ELECTRICITY SUPPLY CORPORATION OF MALAWI LTD

ESCOM

2013 Annual Report

2013
Annual Report

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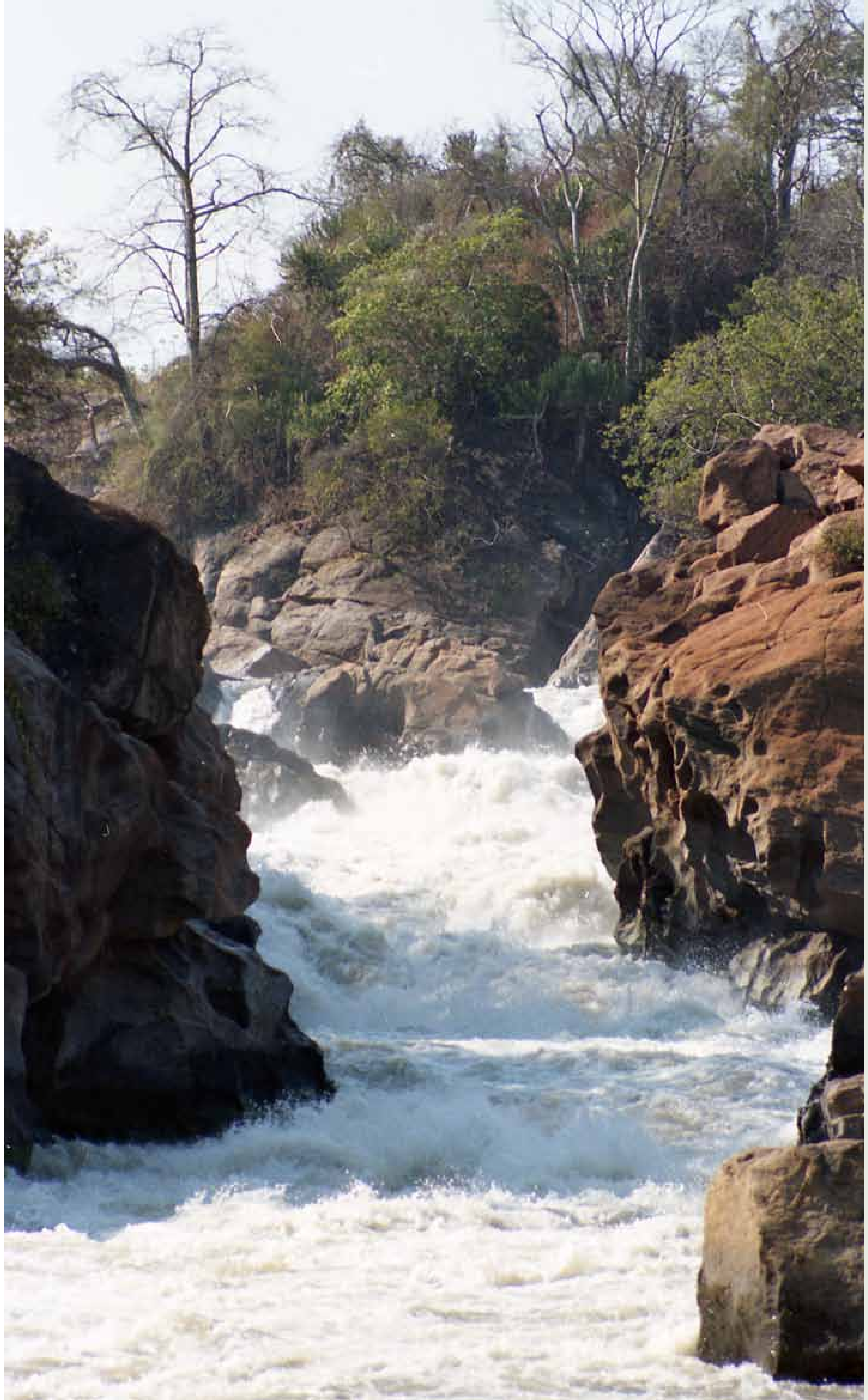
Contents



The Shire River remains the source for nearly all ESCOM's power generation

Vision

A leading provider of quality electrical energy and related services in the region

Mission

To generate, transmit and distribute electrical energy and provide related services, motivated by desire for excellence through the use of appropriate technologies, to the satisfaction of customers and other stakeholders

Core Values

(**SPITTIC**)

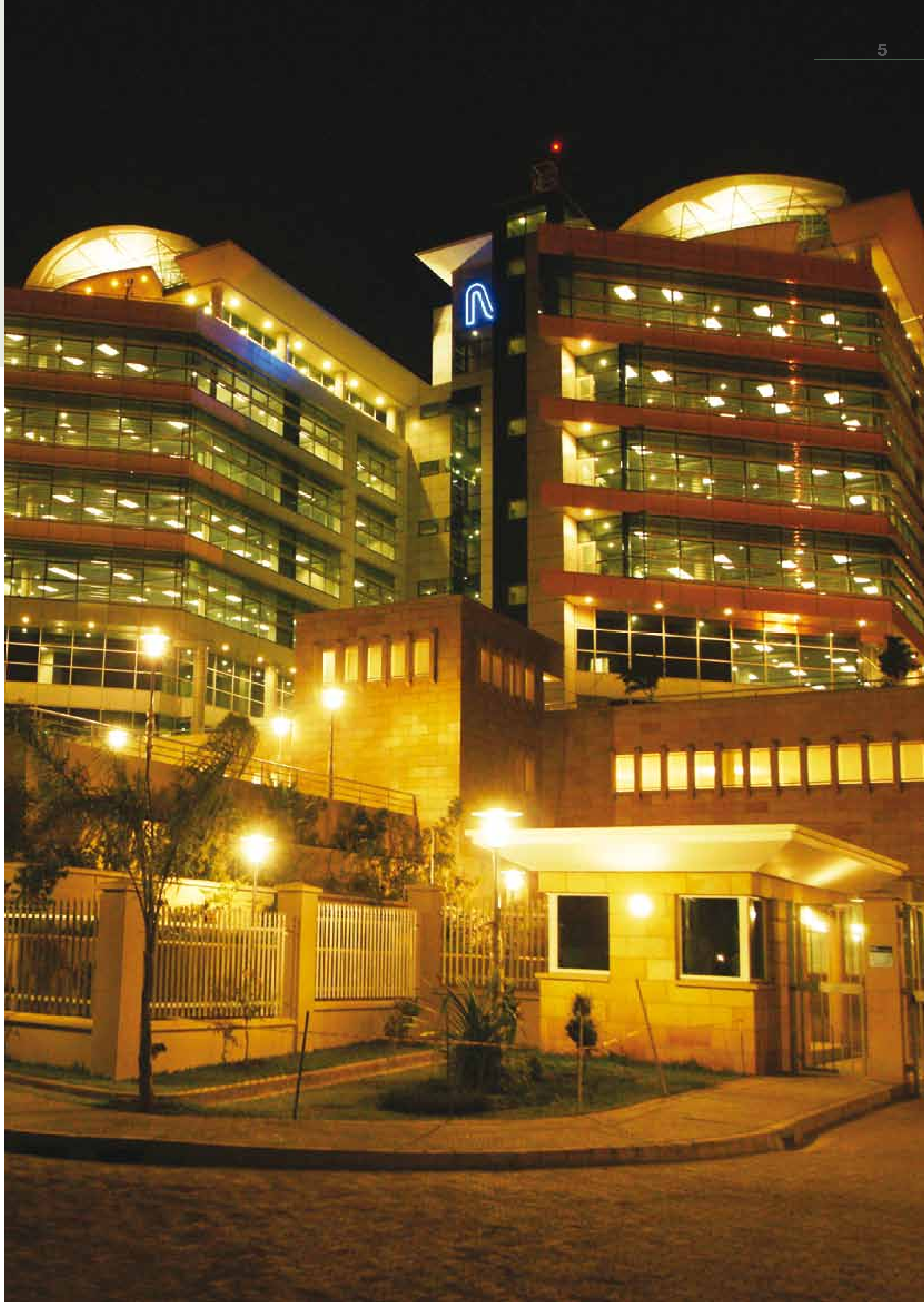
Safety and quality consciousness
Professionalism
Integrity
Transparency and accountability
Teamwork
Innovation
Commitment to service

The Chairman's Statement

It is a great privilege to have been asked to serve Malawi as Chairman of this very important and key utility, the Electricity Supply Corporation of Malawi Limited (ESCOM). The country's much aspired economic growth and attendant improvement of quality of life for all Malawians cannot be achieved without a secure national power supply. Therefore ESCOM has a renewed commitment to provide reliable and sustainable electricity to the nation to fulfill this mandate.

I am pleased to present this report to you, our esteemed stakeholders, which I believe demonstrates the progress that ESCOM has achieved thus far, under the government reform agenda, on the road to turning round the utility into a financially sound entity, delivering reliable and quality electricity to our customers.

Over the past year significant progress has been made in restructuring the balance sheet of ESCOM. This has seen the conversion of government loans into equity. The conversion of loans and the approval of an adjustment on the electricity tariff has positively, and significantly, impacted the financial performance of the utility. Total revenues rose to MK33.3 billion representing a 96% increase on the previous year. The increase in revenues enabled ESCOM to undertake much needed overdue maintenance to our infrastructure as reflected in total expenditure for the year of MK21.9 billion which translated to a 103 per cent increase over the previous year. The overall profit for the year was MK11.4 billion translating to an 84 per cent increase over the previous year.



ESCOM has changed the face of Malawi's cities particularly at night when many large corporates opt for enhanced security using their ESCOM power supply

The improvement to the bottom line provides a great platform on which ESCOM will leverage its commitment to continue the programme of reinvestment to renew infrastructure and improve processes in order to meet stakeholder demand.

In support of the new vision, the Corporation produced an Integrated Strategic Plan for the period 2013 to 2017. The Plan lays a solid foundation for continuous performance enhancement. Among others, the Strategic Plan focuses on increased generation capacity, improved customer service, and enhanced Human Capital management. Considerable efforts were made to align the Strategic Plan with the Malawi Growth and Development Strategy (MGDS) for sustainable economic growth and development of the nation.

Though generation capacity remained a challenge in the country, the Corporation implemented both short and long term interventions through, among others, implementation of an Energy Efficient Lighting Project that distributed energy-saver bulbs, for free, to domestic customers and resulted in a virtual saving of 39MW.

The Corporation's performance is expected to improve in the coming year due to implementation of the Kapichira Phase II Project, which will bring an additional 64 megawatts into the national grid system.

FUTURE PROSPECTS

The coming into force of the US$350.7 million grant Energy Sector Support Project from the Millennium Challenge Corporation (MCC) of the United States of America, is expected over the next four years to refurbish and reinforce the transmission and distribution networks and renew the life of Nkula A, the country's oldest generation power station. In addition ESCOM will benefit from complimentary assistance from the World Bank through the Energy Sector Support Project (ESSP), to supplement the resource base financing the infrastructure rehabilitation and reinforcement programme.

Below, looking downriver from Kapichira dam

CORPORATE GOVERNANCE

The Corporation endeavored to maintain high standards of Corporate Governance and complied with the requirements of the Code of Best Practice for Good Governance in Malawi. Compliance with applicable legislation, regulations and standards is an essential part of ESCOM's score card.

SUSTAINABILITY

The executive management of ESCOM together with the board have taken a hands-on united responsibility through the various board committees to oversee the financial and operational sustainability of the Corporation. I believe that with the continued partnership with the government, ESCOM will achieve the critical requirement of ensuring a responsibly managed balance between security and reliability of supply, additional capacity creation, financial sustainability and environmental management.

I believe that ESCOM has emerged from its worst challenges, the future now presents exciting opportunities for expansion. With the continued extraordinary support from Government and other stakeholders, ESCOM can only anchor for growth from strength to strength.

MORGAN TEMBO
CHAIRMAN,
ESCOM BOARD OF DIRECTORS

'Islands' of waterborne grass, washed downriver by heavy rains on deforested areas are seen here floating into Kapichira. These intrusions can quickly silt up the ESCOM dams and the problem of siltation is a major expense for ESCOM

Board Members

Morgan Tembo
Chairman

Prof. Edrinnie Kayambazinthu

Mr Overton Mandalasi

Mrs Estelle Nuka

Mr Paul Maulidi

Mr Noel Chimpeni

Mr Joseph Chikwemba

Dr Winford Masanjala

Ms Nwazi Mnthambala

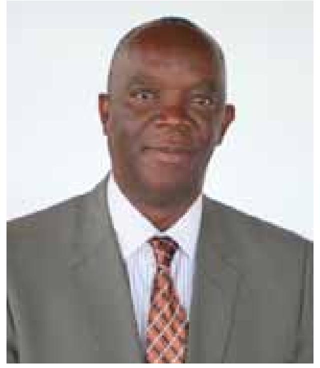
Mr Stuart Malata

Management

John Kandulu
Chief Executive Officer

Evans Msiska
Director of Generation

Jeford Banda
Director of Transmission



Peter Mtonda
Director of Distribution & Customer Service

Betty Mahuka
Director of Finance

Lameck Nchembe
Director of Planning & Development

Everson Sitolo
Director of Corporate Services & Company Secretary

Chief Executive Officer's Report

The performance of the Corporation improved significantly year-on-year despite some challenges that were experienced during the course of the year.

Key to the achievements was finalisation of a four-year Integrated Strategic Plan (ISP17) covering the period 2013 - 17 which, among other things, laid the foundation for ESCOM Ltd. to become a world class Utility.
ESCOM produced an ambitious four-year Integrated Strategic Plan (ISP17) to guide its investments and operations for the period July 2013 to June 2017. Implementation of the Strategy aimed at turning around the operational and financial performance of the Corporation commenced with the 2013/14 Annual Plans and Budget.

The bringing back on line the two machines at Wovwe Power Station which had been unserviceable for over two years meant a more stable power supply to the Northern Region where voltages tend to fluctuate due to a weak system.

Production of adequate electricity to satisfy growing demand for electricity from both domestic and industrial sectors remained the biggest challenge the Corporation faced during the reporting year. Lack of investment in electricity generation since 2000 coupled with old and, in some cases, obsolete generation and transmission equipment made the situation even more problematic to manage. A fragile and low capacity distribution network made matters even worse as it compounded system losses which resulted in loss of revenue for the Corporation. However, investments in the Government of Malawi funded Kapichira Phase II Project, the ongoing World Bank funded Energy Sector Support Project (ESSP) and the prospect of a successful USA - funded Millennium Challenge Corporation Compact offered a bright future for the energy sector in Malawi in general and for ESCOM Ltd in particular.

During the first and second quarters of the financial year, the Corporation carried out a comprehensive training programme in preparation for a Performance Management Process (PMP) to start in the 2013/14 financial year. All members of staff were trained in readiness for full implementation of the PMP as a component of the turn-around strategy.

ELECTRICITY GENERATION

The overall availability of electricity in the country for the 2012 - 2013 year was 92.45% compared to 96.10% in the previous year. While still above the 90% benchmark set for the Corporation, the drop in plant availability compared to the previous year was mainly due to planned new digital excitation equipment works, generator stator rewinding and the partial rehabilitation of two units at Nkula Falls B Power Station. Delivery of these projects took inordinately long due to the poor performance of the Contractor.

Total power generated at all the generation stations in the ESCOM system during the 2011 - 2012 financial year amounted to 1,840.505GWh compared to 1,911.445GWh in 2012/13. This fall was due to the reasons given above and the outage, for the entire period, of two units at Wovwe Power Station due to faulty electronic governors. The reinstatement of the units helped to stabilise the supply in the Northern Region in particular where voltage is inherently weak due mainly to the long distance from major generation plant in the south of the country.

TRANSMISSION NETWORK

During the year a total of 1,828,076GWh of electricity were received from the Generation division compared to 1,905,715GWh in the previous year. In turn, a total of 1,653,617GWh were sent to the Distribution division compared to 1,721,966GWh in the previous year.

The generation control room at Kapichira

An estimated 52,056,00kWh of electrical energy were not supplied due to load-shedding compared to 57,405,000kWh in the previous year. This translated to approximately MK1,18 billion loss in revenue.

Overall, the availability of most network equipment was above 98%. However, the availability of the SCADA and PLC communication equipment was below the desired level of 98% for the year. In the 2013/14 financial year, the Corporation plans to install a new SCADA system and migrate to digital communication to replace the now archaic SCADA and PLC communication systems.

Overall, the availability of most network equipment was above 98%. However, the availability of the SCADA and PLC communication equipment was below the desired level of 98% for the year. In the 2013/14 financial year, the Corporation plans to install a new SCADA system and migrate to digital communication to replace the now archaic SCADA and PLC communication system.

DISTRIBUTION NETWORK

The total number of new customer connections increased from 12,048 in 2011/12 to about 18,800 in the reporting year. However, this was 25% below the 25,100 target. Inability to meet the target and clear a backlog of new applications which stood at about 17,000 in September 2012 was largely attributed to delays in budgetary approval and late delivery of line materials.

The distribution network was poorly maintained in previous years largely due to poor cash flows. Consequently, the system had been rendered vulnerable to faults and poor performance. This manifested itself in a progressive increase in the number of transformers lost due to system faults as compared to previous years. Additionally, the rate of vandalism and theft of transformer oil, conductor cables, copper earthing and stay wire was high during the year and certainly contributed to a weak system and poor service delivery. Intensive network maintenance and system security will be prioritised in the 2013/14 financial year.

PROJECT PLANNING AND DEVELOPMENT

CConstruction of the Kapichira Hydro Electric Power Station Phase II Project (Units 3 & 4) registered steady and satisfactory progress during the year. Shipment, delivery and erection of the main equipment at the works met key deadlines. By the end of the reporting period, 99% of the transmission line from Kapichira Power Station to the Blantyre West substation and associated works had been completed. However, delivery of three main transformers (two for Kapichira and one for the Blantyre West substation) was not achieved as planned in the year as they were declared by the Government of Tanzania to exceed the legal weight for transportation on their national road network.

While plans to acquire and install standby (peaking) diesel generators were maintained during the year, their procurement remained on hold. Further financial and economic analyses were made to justify the acquisition and installation of the plant. This has been included in the 2013/14 Plan and Budget.

Project preparation and Power Sector Reform Activities resumed following lifting of the operational hold on the MCC Compact. A rapid due diligence on the Compact revealed the need for price revalidation and re-scoping of the project. Although the Integrated Resource Plan prepared and presented by the MCC Consultant had not been fully adopted for implementation, the Government continued with initiatives to attract private sector investors to invest in power generation as Independent Power Producers.

Since the World Bank Energy Sector Support Project started on 30 January 2012, project preparation activities commenced in earnest during the reporting year including procurement of various technical assistance and consultancy services.

The Mozambique - Malawi Interconnection

The Governments of Malawi and Mozambique resumed discussions on power Interconnection between the two countries which had hitherto stalled. The discussions culminated in the signing of a Memorandum of Understanding (MOU) by the respective sector Ministers and witnessed by the Heads of State of the two countries. The MOU provides a bilateral framework for the implementation of the Power Interconnection Project.

Karonga – Kayerekela 66 kV Line

Discussions between Paladin and ESCOM to connect the Paladin Uranium Mine at Kayerekela in Karonga District to the ESCOM grid progressed to a draft Memorandum of Understanding leading to a Power Supply Agreement. The latter was reviewed by the Government Contracting Unit and recommendations made for its improvement.

FINANCIAL MATTERS

The Corporation realised a total of MK33 billion from its operations during the reporting year compared to MK17 billion in the fiscal year 2011/12 – representing a 96% increase. This is attributed mostly to a 41.91% tariff increase granted by MERA in November 2012 and 29.72% in May 2013.

Total expenditure for the year is estimated to be MK21.9 billion, or 103%% over the previous year when expenditure was MK10.8 billion. The overall profit therefore is projected at MK11.4 billion i.e. 84% over the 2011/12 financial year largely for the reasons given above.

The Corporation submitted a 4-year base tariff application of MK47.74 per kWh to MERA effective January 2013, as a statutory requirement. The application was based on the MERA formula and format.

All in all, the performance of the Corporation has improved significantly over the previous year with the next year promising to lay a firmer foundation for continued financial and operational improvements anchored by increased power supply from the Kapichira Phase II Power Supply Project, improved system maintenance, migration of customers from a post-paid to a prepaid metering system, and clearing of a backlog of over 15,500 applications from new customers.

JOHN KANDULU
CHIEF EXECUTIVE OFFICER

Natural Power, from Malawi's biggest river

In thousands of Malawi Kwacha

Financial Statements for the year ended

2013

Directors' Report

The directors have pleasure in presenting their report together with the statement of financial position of Electricity Supply Corporation of Malawi Limited, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2013.

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

	2013	2012
Profit for the year	5,066,418	5,969,691

Share capital

The issued share capital of the company is K110 million dividend into 55 million ordinary shares of K2 each.

The shareholders and their respective holdings are:

	2013	2012
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 company is situated at the company's premises in ESCOM House, 9 Haile Selassie Road, Blantyre, Malawi.

DIRECTORS

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

Mr K.M. Sadala	-	Chairman	Up to 30 October 2012
Dr. E. Kayambazinthu	-	Director	Throughout the year
Mr. G.M. Mtaula	-	Director	Up to 30 October 2012
Mr. D.A. Mphepo	-	Director	Up to 30 October 2012
Mr. L.C. Nazitwere	-	Director	Up to 30 October 2012
Mr. P.M. Kholongo	-	Director	Up to 30 October 2012
Mr. S. Mikaya	-	Director	Up to 30 October 2012
Mrs. J. Guga	-	Director	Up to 30 October 2012
Mr. M. Tembo	-	Chairman	from 1 November 2012
Mr. J. Chikwemba	-	"	from 1 November 2012
Mr. N. Chimpeni	-	"	from 1 November 2012
Mr. O. Mandalasi	-	"	from 1 November 2012
Mrs. E. Nuka	-	"	from 1 November 2012
Mr. P. Maulidi	-	"	from 1 November 2012
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	throughout the year

AUDITORS

Messrs KPMG, Certified Public Accountants, have expressed their willingness to continue in office as auditors in respect of the Corporation's 30 June 2014 financial statements, and a resolution will be proposed for their appointment at the forthcoming Annual General Meeting of the Corporation.

For and on behalf of the board.

Director
30 December 2013

Director

Statement of Directors' Responsibilities

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 company as at the end of the period and of the operating results for that period.

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

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

- Maintenance of proper accounting records.
- Selection of suitable accounting policies and applying them consistently.
- Making judgements and estimates that are reasonable and prudent.
- Compliance with applicable accounting standards, when preparing financial statements, 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 company will continue in business.

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

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

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
30 December 2013

Director

KPMG
Public Accountants and Business Advisors
MASM House, Lower Sclater Road
P.O. Box 508
Blantyre, Malawi

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Fax: (265) 01 820 575
E-mail: mw-fminformation@kpmgmw.com
Website: www.kpmg.com/mw

We have audited the accompanying financial statements of Electricity Supply Corporation of Malawi Limited, which comprise the statement of financial position as at 30 June 2013, the statement of 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 46. The financial statements of the company as at and for the year ended 30 June 2012, were audited by another auditor whose report dated 7 March 2013 expressed an unqualified opinion on those statements.

Directors' responsibility for the financial statements

The company'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 2013, 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 Public Finance Management Act, 2003.

KPMG

Certified Public Accountants and Business Advisors
Blantyre

30 December 2013

In thousands of Malawi Kwacha

Statement of Financial Position

ASSETS	Notes	2013	2012 Restated
NON-CURRENT ASSETS			
Property, plant and equipment	6	37,193,921	28,618,172
Capital work-in-progress	7	14,619,937	7,587,891
Total non-current assets		51,813,858	36,206,063
CURRENT ASSETS			
Inventories	8	4,517,112	2,024,095
Receivables	9	6,151,120	4,220,499
Taxation recoverable		15,369	-
Bank current accounts and cash	10	1,882,573	781,032
Bank deposit accounts	10	7,199,667	2,449,218
Total current assets		19,765,841	9,474,844
TOTAL ASSETS		71,579,699	45,680,907
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		5,791,402	2,004,401
Advance contribution for share capital		12,885,036	5,826,574
Accumulated reserves		1,344,060	345,391
Total shareholders' equity		34,802,460	22,958,328
NON-CURRENT LIABILITIES			
Deferred income	11	11,119,070	7,200,157
Retirement benefit fund	12	-	1,477,090
Other borrowings	13	12,160,272	2,456,845
Bank borrowings	16	-	168,772
Deferred tax liability	15	9,340,672	1,092,445
Obligations under finance leases	17	625,840	98,599
Total non-current liabilities		33,245,854	12,493,908
CURRENT LIABILITIES			
Bank overdraft	10	-	423,635
Payables	19	2,473,330	2,878,557
Taxation payable		480,872	26,020
Pension arrears	20	641	601,025
Other borrowings	13	85,656	6,121,171
Bank borrowings	16	-	85,226
Dividend		6,265	-
Obligations under finance leases	17	484,621	93,037
Total current liabilities		3,531,385	10,228,671
TOTAL EQUITY AND LIABILITIES		71,579,699	45,680,907

The financial statements were authorised for issue by the Board of Directors on 30 December 2013 and were signed on its behalf by:

Director

Director

The financial statements should be read in conjunction with the notes on pages 30 to 60.
The independent auditor's report is on page 23.

In thousands of Malawi Kwacha

Statement of Comprehensive Income

INCOME	Notes	2013	2012 Restated
Revenue	21	33,613 929	17,193,062
Other income	22	789,328	5,371,364
		34,403,257	22,564,426
EXPENDITURE			
Generation expenses	21	2,531,599	1,387,923
Transmission expenses	21	1,647,498	1,137,951
Distribution expenses	21	9,628,755	4,562,964
Head office expenses	21	6,072,837	4,542,240
Depreciation expenses	21	1,629,461	1,266,191
		21,510,150	12,897,269
Operating profit		12,893,107	9,667,157
Impairment loss on receivables	9	(1,030,691)	37,412
		11,862,416	9,704,569
Finance income	23	767,872	278,883
Finance expenses	23	(790,317)	(2,541,964)
Net finance expenses		(22,445)	(2,263,081)
Profit before income tax		11,839,971	7,441,488
Taxation	26	(6,773,553)	(1,471,797)
Profit for the year		5,066,418	5,969,691
Other comprehensive income, net of deferred tax			
Revaluation surplus		3,787,001	-
Total comprehensive income for the year		8,853,419	5,969,691

The financial statements should be read in conjunction with the notes on pages 30 to 60.
The independent auditor's report is on page 23.

Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

In thousands of Malawi Kwacha

Statement of Changes in Equity

	Share capital	Share premium	Preference shares	Advance contribution for share capital	Pre-incorporation reserves	Revaluation reserves	Accumulated reserves	Total
Year ended 30 June 2012								
At beginning of year, as previously reported	110,000	13,750,820	530,000	-	391,142	2,036,077	(3,989,769)	12,828,270
Prior year adjustment	-	-	-	-	-	-	(1,266,207)	(1,266,207)
	110,000	13,750,820	530,000	-	391,142	2,036,077	(5,255,976)	11,562,063
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	5,969,691	5,969,691
Total comprehensive income for the year	-	-	-	-	-	-	5,969,691	5,969,691
Transactions with owners of the Corporation								
Dividends paid	-	-	-	-	-	-	(400,000)	(400,000)
Advance contribution for share capital	-	-	-	5,826,574	-	-	-	5,826,574
Excess depreciation	-	-	-	-	-	(31,676)	31,676	-
Total transactions with owners of the Corporation	-	-	-	5,826,574	-	(31,676)	(368,324)	5,426,574
At end of year	110,000	13,750,820	530,000	5,826,574	391,142	2,004,401	345,391	22,958,328

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Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

In thousands of Malawi Kwacha

Statement of Changes in Equity

	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								
Dividends paid	-	-	-	-	-	-	(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 30 to 60.
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Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

In thousands of Malawi Kwacha

Statement of Changes in Equity

Analysis of share capital:	2013	2012
Authorised and issued		
55,000,000 (2012:55,000,000) Ordinary shares of MK2 each	110,000	110,000
Issued and fully paid		
55,000,000 (2012:55,000,000) Ordinary shares of MK2 each	110,000	110,000
Irredeemable non-cumulative 2.5% preference shares of MKI each	530,000	530,000

Irredeemable non-cumulative preference shares

The 530 million preference shares of MKI each were issued at a premium of MK387.66 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 company on incorporation.

Revaluation reserve

The revaluation reserve, which represents the excess of carrying value of land and buildings over cost, is not distributable until or unless the related land and buildings are realised.

Advance contribution for the share capital

During the year, the Malawi Government approved the conversion of MK7.1 billion (2012: MK5.8 billion) Government loans to equity. The company has not yet issued the related shares to the Malawi Government.

Prior year adjustment

This relates to adjustments for deferred tax liabilities which were not being recognised in respect of deferred income. As a result of this adjustment, the accumulated reserves have been reduced by a similar amount, as follows:

	As previously reported	Adjustments	Restated amount
At 30 June 2011	(3,989,769)	(1,266,207)	(5,255,976)
At 30 June 2012	6,186,990	(217,299)	5,969,691

The financial statements should be read in conjunction with the notes on pages 30 to 60.
The independent auditor’s report is on page 23.

Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

In thousands of Malawi Kwacha

Statement of Cash Flows

	Note	2013	2012
Cash generated from operations	27	7,041,540	5,275,307
Interest paid		(790,317)	(970,329)
Taxation		(105,710)	(278,121)
Net cash generated from operations		6,145,513	4,026,857
Cash flows from investing activities			
Expenditure on property, plant and equipment including capital work in progress		(12,313,944)	(4,772,686)
Proceeds from sale of property, plant and equipment		39,687	31,923
Interest received		657,457	218,381
Net cash used in investing activities		(11,616,800)	(4,522,382)
Cash flows from financing activities			
Repayment of finance leases		(279,692)	(115,686)
Repayments of bank borrowings		(253,998)	(124,946)
Finance lease additions		1,198,517	-
Receipts from borrowings		6,996,407	-
Dividend paid		-	(400,000)
Grants and capital contributions received		4,085,678	1,683,363
Net cash flow from financing activities		11,746,912	1,042,731
Increase in cash and cash equivalents		6,275,625	547,206
Cash and cash equivalents at beginning of the year		2,806,615	2,259,409
Cash and cash equivalents at end of the year	10	9,082,240	2,806,615
Analysis of cash and cash equivalents			
Bank current accounts and cash	10	1,882,573	781,032
Bank deposit accounts	10	7,199,667	2,449,218
Bank overdraft		-	(423,635)
	10	9,082,240	2,806,615
ADDITIONAL STATUTORY INFORMATION			
Increase in net working capital		16,986,563	5,120,477

The financial statements should be read in conjunction with the notes on pages 30 to 60.
The independent auditor’s report is on page 23.

In thousands of Malawi Kwacha

Notes to the Financial Statements

1. REPORTING ENTITY

The principal activities of the corporation include the generation, transmission and distribution of electricity and letting out of fibre-optic communication services to users in data transmission through provision of bandwidth. The company's principal place of business and the address of its registered office is ESCOM House, 9 Haile Selassie Road, P.O. Box 2047, Blantyre, Malawi.

2. 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 company'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 recognised 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 recognised in the financial statements is included in the "Critical accounting estimates and judgments" note to the financial statements. (see note 5).

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 statement of financial position date. The basis of valuation used is Depreciated Replacement Cost. Surpluses on revaluations are transferred to the non-distributable reserve; on realisation (either through use or disposal) of the asset, the appropriate portion of the reserve is transferred to retained profit. Deficits on revaluations are charged to the 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 company and the cost of the item can be measured reliably. All repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Notes to the Financial Statements

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

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

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

Depreciation is not provided on freehold land and capital work in progress.
The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at least annually.
Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in the income statement.

3.2 Foreign currency translation

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

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

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial assets (continued)

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.

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.

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 the 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.

Notes to the Financial Statements

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the company manages together and has a recent:

(i) Actual pattern of short-term profit-taking; or

(ii) It is a derivative that is not designated and effective as a hedging instrument. A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, and information about the grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Other financial liabilities

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

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

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

3.5 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position 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 landed cost. Goods in transit are valued at invoiced cost.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8 Impairment of non-financial assets

At each statement of financial position date, the company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

3.9 Revenue

Revenue arises from sale of electricity to post paid and prepaid customers. For prepaid customers the amount of units sold is recognised based on meter readings made during the period, where meters have not been read, estimated readings (based on average usage in the previous 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 estimates to be used in subsequent period are 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 instalments over the useful lives of the related assets.

Cash receipts from customers on prepaid meters for payment of electricity units consumed after reporting date are also recognised as deferred income. These are taken to profit or loss when the units are consumed.

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 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 company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the 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

Notes to the Financial Statements

difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

3.12 Retirement benefits

The company contributes to a defined contribution pension scheme for employees. Contributions are charged to 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 company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 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 company.

4.2 Standards and interpretations in issue but not effective

Effective for the financial year commencing 1 July 2013

- IFRS 1 amendment Government Loans
- IFRS 7 amendment Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 10, IFRS 11 and IFRS 12 amendments Consolidated Financial Statements, Joint Arrangements and

Disclosure of Interests in Other Entities: Transition Guidance

- IFRS 13 Fair Value Measurement
- IAS 19 (amendments) Employee Benefits: Defined Benefit Plans
- IAS 27 Separate Financial Statements (2011)

In thousands of Malawi Kwacha

Notes to the Financial Statements

4 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

4.2 Standards and interpretations in issue but not effective (continued)

- IAS 28 Investments in Associates and Joint Ventures (2011)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Annual Improvements to IFRS 2009-2011 Cycle- Various Standards

Effective for the financial year commencing 1 July 2014
- IAS 32 Offsetting Financial Assets and Financial Liabilities
- IFRS 10, IFRS 12 and IAS 27 amendment Investment entities
- IFRIC 21 Levies
- Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36)

Effective for the financial year commencing 1 July 2015
- IFRS 9 Financial Instruments

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

5.1 Critical judgements in applying the company's accounting policies

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

5.2 Key sources of estimation 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 buildings were revalued as at 30 June 2013 by D.R. Whayo B.Sc. (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 company reviews the estimated useful lives and residual values of property, plant and equipment at the end of each annual reporting period as described in note 3.1.

Notes to the Financial Statements

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant and machinery generation	Other office Distribution	Motor equipment	vehicles	Total
2012						
Cost or valuation						
At beginning of year	2,302,402	18,801,858	11,155,344	1,204,124	1,045,680	34,509,408
Additions	36,733	452,849	192,155	517,192	735,552	1,934,481
Transfers from capital work in progress	-	-	754,300	-	-	754,300
Disposals	-	(10,702)	-	-	(20,066)	(30,768)
Derecognitions	(49,002)	(1,994)	(18,457)	(68,655)	(161,875)	(299,983)
At end of the year	2,290,133	19,242,011	12,083,342	1,652,661	1,599,291	36,867,438
Depreciation						
At beginning of the year	70,899	4,010,563	2,329,884	541,486	290,741	7,243,573
Less derecognised assets	(5,650)	(937)	(15,987)	(54,297)	(162,540)	(239,411)
Prior year adjustment	-	-	8,310	(955)	(4,763)	2,592
Charge for the year	72,020	447,324	430,183	136,455	180,209	1,266,191
Disposals	(1,384)	(1,057)	(2,470)	(15,073)	(3,695)	(23,679)
At end of the year	135,885	4,455,893	2,749,920	607,616	299,952	8,249,266
Net book value						
At end of the year	2,154,248	14,786,118	9,333,422	1,045,045	1,299,339	28,618,172

	Land and buildings	Plant and machinery generation	Other office Distribution	Motor equipment	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						
At beginning of the year	135,886	4,455,893	2,749,920	607,616	299,952	8,249,267
Less derecognised 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 derecognised 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
Net book value						
At end of the year	7,224,383	15,694,488	10,456,073	1,189,473	2,629,501	37,193,921

In thousands of Malawi Kwacha

Notes to the Financial Statements

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 Rivers catchment area.

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

International Accounting Standard 36: Impairment of Assets, requires that where there is evidence that indicates that an asset's economic performance will be less than expected then the asset is assessed for impairment. An impairment loss should then be recognised in the financial statements where appropriate. No impairment loss has been recognised in these financial statements, as for most of the period ESCOM is able to generate the power requirements of the country.

Valuation of land and buildings

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

	2013	2012
Land and buildings at cost or revaluation comprises the following:		
Leasehold - at cost	110,890	110,890
Freehold - at 2013 valuation	3,211,515	681,170
Leasehold - at 2013 valuation	3,925,184	1,498,073
Total cost or valuation at end of the year	7,247,589	2,290,133

Derecognitions and verification of assets

The Corporation carried out a physical verification of assets as at 30 June 2013. 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 ESCOM 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 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.

Encumbrance

The assets are encumbered as disclosed in notes 16, 17 and 18.

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 regards. The Corporations properties are charged for various borrowings and facilities as disclosed in note 18.

Notes to the Financial Statements

7. CAPITAL WORK IN PROGRESS

	2013	2012
Balance at beginning of the year	7,587,891	3,789,576
Additions:		
Funded from borrowings	3,943,604	-
Funded from internal resources	4,339,216	2,273,126
Funded from capital grants	353,881	2,279,489
Exchange gains on foreign loans capitalised	(275,691)	-
Total cost or valuation at end of the year	15,948,901	8,342,191
Transfer to property, plant and equipment	(1,328,964)	(754,300)
Balance at end of the year	14,619,937	7,587,891
Capital work in progress is analysed as follows:		
Projects	13,379,370	6,815,618
General development	1,240,567	772,273
Total capital work in progress	14,619,937	7,587,891

8. INVENTORIES

General stores	4,177,610	1,307,897
Goods in transit	612,186	721,473
Provision for obsolete inventory	(272,684)	(5,275)
Total inventories	4,517,112	2,024,095

9. RECEIVABLES

Trade receivable	7,418,554	3,951,423
Staff loans and advances	287,738	374,959
Other receivables and prepayments	430,832	868,673
Gross receivables	8,137,124	5,195,055
Doubtful debt provisions:		
- Trade receivables	(1,591,864)	(901,258)
- Government accounts	(350,884)	(10,799)
	6,194,376	4,282,998
Receivables impairment provision	(43,256)	(62,499)
Total receivables	6,151,120	4,220,499

Included in staff loans and advances are housing loans of MK 82m (2012: MK136 m) which are repayable over periods of up to twelve years. Staff housing loans are secured by charges over the related properties. These are brought forward balances since ESCOM stopped giving out housing 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.

In thousands of Malawi Kwacha

Notes to the Financial Statements

9. RECEIVABLES (CONTINUED)

	2013	2012
Movement in allowance for doubtful debts		
At beginning of the year	912,057	949,469
Increase/(decrease) in the year	1,030,691	(37,412)
At end of the year	1,942,748	912,057

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.

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 2013 represent their fair value as at that date.

10. CASH AND CASH EQUIVALENTS

	2013	2012
Bank current accounts and cash	1,882,573	781,032
Bank deposit accounts	7,199,667	2,449,218
At end of the year	9,082,240	3,230,250
Bank overdraft	-	(423,635)
	9,082,240	2,806,615

The deposits accounts were earning interest at a rate of 37% as at 30 June 2013.

11. DEFERRED INCOME

	Government grants	Capital contributions	2013 Total	2012 Total
At beginnings of the year	2,423,381	4,776,776	7,200,157	5,670,685
Received during the year	2,515,993	1,569,685	4,085,678	1,683,363
Prior year adjustment	-	-	-	329
Released to statement of comprehensive income during the year	(29,683)	(137,083)	(166,765)	(154,220)
At end of the year	4,909,691	6,209,378	11,119,070	7,200,157

12. RETIREMENT BENEFIT FUND

	2013	2012
At beginning of the year	1,477,090	781,595
Payment made during the year	(2,294,062)	(9,412)
Charge for the year	816,972	704,907
At end of the year	-	1,477,090

Upon retirement or expiry of employment contract, ex gratia payments were made 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 authorised payment of ex gratia to qualifying members of staff. The retirement fund at 30 June 2013 shows no liability due to payment of all liability in April 2013.

Notes to the Financial Statements

In previous years, the provision, which is unfunded, was based on the assumption that salaries would increase broadly in line with inflation. An actuarial valuation of the obligation was carried out as at 30 June 2008 by QED Actuaries and Consultants (Pty) Limited of South Africa represented by Giulia Tognon, Fellow of the Actuarial Society of South Africa who provided for estimates up to 2013 on the basis that there would be no significant changes in the work force and the underlying assumptions.

The assumptions used were:

- Discount rate of 8.5% per annum
- Salary increase rate of 7% per annum
- Redundancy rate of 3% per annum at all ages
- Voluntary withdrawals rate of 12 % at age 18, reducing to nil from age 50
- Mortality at a rate of 0.4% at age 20, increasing to 0.8% from age 50

13. OTHER BORROWINGS

		2013	2012
Balance at beginning of the year			
Gross amount receivable		8,578,016	12,471,747
Additions:	- interest charges	469,339	408,617
	- repayments	(46,900)	-
	- exchange losses expensed	137,635	1,564,838
Less:	- converted into equity	(2,996,978)	(5,826,574)
	- write offs	-	(921,883)
	- Interest paid	(799,672)	(874,913)
	- Kapichira Phase II	6,996,407	2,245,153
	- Movement in fair value of zero coupon bond	(91,919)	(488,969)
Total borrowings at end of the year		12,245,928	8,578,016
Less amounts included in current liabilities		(85,656)	(6,121,171)
Non-current borrowings		12,160,272	2,456,845
Analysis of current borrowings			
Amounts due within one year		-	3,307,456
Principal and interest in arrears		85,656	2,813,715
		85,656	6,121,171
Details of borrowings are set out below:			
Government of Malawi		10,916,793	6,973,190

These Malawi Kwacha loans were repayable over terms of up to 30 years and carry interest at rates varying between 3% (2013) and 12% (2012).

Included in the Government loans is a soft loan amounting to MK10,916m from Malawi Government. The loan was obtained from the Malawi Government for the construction works at Kapichira Power Station. The loan bears no interest but the formal agreement incorporating all the terms and conditions of the loans have not been signed.

	2013	2012
Development Bank of Southern Africa	2,927,531	3,237,314

The loan is denominated in South African Rands. The capital amount is repayable in one payment after a grace period of 15 years in 2019. The loan is secured by a Cessation and Pledge Agreement in respect of a zero coupon bond with a maturity value of the principal amount which is R85 million after 15 years. Interest is at the rate of 3 months ZAR-JIBAR-SAFEX plus operating and funding cost margin currently 0.9% (2012: 0.9%) plus a 5% (2012: 5%) risk margin. Interest is repayable half yearly in arrears. The loan is guaranteed by the Government of Malawi.

In thousands of Malawi Kwacha

Notes to the Financial Statements

13. OTHER BORROWINGS (CONTINUED)

	2013	2012
Fair value of zero coupon bond held with Investec Bank	(1,846,235)	(1,833,994)

World Bank Project Preparatory Fund

The purpose of this loan is to finance the preparation activities for the Southern African Power Pool Project. The fund amount is US$380,000. The loan is guaranteed by the Government of Malawi. The project failed and the loan has become immediately payable and is therefore classified as current liability.

	2013	2012
	247,839	201,506
Total borrowings	12,245,928	8,578,016

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

	2013	2012
Dates of repayment:		
Within 5 years	85,656	4,589,336
Between 5 and 10 years	995,640	68,294
After 10 years	11,164,632	3,920,386
	12,245,928	8,578,016
The loans are repayable in:		
Malawi Kwacha	10,916,793	5,948,832
Foreign currencies	1,329,135	2,629,184
	12,245,928	8,578,016

Defaults and break and breaches of Loan Agreements

Development Bank of Southern Africa Limited (DBSA)

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

Ratios	Required	Actual 2013	Actual 2012
Debt/equity	1:1	0.30:1	0.45:1
Debt to capital employed ratio %	50	30	45
Liquidity ratio	1.2:1	4.77:1	1.32:1

Article 11 of the Agreement states that DBSA is entitled, after giving the borrower 30 days notice, to suspend draw downs from the loan or to terminate the agreement and claim from the borrower immediate payment of all outstanding amounts should the borrower commit any breach of this agreement, provided that DBSA may at its entire discretion, dispense with the giving of the 30 (thirty) days notice. ESCOM has not obtained a waiver from DBSA to prevent the loan from being recalled. The full amount of the loan has been classified as a current liability.

Subsequent to year end the Corporation repaid the loan through netting off the loan with the zero coupon bond and the difference was paid out of its cash flows as it had enough resources to do so.

Government loans

As at 30 June 2013, all Government loans were converted into equity.

Notes to the Financial Statements

14. HIPC FUNDS

	2013	2012
Movement in HIPC funds:		
At beginning of the year	-	3,139,601
Accrued interest on HIPC funds	-	(3,139,601)
At end of the year	-	-

In the current year, the Malawi Government approved the conversion of all remaining Government loans into equity as explained on page ZZ except for Kapichira loan, the project for which is still in progress. In addition, in the current year the Government authorised the Corporation to convert into equity the HIPC Loans which were written-off in 2012. The total amount written-off was MK4,061,484,000.

Below is the analysis of the loans which were written off:

	2013	2012
Government loans written off		
HIPC funds (note 14)	-	3,139,601
Borrowings (note 13)	-	921,883
Total Government loans written off	-	4,061,484

15. DEFERRED TAX

Deferred tax assets and liabilities

15A

2012

	Assets	Liabilities	Net
Tax losses	(6,402,238)	-	(6,402,238)
Accelerated capital allowances	-	6,974,485	6,974,485
Revaluation surplus	-	601,368	601,368
Deferred income	-	1,483,506	1,483,506
Other temporary differences	(1,564,676)	-	(1,564,676)
	(7,966,914)	9,059,359	1,092,445

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

In thousands of Malawi Kwacha

Notes to the Financial Statements

15. DEFERRED TAX (CONTINUED)

Deferred tax assets and liabilities (continued)

15B

Movement in deferred tax was as follows:

	At beginning of year, as previously reported	Prior year adjustment	At beginning of year, as restated	Recognised in profit or loss	Recognised in other comprehensive income	At end of year
Tax losses	(7,736,330)	-	(7,736,330)	1,334,092	-	(6,402,238)
Accelerated capital allowances	6,709,371	-	6,709,371	265,114	-	6,974,485
Revaluation surplus	610,823	610,823	(9,455)	601,368		
Deferred income	-	1,266,207	1,266,207	217,299		1,483,506
Other temporary differences	(894,581)	-	(894,581)	(670,095)	-	(1,564,676)
	(1,310,717)	1,266,207	(44,510)	1,146,410	(9,455)	1,092,445

	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

16 BANK BORROWINGS

	2013	2012
National Bank of Malawi	-	253,998
Analysed as:		
Amount due within one year	-	85,226
Amount due after one year	-	168,772
Total	-	253,998
Movement in the year		
At beginning of the year	253,998	378,944
Repayments	(253,998)	(124,946)
Interest charge	45,348	55,396
Interest paid	(45,348)	(55,396)
At end of the year	-	253,998

The borrowings carry interest of 35% p.a. (2012: 23.75% p.a) for National Bank of Malawi (2.75% below base rate). The National Bank of Malawi 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.

Notes to the Financial Statements

17. OBLIGATIONS UNDER FINANCE LEASES

	2013	2012
Malawi Savings Bank	660,714	-
Leasing and Finance Company of Malawi Limited	1,913	860
National Bank of Malawi	345,656	-
Standard Bank of Malawi Limited	102,178	190,776
Total finance leases	1,110,461	191,636
Analysed as:		
Amount due within one year	484,621	93,037
Amount due after one year	625,840	98,599
	1,110,461	191,636
Movement in the year		
At beginning of the year	191,636	307,322
Additions	1,198,517	-
Repayments	(279,692)	(115,686)
Interest charge	299,108	35,049
Interest paid	(299,108)	(35,049)
At end of year	1,110,461	191,636

The leases carry interest of 37.75% p.a. (2012: 31% p.a.) for Standard Bank of Malawi and 20% p.a. (2012: 19.5% p.a.) for Leasing and Finance Company of Malawi Limited 36.8% for Malawi Savings Bank, 37.75% for National Bank of Malawi Limited. The leases are secured over the vehicles they finance.

Subsequent to year end the Corporation repaid all its obligations under the finance leases as it had sufficient cash flows to do so.

18. FINANCING FACILITIES

The Corporation has the following banking facilities with National Bank of Malawi:

Secured overdraft facility	450,000	450,000
Secured documentary credit facility reviewed annually	250,000	50,000
Secured revolving Bank Insurance Premium	-	100,000
Secured long term loan	-	527,375
Revolving finance lease	400,000	150,000

These facilities are secured on the following securities held by the bank:

a. Board resolution authorising aggregate borrowings.
b. Ministry of Finance consent for MK1,551,118,390.
c. Bill of sale over vehicles financed under finance lease facility.
d. Letter of undertaking by the Corporation to the bank assigning all proceeds of the Corporation's from major customers: Illovo Sugar (Malawi) Limited, Limbe Leaf Tobacco Company Limited, Unilever South East Africa (Pvt) Limited, The Bottling and Brewing Group Limited, Packaging Industries (Malawi) Limited, Blantyre Water Board.
e. All assets debenture for MK300m.
f. Letter of undertaking to create a charge of MK200m and debenture for MK300m if called upon to do so; and
g. A charge of MK200m over the Corporation's Head office building valued by Knight Frank at MK610m as at 30 June 2013.

In thousands of Malawi Kwacha

Notes to the Financial Statements

19. PAYABLES

	2013	2012
Trade and other payables	1,939,471	2,221,944
Project payables and retention	63,451	420,891
Customer deposits	470,408	235,722
Total payables	2,473,330	2,878,557

Included in payables are liabilities of MK241m (2012: MK213m) denominated in foreign currencies. The average trade payables period is 60 days. No interest is charged on overdue balances.

20. PENSION ARREARS

At beginning of the year	601,025	919,318
Payments made during the year	(600,384)	(385,275)
Charge for the year	-	66,982
At end of the year	641	601,025

The amount relates to transition pension dues which arose in the prior year on adoption of the Pension Act, 2010. The amount is payable to a pension fund over an eight year period.

21. 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 operatations 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.

	2013			2012		
	Electricity	Fibre optic	Total	Electricity	Fibre optic	Total
Revenue	33,290,128	323,801	33,613,929	17,048,018	145,044	17,193,062
Other income (Note 22)	789,328	-	789,328	5,371,364	-	5,371,364
Total income	34,079,456	323,801	34,403,257	22,419,382	145,044	22,564,426
Operating expenditure:						
Generation expenses						
Personnel expenses	1,071,493	-	1,071,493	677,865	-	677,865
Services supplies and sundry	457,920	-	457,920	206,277	-	206,277
Operation costs	280,638	-	280,638	84,697	-	84,697
Maintenance expenses	603,119	-	603,119	414,097	-	414,097
Training	118,429	-	118,429	4,987	-	4,987
	2,531,599	-	2,531,599	1,387,923	-	1,387,923

Notes to the Financial Statements

	2013			2012		
	Electricity	Fibre optic	Total	Electricity	Fibre optic	Total
Transmission						
Personnel expenses	703,488	-	703,488	454,371	-	454,371
Services supplies and sundry	271,225	-	271,225	159,767	-	159,767
Operation costs	157,609	-	157,609	71,578	-	71,578
Maintenance expenses	473,369	-	473,369	443,694	-	443,694
Training expenses	41,807	-	41,807	8,541	-	8,541
	1,647,498	-	1,647,498	1,137,951	-	1,137,951
Distribution expenses						
Personnel expenses	2,854,119	-	2,854,119	1,750,143	-	1,750,143
Services supplies and sundry	3,225,089	-	3,225,089	1,349,724	-	1,349,724
Operation costs	704,993	-	704,993	352,852	-	352,852
Maintenance expenses	2,753,050	-	2,753,050	1,090,670	-	1,090,670
Training expenses	91,504	-	91,504	19,575	-	19,575
	9,628,755	-	9,628,755	4,562,964	-	4 562 964
Head office expenses						
Personnel expenses	1,790,025	27,455	1,817,480	1,389,995	18,847	1,408,842
Services supplies and sundry	3,374,012	57,137	3,431,149	2,850,030	25,405	2,760,700
Operation costs	212,130	10,188	222,318	100,904	2,760	103,664
Maintenance expenses	218,718	3,694	222.412	143,404	9,870	153,274
Training expenses	372,754	6,724	379,478	114,470	1,290	115,760
	5,967,639	105,198	6,072,837	4,598,803	58,172	4,542,240
Depreciation	1,621,916	7,545	1,629,461	1,258,646	7,545	1,266,191
	1,621,916	7,545	1,629,461	1,258,646	7,545	1,266,191
Total expenses	21,397,407	112,743	21,510,150	12,946,287	65,717	12,897,269
Operating profit	12,682,049	211,058	12,893,107	9,473,095	79,327	9,667,157

22. OTHER INCOME

	2013	2012
Sundry income	730,643	702, 429
Fair value loss / gain on zero coupon bond	(79,677)	488,969
Government loans written-off (Note 14)	-	4,061,484
Capital contribution and Government grant released (Note 11)	166,765	154,220
Loss on disposal of assets	(28,403)	(35,738)
	789,328	5,371,364

In thousands of Malawi Kwacha

Notes to the Financial Statements

23. NET FINANCE INCOME/EXPENSES

	2013	2012
Finance income		
Interest received - Bank deposits	550,870	218,381
- Customer balances	91,669	44,182
- Staff receivables	14,918	16,320
Foreign exchange gains (Note 24)	110,415	-
	767,872	278,883
Finance expenses		
Interest paid - Borrowings	782,315	408,581
- Bank overdraft	8,002	4,971
Foreign exchange losses (Note 24)	-	2,128,412
	790,317	2,541,964
Net finance expenses	(22,445)	(2,263,081)

24. EXCHANGE LOSSES/(GAINS)

		Funding of capital assets	Other liabilities	2013	2012
Realised	- bank deposit	-	(303,424)	(303,424)	(19,046)
	- short term (payables)	7,473	-	7,473	(43,711)
		7,473	(303,424)	(295,951)	(62,757)
Unrealised	- borrowings	79,889	-	79,889	525,291
	- short-term (payables)	25,970	-	25,970	20,978
	- assets (Zero Coupon Bond)	79,677	-	79,677	1,644,900
Total unrealised		185,536	-	185,536	2,191,169
Total exchange losses/(gains)		193,009	(303,424)	(110,415)	2,128,412

25. PROFIT BEFORE TAXATION

		2013	2012
Profit before taxation is arrived at after taking into account:			
Auditors' remuneration	- current period	15,000	22,173
	- prior period	1,361	2,337
Directors' fees		2,024	2,393
Directors expenses		50,750	24,530
Exchange losses		(110,415)	1,639,443
Government loans written-off		-	(4,061,484)
Pension costs		337,097	66,982
Retirement benefit charge		816,972	97,465
Staff costs		6,107,011	4,831,682

Notes to the Financial Statements

26. TAXATION

	2013	2012
a) Income tax expense		
Deferred taxation	6,773,553	1,146,410
Charge for the year	-	325,387
Total income tax	6,773,553	1,471,797
b) The standard rate of tax is reconciled as follows:		
Standard rate	30%	30%
Deferred tax asset not recognised in previous years	-	-
Permanent differences	4%	(13%)
Effective rate of tax	26%	17%

c) Tax payable

Assessed tax losses

The deferred asset on tax losses has been recognised in the financial statement in the current year as the directors believe that the Corporation will, in future, make taxable profits which will be allowed to offset the tax losses.

27. RECONCILIATION OF PROFIT BEFORE INTEREST AND TAXATION TO CASH GENERATED FROM OPERATIONS

	2013	2012
Profit before interest and taxation	12,079,417	7,636,659
Depreciation of property, plant and equipment	1,629,461	1,266,191
WIP write off and derecognition of assets	-	60,572
Loss on disposal of assets	28,403	35,738
Capital contributions and grants released to profit	(166,920)	(154,220)
Net exchange losses expensed	(141,657)	2,128,412
Zero coupon bond fair value gain	79,677	(488,969)
Government loan written off	-	(4,061,484)
	13,508,381	6,422,899
Movements in working capital:		
Movement in inventories	(2,493,017)	(1,039,575)
Movement in receivables	(1,945,909)	(1,455,536)
Movement in payables	49,559	970,317
Movement in retirement benefit provision	(2,077,474)	695,495
Movement in pension arrears	-	(318,293)
Cash generated from operations	7,041,540	5,275,307

27. RECONCILIATION OF PROFIT BEFORE INTEREST AND TAXATION TO

	2013	2012
Profit before interest and taxation is determined as follows:		
Profit before taxation	11,839,971	7,441,488
Interest on borrowings, finance leases and bank borrowings	782,315	408,581
Interest on bank overdraft	8,002	4,971
Interest receivable	(550,871)	(218,381)
Profit before interest and taxation	12,079,417	7,636,659

In thousands of Malawi Kwacha

Notes to the Financial Statements

28. CAPITAL COMMITMENTS

	2013	2012
Authorised by the Corporation and contracted	192,838	890,173
Authorised by the Corporation but not contracted	7,996,108	7,563,909
Total commitments	8,188,946	8,454,082

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

29. CONTINGENT LIABILITIES

29.1 Legal claims

	2013	2012
	620,818	529,454

The Corporation is a defendant to several legal cases in the courts of Malawi. The Corporation engages external 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. 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.

29.2 Guarantees

The company makes an undertaking by introducing its employees to various financial institutions to obtain personal loans. The company undertakes to continue remitting the employees' salaries to such institutions. The company'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 company for whatever reason, the financial institutions have no recourse against the company.

29.3 Letters of credit

	2013	2012
	38,824	-

30. RELATED PARTY TRANSACTIONS

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

	2013	2012
Receivables		
Statutory corporations	604,670	197,003
Government departments	499,580	136,430
Specific provision for bad debts	(317,028)	(10,799)
	787,222	322,634
Loans		
Government of Malawi including SIDA and EIB Loan	-	6,973,190
Dividend payable to		
Government of Malawi	-	400,000
Compensation of key management staff		
Salaries, bonuses and benefits	135,011	100,452

Notes to the Financial Statements

	2013	2012
The following transactions were carried out with related parties:		
Interest on Government of Malawi Loans	-	29,112
Sales to Statutory Corporations	3,021,112	1,467,031
Sales to Government Departments	1,530,287	816,610
	4,551,399	2,283,641

31 FINANCIAL ASSETS AND LIABILITIES

Accounting categories and fair values	Notes	Held to maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
30 June 2013						
Assets						
Receivables	9	-	6,151,120	-	6,151,120	6,151,120
Bank current account and cash	10	-	1,882,573	-	1,882,573	1,882,573
Bank deposit account	10	7,199,667	-	-	7,199,667	7,199,667
Total financial assets		7,199,667	8,033,693	-	15,233,360	15,233,360
Liabilities						
Borrowings	13	-	-	12,245,928	12,245,928	12,245,928
Finance leases	17	-	-	1,110,461	1,110,461	1,110,461
Payables	19	-	-	2,473,971	2,473,971	2,473,971
Total financial liabilities		-	-	15,830,360	15,830,360	15,830,360
30 June 2012						
Assets						
Receivables	9	-	4,220,499	-	4,220,499	4,220,499
Bank current account and cash	10	-	781,032	-	781,032	781,032
Bank deposit account	10	2,449,218	-	-	2,449,218	2,449,218
Total financial assets		2,449,218	5,001,531	-	7,450,749	7,450,749
Liabilities						
Borrowings	13	-	-	8,578,016	8,578,016	8,578,016
Bank borrowings	16	-	-	253,998	253,998	253,998
Finance leases	17	-	-	191,636	191,636	191,636
Bank overdraft	10	-	-	423,635	423,635	423,635
Payables	19	-	-	3,479,582	3,479,582	3,479,582
Total financial liabilities		-	-	12,926,867	12,926,867	12,926,867

In thousands of Malawi Kwacha

Notes to the Financial Statements

32. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

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

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

Risk management framework

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

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

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

(b) Credit risk

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

Management of credit risk

The 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 Finance and Audit Committee to ensure that the risk is minimised. Some of the measures being taken to reduce the risk are:

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

Notes to the Financial Statements

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

	2013	2012
Gross maximum exposure		
Financial assets		
Receivables	6,151,120	4,220,499
Bank current account	1,882,573	781,030
Bank deposits accounts	7,199,667	2,449,218
Taxation recoverable	15,369	-
Total	15,248,729	7,450,747

The company'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.

	2013	2012
Trade receivables		
Gross amount	7,418,554	3,951,423
Allowance for impairment losses	(1,942,748)	(912,057)
Carrying amount	5,475,806	3,039,366
Past due but not impaired	101,187	364,460
Past due comprises:		
60 days	101,187	293,059
60-90 days	-	71,401
	101,187	364,460

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

In thousands of Malawi Kwacha

Notes to the Financial Statements

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity risk (continued)

Cash flow uncertainty is the company'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 company will have to raise cash from other sources to meet its obligations.

Management of Liquidity Risk

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

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

Other methods that are used include:

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

Notes to the Financial Statements

The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at 30 June 2013 to the contractual maturity date.

	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 account and cash		1,882,573	-	-	-	1,882,573	1,882,573
Bank deposits accounts		7,199,667	-	-	-	7,199,667	7,199,667
Taxation recoverable		-	-	15,369	-	15,369	15,369
Total financial assets		12,349,130	1,279,381	778,092	842,126	15,248,729	15,248,729
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
Payables	19,20	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)	344,157	(11,943,986)	(581,631)	(581,631)
Cumulative mismatch		11,914,351	11,018,198	11,362,355	(581,631)		
30 June 2012							
Assets							
Receivables	9	1,776,170	1,084,251	646,393	713,685	4,220,499	4,220,499
Bank current account and cash		781,032	-	-	-	781,032	781,032
Bank deposits accounts		1,059,412	1,389,806	-	-	2,449,218	2,449,218
Total financial assets		3,616,614	2,474,057	646,393	713,685	7,450,749	7,450,749
Liabilities							
Borrowings	13	6,261,926	-	-	2,316,090	8,578,016	8,578,016
Bank borrowings	16	10,779	32,338	97,014	113,867	253,998	253,998
Finance leases	17	7,811	21,237	63,710	98,878	191,636	191,636
Bank overdraft	10	423,635	-	-	-	423,635	423,635
Payables	19	838,733	1,147,134	1,333,268	160,447	3,479,582	3,479,582
Total financial liabilities		7,542,884	1,200,709	1,493,992	2,689,282	12,926,867	12,926,867
Contractual liquidity mismatch		(3,926,270)	1,273,348	(847,599)	(1,975,597)	(5,476,118)	
Cumulative mismatch		(3,926,270)	(2,652,922)	(3,500,521)	(5,476,118)		

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

In thousands of Malawi Kwacha

Notes to the Financial Statements

(d) Market risk

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

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

This could be unexpected changes in the rate of inflation, 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 unfavourably to the company's interests.

Management of market risks

- Marketing, Environmental and Corporate Planning departments monitor the external environment (market) to detect market changes to ensure that the Company is in line with those changes;
- Prompt connection of new customers avoids alternative power usage by customers;
- Converting or replacing overdraft and floating rate finance with fixed rate finance where interest rates are expected to rise and vice versa when they are expected to fall; 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 company's interest rate risk is managed principally through borrowings from different banks at the best interest rates it can obtain and monitoring these loans to ensure that they are repaid on a timely basis.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the finance leases and other bank borrowings as at 30 June 2013. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at 30 June 2013 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% (2012: 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 2013 would decrease / increase by MK112.2 million (2012: MK86.927 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 company's maturity profile gap position on non-trading portfolio is as follows:

Notes to the Financial Statements

	Notes	Less than 1 month	1-3 Months	3-12 Months	Over 1 Year	Total	Carrying amount
30 June 2013							
Assets							
Bank current account 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
Taxation recoverable		-	15,369	-	-	15,369	15,369
Total financial assets		1,882,573	7,215,036	-	-	9,097,609	9,097,609
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		1,880,660	7,010,138	(363,466)	(12,786,112)	(4,258,780)	(4,258,780)
Cumulative mismatch		1,880,660	8,890,798	8,527,332	(4,258,780)		
30 June 2012							
Assets							
Bank current account and cash	10	781,032	-	-	-	781,032	781,032
Bank deposits accounts	10	1,059,412	1,389,806	-	-	2,449,218	2,449,218
Total financial assets		1,840,444	1,389,806	-	-	3,230,250	3,230,250
Liabilities							
Borrowings	13	6,261,926	-	-	2,316,090	8,578,016	8,578,016
Bank borrowings	16	10,779	32,338	97,014	113,867	253,998	253,998
Finance leases	17	7,811	21,237	63,710	98,878	191,636	191,636
Bank overdraft	10	423,635	-	-	-	423,635	423,635
Total financial liabilities		6,704,151	53,575	160,724	2,528,835	9,447,285	9,447,285
Contractual liquidity mismatch		(4,863,707)	1,336,231	(160,724)	(2,528,835)	(6,217,035)	(6,217,035)
Cumulative mismatch		(4,863,707)	(3,527,476)	(3,688,200)	(6,217,035)		

In thousands of Malawi Kwacha

Notes to the Financial Statements

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Currency risk

The company had the following significant foreign currency positions:

	USD	ZAR	EURO	Total
30 June 2013				
Assets	121,197	102,056	106,222	329,475
Bank deposits account	1,832,676	-	-	1,832,676
Total financial assets	1,953,873	102,056	106,222	2,162,151
Liabilities				
Borrowings	247,839	2,927,531		3,175,370
Payables	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)

	USD	ZAR	Swedish Kroner	EURO	Total
30 June 2013					
Assets					
Bank deposits account	24,943	-	-	-	24,943
Total financial assets	24,943	-	-	-	24,943
Liabilities					
Borrowings	109,167	1,568,385	65,617	426,526	2,169,695
Payables	260,906	59,622	-	186,376	506,904
Total financial liabilities	370,073	1,628,007	65,617	612,902	2,676,599
Net open position	(345,130)	(1,628,007)	(65,617)	612,902	(2,651,656)

	Rand		UD Dollar		Euro		Swedish Kroner	
	2013	2012	2013	2012	2013	2012	2013	2012
Profit or loss	295,789	323,731	169,809	34,999	10,622	153,192	-	-

This is mainly attributable to the exposure outstanding on payables denominated in Rands and the DBSA loan outstanding as at 30 June 2013 coupled with a change in fair value of the zero coupons bond that is also denominated in Rand.

(f) Operational risk

Operational risk arises from execution of the Company'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.

Notes to the Financial Statements

Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the returns to stakeholders through the optimisation of the debt and equity balance. The entity's overall strategy 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 expected increase in Generation capacity by another 64 Mgwts by December 2013 on commissioning of Kapichira phase II will improve the organisation's going concern strategy.

The commitment by donors such as 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.

Subsequent to reporting date the Corporation has substantially reduced its gearing ratio through repayment of some of its loans.

Gearing ratio

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

	2013	2012
Debt(i)	13,356,389	12,926,867
Cash and cash equivalents	(9,082,240)	(3,230,250)
Net debt	4,274,149	9,696,617
Equity (ii)	34,925,353	24,441,834
Net debt to equity ratio	0.12:1	0.40:1

(i) Debt includes borrowings and overdrafts
(ii) Equity includes capital and reserves

33. POST BALANCE SHEET EVENT

Subsequent to the reporting date, the loan payable to Development Bank of Southern Africa MK2,928 million and World Bank project preparatory fund MK248 million were fully repaid.

Subsequent to the reporting date, Government of Malawi, who are shareholders of the company decided to create a concession over the operations of Kapichira II project. In that regard, ESCOM will be required to pay a concession fee to Malawi Government for a specified number of years and at terms to be developed and included in the Concession agreement. At the reporting date, the concession agreement had not been drawn and agreed upon. As a consequence of the concession agreement, the loans and related capital work in progress of MK10.9 million included in liabilities and assets will be derecognised.

These loan repayments and alternative arrangements for Kapichira Phase II Project have been made in fulfillment of the requirements by the Millennium Challenge Corporation (MCC) and Millennium Account Corporation (Malawi) MCA.

The Development Bank of Southern Africa loan was settled by netting off the proceeds from the Zero coupon bond and use internal resources.

Part of the Corporation's head office building was destroyed by fire and the Corporation is yet to establish the extent of the damage.

In thousands of Malawi Kwacha

Notes to the Financial Statements

34. PRIOR YEAR ADJUSTMENT

Prior year adjustment relates to deferred tax liability on deferred income on customers capital contribution that was not provided for in the previous years.

35. COMPARATIVE INFORMATION

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

36. EXCHANGE RATES AND INFLATION

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

	2013	2012
Kwacha/US Dollar	337.96	275.60
Kwacha/Rand	34.94	35.30
Kwacha/Euro	440.72	425.60
Inflation rate (%)	27.9	20.1

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

Kwacha/US Dollar	434.50
Kwacha/Rand	44.60
Kwacha/Euro	599.99
Inflation rate (%)	33.3