY CORPORATION OF MALAWI LTD
ESCOM

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COMPANY PROFILE

The Electricity Supply Corporation of Malawi Limited (ESCOM) is a vertically integrated limited liability company incorporated under the Companies Act No.19 of 1984. The Government of Malawi is the majority shareholder (99%), and the other 1% is held by Public Private Partnership Commission (PPPC) on behalf of the now defunct Malawi Development Corporation (MDC).

ESCOM's mandate is to generate, transmit, distribute and retail electricity in Malawi. It also sells electricity to neighboring countries namely Mozambique and Zambia at the distribution level. ESCOM's Memorandum of Association allows it to carry out other businesses and currently it has diversified into the Optic Fiber Communications (OFC) business.

As at end of financial year, ESCOM had a total of 274,247 customers connected to the grid, of which 145,176 were on post-paid meters while 129,071 were on prepaid metering. ESCOM is in a drive to connect as many customers as possible to move the access to electricity rate from 9.0% in 2013 to 9.2% in the reporting period. In the reporting year, ESCOM connected 34,233 new customers compared to 24,644 in the year before. It is envisaged that more customers will be connected in the next 3 years.

As at the close of the financial year, ESCOM had MK76.9 billion in assets and MK32.6 billion in liabilities. It is the aim of ESCOM to make the business as profitable as possible while satisfying the customer, and making shareholders' investments profitable.

ESCOM had a total of 2,563 permanent employees, 321 temporary employees and 1,058 temporary laborers. These are the push behind ESCOM's success. The Corporation takes interest in making its staff well capacitated, happy and satisfied, hence allowing them to be more productive for ESCOM's advancement, and most of all for national development.

OUR VALUES

Our values

- Customer focused
- Intergrity
- Team work
- Innovation
- Equal Opportunity
- Respect for Life

We are committed to provide high quality service to our customers.

OUR VISION

A preferred world class provider of reliable and sustainable electricity to the nation and in the Southern Africa Development Corporation (SADC) region

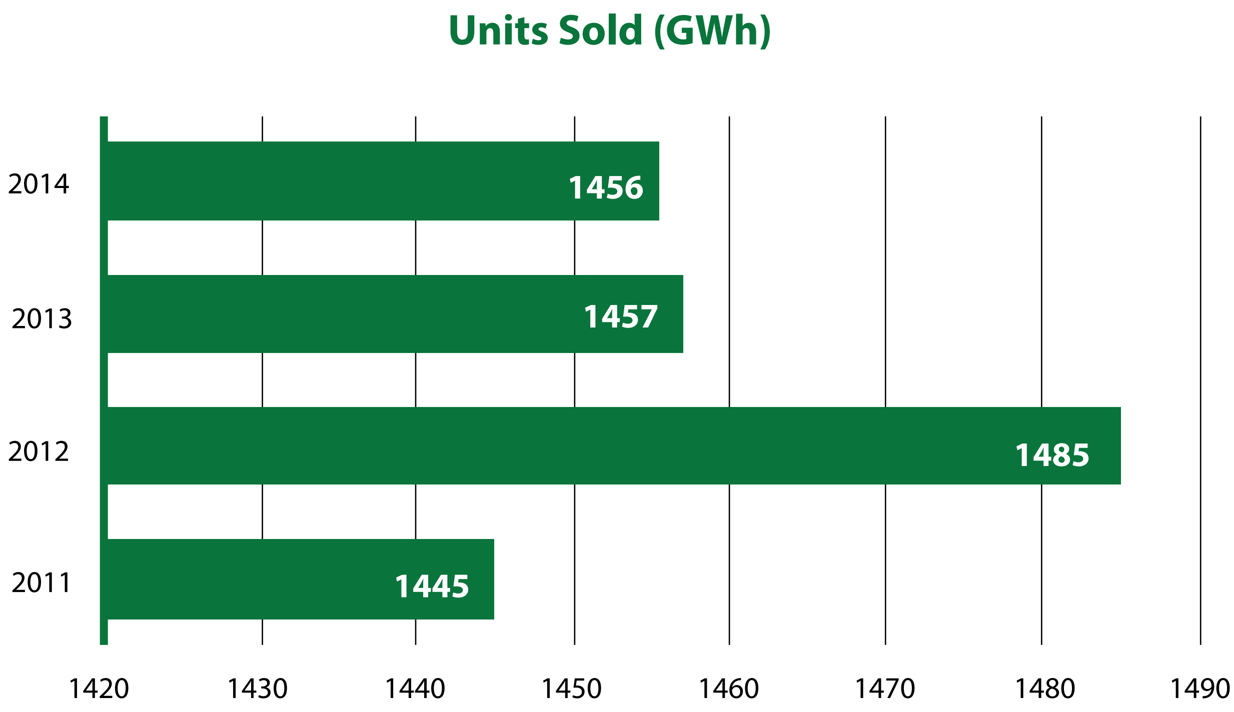
OUR MISSION

To produce, supply and trade quality, reliable and affordable electricity through sustained growth, continuous innovation and a motivated staff to the satisfaction of our customers and other stakeholders, including the SADC regional market

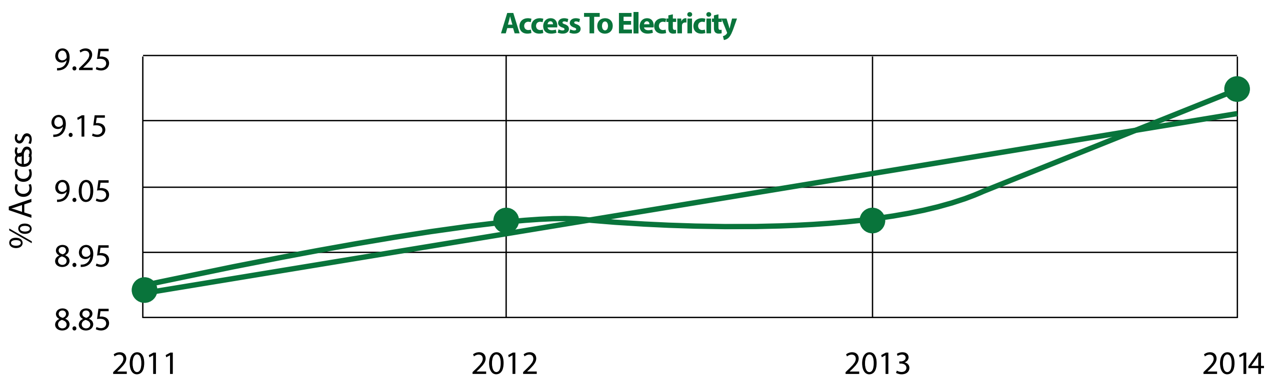
KEY FACTS AND FIGURES

Total Assets	K76,913,515,000
Total Liabilities	K32,593,493,000
Operating Profit	K14,921,780,000
EBITDA	K12,805,126,000
Operating Revenue	K46,807,343,000

UNITS SOLD BY DISTRIBUTION

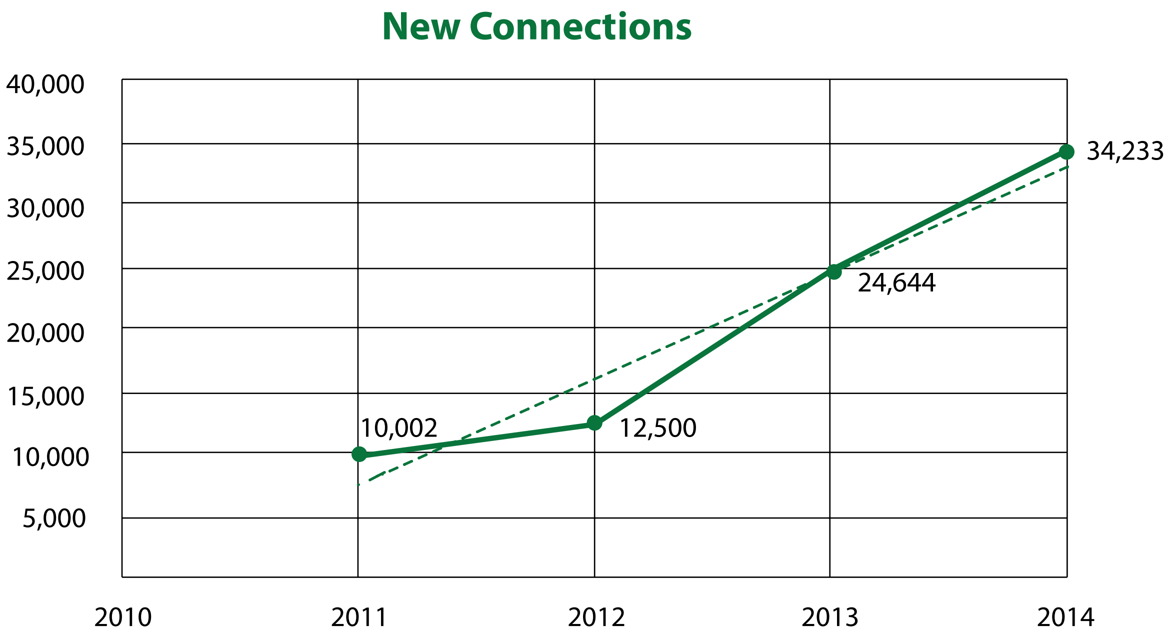


ACCESS RATE

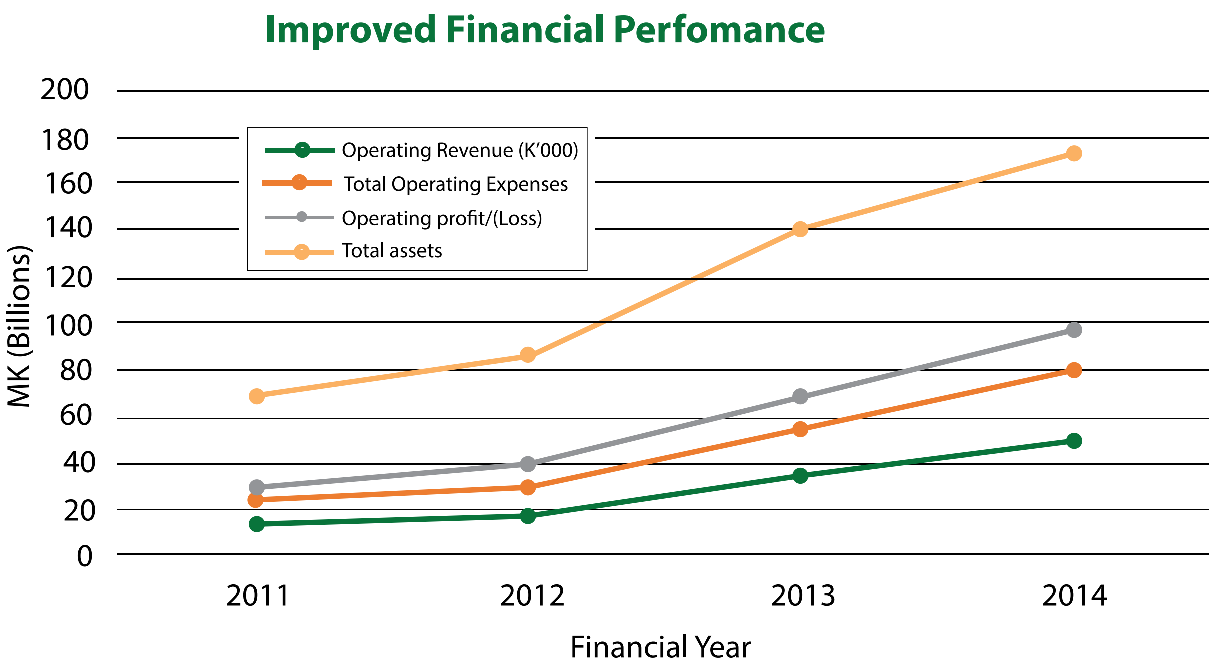


There was generally an increasing trend in terms of the Access Rate as more customers were connected to the grid

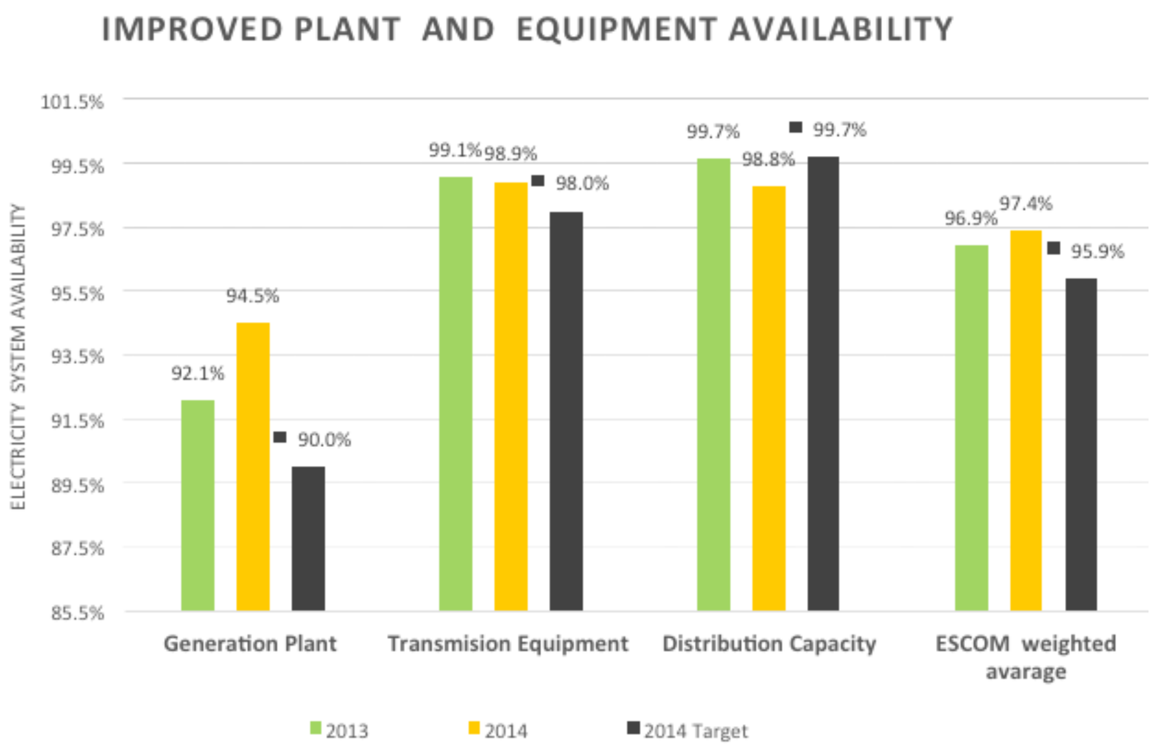
NEW CONNECTIONS

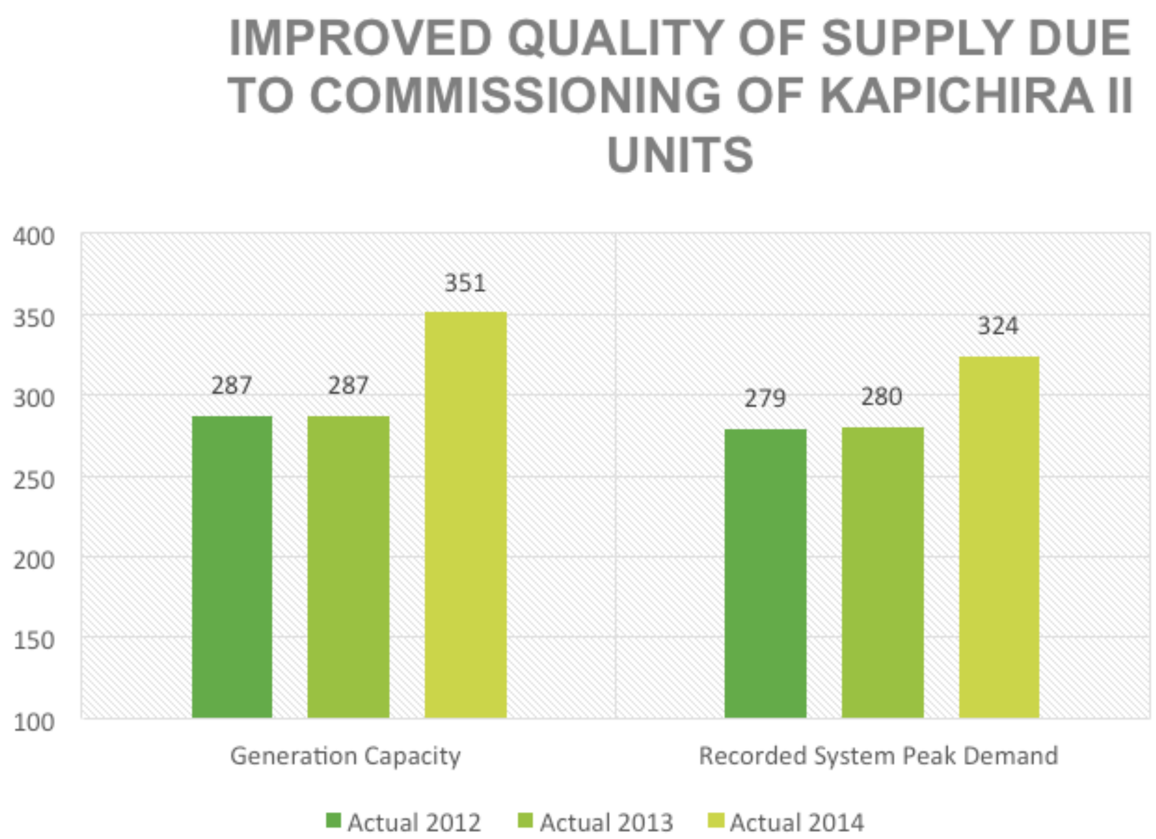


FINANCIAL PERFORMANCE



TECHNICAL PERFORMANCE





Nkula Power Station

TABLE OF CONTENTS

1- **Overview**
- Our Values
- Review of Our Performance
- Our Socio-economic Impact
- Our Business Structure

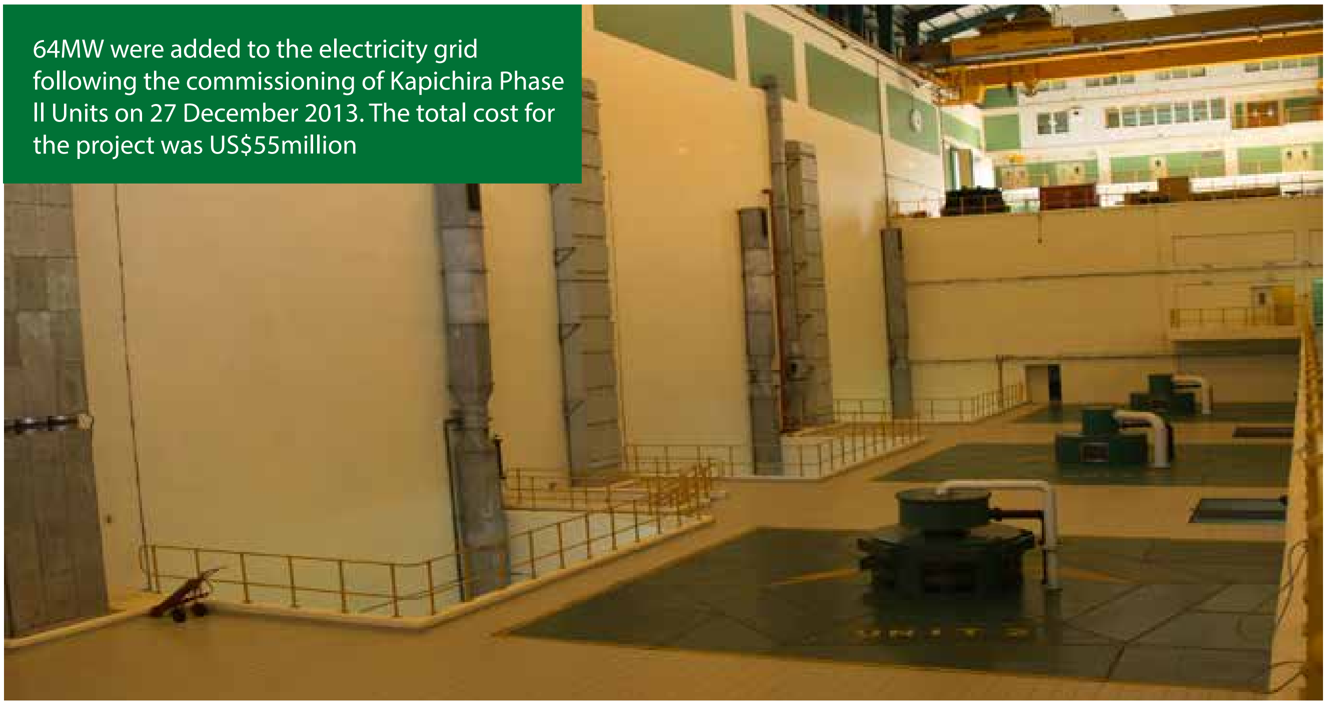
2- **Business Review**
- Chairperson's Statement
- Chief Executive's Statement

3- **Ensuring our Sustainability**
- Board of Directors
- Executive Committee
- Statement of Corporate Governance
- Risk Management and Control
- Directors' Report
- Statement of Directors' Responsibility

4- **Annual Financial Statements**
- Statement of Directors' Responsibilities
- Independent Auditor's Report
- Statements of Financial Position
- Statements of Profit and Loss
- Statements of Other Comprehensive Income
- Statements of Changes in Equity
- Statements of Cash Flows
- Notes to the Financial Statements

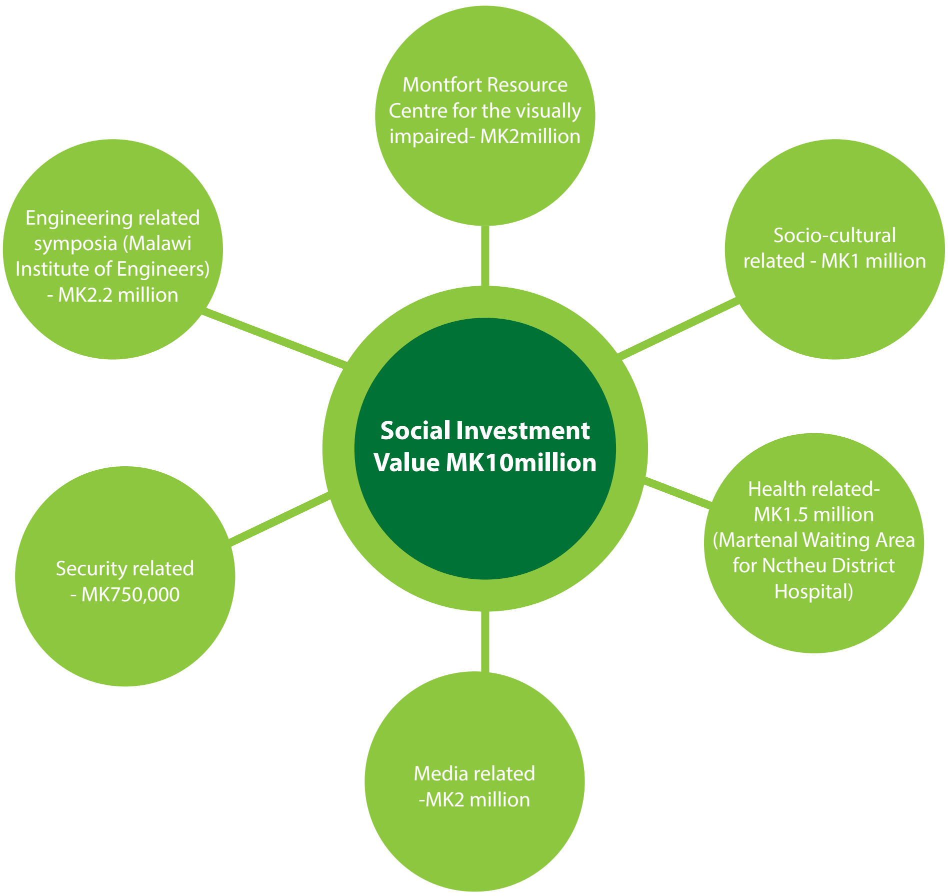
SPECIAL PROJECTS

64MW were added to the electricity grid following the commissioning of Kapichira Phase II Units on 27 December 2013. The total cost for the project was US$55million



OUR SOCIO-ECONOMIC IMPACT

The Corporation made the following social investments:



CORPORATE INFORMATION

Principal Place of Business

HEAD OFFICE

UMOYO HOUSE

Victoria Avenue

P. O. Box 2047

Blantyre

Tel: +265 (0) 1 822 000

Website: www.escom.mw

Email: info@escom.mw

External Auditors

KPMG

Company Lawyers

Wilson & Morgan

Main Bankers

National Bank of Malawi Limited

Board of Directors

Executive Management Team

OUR BUSINESS STRUCTURE

The Business has three Technical Divisions namely Generation, Transmission and Distribution; and four service Divisions namely Corporate Services, Finance, Planning and Development, and the Office of the Chief Executive.

Head Office
Provides support services to the technical divisions. The services offered are in Finance, Corporate Services, Human Resources, Internal Audit, Security, Public Relations. Direct costs of support functions are not recharged to the business segments

Generation
Generates electricity with 99 percent through hydro and 1 percent from diesil gensets in Lilongwe, Mzuzu and Likoma and Chizumulu Islands. As at end of the reporting year, the total installed generation capacity was 351.64MW

Transmission
Transmits electricity from the generation power plants through a high voltage transmission network to distribution load centres throughout the country.

Distribution
Distributes electricity to customers' premises through its country-wide distribution network. The customer base is presently at 240,000

HIGH LEVEL ORGANOGRAM EXECUTIVE MANAGEMENT

Chief Executive Officer (with 5 Departments)

- Director of Generation (with 6 Departments)
- Director of Distribution & Customer Services (with 6 Departments
- Director of Transmission (with 3 Departments)
- Director of Planning & Development (with 2 Departments)
- Director of Finance (with 3 Departments)
- Director of Corporate Services (with 5 Departments)

CHAIRMAN'S STATEMENT

"We are focused on increasing the rate of access to electricity in the country and improve the quality of electricity supply for the socio-economic development of the country."

Where we are coming from

Last year (2013), ESCOM embarked on a journey of renewal and change to prepare the company to take on its toughest challenge as highlighted in the Integrated Strategic Plan (ISP 17) i.e. to improve service delivery. Following a participatory consultative process the Corporation developed and adopted a 4-year Integrated Strategic Plan for the period 2013-2017 (ISP17) with a commitment to deliver better services in order to ensure that the electricity needs of all customers are adequately met now and in future.

To achieve this ambitious goal, we developed a new Vision of being "a preferred world class provider of reliable and sustainable electricity to the nation and in the region" which is bold, ambitious and reflects a long term commitment to a planned transformative and sustainable growth. The ISP provides a meaningful and sustainable road map for the future. It represents change in the way we do things in order to deliver better services. The ISP 17 provides a framework for the sustainable supply of electricity to the nation to meet its long term power needs. It also identifies and informs the most critical areas of growth for short, medium and long term interests of ESCOM. This calls for all of us in ESCOM, together with our stakeholders, to be more innovative and bold if we are to be counted among the best in the country and in the region.

I acknowledge that quality, reliable and affordable electricity is a very critical source of energy for industry, commerce and households. Moreover, its availability is of paramount importance for meaningful national and regional development. However, in spite of the improvements made, ESCOM is currently unable to meet the national demand for electricity.

The expectation of stakeholders and the general public is that the ISP 17 will change the way ESCOM does its business in order to facilitate sustainable economic and social development. This calls for a paradigm shift that allows ESCOM to adapt to the fast changing environment. The required speed of change is quite enormous and ESCOM must be bold and proactive in responding to changes in the wider environment.

Performance

In this Annual Report, the reader will learn how ESCOM implemented the Strategy over the past year. We have made good progress. Plant and equipment availabilities have improved, the quality of supply has improved, and financial performance has also improved. For instance, an additional 64MW was added to the grid through commissioning of Kapichira Phase II Project which was commissioned in December 2013.

Our financial structure has also been updated and strengthened and our financial capacity grown while reducing expenditures and directing the savings to investments. This year, ESCOM committed MK8bn in portfolio investment. We will continue to make crucial investments in system and network expansion in order to increase the rate of access to electricity from 10 percent to 20 percent by the year 2020.

In spite of the tough economic environment Malawi passed through, coupled with a fire accident that gutted ESCOM House, 2013-14 has been a year that we have made major strides in our performances compared to recent past years.

The annual year 2013-14 will also be one to remember as the US$350.7 million Millennium Challenge Corporation of USA for improvements in the Power Sector came to fruition. The coming in of World Bank's Energy Sector Support Project (ESSP) to revamp mostly the transmission network capped it all.

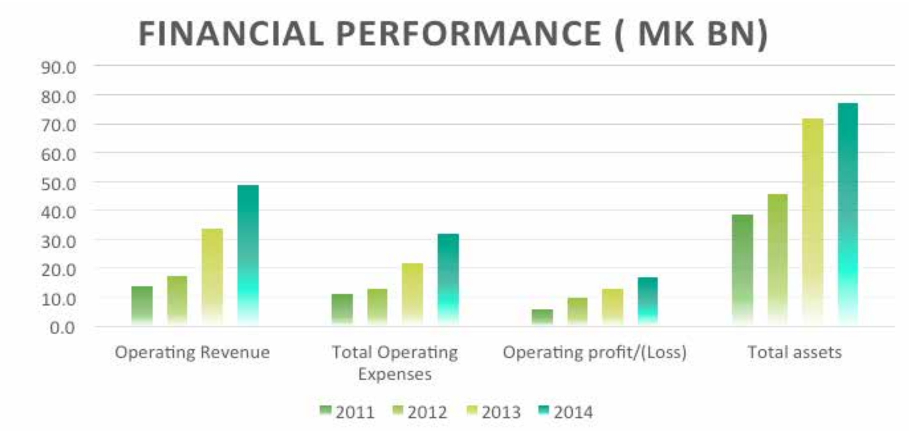
FINANCIAL MATTERS

The Corporation realised a total revenue of MK48.5 billion from its operations during the reporting year compared to MK33 billion in the 2012 /13 fiscal year - representing an increase of 32% .

This increase is mainly due to the additional 64MW in the generation capacity that came with the inauguration of the Kapichira Phase II Project as well as a tariff increase granted by MERA in May 2013 (29.72%) and in May 2014 (13.5%).

Total expenditure for the year is estimated at MK31.7 billion, representing an increase of 31% over the previous year when expenditure was MK21.9 billion.

There has been a significant improvement in the financial operations of the Corporation between 2011 and 2014 as shown below.



Other Business Prospects

ESCOM is in the process of divesting its businesses by not only accommodating Private Power Producers and Private Public Partnerships but also to establish a subsidiary telecommunication company to manage our Optic Fibre communications business.

Outlook

The prospects for the years to come look much brighter than ever before. We plan to continue working with the Malawi Energy Regulatory Authority (MERA) and the Government of Malawi in implementing major Key Performance Indicators (KPIs) that will lead to the implementation of base tariffs that reflect cost and future growth.

The Board of Directors, Management and staff of ESCOM are united in pursuing our mission, and are implementing the critical changes needed to deliver the results for our customers and stakeholders. We are focused on increasing the rate of access to electricity in the country and improve the quality of electricity supply for the socio-economic development of the country.

Environment

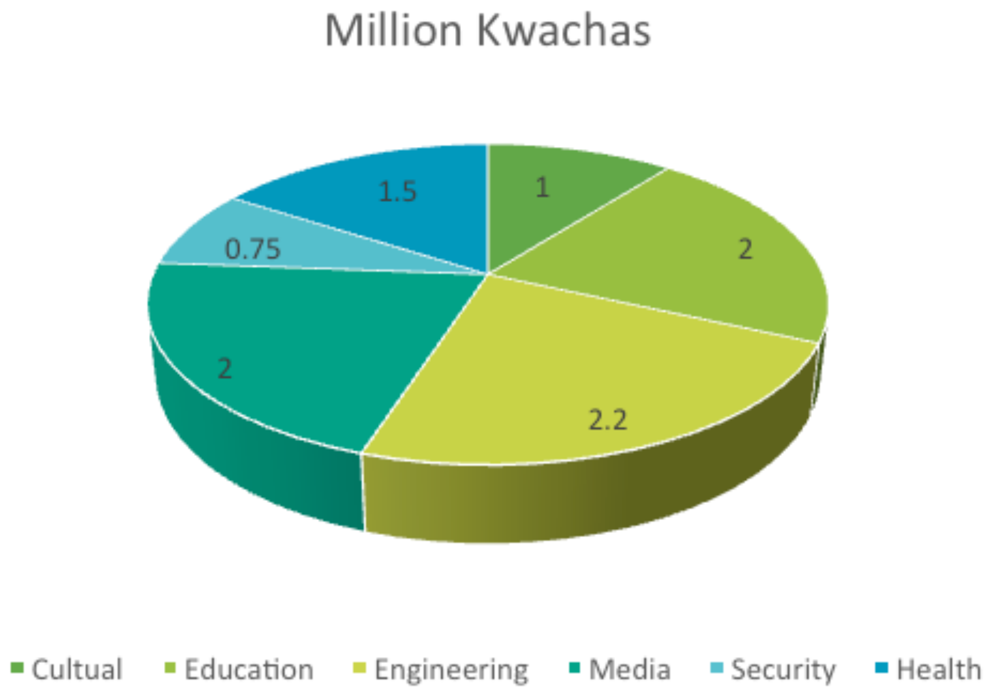
ESCOM produces approximately 99% of its energy from environmentally clean hydropower stations located along the Shire River in the south, and Wovwe River in the north.

However, due to poor environmental management across the country especially along river catchment areas, ESCOM experiences challenges that affect electricity generation. Notable among them is silt that accumulates at the water reservoirs at the generation power stations. Weeds and debris also contribute to the clogging of the intake screens thereby reducing water flow to the power station intakes.

In mitigation, every year ESCOM plants trees on the Shire and Wovwe River catchment areas through the communities living in the catchment areas

Corporate Social Responsibility

Through the Corporate Social Responsibility (CSR) programme, ESCOM donated towards neighbourhood watch initiatives in Blantyre that mobilized themselves to help curb vandalism of ESCOM infrastructure. Donations were also made towards safe motherhood initiative and to a primary school for the visually impaired children.



Risk Management

During the year, ESCOM implemented Enterprise Wide Risk Management (EWRM) by establishing a Risk Committee of the Board and a Risk Management Department. This is in line with the Code of Best Practice for Corporate Governance in Malawi, the Malawi Code II Section 5, Risk Management and Controls, Sub Section 15.1 to 15.3 that place the responsibility for governance of risk on the Board of Directors.

In order to achieve best practice in the management of its risks ESCOM has adopted the use of the ISO 31000 and the COSO ERM Risk Management Standard and Framework respectively, and has a Risk Management Framework and Policy that were approved by the Board of Directors.

Regular basic and further training as well as information events are invaluable ways of preparing people for new or additional requirements with regard to the processes in which they are involved. The main aspects of risk management activities are described below. Additional comments on risks in conjunction with financial instruments are provided in the notes to the Financial Statements.

Risks relating to the general economic environment include sector risks, operating isks, risks relating to the Optic Fiber Communication business, legal risks, personnel risks, commercial or contractual risks, risks relating to pension obligations, ICT risks, reputational risks, fraud and corruption risks

In conclusion I can confidently and honestly declare that ESCOM was put on a firm path to improved customer services and growth in the 2013-14 financial year. I can also assure our esteemed stakeholders that the bold steps and strides ESCOM took in the year marked the turning point of the organization towards the provision of reliable and sustainable electricity to its customers. At the same time, it is improving the well-being of all Malawians.

MORGAN TEMBO
CHAIRPERSON

GOVERNANCE

BOARD OF DIRECTORS AND COMPANY SECRETARY

The following served as Directors and Secretary of the Company during the year:

Mr. Morgan Tembo	-	Chairperson (Non-Executive)
Mr. Overton Mandalasi	-	Director
Mr. Noah Chimpeni	-	Director (Up to May 2014)
Mrs. Estelle Nuka	-	Director
Mr. Joseph Chikwemba	-	Director (Up to February 2014)
Mr. Paul Maulidi	-	Director
Prof. Edrinnie Kayambazinthu	-	Director
Mr Ben Botolo	-	Ex-officio (Ministry of Natural Resources, Energy & Mining)
Mr. Ralph Tseka	-	Ex-officio (Treasury)
Mr. Zanga Chikhosi	-	Ex-officio (Department of Statutory Corporations)
Mr. Everson Sitolo	-	Company Secretary

Shareholding Structure

Ministry of Finance (Treasury)	99%
Malawi Development Corporation/PPPC	1%

Board Meetings

The Board meets quarterly and holds an Annual General Meeting. Extra-ordinary Board Meetings are held as and when necessary. The Board met seven times during the period. The Directors and ex-officio members are provided with board packs (board documentation) at least five days prior to the meetings.

Board Meetings – Meeting Attendance

Member	31.07.13	12.09.13	24.09.13	29.10.13	12.12.13	17.03.14	07.04.14
Morgan Tembo	✓	✓	✓	✓	✓	✓	✓
Overton Mandalasi	A	✓	✓	✓	✓	✓	✓
Noah Chimpeni	✓	✓	✓	✓	✓	✓	✓
Estelle Nuka	✓	✓	✓	✓	✓	✓	✓
Joseph Chikwemba	✓	✓	✓	✓	✓	N	N
Paul Maulidi	✓	✓	✓	A	✓	✓	✓
Edrinnie Kayambazinthu	✓	✓	✓	✓	✓	✓	✓
Secretary for Natural Resources, Energy & Mining	✓	✓	✓	✓	✓	✓	✓
Secretary to the Treasury	✓	✓	✓	✓	✓	✓	✓
Comptroller of Statutory Corporations	✓	✓	✓	✓	✓	✓	✓

Key
N = Non Attendance
A = Apology
✓ = Attendance

Board Committees

Board Committees were established to ensure that the Board discharges its duties effectively in accordance with principles of good corporate governance. All Board Committees have clear Terms of Reference and report to the Main Board.

Technical Committee

The Technical Committee is responsible for the review and assessment of annual capital planning proposals, review technical reports and recommendations/proposals on generation, transmission and distribution systems, and review annual system maintenance plans. The Committee comprises three Ordinary Directors and three ex-officio members. The Committees meets quarterly and on ad hoc basis. During the year, the Committee comprised the following:

Overton Mandalasi (Chairperson)
Paul Maulidi
Edrinnie Kayambazinthu
Secretary for Natural Resources, Energy & Mining
Secretary to the Treasury
Comptroller of Statutory Corporations

The Technical Committee met four times during the year.

Technical Committee – Meeting Attendance

Member	26.08.13	06.09.13	25.11.13	24.02.14
Overton Mandalasi	✓	✓	✓	✓
Paul Maulidi	✓	✓	✓	✓
Edrinnie Kayambazinthu	✓	✓	✓	A
Secretary for Natural Resources, Energy & Mining	✓	✓	✓	✓
Secretary to the Treasury	N	N	N	N
Comptroller of Statutory Corporations	✓	✓	✓	✓

Key
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Projects Committee

The Projects Committee is responsible for the review and assessment of projects; and monitoring and implementation of projects. The Committee consists of five Ordinary Directors and three ex-officio members. The Committee meets quarterly and on ad hoc basis. The Project Committee comprised the following:

Paul Maulidi (Chairperson)
Edrinnie Kayambazinthu
Overton Mandalasi
Estelle Nuka
Joseph Chikwemba (Up to February 2014)
Secretary for Natural Resources, Energy & Mining
Secretary to the Treasury
Comptroller of Statutory Corporations
The Projects Committee met five times during the year.

Projects Committee – Meeting Attendance

Member	28.08.13	06.09.13	26.11.13	25.02.14	05.03.14
Paul Maulidi	✓	✓	✓	✓	✓
Edrinnie Kayambazinthu	✓	✓	✓	A	✓
Overton Mandalasi	✓	✓	✓	✓	✓
Estelle Nuka	✓	✓	✓	✓	✓
Joseph Chikwemba	✓	✓	✓	✓	N
Secretary for Natural Resources, Energy & Mining	✓	✓	✓	✓	✓
Secretary to the Treasury	✓	N	N	N	N
Comptroller of Statutory Corporations	✓	✓	✓	✓	✓

Key

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Finance and Audit Committee

The Finance and Audit Committee is responsible for the review of annual financial statements, monitor the adequacy of accounting, ICT and internal controls, and review of budgets. Both Internal and external auditors report to the Board through the Finance and Audit Committee. The Committee consists of three Ordinary Directors and three ex-officio members. The Committee meets quarterly and on ad hoc-basis. The Finance and Audit Committee comprised the following:

Estelle Nuka (Chairperson)
Overton Mandalasi
Noah Chimpeni (Up to May 2014)
Secretary for Natural Resources, Energy & Mining
Secretary to the Treasury
Comptroller of Statutory Corporations

The Finance and Audit Committee met six times during the year.

Finance & Audit Committee – Meeting Attendance

Member	27.08.13	24.09.13	28.10.13	27.11.13	26.02.14	31.03.14
Estelle Nuka	✓	✓	✓	✓	✓	✓
Overton Mandalasi	✓	✓	✓	✓	✓	✓
Noah Chimpeni	✓	✓	✓	✓	✓	✓
Secretary for Natural Resources, Energy & Mining	✓	✓	✓	✓	✓	✓
Secretary to the Treasury	✓	✓	✓	✓	✓	✓
Comptroller of Statutory Corporations	✓	✓	✓	✓	✓	✓

Key

✓ = Attendance

Risk Committee

The Risk Committee is responsible for overseeing risk, formulation of risk policy and framework, and review of risk appetite for the company. The Committee consists of six ordinary Directors and three ex-officio members. The Risk Department report to the Board through the Risk Committee. The Committee meets quarterly and on ad hoc basis. The Risk Committee comprised the following:

Noah Chimpeni (Chairperson) (Up to May 2014)
Paul Maulidi
Joseph Chikwemba (Up to February 2014)
Estelle Nuka
Overton Maulidi
Edrinnie Kayambazinthu
Secretary for Natural Resources, Energy & Mining
Secretary to the Treasury
Comptroller of Statutory Corporations

The Risk Committee was established in December 2013 and only met once during the year.

Member	25.02.14
Noah Chimpeni	✓
Paul Maulidi	✓
Joseph Chikwemba	✓
Estelle Nuka	✓
Overton Mandalasi	✓
Edrinnie Kayambazinthu	✓
Secretary for Natural Resources, Energy & Mining	✓
Secretary to the Treasury	N
Comptroller of Statutory Corporations	✓

Key

N = Non Attendance

✓ = Attendance

Appointments and Remuneration Committee

The Appointments and Remuneration Committee is responsible for appointment of Senior Staff at the M3 Grade and remuneration of staff, monitor compliance, review training programs and procurement plans. The Committee consists of three Ordinary Directors and three ex-officio members. The Committee meets quarterly and on ad hoc basis. The Committee comprises the following:

Edrinnie Kayambazinthu (Chairperson)
Joseph Chikwemba (Up to February 2014)
Paul Maulidi
Secretary for Natural Resources, Energy & Mining
Secretary to the Treasury
Comptroller of Statutory Corporations

The Appointments and Remuneration Committee met five times during the year.

Appointments & Remuneration Committee – Meeting Attendance

Member	25.04.13	28.08.13	28.11.13	27.02.14	06.03.14
Edrinnie Kayambazinthu	✓	✓	✓	A	✓
Joseph Chikwemba	✓	✓	✓	A	N
Paul Maulidi	✓	✓	✓	✓	✓
Secretary for Natural Resources, Energy & Mining	✓	✓	✓	✓	✓
Secretary to the Treasury	A	✓	✓	✓	✓
Comptroller of Statutory Corporations	✓	✓	✓	✓	✓

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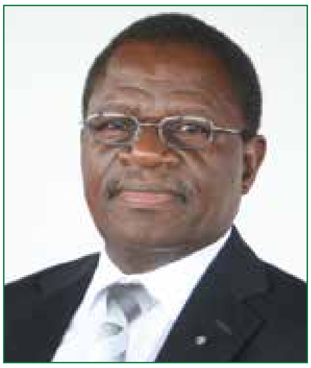
External Auditors

Messrs. KPMG Certified Public Accountants (Malawi) were recommended to continue in office as auditors for June 2014 financial statements and a resolution proposing their re-appointment will be tabled at the forthcoming Annual General Meeting.

CHIEF EXECUTIVE'S REPORT



"....to deliver quality, reliable and affordable electricity in order to meet the demands of all our customers and stakeholders."

Strategy

The period under review is within the implementation of the Integrated Strategic Plan (ISP17) that is running from 2013 to 2017, whose overall theme is a 'commitment to deliver quality, reliable and affordable electricity' in order to meet the demands of all our customers and stakeholders.

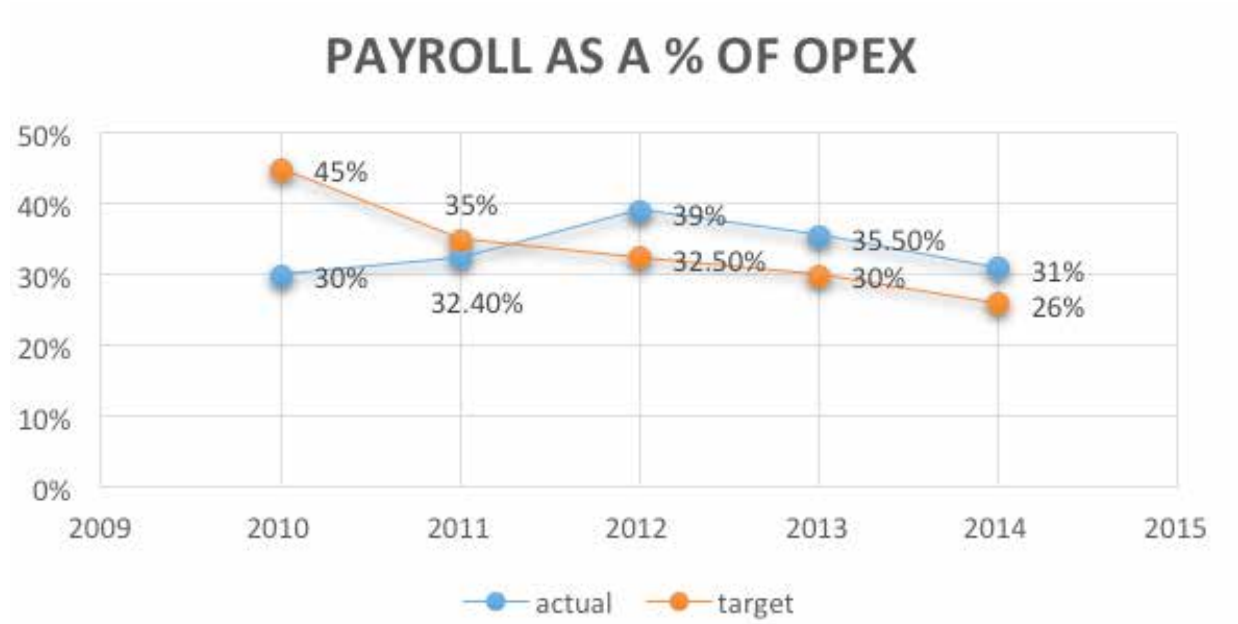
Performance

The performance of the Corporation was above target in most projects as will be presented elsewhere below. Despite bringing Kapichira II into the grid, the Corporation was not able to meet the target of 439MW that was set in the covenant with the Malawi Regulatory Authority (MERA) as it was not able to secure funding for Generation projects planned for implementation in the period under review. All the targeted large hydropower projects such as Mpatamanga, Kholombidzo and Lower Fufu are under World Bank financed feasibility and ESIA studies within the ESSP.

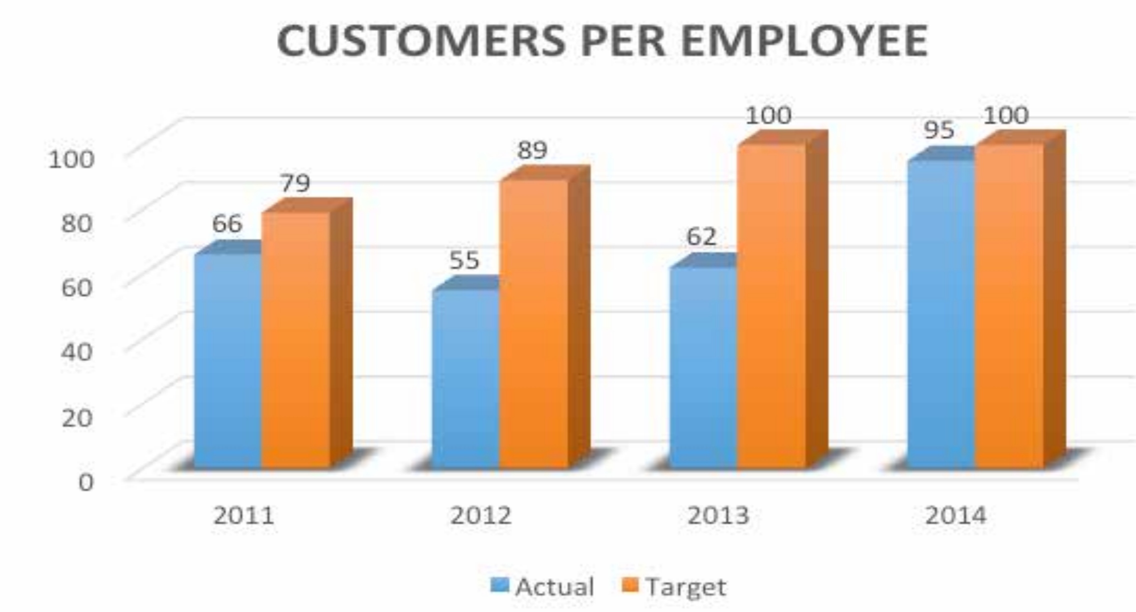
To strengthen project implementation and tracking, the Corporation created within its structures a dedicated team of experts responsible for implementation, progress tracking and reporting on all projects under the four year, 2014-2018 tariff implementation period.

To improve efficiency, the Corporation commenced preparations for outsourcing and contracting out major construction and rehabilitation works such as installation of prepayment meters, peri-urban connections and other activities to accelerate connectivity and national coverage, and improve operational efficiency. The policy of outsourcing non-core services was developed during the financial year for commencement in the 2014-2015 financial year.

The Corporation also developed strategies to reduce payroll costs to below 40% of the operational expenditure budget (OPEX). The graph below shows the trend of how the Corporation managed the payroll budget in relation to its OPEX budget over a four year window.



The Corporation attained a 95:1 customers per employee ratio as opposed to the 100:1 customers per employee ratio targeted for the period. This reflects a positive upward performance trend as shown on the graph below;



The Corporation connected 34,233 new customers in the year against a target of 40,0, 000 new customers over the four year window representing a 24 percent below target output. This translated in 277,180 customers connected to the grid.

Other Business Prospects

During the year, the Board approved the establishment of a subsidiary company to manage the Optic Fibre Communications business. Consequently, all optic fibre activities and the budget were ring-fenced in order to account for the costs and revenues accruing to this business venture separately in line with recommendations from both MERA and MACRA. The costs and revenues relating to OFC are, however, already being accounted for separately.

The Business

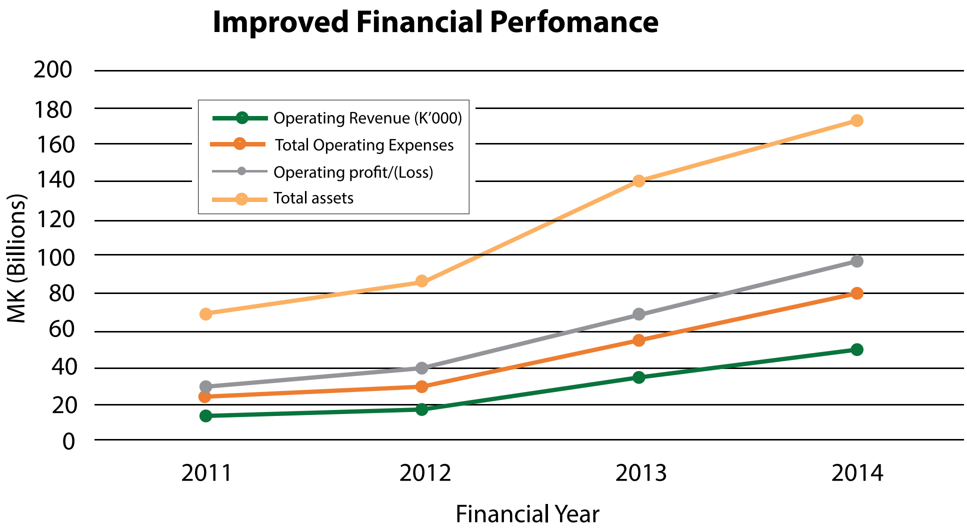
The Corporation achieved the target on Faults per 100 customers as only 18.8 were registered against a target of 20.

On Quotation Days, a target of 14 was not achieved as the Corporation averaged 18.9 days due to resource constraints. As at the end of the reporting period, Access to Electricity was at 9.2% against the expected target of 11%. Strategies are being put in place to meet the target in the next financial year.

On revenue management the Corporation invested in new billing servers in 2010 in order to improve billing efficiency from….days to ….days. This improved billing efficiency increased the delivery time for bills enabling customers to pay in time. In addition, the down time of the billing system has been reduced from …. days to …. days hence improving efficiency and customer service. Despite these efforts, the billing system was and still remains a challenge to billing efforts as it leads to aging of customer bills, and late production of bills. It is envisaged that these problems will be overcome with the replacement of the billing system with a new Integrated Management Information System (MIS) with funding from the Millennium Challenge Corporation (MCC).

Further, the Corporation embarked on a country wide customer verification program. However, the exercise was suspended and was yet to be resumed as at the end of the reporting period. This will improve data accuracy and quality on the billing system. A Know-Your-Customer exercise was already done on the prepaid customers so that the data on the system is now accurate.

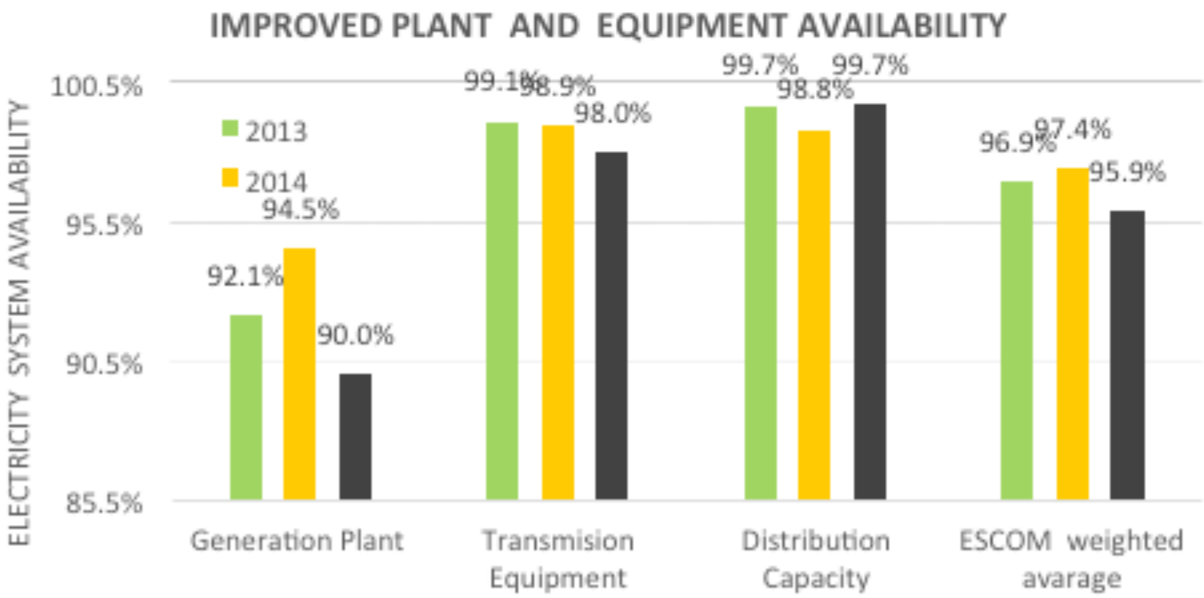
FINANCIAL PERFORMANCE



TECHNICAL PERFORMANCE

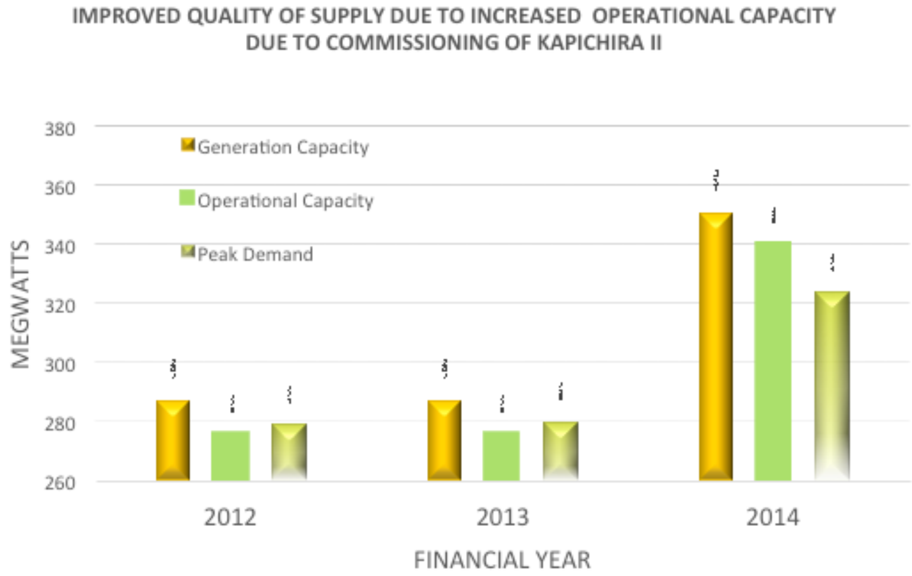
Plant and Equipment Availability

The overall weighted average for plant and equipment availability was above average (97.4%) for the reporting period and this was an improvement over the previous year. This was due to increased maintenance and the commissioning of Kapichira II hydro power station.



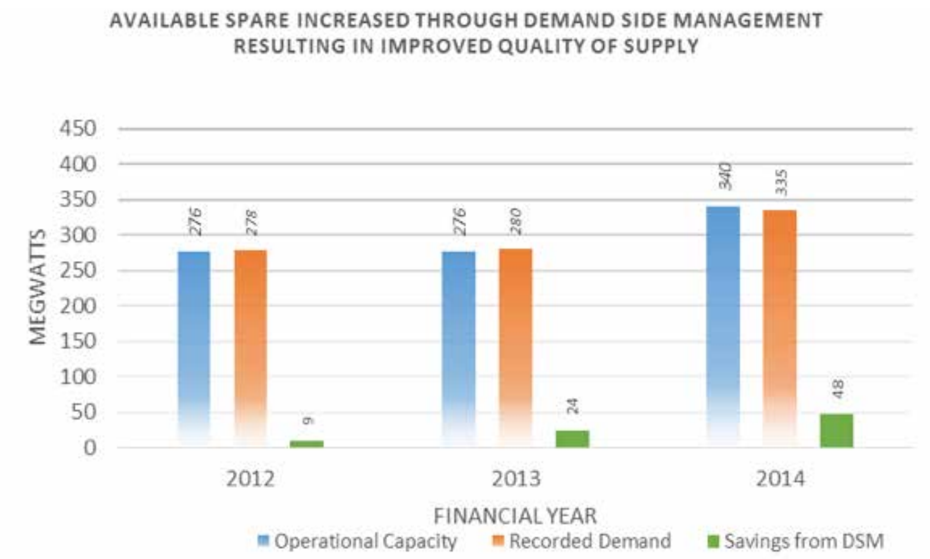
Improved Generation Capacity

The increasing growth in demand was partially supported by an increase in installed and available generation capacity following the commissioning of 64MW of Kapichira II Hydro Power Station in 2013.



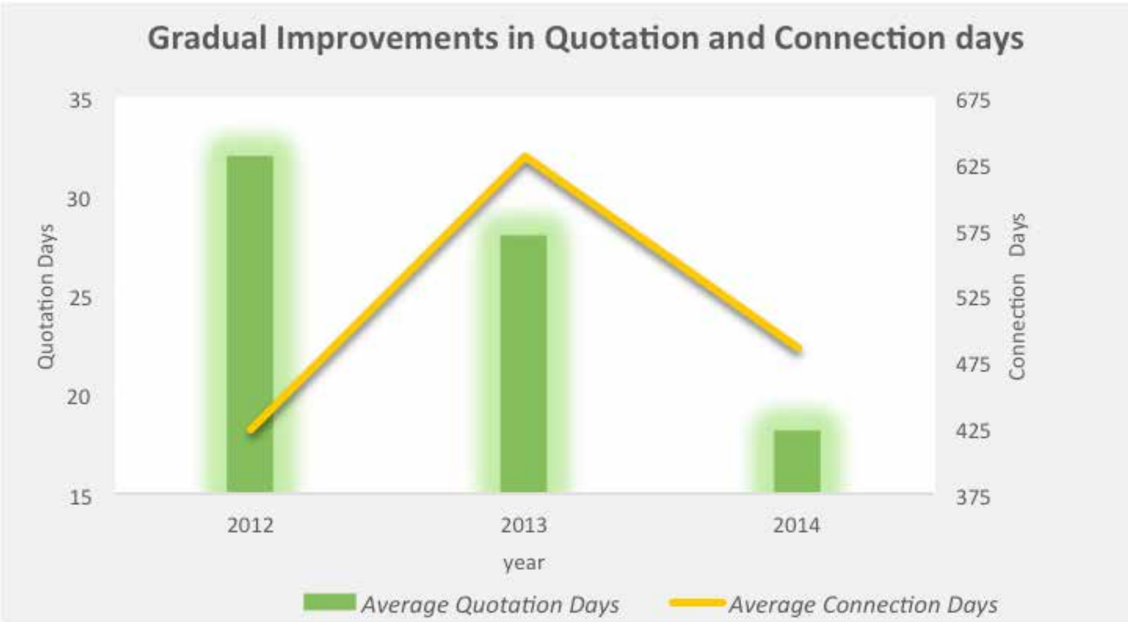
Energy Efficiency and Demand Side Management

Improvement in the quality of supply and increase in spare capacity required to meet future demand growth was partly achieved through increased energy efficiency and demand side management activities. The savings through the said initiatives were estimated at 48 MW in 2014. The savings were achieved through the use of efficient lighting (Free distribution and retailing of Compact Fluorescent Lamps) with a grant from DfID.

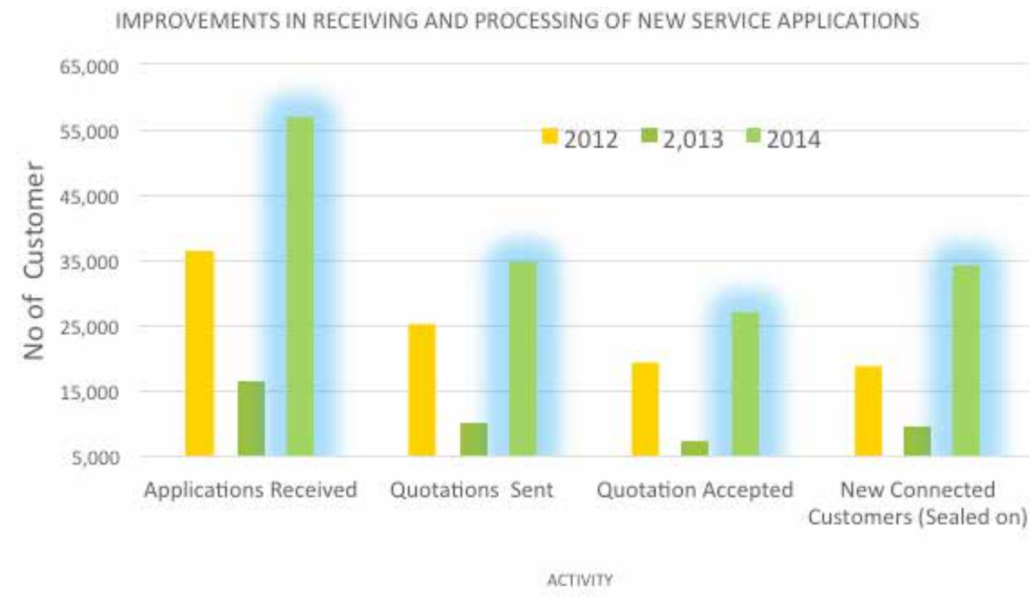


Customer Services

- There were also noticeable improvements towards the strategic targets of 14 days and 60 days as average days to quote and connecting a customer requiring a new service connection as shown below

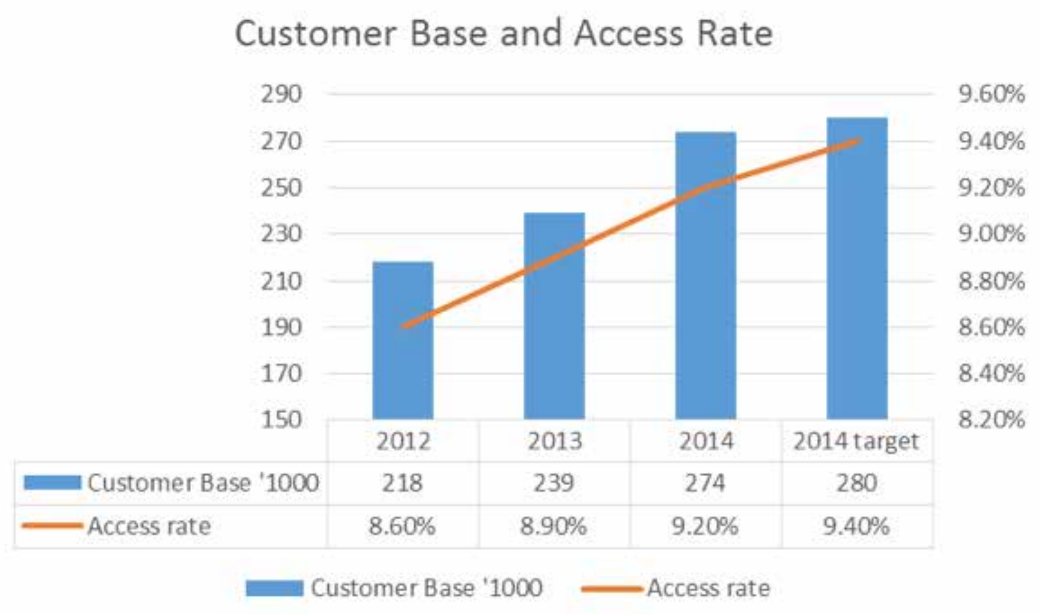


- There was a significant increase in applications for new service connections and applications that have been processed by the Corporation in 2014 as compared to 2013. Customers were encouraged to apply after noting that most of outstanding connections or backlog were cleared during the period.



Customer Base and Access to Electricity

Around 36,000 new connections were added to the system representing an approximate 15% growth. This was the highest growth achieved by the Corporation so far which was facilitated by the clearing of new connections backlog. The actual connections were however slightly lower than the targets of 40,000 and access target of 9.4%.



Electricity Production and Sales

Energy generated and sales grew by 3.4% and 2% respectively during the 2014 period which was an improvement over the previous year. This was an improvement over the previous year where both units generated and sold slumped. Much higher energy sales could have been achieved had it been that lower system losses were attained.

Year	2012	2013	2014
Units Generated	1,911	1,838	1,901
Units Sales	1,478	1,429	1,458
Units System Losses	433	409	443
*Units in Gigawatt-hours			

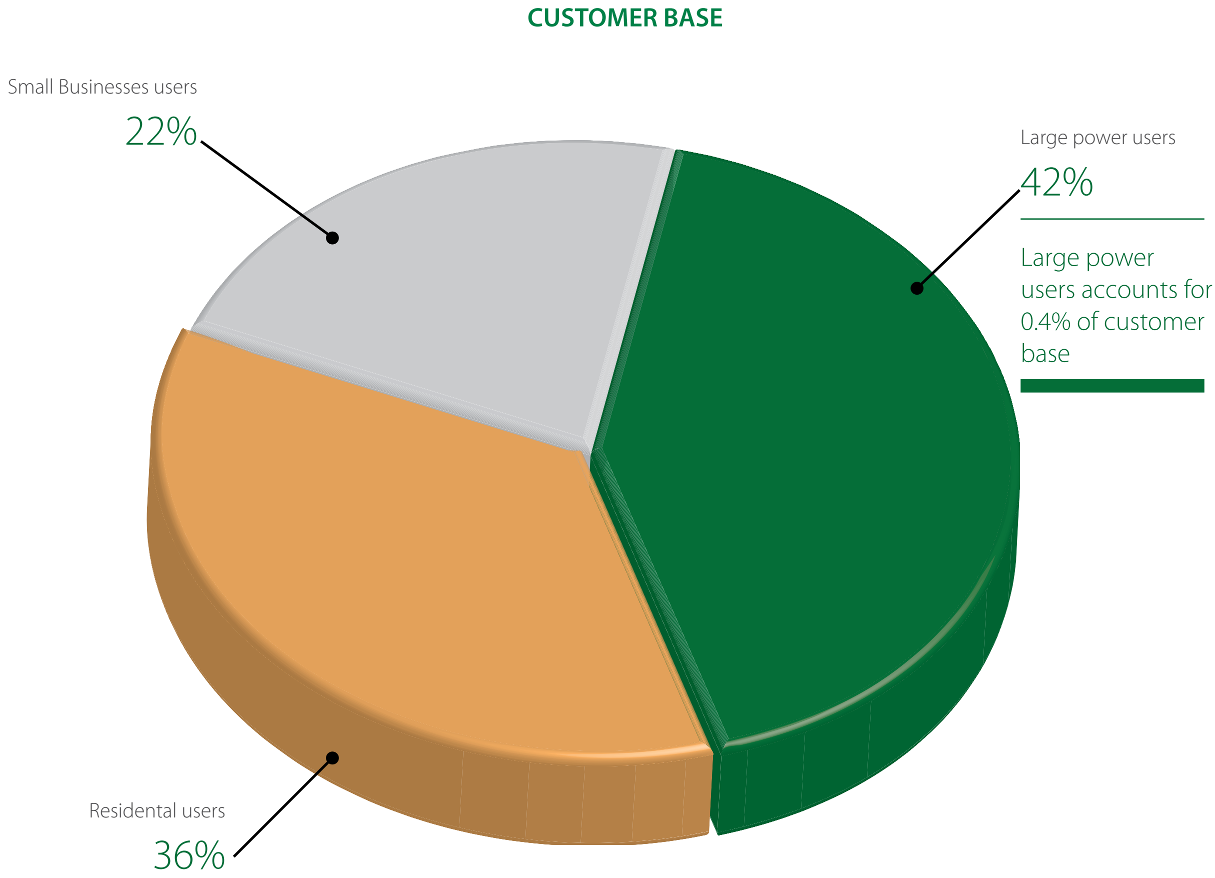
Growth in Distribution Network

A total of 1427 km of distribution network were added over the previous three years of which 57% was added in 2014 alone. This enabled ESCOM to connect more customers to the system.

Year	2012	2013	2014
Km Constructed	411	204	812
% of total	29%	14%	57%

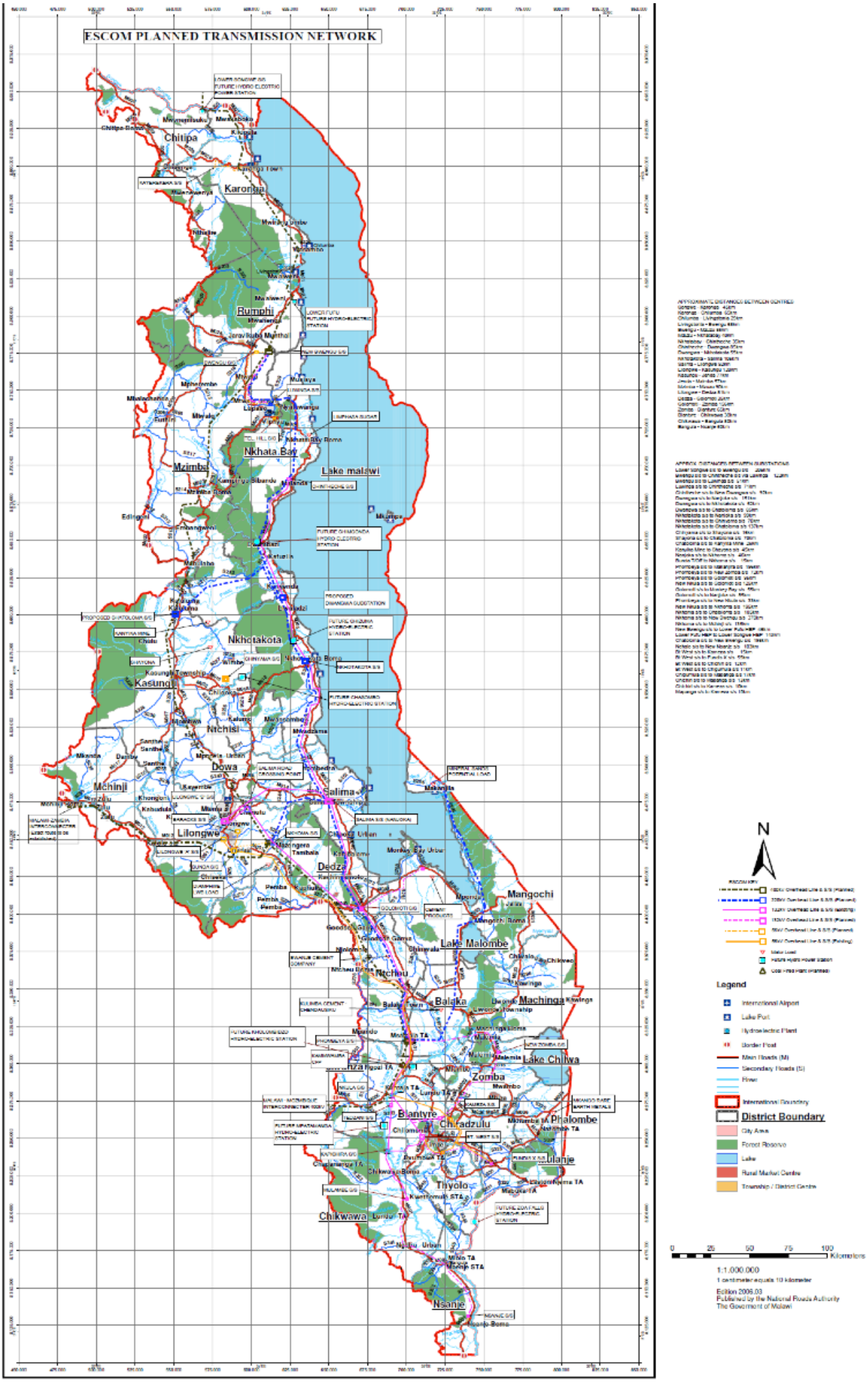
Growth in Customer Base and Sales

The Customer base for the corporation grew by 14.6% to reach 274,811 of which industrial customers accounted for 0.4% of total customer base. However, large power users contributed 39% of revenue sales and 45% of unit sales. Residential customers constituted 87% of the customer base and 41% of unit sales.



The Environment

ESCOM produces clean energy through hydropower generation. About 99 per cent of the electricity is hydro-based and 1 percent is from diesel. During production of electricity no harmful waste are produced.


ESCOM PLANNED TRANSMISSION NETWORK
Chitipa
Karonga
Rumphi
Nkhata Bay
Mzimba
Lake malawi
Nkhotakota
Kasungu
Ntchisi
Dowa
Mchinji
Salima
Lilongwe
Dedza
Mangochi
Lake Malombe
Ntcheu
Balaka
Machinga
Zomba
Lake Chilwa
Blantyre
Chiradzulu
Phalombe
Mulanje
Thyolo
Chikwawa
Nsanje
N
Legend
International Airport
Lake Port
Hydroelectric Plant
Border Post
Main Roads (M)
Secondary Roads (S)
River
International Boundary
District Boundary
City Area
Forest Reserve
Lake
Rural Market Centre
Township / District Centre
0 25 50 75 100 Kilometers
1:1,000,000
1 centimeter equals 10 kilometer
Edition 2006.03
Published by the National Roads Authority
The Government of Malawi

ELECTRICITY SUPPLY CORPORATION OF MALAWI LTD

ESCOM

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2014

FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

INDEX

	Page
Directors' report	1
Statement of directors' responsibilities	2
Independent auditor's report	3
Statement of financial position	4
Statement of profit or loss and other comprehensive income	5
Statement of changes in equity	6-8
Statement of cash flows	9
Notes to the financial statements	10-48

DIRECTORS REPORT
For the year ended 30 June 2014
In thousands of Malawi Kwacha

The directors have pleasure in presenting their report together with the statement of financial position of Electricity Supply Corporation of Malawi Limited, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2014.

Activities

The corporation is involved in the generation, transmission and distribution of electricity and letting out of fibre-optic line to users in data transmission.

Financial performance

	2014	2013
Profit for the year	9,957,223	5,066,418

Share capital
The issued share capital of the corporation is K110 million divided into 55 million ordinary shares of K2 each.
The shareholders and their respective holdings are:

	2014	2013
Malawi Government	99%	99%
MDC Limited (Dormant)	1%	1%
	100%	100%

MDC Limited (Dormant) holds 1% in trust for the Malawi Government.

Registered office

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

Directors

The following directors and corporation secretary served in office during the year covered by the financial statements:

Mr. M. Tembo	-	Chairman
Prof. E. Kayambazinthu	-	Director
Mr. J. Chikwemba	-	Up to February 2014
Mr. N. Chimpeni	-	Up to May 2014
Mr. O. Mandalasi	-	Director
Mrs. E. Nuka	-	Director
Mr. P. Maulidi	-	Director
Secretary for Natural Resources, Energy and Mines	-	Ex officio
Secretary to the Treasury	-	Ex officio
Comptroller of Statutory Corporation	-	Ex officio
Mr. E. Sitolo	-	Secretary

Auditors
Messrs KPMG, Certified Public Accountants and Business Advisors have expressed their willingness to continue in office as auditors in respect of the Corporation's 30 June 2015 financial statements, and a resolution will be proposed for their appointment at the Forth Coming Annual General Meeting of the Corporation.

For and on behalf of the board.

Director
Date 24 October 2014

Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 30 June 2014
In thousands of Malawi Kwacha

The Companies Act, 1984, requires the directors to prepare financial statements for each financial period, which give a true and fair view of the state of affairs of the corporation 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 corporation keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the corporation 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, subject to any material departures being disclosed and explained in the financial statements; and
- Preparation of financial statements on a going concern basis unless it is inappropriate to presume the corporation 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 corporation 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 corporation and of its operating results.

Nothing has come to the directors' attention to suggest that the corporation will not remain a going concern at least in the next twelve months from the date herein.

Director **Director**

Date: 24 October 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

We have audited the financial statements of the Electricity Supply Corporation of Malawi Limited, which comprise the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information as set out on pages 4 to 48.

Directors' responsibility for the financial statements

The corporation's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the provisions of the Malawi Companies Act, 1984, and for such internal controls system as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 judgment, 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 controls relevant to the entity's preparation 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 controls. An audit also includes evaluating the 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, these financial statements give a true and fair view of the financial position of Electricity Supply Corporation of Malawi Limited as at 30 June 2014, and of the financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Malawi Companies Act, 1984, and the Public Finance Management Act, 2003.

KPMG

Certified Public Accountants and Business Advisors
Blantyre

30 October 2014

STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

In thousands of Malawi Kwacha

	Notes	2014	2013
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	**41,531,847**	37,193,921
Capital work-in-progress	7	**3,344,923**	14,619,937
Total non-current assets		**44,876,770**	51,813,858
CURRENT ASSETS			
Inventories	8	**10,088,745**	4,517,112
Trade and other receivables	9	**8,696,411**	6,151,120
Taxation recoverable		**246,857**	15,369
Bank current accounts and cash	10	**3,193,083**	1,882,573
Bank deposit accounts	10	**9,817,491**	7,199,667
Total current assets		**32,042,587**	19,765,841
TOTAL ASSETS		**76,919,357**	71,579,699
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		**110,000**	110,000
Share premium		**13,750,820**	13,750,820
Preference shares		**530,000**	530,000
Pre-incorporation reserves		**391,142**	391,142
Revaluation reserve		**5,330,259**	5,791,402
Advance contribution for share capital		**13,885,036**	12,885,036
Accumulated reserves		**11,322,822**	1,344,060
Total shareholders' equity		**45,320,079**	34,802,460
NON-CURRENT LIABILITIES			
Deferred income	11	**11,360,165**	11,119,070
Other borrowings	13	**-**	12,160,272
Deferred tax liability	14	**15,108,990**	9,340,672
Obligations under finance leases	16	**-**	625,840
Total non-current liabilities		**26,469,155**	33,245,854
CURRENT LIABILITIES			
Trade and other payables	18	**4,048,677**	2,473,330
Taxation payable		**1,080,805**	480,872
Pension arrears	19	**641**	641
Other borrowings	13	**-**	85,656
Dividend payable		**-**	6,265
Obligations under finance leases	16	**-**	484,621
Total current liabilities		**5,130,123**	3,531,385
TOTAL EQUITY AND LIABILITIES		**76,919,357**	71,579,699

The financial statements were authorized for issue by the Board of Directors on 24 October 2014 and were signed on its behalf by:

Director	**Director**

The financial statements should be read in conjunction with the notes on pages 10 to 48.

The independent auditor's report is on page 3.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2014
In thousands of Malawi Kwacha

	Notes	2014	2013
INCOME			
Revenue	20	**48,535,651**	33,613 929
Other income	21	**710,637**	789,328
		49,246,288	34,403,257
EXPENDITURE			
Generation expenses	20	**4,130,592**	2,531,599
Transmission expenses	20	**2,168,103**	1,647,498
Distribution expenses	20	**14,774,437**	9,628,755
Head office expenses	20	**9,121,767**	6,072,837
Depreciation and impairment expenses	20	**2,189,838**	1,629,461
		32,384,737	21,510,150
Operating profit		**16,861,551**	12,893,107
Impairment loss on receivables	9	**(2,186,540)**	(1,030,691)
		14,675,011	11,862,416
Finance income	22	**1,931,258**	767,872
Finance expenses	22	**(209,414)**	(790,317)
Net finance income/(expenses)		**1,721,843**	(22,445)
Profit before income tax expenses		**16,396,855**	11,839,971
Income tax expenses	25	**(6,439,632)**	(6,773,553)
Profit for the year		**9,957,223**	5,066,418
Other comprehensive income, net of deferred tax			
Items that will not be reclassified to profit or loss			
Revaluation (deficit)/surplus		**(461,143)**	3,787,001
Total comprehensive income for the year		**9,496,080**	8,853,419

The financial statements should be read in conjunction with the notes on pages 10 to 48.

The independent auditor's report is on page 3.

For the year ended 30 June 2014
In thousands of Malawi Kwacha

	Share capital	Share premium	Preference shares	Advance contribution for share capital	Pre-incorporation reserves	Revaluation reserves	Accumulated reserves	Total
Year ended 30 June 2014								
At beginning of year	110,000	13,750,820	530,000	12,885,036	391,142	5,791,402	1,344,060	34,802,460
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	9,957,223	9,957,223
Other comprehensive income for the year								
Revaluation surplus (net of tax)	-	-	-	-	-	(461,143)	-	(461,143)
Total other comprehensive income for the year	-	-	-	-	-	(461,143)	-	(461,143)
Total comprehensive income for the year	-	-	-	-	-	(461,143)	9,957,223	9,496,080
Transactions with owners of the Corporation								
Dividend	-	-	-	-	-	-	6,265	6,265
Turn Around Facility (Note 11)	-	-	-	1,000,000	-	-	-	1,000,000
Adjustment	-	-	-	-	-	-	15,274	15,274
Total transactions with owners of the Corporation	-	-	-	1,000,000	-	-	21,539	1,021,539
At end of year	110,000	13,750,820	530,000	13,885,036	391,142	5,330,259	11,322,822	45,320,079

The financial statements should be read in conjunction with the notes on pages 10 to 48.

The independent auditor's report is on page 3.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2014
In thousands of Malawi Kwacha

	Share capital	Share premium	Preference shares	Advance contribution for share capital	Pre-incorporation reserves	Revaluation reserves	Accumulated reserves	Total
Year ended 30 June 2013								
At beginning of year	110,000	13,750,820	530,000	5,826,574	391,142	2,004,401	345,391	22,958,328
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	5,066,418	5,066,418
Other comprehensive income for the year								
Revaluation surplus	-	-	-	-	-	5,261,675	-	5,261,675
Deferred tax on revaluation	-	-	-	-	-	(1,474,674)	-	(1,474,674)
Total other comprehensive income for the year	-	-	-	-	-	3,787,001	-	3,787,001
Total comprehensive income for the year	-	-	-	-	-	3,787,001	5,066,418	8,853,419
Transactions with owners of the Corporation								
Dividend	-	-	-	-	-	-	(6,265)	(6,265)
Transfer to advance contribution for share capital	-	-	-	4,061,484	-	-	(4,061,484)	-
Advance contribution for share capital, converted from loans	-	-	-	2,996,978	-	-	-	2,996,978
Total transactions with owners of the Corporation	-	-	-	7,058,462	-	-	(4,067,749)	2,990,713
At end of year	110,000	13,750,820	530, 000	12,885,036	391,142	5,791,402	1,344,060	34,802,460

The financial statements should be read in conjunction with the notes on pages 10 to 48.

The independent auditor's report is on page 3.

STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 30 June 2014
In thousands of Malawi Kwacha

Analysis of share capital:	2014	2013
Authorised and issued		
55,000,000 (2013:55,000,000) Ordinary shares of K2 each	**110,000**	110,000
Issued and fully paid		
55,000,000 (2013:55,000,000) Ordinary shares of K2 each	**110,000**	110,000
530,000,000 (2013:530,000,000) Irredeemable non-cumulative 2.5% preference shares of Kl each	**530,000**	530,000

Irredeemable non-cumulative preference shares
The 530 million preference shares of Kl each were issued at a premium of K387.66 million out of the Nordic Development Fund loans in favour of Government of Malawi. The loan was on lent to the Corporation.

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

Advance contribution for the share capital
During the year, the Malawi Government approved the conversion of Knil (2013: K7.1 billion) Government loans to equity. The corporation has not yet issued the related shares to the Malawi Government.

The financial statements should be read in conjunction with the notes on pages 10 to 48.

The independent auditor's report is on page 3.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

	Note	**2014**	2013
Cash generated from operations	26	**10,462,476**	7,041,540
Interest paid	22	**(209,414)**	(790,317)
Taxation		**(302,869)**	(105,710)
Net cash generated from operations		**9,950,193**	6,145,513
Cash flows from investing activities			
Expenditure on property, plant and equipment including capital work in progress		**(7,356,344)**	(12,313,944)
Proceeds from sale of property, plant and equipment		**43,625**	39,687
Interest received		**1,622,956**	657,457
Net cash used in investing activities		**(5,689,763)**	(11,616,800)
Cash flows from financing activities			
Repayment of finance leases		**(1,110,461)**	(279,692)
Repayments of bank borrowings		**-**	(253,998)
Repayment of long term borrowings		**(3,089,714)**	-
Finance lease additions		**-**	1,198,517
Receipts from borrowings		**-**	6,996,407
Grants and capital contributions received		**2,293,204**	4,085,678
Realised fair value gain on Zero Coupon Bond		**271,360**	-
Proceeds from redemption of Zero Coupon Bond		**1,303,515**	-
Net cash (utilized)/flow from financing activities		**(332,096)**	11,746,912
Increase in cash and cash equivalents		**3,928,334**	6,275,625
Cash and cash equivalents at beginning of the year		**9,082,240**	2,806,615
Cash and cash equivalents at end of the year	10	**13,010,574**	9,082,240
Analysis of cash and cash equivalents			
Bank current accounts and cash	10	**3,193,083**	1,882,573
Bank deposit accounts	10	**9,817,491**	7,199,667
	10	**13,010,574**	9,082,240

ADDITIONAL STATUTORY INFORMATION

Increase in net working capital	8,705,279	5,120,477

The financial statements should be read in conjunction with the notes on pages 10 to 48.

The independent auditor's report is on page 3.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

1. Reporting Entity

The principal activities of the Corporation include generation, transmission and distribution of electricity and letting out fibre-optic communication services to users in data transmission through provision of bandwidth. The Corporation'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. Basis of preparation

2.1 Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) and provisions of the Malawi Companies Act, 1984, and the Public Finance Management Act 2003.

2.2 Basis of Measurement

The financial statements have been prepared on historical cost basis except for financial assets and liabilities which are measured at fair value or amortised cost and land and buildings which are measured at revalued amounts.

2.3 Functional and Presentation Currency

These financial statements are presented in Malawi Kwacha, which is the Corporation's functional currency. All information presented in Kwacha has been rounded to the nearest thousand Kwacha.

2.4 Use of Estimates and Judgments

The preparation of the financial statements in conformity with IFRS, require management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the "Critical accounting estimates and judgments" note to the financial statements. (See note 5).

2.5 Changes on accounting policies

The corporation adopted the following new standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

(a) **IFRS 13 Fair value measurement**
IFRS 13 establishes a single frame work for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRS's it unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRS's including IFRS 7. As a result the corporation has included additional disclosures in this regards (see note 34).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

2. Basis of preparation

2.5 Changes on accounting policies

(b) Presentation of items of other comprehensive income (amendments to IAS 1)
As a result of the amendments to IAS 1, the corporation has modified the presentation of items of OCI in its statements of profit or loss and OCI, to present separately items that would reclassified to profit or loss from those that would never be. Comparative information has re-presented accordingly.

3. Significant Accounting Policies

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 reporting 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 profit or loss, except to the extent that they relate to revaluation surpluses previously transferred to the revaluation reserve through other comprehensive income. 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 Corporation and the cost of the item can be measured reliably. All repairs and maintenance are charged to profit or loss 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
Thermal generation plant		10-15 years
Transmission and distribution lines		10-25 years
Moveable plant and equipment		5-10 years

Depreciation is not provided on freehold land and capital work in progress.

The 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 profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

3. Significant Accounting Policies

3.2 Foreign Currency Translation

The results and financial position of the Corporation are expressed in Malawi Kwacha, which is the functional currency of the Corporation 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 reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the reporting date.

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

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.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, on hand and short term deposits with a maturity period of three months or less. For cash flow purposes cash and cash equivalents consists of cash and cash equivalents as defined above less bank overdrafts.

Impairment of Financial Assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

3. Significant Accounting Policies (continued)

3.3 Financial Assets (continued)

Impairment of Financial Assets (continued)
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 profit or loss.

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 profit or loss 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 in equity through other comprehensive income.

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.

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 Corporation 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 oth erwise 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, 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

3. Significant Accounting Policies (continued)

3.4 Financial Liabilities and Equity Instruments (continued)

Financial Liabilities at FVTPL (continued)
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 Trade and other Payables

Trade payables are initially measured at fair value, being the amount expected to be incurred on settlement plus directly attributable transaction costs. Subsequent measurement is at amortized cost using the effective interest rate method.

3.5(i) Provisions

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation 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 reporting 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.

3.7 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 weighted cost. Goods in transit are valued at invoiced cost.

3.8 Impairment of Non-Financial Assets

At each statement of financial position date, the Corporation 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 Corporation 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

3. Significant Accounting Policies (continued)

3.8 Impairment of Non-Financial Assets (continued)

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 profit or loss.

3.9 Revenue

Revenue arises from sale of electricity to post paid and prepaid customers. Amounts of units sold to post paid customers are recognized based on meter readings made during the period, where meters have not been read, estimated readings (based on average usage in the previous month) are used. For prepaid sales, the total amount of units sold is spread over the estimated period of usage and amount of units sold in June, estimated to be used in subsequent period, is taken as deferred income.

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 profit or loss in equal annual installments over the useful lives of the related assets.

Income that is received in respect of prepaid meters is deferred up to the time units are consumed. The Corporation has set up specific assumptions by which the electricity units are consumed and this is consistently applied throughout the reporting period.

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 statement of profit or loss and other comprehensive income 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 Corporation's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting 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 are accounted for using the 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

3. Significant Accounting Policies (continued)

3.11 Taxation (continued)

Deferred tax (continued)
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 reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow the manner in which the Corporation 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 offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

3.12 Retirement Benefits

The Corporation contributes to a defined contribution pension scheme for employees. Contributions are charged to profit or loss as incurred.

3.13 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. Adoption of New and Revised International Financial Reporting Standards

4.1 Standards and Interpretations Affecting Amounts Reported and/or Disclosed in the Financial Statements

The Corporation 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 I July 2012.

The adoption of these new and revised standards and interpretations did not have a significant impact on the financial statements of the corporation.

4.2 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. Those which may be relevant to the company are set out below. The company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated:

Effective for the financial year commencing 1 January 2014

- IAS 32 *Offsetting Financial Assets and Financial Liabilities*

- IFRS 10, IFRS 12 and IAS 27 amendment *Investment entities*

Effective for the financial year commencing 1 January 2015

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

4. **Adoption of New and Revised International Financial Reporting Standards (continued)**

4.2 New standards and interpretations not yet adopted (continued)

- *IFRS 9 Financial Instruments*

All standards and interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

The following standards and interpretations are not applicable to the business of the Company and will therefore have no impact on future financial statements.

- *IAS 19 (amendments) Employee Benefits: Defined Benefit Plans*
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*

The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

Amendments to IAS 32 Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities

The amendments clarify when an entity can offset financial assets and financial liabilities. This amendment will result in the Company no longer offsetting two of its master netting arrangements. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

Investment entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.

This amendment will result in the Company having to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. This amendment is effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

IFRS 9 Financial Instruments
IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The company will adopt this standard for the financial year commencing 1 January 2015. The adoption of IFRS 9(2010) is expected to have an impact on the Group and Company's financial assets, but not any impact on the company's financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

5. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

5.1 Critical Judgements in Applying the Corporation's Accounting Policies

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

5.2 Key Sources of Estimating uncertainty

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

5.2.1 Provision for Doubtful Debts

In arriving at the provisions for doubtful debts (note 9), 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.

5.2.2 Valuation of Land and Buildings

Land and building were revalued as at 30 June 2013 by D.R. Whayo BSC UK, Dip (Urb Man) BA, MRICS MSIM, a Chartered Surveyor of Knight Frank (Malawi) Limited. The basis of valuation used was depreciated replacement cost.

5.2.3 Valuation of Property, Plant and Equipment

The Corporation 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

6. Property, plant and equipment

See accounting policy note 3.1

	Land and Buildings	Plant and Machinery Generation &Transmission	Distribution	Other office equipment	Motor vehicles	Total
2013						
Cost or valuation						
At beginning of year	2,290,133	19,242,011	12,083,342	1,652,661	1,599,291	36,867,438
Additions	60,118	1,244,492	355,662	292,493	1,724,478	3,677,243
Transfers from capital work in progress	-	-	1,328,964	-	-	1,328,964
Revaluation surplus	4,915,580	-	-	-	-	4,915,580
Disposals	-	-	-	-	(29,945)	(29,945)
Derecognitions	(18,242)	(8,088)	(52,938)	(63,193)	(36,885)	(179,346)
At end of the year	7,247,589	20,478,415	13,715,030	1,881,961	3,256,939	46,579,934
Depreciation and impairment						
At beginning of the year	135,886	4,455,893	2,749,920	607,616	299,952	8,249,267
Less derecognized assets	(2,764)	(2,245)	(13,180)	(47,295)	(35,299)	(100,783)
Release – revaluation surplus	(177,502)	(192,397)	-	-	-	(369,899)
Charge for the year	68,305	522,935	524,290	143,661	370,270	1,629,461
Charge for the year on derecognized assets	(719)	(259)	(2,073)	(11,494)	(4,116)	(18,661)
Disposals	-	-	-	-	(3,369)	(3,369)
At end of the year	23,206	4,783,927	3,258,957	692,488	627,438	9,386,016
Carrying amount						
At end of the year	7,224,383	15,694,488	10,456,073	1,189,473	2,629,501	37,193,921

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

6. Property, plant and equipment (continued)

See accounting policy note 3.1

	Land and buildings	Plant and machinery Generation & transmission	Distribution	Other office equipment	Motor vehicles	Total
2014						
Cost or valuation						
At beginning of year	7,247,589	20,478,415	13,715,030	1,881,961	3,256,939	46,579,934
Transfers from Capital Work in Progress	182,899	748,154	5,392,944	264,340	413,656	7,001,993
Reclassification	646,396	(646,396)	-	-	-	-
Disposals	-	-	-	(249)	-	(249)
Derecognitions *	(461,318)	-	-	(17,494)	-	(478,812)
At end of the year	7,615,566	20,577,173	19,107,974	2,128,558	3,670,595	53,102,866
Depreciation and impairment						
At beginning of the year	23,206	4,783,927	3,258,957	692,488	627,438	9,386,016
Less derecognized assets	-	-	-	(4,686)	-	(4,686)
Charge for the year	201,305	582,617	738,231	118,108	412,818	2,053,259
Adjustment	-	-	-	41,251	22,144	63,395
Disposals	-	-	-	(149)	-	(149)
Impairment	-	73,185	-	-	-	73,185
At end of the year	224,511	5,439,729	3,997,188	847,191	1,062,400	11,571,019
Carrying amount						
At end of the year	7,391,055	14,520,219	15,110,787	1,281,367	3,228,420	41,531,847

* During the year, ESCOM House which headquartered the Corporation was involved in a fire accident. Following the assessment by the valuers an impairment of MK461m has been recognized on the carrying value of the property.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

6. Property, Plant and Equipment (continued)

Siltation

The Corporation has four generation plants, one at Wovwe 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 from November to March). Siltation is a direct result of environmental degradation along the Shire River's catchment area.

To maintain operational capacity the Corporation is involved in a continuous process of desiltation. This involves the dredging of the dams. 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 income as they are incurred.

Impairment of assets

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. Impairment loss of MK73,184 million has been recognized in respect of Nkula A machines which are going to be decommissioned for major rehabilitation under the MCC Project. The decommissioning is scheduled to commence in 2015.

Valuation of Land and Buildings

Land and buildings were valued as at 30 June 2013 by D.R. Whayo BSc UK. Dip (Urb Man) BA. MRICS MSIM, a Chartered Surveyor of Knight Frank, (Malawi) Limited. The basis of valuation used was depreciated replacement cost.

During the period under review ESCOM Head Office building suffered structural damage due to a fire accident. The valuers impaired the entire building, as in the opinion of directors the whole building will have to be reconstructed.

Land and buildings at cost or revaluation comprises the following:

	2014	2013
Land & Buildings - at cost	**293,789**	110,890
Freehold - at 2013 valuation	**3,857,911**	3,211,515
Leasehold - at 2013 valuation	**3,463,866**	3,925,184
Total cost or valuation at end of the year	**7,615,566**	7,247,589

Derecognitions and Verification of Assets

The Corporation carried out a physical verification of assets as at 30 June 2014. The exercise revealed that there were assets which were not being used due to the fact that they were in a state of disrepair or that they are damaged beyond repair. The Corporation identified these assets and resolved to derecognise them. The derecognised assets are being sold as scrap.

After a fixed asset bar coding exercise that the Corporation embarked upon, it was discovered that there are assets that were in Fixed Asset Register but not on the ground and others were on ground but not in the register. The reconciliation of the two positions had not yet been done as at the year-end but the directors are of the opinion that the net position is not material as far as the financial statements are concerned.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

6. Property, Plant and Equipment (continued)

Encumbrance

As at year end 30 June 2014, none of the assets are encumbered.

Title Deeds for Properties

The Corporation is still in the process of acquiring title deeds to several of its properties located in various places throughout the country. Government agencies have been engaged in that regard.

7. Capital Work in Progress

See accounting policy note 3.6

	2014	2013
Balance at the beginning of the year	**14,619,937**	7,587,891
Reversal Kapichira II	**(10,916,793)**	-
Write offs	**(346,677)**	-
Additions:		
Funded from borrowings	**-**	3,943,604
Funded from internal resources	**5,743,450**	4,339,216
Funded from project creditors & grants	**1,246,999**	353,881
Exchange gains on foreign loans capitalised	**-**	(275,691)
	10,346,916	15,948,901
Transfer to property plant and equipment	**(7,001,993)**	(1,328,964)
Balance at end of the year	**3,344,922**	14,619,937
Capital work in progress is analysed as follows:		
Projects	**569,255**	13,379,370
General development	**2,775,667**	1,240,567
Total work in progress	**3,344,923**	14,619,937

During the year, the Corporation entered into a concession agreement with Malawi Government. In that arrangement, the loan which was due and payable to Malawi Government, being the amount which was capitalized at Kapichira Generation facility, was revised and the Kapichira Power Facility was derecognized. The Corporation pays concession fees for Malawi Government in the amount of MK 4.14 billion per annum.

8. Inventories

See accounting policy note 3.7

	2014	2013
General stores	**9,462,488**	4,177,610
Goods in transit	**1,654,657**	612,186
Provision for obsolete inventory	**(1,028,400)**	(272,684)
Total inventories	**10,088,745**	4,517,112

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

9. Trade and other receivables

See accounting policy note 3.3

	2014	2013
Trade receivables	**9,997,943**	7,418,554
Staff loans and advances	**340,013**	287,738
Other receivables and prepayments	**3,329,647**	430,832
Gross receivables	**13,667,603**	8,137,124
Doubtful debt provisions:		
-impairment of prepayments	**(745,592)**	-
-trade receivables	**(2,811,128)**	(1,591,864)
-government and related accounts	**(1,386,620)**	(350,884)
	8,724,263	6,194,376
Loans and advances impairment provision	**(27,852)**	(43,256)
Net receivables	**8,696,411**	6,151,120

Included in staff loans and advances are housing loans of K 17 m (2013: K82 m). Staff housing loans are secured by charges over the related properties. As the Corporation ceased its policy on housing loans, the above amount represent the carrying amount from these old loans.

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

	2014	2013
Movement in Allowance for Doubtful Debts		
At beginning of the year	**1,942,748**	912,057
Increase in the year	**2,186,540**	1,030,691
At end of the year	**4,129,288**	1,942,748

In determining the recoverability of a trade receivable, the Corporation considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. An amount in relation to impairment of prepayments has been recognized and included in Head Office expenses.

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

The directors believe that the value of the receivables as at 30 June 2014 represent their fair value as at that date.

10. Cash and Cash Equivalents

See accounting policy note 3.3

	2014	2013
Bank current accounts and cash	**3,193,083**	1,882,573
Bank deposit accounts	**9,817,491**	7,199,667
At end of the year	**13,010,574**	9,082,240

The deposits accounts were earning interest at average rate of 15% as at 30 June 2014 (2013: 25%).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

11. Deferred Income

See accounting policy note 3.10

	Government grants	Capital contributions	2014 Total	2013 Total
At beginning of the year	4,909,691	6,209,378	**11,119,070**	7,200,157
Received during the year	620,225	2,017,967	**2,638,191**	4,085,678
Grants written off	(1,175,426)	-	**(1,175,426)**	-
Transferred to Equity	(1,000,000)	-	**(1,000,000)**	-
Released to profit or loss during the year	(91,027)	(130,643)	**(221,670)**	(166,766)
At the end of the year	3,263,463	8,096,702	**11,360,165**	11,119,070

12. Retirement Benefit Fund

See accounting policy note 3.12	2014	2013
At beginning of the year	-	1,477,090
Payment made during the year	-	(2,294,062)
Charge for the year	-	816,972
At end of the year	-	-

Upon retirement or expiry of employment contract, ex-gratia was paid to employees who had served for 10 or more years in recognition for their long service to the Corporation or its predecessor body. The Board passed a resolution abolishing ex-gratia payment and authorized payment of ex-gratia to qualifying members of staff. The retirement fund at 30 June 2014 shows no liability due to payment of all liability in April 2013.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

13. Other Borrowings

	2014	2013
Balance at beginning of the year	**12,245,928**	8,578,016
Additions :Kapichira Phase II	**-**	6,996,407
Exchange (gain)/losses expensed	**21,808**	137,635
Interest charged	**106,891**	469,339
Less :Repayments DBSA	**(1,288,807)**	(46,900)
Repayments World Bank Project Preparatory Fund	**(247,839)**	-
Converted Into Equity	**-**	(2,996,978)
Kapichira II Reversal	**(10,916,793)**	-
Interest Paid	**(192,547)**	(799,672)
Movements in fair valuation of Zero Coupon Bond	**271,360**	(91,919)
Total Borrowings at the end of the year	**-**	12,245,928
Less: Amounts included in current liabilities	**-**	(85,656)
Non-current borrowings	**-**	12,160,272
Analysis of Current borrowings		
Principal & interest in arrears	**-**	85,656
	-	85,656

Details of borrowings are set out below:

Government of Malawi	-	10,916,793

The Malawi Kwacha loans were repayable over terms of up to 30 years and with interest at rates varying between 0% (2014) and 3% (2013).

Included in the Government loans as at 30 June 2013 is a soft loan amounting to K10, 916 m from Malawi Government. The loan was obtained from the Malawi Government for the construction works at Kapichira Power Station. The loan bears no interest. The loan has since been derecognised in ESCOM books of accounts as the Corporation has signed a Concession Agreement with Malawi Government whereby ESCOM is required to pay Concession fees to Malawi Government, based on a specific Concession Agreement.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

13. Other Borrowings (continued)

	2014	2013
Development Bank of Southern Africa (DBSA)	-	2,927,531

The loan in 2013 was denominated in South African Rands. The capital amount repayable in one payment after a grace period of 15 years in 2019. The loan was secured by a Cessation and Pledge Agreement in respect of a zero coupon bond with a maturity value of the principal amount which is R85 million after 15 years. Interest as at the rate of 3 months ZAR-JIBAR-SAFEX plus operating and funding cost margin, (of 0.9% and 5%) risk margin. Interest was repayable half yearly in arrears. The loan which was guaranteed by the Government of Malawi was fully repaid as at 30 June 2014.

	2014	2013
Fair Value of Zero Coupon Bond held with Investec Bank	-	(1,846,235)
World Bank Project Preparatory Fund	-	247,839

The purpose of this loan was to finance the preparation activities for the Southern African Power Pool Project. The fund amount was USD 380,000. The loan was guaranteed by the Government of Malawi. The project failed and the loan was fully paid as at 30th June 2014.

	2014	2013
Total Borrowings	-	12,245,928

The following summary indicates the repayment terms of the loan that was outstanding as at 30 June 2013:

Dates of repayment:

	2014	2013
Within 5 years	-	85,656
Between 5 and 10 years	-	995,640
After 10 years	-	11,164,632
	-	12,245,928

The loans were repayable in:

	2014	2013
Malawi Kwacha		10,916,793
Foreign currencies	-	1,329,135
	-	12,245,928

Development Bank of Southern Africa Limited (DBSA)

The Corporation met the requirements of Article 12.3 of the loan agreement which required the following ratios:

Ratios	**Required**	**Actual 2014**	**Actual 2013**
Debt/equity	1:1	**0.58:1**	0.30:1
Debt to capital employed ratio %	50	**37%**	30
Liquidity ratio	1.2:1	**4.2:1**	4.77:1

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

13. Other Borrowings (continued)

Article 11 of the Agreement stated 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. The Corporation did not obtain a waiver from DBSA to prevent the loan from being recalled. The full amount of the loan has since been repaid by netting off the loan with the zero coupon bond and the difference was paid out of its cashflows as it had sufficient cash resources for that purpose.

Government Loans

As at 30 June 2014, all Government loans were converted into equity.

14. Deferred tax

See accounting policy note 3.11

Deferred Tax assets and liabilities

2013

	Assets	Liabilities	Net
Tax losses	(1,066,075)	-	(1,066,075)
Accelerated capital allowances	-	6,815,951	6,815,951
Revaluation surplus	-	2,076,042	2,076,042
Deferred income	-	1,973,226	1,973,226
Other temporary differences	(458,472)	-	(458,472)
	(1,524,547)	10,865,219	9,340,672

2014

	Assets	Liabilities	Net
Accelerated capital allowances	-	**11,152,955**	11,152,955
Revaluation surplus	-	**2,076,042**	2,076,042
Deferred income	-	**2,482,119**	2,482,119
Other temporary differences	**(602,126)**	-	(602,126)
	(602,126)	**15,711,116**	15,108,990

Movement in deferred tax was as follows:

2013

	At beginning of year, as restated	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**At end of year**
Tax losses	(6,402,238)	5,336,163	-	(1,066,075)
Accelerated capital allowances	6,974,485	(158,534)	-	6,815, 951
Revaluation surplus	601,368	-	1,474,674	2,076,042
Deferred income	1,483,506	489,720	-	1,973,226
Other temporary differences	(1,564,676)	1,106,204	-	(458,472)
	1 092 445	6,773,553	1,474,674	9,340,672

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

14. Deferred tax (continued)

2014	At beginning of year, as restated	Recognised in profit or loss	Recognised in other comprehensive income	At end of year
Tax losses	(1,066,075)	1,066,075	-	-
Accelerated capital allowances	6,815,951	4,337,004	-	11,152,955
Revaluation surplus	2,076,042	-	-	2,076,042
Deferred income	1,973,226	508,893	-	2,482,119
Other temporary differences	(458,472)	(143,654)	-	(602,126)
	9,340,672	5,768,318	-	15,108,990

15. Bank borrowings

	2014	2013
National Bank of Malawi Limited	-	-
Analysed as:		
Amount due within one year	-	-
Amount due after one year	-	-
Total	-	-
Movement in the year		
At beginning of the year	-	253,998
Repayments	-	(253,998)
Interest charge	-	45,348
Interest paid	-	(45,348)
At end of the year	-	-

The borrowings carry interest of N/A p.a. (2013: 35% p.a) for National Bank of Malawi Limited (2.75% below base rate). The National Bank of Malawi Limited borrowings, which were secured over certain land and buildings of ESCOM Limited, repayable over a period of 84 months was since fully repaid as at 30 June 2013 and the security has since been discharged.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

16. Obligations under finance leases

	2014	2013
National Bank of Malawi Limited	-	345,656
Malawi Savings Bank Limited	-	660,714
Leasing and Finance Corporation of Malawi Limited	-	1,913
Standard Bank of Malawi Limited	-	102,178
Total finance leases	-	1,110,461
Analysed as:		
Amount due within one year	-	484,621
Amount due after one year	-	625,840
	-	1,110,461
Movement in the year		
At the beginning	1,110,461	191,636
Additions	1,241	1,198,517
Repayments	(1,111,702)	(279,692)
Interest Charge	120,877	299,108
Interest Paid	(120,877)	(299,108)
At the end of the year	-	1,110,461

The leases carry interest of 37.75% p.a. (2013: 37.75% p.a.) for Standard Bank of Malawi and 20% p.a. (2013: 20% p.a.) for Leasing and Finance Corporation of Malawi Limited 36.8% for Malawi Savings Bank, 37.75% for National Bank of Malawi Limited. The leases were secured over the vehicles they finance.

All liabilities relating to leases were fully repaid as at the end of the reporting period.

17. Financing facilities

	2014	2013
The Corporation had the following banking facilities with National Bank of Malawi:		
Secured overdraft facility	-	450,000
Secured documentary credit facility reviewed annually	-	250,000
Revolving finance lease	-	400,000

As the Corporation did not have any facilities with NBM in the year under review, all debenture charges on the Corporation's property were discharged as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

18. Trade and other payables

See accounting policy note 3.5

	2014	2013
Trade and other payables	**3,271,660**	1,939,471
Project payables and retention	**19,974**	63,451
Consumer deposits	**757,043**	470,408
Total payables	**4,048,677**	2,473,330

The average trade payables period is 60 days. No interest is charged on overdue balances. Included in trade and other payables are amounts in foreign currency MK882 million (2013: MK140 million)

19. Pension arrears

See accounting policy note 3.12

At beginning of the year	**641**	601,025
Payments made during the year	**-**	(600,384)
At end of the year	**641**	641

The amount relates to transition pension dues which arose on adoption of the Pension Act, 2010. The amount relates to one Executive Director and has since been settled subsequent to year end.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

20. Operating segments

The Corporation has two reportable segments as described below, which are the Corporation's strategic divisions. These divisions offer different products and services and are managed separately based on internal reporting structure. The following summary describes the operations in each of the reporting segments:

- Electricity supply- This includes generation, transmission and distribution of electricity to customers.
- Fibre-optic - This includes letting out of fibre-optic line to users in data transmission.

Information regarding the results of each segment is included below. Performance is measured based on segment profit from operations.

	2014			2013		
	Electricity	**Fibre Optic**	**Total**	**Electricity**	**Fibre Optic**	**Total**
Income						
Revenue	**47,969,482**	**566,169**	**48,535,651**	33,290,128	323,801	33,613,929
Other Income (Note 21)	**710,637**	**-**	**710,637**	789,328	-	789,328
Total Income	**48,680,119**	**566,169**	**49,246,288**	34,079,456	323,801	34,403,257
Operating expenditure						
Generation						
Payroll expenses	**1,685,988**	**-**	**1,685,988**	1,071,493	-	1,071,493
Services, supplies and sundry	**913,446**	**-**	**913,446**	457,920	-	457,920
Operations	**357,177**	**-**	**357,177**	280,638	-	280,638
Maintenance expenses	**1,003,222**	**-**	**1,003,222**	603,119	-	603,119
Training costs	**170,759**	**-**	**170,759**	118,429	-	118,429
	4,130,592	**-**	**4,130,592**	2,531,599	-	2,531,599
Transmission						
Payroll expenses	**1,097,933**	**-**	**1,097,933**	703,488	-	703,488
Services, supplies and sundry	**306,114**	**-**	**306,114**	271,225	-	271,225
Operations	**221,990**	**-**	**221,990**	157,609	-	157,609
Maintenance expenses	**466,551**	**-**	**466,551**	473,369	-	473,369
Training costs	**75,515**	**-**	**75,515**	41,807	-	41,807
	2,168,103	**-**	**2,168,103**	1,647,498	-	1,647,498

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

20. Operating segments (continued)

	2014			2013		
	Electricity	**Fibre Optic**	**Total**	Electricity	Fibre Optic	Total
Distribution						
Payroll expenses	**4,521,812**	**-**	**4,521,812**	2,854,119	-	2,854,119
Services, supplies and sundry	**6,657,638**	**-**	**6,657,638**	3,225,089	-	3,225,089
Operations	**1,219,540**	**-**	**1,219,540**	704,993	-	704,993
Maintenance expenses	**2,173,081**	**-**	**2,173,081**	2,753,050	-	2,753,050
Training costs	**202,366**	**-**	**202,366**	91,504	-	91,504
	14,774,437	**-**	**14,774,437**	9,628,755	-	9,628,755
Head office						
Payroll expenses	**2,752,798**	**57,512**	**2,810,310**	1,790,025	27,455	1,817,480
Services, supplies, sundry and other	**4,951,895**	**144,827**	**5,096,722**	3,374,012	57,137	3,431,149
Operations	**273,176**	**15,269**	**288,445**	212,130	10,188	222,318
Maintenance expenses	**275,274**	**12,632**	**287,906**	218,718	3,694	222,412
Training costs	**622,420**	**15,963**	**638,383**	372,754	6,724	379,478
	8,875,563	**246,203**	**9,121,767**	5,967,639	105,198	6,072,837
Depreciation	**2,180,118**	**9,720**	**2,189,838**	1,621,916	7,545	1,629,461
Total expenditure	**31,128,814**	**255,923**	**32,384,737**	21,397,407	112,743	21,510,150
Operating profit	**16,551,305**	**310,246**	**16,861,551**	12,682,049	211,058	12,893,107

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

21. Other income

	Notes	2014	2013
Sundry Income		**727,052**	730,643
Fair Value loss on zero coupon bond		**(271,360)**	(79,677)
Capital contribution & grants released	11	**223,681**	166,765
Profit/(loss) on disposal of assets		**31,264**	(28,403)
		710,637	789,328

22. Net finance income/expenses

Net finance income/expenses

	Notes	2014	2013
Finance Income			
Interest received-Bank deposits		**1,509,726**	550,870
-Customer balances		**164,266**	91,669
-Staff receivables		**9,354**	14,918
Foreign exchange gains	23	**247,912**	110,415
		1,931,258	767,872
Finance Expenses			
Interest paid- Borrowings		**202,642**	782,315
- Bank overdraft		**6,772**	8,002
		209,414	790,317
Net finance income/(expenses)		**1,721,844**	(22,445)

23. Exchange losses/(gains)

See accounting policy note 3.2

	Funding of capital assets	Other liabilities	2014	2013
	MK	MK	MK	MK
Realised				
Bank	-	-	-	(303,424)
Borrowings	**147,289**	-	**147,289**	-
Short term (payables)	-	-	-	7,473
Assets (Zero Coupon Bond)	**(107,838)**	-	**(107,838)**	-
	39,451	-	**39,451**	(295,951)
Unrealised				
Bank		**(386,034)**	**(386,034)**	-
Borrowings	-	-	-	79,889
Short term (payables)	**98,671**	-	**98,671**	25,970
Assets (Zero Coupon Bond)	-	-	-	79,677
Total Unrealised	**98,671**	**(386,034)**	**(287,363)**	185,536
Total Exchange losses/(gain)	**138,122**	**(386,034)**	**(247,912)**	(110,415)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

24. Profit before taxation

	2014	2013
Profit before taxation is arrived at after taking into account:		
Auditor' remuneration - current period	**20,483**	15,000
- prior period	**1,217**	1,361
Directors' fees	**2,487**	2,024
Directors' expenses	**93,912**	50,750
Exchange losses/(gain)	**(247,912)**	110,415
Pension costs	**742,942**	337,097
Retirements benefits charge	**-**	816,972
Staff costs	**9,373,101**	6,107,011

25. Taxation

See accounting policy note 3.11

Income tax expense

Deferred taxation	**5,768,318**	6,773,553
Charge for the year	**671,314**	-
Total income tax	**6,439,632**	6,773,553

The standard rate of tax is reconciled as follows:

Standard rate	**30%**	30%
Deferred tax asset not recognised in previous years	**-**	-%
Permanent differences	**-**	(4%)
Effective rate of tax	**-**	26%

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

Operating profit before interest and taxation	**14,922,980**	12,079,417
Grants & capital contributions released	**(223,681)**	(166,920)
Depreciation of property, plant and equipment	**2,189,838**	1,629,461
Impairment of assets	**(461,143)**	-
Projects written off	**346,677**	-
Provision for bad debt	**2,186,540**	-
Provision for stock write off	**755,716**	
(Profit)/loss on disposal of property, plant and equipment	**(31,264)**	28,403
Zero Coupon Bond	**271,360**	79,677
Exchange loss/(gain)	**(247,912)**	(141,657)
Cash Generated from operating activities	**20,204,934**	13,508,381

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

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

Working capital movements:	2014	2013
Movement in inventories	**(6,327,348)**	(2,493,017)
Movement in receivables	**(4,392,694)**	(1,945,909)
Movement in payables	**1,473,407**	49,559
Movement in retirement benefit provision	**-**	(2,077,474)
Cash generated from operations	**10,462,476**	7,041,540

Operating profit before interest and taxation is determined as follows		
Profit before taxation	**16,396,855**	11,839,971
Interest on borrowings, finance leases and bank borrowings	**202,642**	782,315
Interest on bank overdraft	**6,772**	8,002
Interest receivable	**(1,683,346)**	(550,871)
Operating profit before interest and taxation	**14,922,923**	12,079,417

27. Capital commitments

Authorised by the Corporation and contracted	**250,689**	192,838
Authorised by the Corporation but not contracted	**10,394,940**	7,996,108
Total commitments	**10,645,630**	8,188,946

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

28. Contingent liabilities

Legal claims	**785,267**	620,818

The Corporation is a defendant to several legal cases in the courts of Malawi. The Corporation engages both external and internal legal counsel to attend to such matters as they arise. 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 Corporation's lawyers both internal and external lawyers. In preparing these financial statements the directors have made an assessment and have formed an opinion that the outcome of such cases will not have a material effect on these financial statements.

Guarantees

The corporation makes an undertaking by introducing its employees to various financial institutions to obtain personal loans. The corporation undertakes to continue remitting the employees' salaries to such institutions. The corporation's obligation is limited to the employees' salaries. If such amounts are not adequate to cover the outstanding employees' loans or the employee leaves the employment of the corporation for whatever reason, the financial institutions have no recourse against the corporation.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

28. Contingent liabilities (continued)

	2014	2013
Letters of credit	**297,532**	8,824

29. Related party transactions

Related party transactions are at arm's length and the amounts due from and due to related parties are as follows:

	2014	2013
Receivables		
Statutory Corporations	**950,066**	604,670
Government departments	**1,303,594**	499,580
Specific provision for bad debts	**(1,386,620)**	(317,028)
	867,040	787,222
Compensation of key management staff		
Salaries, bonuses, and benefits	**259,598**	135,011

The following transactions were carried out with related parties:

	2014	2013
Sales to statutory corporations	**4,245,004**	3,021,112
Sales to Government departments	**2,320,976**	1,530,287
	6,565,980	4,551,399

30. Financial assets and liabilities classification

	Notes	Held to maturity	Loans and Receivables	Other amortised cost	Total carrying amount
30 June 2014					
Assets					
Receivables	9	-	8,696,411	-	8,696,411
Bank current account and cash	10	-	3,193,083	-	3,193,083
Bank deposit accounts	10	9,817,491	-	-	9,817,491
Total financial assets		**9,817,491**	**11,889,494**	**-**	**21,706,984**
Liabilities					
Payables	18	-	-	4,048,677	4,048,677
Total financial liabilities		**-**	**-**	**4,048,677**	**4,048,677**

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

30. Financial assets and liabilities

	Notes	Held to maturity	Loans, Cash and receivables	Other amortised cost	Total carrying amount
30 June 2013					
Assets					
Receivables	9	-	6,151,120	-	6,151,120
Bank current account and cash	10	-	1,882,573	-	1,882,573
Bank deposit accounts	10	7,199,667	-	-	7,199,667
Total financial assets		7,199,667	8,033,693	-	15,233,360
Liabilities					
Borrowings	13	-	-	12,245,928	12,245,928
Finance leases	16	-	-	1,110,461	1,110,461
Payables	18	-	-	2,473,971	2,473,971
Total financial liabilities		-	-	15,830,360	15,830,360

The carrying amounts of the financial assets and liabilities approximate their fair value at the reporting date.

31. Financial risk management

(a) Introduction and overview

The corporation 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 corporation's exposure to each of the above risks, the corporation's objectives, policies and processes for identification, measurement, monitoring and controlling risk, and the corporation's management of capital.

Risk management framework

The corporation'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.

Board delegates risk related responsibilities to Board committees, which are as follows: The Risk Committee, Finance and Audit Committee, Remuneration and Appointments Committee, Projects Committee and the Technical Committee. All Board Committees have non-executive members and report regularly to the Board of Directors on their activities.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. Financial risk management (continued)

The Risk Committee is responsible for monitoring compliance with the corporation's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the corporation. The Risk 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.

(b) Credit risk

Credit risk is the likelihood of financial loss to the corporation if a customer or counterparty to financial instrument fails to meet its contractual obligations, and arises principally from the corporation's trade receivables. For risk management reporting purposes, the corporation considers and consolidates all elements of credit risk exposure such as individual obligation or default risk. The corporation 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 Corporation's terms of payment are normally 30 days and if the customers do not settle the bills after 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 Risk 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 corporation holds no collateral over the receivables.

Gross maximum exposure	**2014**	2013
Financial assets		
Receivables	**8,696,411**	6,151,120
Bank current accounts and cash	**3,193,083**	1,882,573
Bank deposits accounts	**9,817,491**	7,199,667
Total	**21,706,985**	15,233,360

The corporation's credit risk is primarily attributed to provision of electricity on credit extended to its customers. The amounts presented in the statement of financial position are net of provisions for doubtful debts as shown on note 9. 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. Financial risk management (continued)

Trade receivables	**2014**	2013
Gross amount	**9,997,943**	7,418,554
Allowance for impairment losses	**(4,197,748)**	(1,942,748)
Carrying amount	**5,800,195**	5,475,806
Past due but not impaired	**562,044**	101,187
Past due comprises:		
60 days	**562,044**	101,187
60-90 days	**-**	-
90-120 days	**-**	-
	562,044	101,187

Past due but not impaired receivables

These are debtors over 30 days that have not been provided for because in the opinion of directors 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.

(c) Liquidity risk

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

The corporation'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 corporation's reputation.

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

- Failing to meet collection targets;
- Low tariffs;
- Sudden unexpected cash outflows due to suppliers not willing to supply materials on open account but through high percentages of advance payments or letters of credits with cash cover. Also due to payment of penalties and legal charges that may arise from time to time due to reasons beyond the Corporation's control.

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 corporation will have to raise cash from other sources to meet its obligations.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. Financial risk management (continued)

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 corporation takes the following measures to manage the risks.

- Weekly cash flow reviews by senior management to look at corporation 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.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. 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 2014 to the contractual maturity date.

	Notes	Less than 1 month	1-3 months	3 - 12 months	Over 1 year	Total	Carrying amount
30 June 2014							
Assets							
Receivables	9	4,226,188	1,412,527	2,188,055	869,641	8,696,411	8,696,411
Bank current accounts and cash	10	3,193,083	-	-	-	3,193,083	3,193,083
Bank deposits accounts	10	9,817,491	-	-	-	9,817,491	9,817,491
Total financial assets		17,236,762	1,412,527	2,188,055	869,641	21,706,985	21,706,985
Liabilities							
Payables	18,19	1,175,188	2,608,420	265,069	-	4,048,677	4,048,677
Total financial liabilities		1,175,188	2,608,420	265,069	-	4,048,677	4,048,677
Contractual liquidity mismatch		16,061,574	(1,195,893)	1,922,986	869,641	17,658,308	17,658,308
Cumulative mismatch		16,061,574	14,865,681	16,788,667	17,658,308		

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. Financial risk management (continued)

(c) Liquidity risk (continued)

	Notes	Less than 1 month	1-3 months	3 - 12 months	Over 1 year	Total	Carrying amount
30 June 2013							
Assets							
Receivables	9	3,266,890	1,279,381	762,723	842,126	6,151,120	6,151,120
Bank current accounts and cash	10	1,882,573	-	-	-	1,882,573	1,882,573
Bank deposits accounts	10	7,199,667	-	-	-	7,199,667	7,199,667
Total financial assets		12,349,130	1,279,381	762,723	842,126	15,233,360	15,233,360
Liabilities							
Borrowings	13	-	85,656	-	12,160,272	12,245,928	12,245,928
Finance leases	16	1,913	119,242	363,466	625,840	1,110,461	1,110,461
Payables	18,19	432,866	1,970,636	70,469	-	2,473,971	2,473,971
Total financial liabilities		434,779	2,175,534	433,935	12,786,112	15,830,360	15,830,360
Contractual liquidity mismatch		11,914,351	(896,153)	328,788	(11,943,986)	(597,000)	(597,000)
Cumulative mismatch		11,914,351	11,018,198	11,346,986	(597,000)		

The contractual liquidity mismatch shows the mismatch before any adjustments are made for product and customer behavioral assumptions. Management addresses this mismatch by setting guidelines and limits for anticipated liquidity gaps and monitors these gaps daily.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. 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 corporation'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 corporation to risks that can be favourable or unfavourable to its cash flows.

This could be unexpected changes in the rate of inflation, exchange rate, 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 unfavorably to the corporation'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 Corporation 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; and
- 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 corporation'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 2014. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at 30 June 2014 was outstanding for the whole year. A 10% (2012: 10%) 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 10% (2013: 10%) (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 2014 would decrease/increase by K20.9 million (2013: K112.2 million). This is mainly attributable to the Corporations' exposure to interest rates on its bank borrowings as all other loans have a fixed interest rate.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. Financial risk management (continued)

(d) Market risk (continued)

	Less than 1 month	1 - 3 month	3 - 12 months	Over 1 year	Total	Carrying amount
30 June 2014						
Assets						
Bank current accounts and cash	3,193,083	-	-	-	3,193,083	3,193,083
Bank deposits accounts	9,817,491	-	-	-	9,817,491	9,817,491
Total financial assets	13,010,573	-	-	-	13,010,574	13,010,574
Cumulative mismatch	13,010,573	13,010,573	13,010,573	13,010,573		

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. Financial risk management (continued)

(d) Market risk (continued)

	Notes	Less than 1 month	1 - 3 month	3 - 12 months	Over 1 year	Total	Carrying amount
30 June 2013							
Assets							
Bank current accounts and cash		1,882,573	-	-	-	1,882,573	1,882,573
Bank deposits accounts		7,199,667	-	-	-	7,199,667	7,199,667
Total financial assets		9,082,240	-	-	-	9,082,240	9,082,240
Liabilities							
Borrowings	13	-	85,656	-	12,160,272	12,245,928	12,245,928
Finance leases	17	1,913	119,242	363,466	625,840	1,110,461	1,110,461
Total financial liabilities		1,913	204,898	363,466	12,786,112	13,356,389	13,356,389
Contractual liquidity mismatch		9,080,327	(204,898)	(363,466)	(12,786,112)	(4,274,149)	(4,274,149)
Cumulative mismatch		9,080,327	8,875,429	8,511,963	(4,274,149)		

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. Financial risk management (continued)

(e) Currency risk

The corporation had the following significant foreign currency positions:

	Notes	USD	ZAR	EURO	Total
30 June 2014		**K'000**	**K'000**	**K'000**	**K'000**
Assets					
Advance Payments		**1,103,624**	**350,096**	**790,623**	**2,244,343**
Bank deposits accounts		**1,832,676**	**-**	**-**	**1,832,676**
Total financial assets		**2,936,300**	**350,096**	**790,623**	**4,077,019**
Liabilities					
Payables	18	**593,410**	**289,027**	**-**	**882,436**
Total financial liabilities		**593,410**	**289,027**	**-**	**882,436**
Net open position		**2,342,890**	**61,070**	**790,623**	**3,194,582**
30 June 2013					
Assets					
Advance Payments		121,197	102,056	106,222	329,475
Bank deposits accounts		1,832,676	-	-	1,832,676
Total financial assets		1,953,873	102,056	106,222	2,162,151
Liabilities					
Borrowings	13	247,839	2,927,531	-	3,175,370
Payables	18	7,946	132,419	-	140,365
Total financial liabilities		255,785	3,059,950	-	3,315,735
Net open position		1,698,088	(2,957,894)	106,222	(1,153,584)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. Financial risk management (continued)

(e) Currency risk (continued)

Foreign currency sensitivity analysis

The corporation is exposed mainly to South African Rand, US Dollar, the Euro and the Swedish Kroner as follows: If the external value of the Kwacha was to move by 10% (2012: 10%) the Corporation would incur exchange losses as follows:

	Rand Impact		US Dollar Impact		Euro Impact	
	2014	2013	**2014**	2013	**2014**	2013
	K'000	K'000	**K'000**	K'000	**K'000**	K'000
Profit or loss	**6,107**	(295,789)	**234,289**	169,809	**319,458**	1,062

This is mainly attributable to the exposure outstanding on payables denominated in Rands and the DBSA loan outstanding as at 30 June 2014 coupled with a change in fair value of the zero coupons bond that is also denominated in Rands.

(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 corporation 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 has changed substantially over the years with Government restructuring all its loans into equity. The loans were classified as current liabilities and hence making the Corporation's statement of financial position insolvent. The restructuring has therefore greatly improved the solvency position of the Corporation.

Also the increase in Generation capacity by another 64 Mega Watts in January 2014 on commissioning of Kapichira phase II has improved the organisation's going concern strategy.

The commitment by donors like the Millennium Challenge Corporation (MCC), World Bank, and the Japanese Government to finance some capital projects to improve the Corporation's efficiency in its generation, transmission and distribution of power to the nation is another strategy in improving the Capital Risk Management.

The Corporation has substantially reduced its gearing ratio through repayment of some of its loans.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014
In thousands of Malawi Kwacha

31. Financial risk management (continued)

(f) Operational risk (continued)

Gearing ratio

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

	2014	2013
Debt (i)	-	13,356,389
Cash and cash equivalents	(13,010,574)	(9,082,240)
Net debt	**13,010,574**	4,274,149
Equity (ii)	**47,012,972**	34,802,460
Net debt to equity ratio	**0.28 to 1**	0.12 to 1

(i) Debt includes borrowings and overdrafts

(ii) Equity includes capital and reserves

32. Comparative information

Certain comparative information has been reclassified to conform with current year's presentation.

33. Exchange rates and inflation

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

	2014	2013
Kwacha/US Dollar	**411.00**	337.96
Kwacha/Rand	**38.58**	34.94
Kwacha/Euro	**556.83**	440.72
Inflation rate (%)	**22.5**	27.9

At the date of signing the financial statements, the exchange rates noted above had moved as follows:

Kwacha/US Dollar	**455.35**
Kwacha/Rand	**41.85**
Kwacha/Euro	**576.94**
Inflation rate (%)	**23.7**

34. Subsequent events

Subsequent to year end no event has occurred to necessitate adjustments to or disclosures in the financial statements.

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