

ELECTRICITY SUPPLY CORPORATION
OF MALAWI LIMITED

Financial Statements for the year ended
30 June 2016

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
FINANCIAL STATEMENTS
For the year ended 30 June 2016

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ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
REPORT OF THE DIRECTORS
For the year ended 30 June 2016

The Directors have pleasure in presenting their report together with the statement of financial position of Electricity Supply Corporation of Malawi Limited, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2016.

ACTIVITIES

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

	<u>2016</u> K'000	<u>2015</u> K'000 Restated
<u>FINANCIAL PERFORMANCE</u>		
Profit for the year	<u>7 903 365</u>	<u>12 339 088</u>

SHARE CAPITAL

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

	<u>2016</u>	<u>2015</u>
The shareholders and their respective holdings are:		
Malawi Government	99%	99%
Private Public Partnership (PPP) Commission	<u>1%</u>	<u>1%</u>
	<u>100%</u>	<u>100%</u>

REGISTERED OFFICE

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

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
REPORT OF THE DIRECTORS (Continued)
For the year ended 30 June 2016

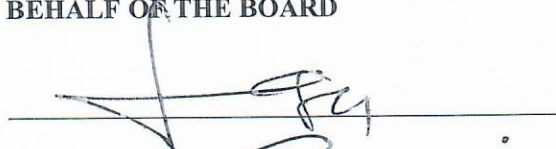
DIRECTORS

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

Mrs. Jean Mathanga	Chairperson	Throughout the year
Prof. Grant Kululanga	Director	Throughout the year
Mr. Levi Kaonga	Director	Throughout the year
Mr. Chikumbutso Mkwamba	Director	Throughout the year
Mr. Frank Kunje	Director	Throughout the year
Prof. E. Kayambazinthu	Director	Throughout the year
Mr. O Mandalasi	Director	Throughout the year
Secretary for Natural Resources, Energy and Mines	Ex officio	Throughout the year
Secretary to the Treasury	Ex officio	Throughout the year
Comptroller of Statutory Corporations	Ex officio	Throughout the year
Mr. E. Sitolo	Company Secretary	Throughout the year

FOR AND ON BEHALF OF THE BOARD

Director:



Director:



ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 30 June 2016

The Companies Act, 2013, requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results for that year.

The Act also requires the directors to ensure 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, 2013.

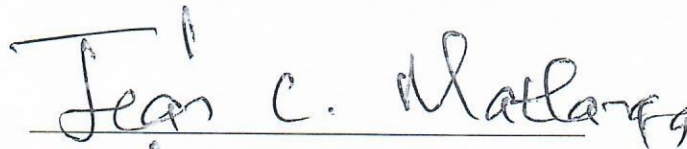
In preparing the financial statements, the directors accept responsibility for the following:

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

The directors 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, as far as possible, 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.

Chairman:



Director:



Date:



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

We have audited the financial statements of Electricity Supply Corporation of Malawi Limited as set out on pages 6 to 49, which comprise the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2013, and for such internal control 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 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 control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Bases for Qualified Opinion

Valuation of land and buildings

The property values disclosed in note 6 relates to the corporation's land and buildings. These properties were last revalued as at 28 February 2013. According to International Accounting Standard (IAS 16) *Property, Plant and Equipment*, paragraph 31, property revaluations are to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. In the case of the Corporation's properties, considering the significant movements in property market values since February 2013, another valuation was necessary by June 2016. However, no valuation was performed and we were unable to ascertain whether any further adjustments to the value of the properties and resultant effect on the land and buildings, revaluation reserve, deferred taxation and statement of changes in equity as at 30 June 2016 was required.

Limitation of scope on expenditure, inventory and property, plant and equipment

The Corporation procured items valued at K4.6 billion (exclusive of VAT amounting to K0.7 billion) towards the year end. Included in total expenditures as shown on page 7 (also note 18 under service, supplies and sundry expenses) is an amount of K3.2 billion relating to these items that were procured towards the year end and issued out for consumption. We were not provided with adequate supporting documentation to ascertain the occurrence/existence, accuracy/valuation and allocation, completeness, cut off and rights and obligations of this expenditure and the related liabilities.

Bases for Qualified Opinion (Continued)

Limitation of scope on expenditure, inventory and property, plant and equipment (Continued)

Additionally, an amount of K0.6 billion relating to inventory items procured towards year end was only recorded four months after the inventory verification exercise had already been concluded. We were therefore unable to satisfy ourselves of the existence, rights and obligations, valuation and allocation and completeness of this inventory and the related liabilities.

An amount of K0.8 billion out of the K4.6 billion was capitalised in respect of plant and equipment. We were, however, not provided with the analysis and supporting documentation of this balance for our audit purposes. We were therefore unable to physically inspect existence of these items of plant and equipment. We were further unable to obtain sufficient evidence related to the rights and obligations, completeness and valuation and allocation of the plant and equipment and related liabilities.

Consequently, we were unable to determine whether any adjustments to the financial statements related to these recorded amounts were necessary.

Qualified Opinion

In our opinion, except for the effects, if any, of the matters described in the *Bases for Qualified Opinion* paragraph, the financial statements give a true and fair view of the financial position of Electricity Supply Corporation of Malawi Limited as of 30 June 2016, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2013 and the Public Finance Management Act, 2003.

Report on Other Legal and Regulatory Requirements

Section 30 (1) of the Public Procurement Act, 2003 stipulates that public procurement shall be realised by means of open tendering proceedings subject to the exceptions provided in the section and the schedule to the Act. During the year ended 30 June 2016, the company procured goods worth K4.6bn without carrying out tender proceedings and without the approval of the Internal Procurement Committee and the Office of the Director of Public Procurement.



Chartered Accountants
Blantyre, Malawi

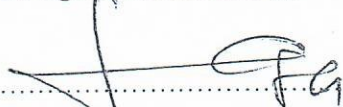
Per: Madalo Mwenelupembe
Engagement partner

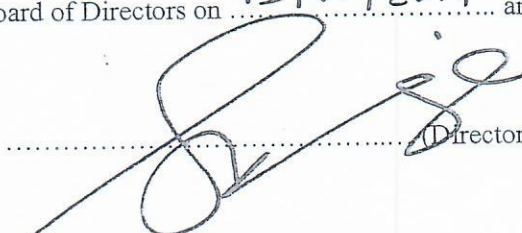
17th January 2017

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
STATEMENT OF FINANCIAL POSITION
At 30 June 2016

	Notes	2016 K'000	2015 K'000 Restated	2014 K'000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	6	64 599 243	47 620 850	41 531 847
Capital work in progress	7	6 339 822	2 769 585	3 334 472
Trade and other receivables	10	<u>675 671</u>	<u>610 883</u>	<u>197 358</u>
Total non-current assets		<u>71 614 736</u>	<u>51 001 318</u>	<u>45 063 677</u>
CURRENT ASSETS				
Inventories	8	25 075 973	8 943 622	10 088 687
Notes receivable	9	-	839 508	-
Trade and other receivables	10	21 708 424	13 207 117	8 503 720
Taxation recoverable		-	-	246 857
Bank deposit accounts	11	4 806 505	16 640 906	9 817 491
Bank current accounts and cash	11	<u>5 643 326</u>	<u>4 508 657</u>	<u>3 193 083</u>
Total current assets		<u>57 234 228</u>	<u>44 139 810</u>	<u>31 849 838</u>
TOTAL ASSETS		<u>128 848 964</u>	<u>95 141 128</u>	<u>76 913 515</u>
EQUITY AND LIABILITIES				
SHAREHOLDERS' EQUITY				
Ordinary shares of K2 each		110 000	110 000	110 000
Share premium		13 750 820	13 750 820	13 750 820
Preference shares		530 000	530 000	530 000
Advance contribution for share capital		12 885 036	12 885 036	12 885 036
Pre-incorporation reserves		391 142	391 142	391 142
Revaluation reserves		5 027 703	5 178 981	5 330 259
Accumulated reserves		<u>29 685 265</u>	<u>23 813 130</u>	<u>11 322 764</u>
Total shareholders' equity		<u>62 379 966</u>	<u>56 659 109</u>	<u>44 320 021</u>
NON-CURRENT LIABILITIES				
Deferred income –government grant and				
Capital contributions	12.1	23 394 111	15 712 770	11 360 165
Customer deposits	12.2	432 944	311 707	288 568
Deferred tax	13.3	<u>20 216 788</u>	<u>14 970 387</u>	<u>15 108 990</u>
Total non-current liabilities		<u>44 043 843</u>	<u>30 994 864</u>	<u>26 757 723</u>
CURRENT LIABILITIES				
Trade and other payables	14	19 593 411	4 185 575	4 693 239
Deferred income	12.1	1 483 052	832 502	468 475
Pension arrears	15	-	-	641
Tax payable	13.2	<u>1 348 692</u>	<u>2 469 078</u>	<u>673 416</u>
Total current liabilities		<u>22 425 155</u>	<u>7 487 155</u>	<u>5 835 771</u>
TOTAL EQUITY AND LIABILITIES		<u>128 848 964</u>	<u>95 141 128</u>	<u>76 913 515</u>

The financial statements were authorised for issue by the Board of Directors on 13/01/2017 and were signed on its behalf by:

 (Director)

 (Director)

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2016

	<u>Notes</u>	<u>2016</u> <u>K'000</u>	<u>2015</u> <u>K'000</u> <u>Restated</u>
INCOME			
Revenue	16	71 819 253	53 806 516
Other income	17	<u>2 967 318</u>	<u>1 291 731</u>
Total income from operations		<u>74 786 571</u>	<u>55 098 247</u>
EXPENDITURE			
Generation expenses	18b	7 720 044	5 698 136
Transmission expenses	18b	4 426 567	3 802 111
Distribution expenses	18b	27 055 675	18 895 971
Head office expenses	18b	<u>23 285 965</u>	<u>14 629 778</u>
Total expenditure		<u>62 488 251</u>	<u>43 025 996</u>
Operating profit		<u>12 298 320</u>	<u>12 072 251</u>
Finance income	19	1 390 070	3 124 356
Finance expense	19	<u>(12 586)</u>	<u>(1 927)</u>
Net finance income		<u>1 377 484</u>	<u>3 122 429</u>
Profit before income tax expense		13 675 804	15 194 680
Income tax expense	13.1	<u>(5 772 439)</u>	<u>(2 855 592)</u>
Profit and total comprehensive income for the year		<u>7 903 365</u>	<u>12 339 088</u>

There were no items of other comprehensive income that arose during the current year (2015: Nil).

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2016

	Share capital K'000	Share premium K'000	Preference shares K'000	Advance contribution for share capital K'000	Pre- incorporation reserves K'000	Revaluation reserve K'000	Accumulated reserves K'000	Total K'000
Year ended 30 June 2016								
At beginning of the year (As restated)	110 000	13 750 820	530 000	12 885 036	391 142	5 178 981	23 813 130	56 659 109
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	7 903 365	7 903 365
Total comprehensive income for the year	-	-	-	-	-	-	7 903 365	7 903 365
Transactions with owners of the Company								
Payment of dividends	-	-	-	-	-	-	(2 182 508)	(2 182 508)
Transfer of excess depreciation	-	-	-	-	-	(151 278)	151 278	-
Total transactions with owners of the Company	-	-	-	-	-	(151 278)	(2 031 230)	(2 182 508)
At end of the year	110 000	13 750 820	530 000	12 885 036	391 142	5 027 703	29 685 265	62 379 966

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 30 June 2016

<u>Year ended 30 June 2015</u>	Share capital K'000	Share premium K'000	Advance contribution Preference shares K'000	Pre- for share capital K'000	incorporation reserves K'000	Revaluation reserve K'000	Accumulated reserves K'000	Total K'000
Restated								
At beginning of the year	110 000	13 750 820	530 000	12 885 036	391 142	5 330 259	11 322 764	44 320 021
Total comprehensive income for the year								
Profit for the year (As restated)	-	-	-	-	-	-	12 339 088	12 339 088
Other comprehensive income for the year								
Revaluation surplus (net of tax)	-	-	-	-	-	-	-	-
Total other comprehensive income for the year								
	-	-	-	-	-	-	12 339 088	12 339 088
Transactions with owners of the Company								
Transfer of excess depreciation	-	-	-	-	-	(151 278)	151 278	-
Total transactions with owners of the Company								
	-	-	-	-	-	(151 278)	151 278	-
At end of the year (As restated)	110 000	13 750 820	530 000	12 885 036	391 142	5 178 981	23 813 130	56 659 109

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
STATEMENT OF CHANGES IN EQUITY (Continued)
For the year 30 June 2016

	<u>2016</u> K'000	<u>2015</u> K'000
Analysis of share capital		
<u>Authorised, issued</u>		
55,000,000 (2015:55,000,000) Ordinary shares of K2 each	<u>110 000</u>	<u>110 000</u>
<u>Issued and fully paid</u>		
55,000,000 (2015:55,000,000) Ordinary shares of K2 each	<u>110 000</u>	<u>110 000</u>
530,000,000 (2015: 530,000,000) Irredeemable non-cumulative 2.5% preference shares of K1 each	<u>530 000</u>	<u>530 000</u>

Irredeemable non-cumulative preference shares

Under article VII (section 7.02) of the Credit Agreement between the Government of Malawi and the Nordic Development Fund, the Government agreed to channel all loan proceeds to ESCOM as equity in the form of irredeemable non-cumulative preference shares. ESCOM issued 530 million preference shares of K1 each at a premium of K387.66 million out of the Nordic Development Fund loan proceeds in favour of the Government of Malawi.

Pre-incorporation reserves

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

Revaluation reserve

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

Advance contribution for the share capital

Advance contribution for share capital relates to Government of Malawi loans that were converted to equity. The corporation has not yet issued the related shares to the Malawi Government.

Prior year adjustment

The prior year adjustments relate to the correction of an error in the determination of the deferred tax liability as at 30 June 2015. The error arose from the recognition of deferred tax liability on advance payments, omission of deferred tax asset on provision for obsolete inventories and incorrect determination of deferred tax liability on provision for doubtful debts.

The financial statements have been restated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and related disclosures made in accordance with IAS 1 *Presentation of Financial Statements*.

The following table summarises the effect on the financial statements for 2015.

	<u>Effect on 2015</u> K'000
Decrease in deferred tax charge	<u>3 609 057</u>
Increase in profit for the year	<u>3 609 057</u>
Decrease in deferred tax liability	<u>3 609 057</u>
Increase in equity	<u>3 609 057</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
STATEMENT OF CASH FLOWS
For the year ended 30 June 2016

	Note	<u>2016</u> K'000	<u>2015</u> K'000
Cash flows from operating activities			
Operating profit before taxation		12 298 320	12 072 251
Adjustments for:			
Grants released	17	(321 268)	(2 088)
Capital contributions released	17	(221 525)	(299 136)
Deferred income prepaid sales released	16	(1 744 527)	(808 752)
Depreciation of PPE	18a	3 982 827	2 505 824
Projects written off	7	1 179 812	1 589 792
Provision for bad debt	18a	2 297 785	687 237
Exchange loss/(gain)	17	-	1 505
Loss/(profit) on disposal of PPE	17	<u>1 081 683</u>	<u>(43 343)</u>
Movements in working capital			
Notes receivable	9	839 508	(839 508)
Receivables	10, 18a	(10 863 880)	(5 804 160)
Inventories	8	(16 132 351)	1 145 065
Deferred income-prepaid sales	12.1	2 395 077	1 172 779
Accounts payable	14	15 407 836	(507 663)
Other payables	16	<u>-</u>	<u>(641)</u>
Cash generated from operations		<u>10 199 297</u>	<u>10 869 162</u>
Interest paid	19	(12 586)	(1 927)
Interest received	19	1 390 070	3 124 356
Tax paid	13.2	<u>(1 646 424)</u>	<u>(951 676)</u>
Net cash generated by operating activities		<u>9 930 357</u>	<u>13 039 915</u>
Cash flows from investing activities			
Proceeds from sale of assets		124 137	45 488
Capital expenditure-asset additions	6	(3 526 777)	(2 187 004)
Capital expenditure-work in progress	7	<u>(23 390 312)</u>	<u>(7 434 873)</u>
Net cash used in investing activities		<u>(26 792 952)</u>	<u>(9 576 389)</u>
Cash flows from financing activities			
Grants and capital contributions received	12.1	8 224 134	4 653 829
Consumer deposits received	12.2	121 237	23 139
Dividend paid		<u>(2 182 508)</u>	<u>-</u>
Net cash generated by financing activities		<u>6 162 863</u>	<u>4 676 968</u>
Net (increase)/decrease in cash and cash equivalents		(10 699 732)	8 140 494
Opening cash and cash equivalents		21 149 563	13 010 574
Effects of exchange rate fluctuation		<u>-</u>	<u>(1 505)</u>
Closing cash and cash equivalents	11	10 449 831	21 149 563
Represented by:			
Bank current accounts and cash		4 806 505	4 508 657
Bank deposit accounts		<u>5 643 326</u>	<u>16 640 906</u>
		<u>10 449 831</u>	<u>21 149 563</u>
ADDITIONAL STATUTORY INFORMATION			
(Decrease)/increase in net working capital		<u>(1 843 582)</u>	<u>10 638 587</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2016

1. Reporting entity

ESCOM Limited is a Corporation domiciled in Malawi. The address of its registered office is ESCOM House, 9 Haile Selassie Road, P.O. Box 2047, Blantyre, Malawi. The principal activities of the Corporation include generation, transmission, and distribution of electricity and letting out fibre optic communication services to users in data transmission through provision of bandwidth.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (the IASB) and in the manner required by the Malawi Companies Act, 2013, and the Public Finance Management Act 2003.

2.2 Basis of measurement

The financial statements have been prepared on historical cost basis except land and buildings which are measured at revalued amounts.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 judgements 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 judgements" note to the financial statements (see note 5.1).

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements by the Corporation.

3.1 Property, plant and equipment

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

Cost includes expenditure directly attributable to the acquisition of the asset. The cost or self-constructed assets include the following:

- i the cost of materials and direct labour;
- ii any other costs directly attributable to bringing the assets to a working condition for their intended use; and
- iii Capitalised borrowing costs.

Subsequent measurement

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

Land and buildings are shown at revalued amounts 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 amounts do not differ materially from that which would be determined using fair values at the end of each reporting period. Due to the varied nature of the Corporation's property, two methods are used to determine fair values namely:

1. The depreciated replacement cost which is used for all properties which do not have a ready and active market such as remote and purpose built properties.
2. The comparative and investment method which is used for all properties that have a ready and active market such as all residential and commercial properties in the urban and trading centres.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset. An amount equivalent to the additional depreciation arising from revaluations is transferred annually, net of deferred tax, from the revaluation reserve to retained profit. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

3. Significant accounting policies (Continued)

3.1 Property, plant and equipment (Continued)

Subsequent measurement (Continued)

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

Land	not depreciated
Buildings	30-50 years
Generation plant & machinery	5-80 years
Transmission plant & machinery	5-25 years
Distribution plant & machinery	5-25 years
Other office equipment	5-10 years
Motor vehicles	8 years

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

Foreign currency transactions are translated to Malawi Kwacha using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- i. exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- ii. exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- iii. exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

3. Significant accounting policies (Continued)

3.3 Financial instruments

3.3.1 Initial recognition

Financial instruments are recognised when, and only when, the Corporation becomes party to the contractual provisions of the particular instrument at trade date. The Corporation recognises loans and receivables and deposits, on the date that they originated.

3.3.2 Derecognition

A financial asset is derecognised when, and only when:

- i. The contractual rights to the cash flows arising from the financial asset have expired or been forfeited by the Corporation; or
- ii. The Corporation transfers the financial asset including substantially all risks and rewards of ownership of the asset; or
- iii. The Corporation transfers the financial asset, neither retaining nor transferring substantially all risks and rewards of ownership of the asset, but no longer retains control of the asset. Any interest in the transferred financial assets that is created or retained is recognised as a separate asset or liability.

The difference between the carrying amount of a financial asset (or part thereof) derecognised and consideration received, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

A financial liability is derecognised when, and only when:

- i. the liability is extinguished, that is, when the obligation specified in the contract is discharged,
- ii. cancelled;
- iii. has expired.

The difference between the carrying amount of a financial liability (or part thereof) derecognised and consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3.3.3 Offset

Financial assets and liabilities are offset against each other only when a legally enforceable right exists to set off the recognised amounts, and the Corporation intends to either settle on a net basis, or to realise the assets and settle the liability simultaneously.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

3. Significant accounting policies (Continued)

3.3.4 Financial assets

3.3.4.1 Held-to-maturity investments

If the Corporation has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Corporation from classifying investment securities as held-to-maturity for the current and the following two financial years.

3.3.4.2 Loans and receivables

Trade receivables, loans, and other receivables with 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 plus transaction costs directly attributable to the acquisition of the financial asset 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 when the effect of discounting is immaterial.

3.3.4.3 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, on hand and short-term deposits with a maturity period of three months or less that are subject to an insignificant risk of changes in their fair value, and are used by the Corporation in the management of short-term commitments.

3.3.5 Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and 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.

3.4.5.1 Trade and other payables

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

3.6 Provisions

A provision is recognised when the Corporation has a present legal or constructive obligation as a result of a past event; it is possible that the Corporation will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

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

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

3. Significant accounting policies (Continued)

3.7 Capital work in progress

Capital work in progress consists of self-constructed assets that are still under construction or have not been certified as complete as at the end of the reporting period.

An item that qualifies for recognition as capital work in progress is measured at cost which includes the purchase price of construction materials, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any costs directly attributable to bringing the asset to its present location and condition. Costs to bring the asset to the location and condition necessary for it to be capable of operating in a manner intended by management are accumulated until such a time that the item is certified complete at which point the cost is transferred to property, plant and equipment.

Depreciation is not provided on capital work in progress, however, at the end of each reporting period the Corporation assesses whether there is any indication that any item of capital work in progress may be impaired. If any such indication exists, the Corporation estimate the recoverable amount of the item of capital work in progress.

3.8 Inventories

Line materials, maintenance spares, fuels, lubricants and consumable stores are valued at lower of cost and net realisable value. The cost of inventories is based on weighted average cost, and includes expenditure incurred in acquiring inventories and other costs in bringing them to their existing location and condition. The Corporation recognises inventory on the date when the Corporation obtains the significant risks and rewards of ownership of inventory.

Net realisable value is the estimated selling price in the ordinary course of business less selling expenses.

Goods in transit are valued at invoiced cost.

3.9 Impairment of assets

3.9.1 Impairment of financial assets

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

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

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

3. Significant accounting policies (Continued)

3.9 Impairment of assets (Continued)

3.9.2 Impairment of non-financial assets

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

3.9.3 Reversals of impairment

If, in subsequent periods, 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 statement of 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.

3.10 Revenue

Revenue comprises of electricity revenue and optic fibre revenue.

Electricity Revenue primary represents the sales value derived from the distribution of energy to both prepaid and post-paid customers excluding value added tax, Malawi Energy Regulatory Authority (MERA and Malawi Rural Electrification Programme (MAREP) levies. Revenue from post-paid sales includes an assessment of unbilled energy supplied to customers between the date of the last meter reading and the end of the reporting period. This is estimated based on historical consumption. Whereas for prepaid sales, the total amounts of units sold is spread over the estimated period of usage and the amount of units sold in June estimated to be used in subsequent periods are taken as deferred income. Deferring prepaid sales on this basis can be subjective by nature as it requires the assessment of the buying, as well as consumption pattern in arriving at the value of sales to be deferred, which can only be borne out by future events

Optic Fibre Communication Revenue includes lease and Indefeasible rights of use (IRU) revenue related to dark fibre, capacity and co-sitting for various customers. This revenue is recognised on a straight line basis over the term of the contract.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

3. Significant accounting policies (Continued)

3.11 *Deferred income*

Capital contributions

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 and are included in non-current liabilities as deferred income once their receipt can be reasonably anticipated. The deferred income is taken to profit or loss and other comprehensive income in equal annual instalments over the useful lives of the related assets.

Grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Corporation will comply with the conditions associated with the grant. Government grants received relating to the creation of electricity assets are included in non-current liabilities as deferred income and are credited to profit or loss as a systematic basis over the useful lives of the assets. Grants that compensate the Corporation for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

Payments received in advance

Cash receipts from customers on prepaid meters for payment of electricity units consumed after reporting period and receipts for optic fibre contracts extending beyond reporting date are also recognised as deferred income. These are taken to the statement of profit or loss and other comprehensive income when units are consumed and optic services are rendered.

3.12 *Taxation*

Income tax expense represents the aggregate amount included in determination of profit or loss for the period in respect of current tax and deferred tax.

Current tax

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

Deferred tax

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

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

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

3. Significant accounting policies (Continued)

3.12 Taxation (Continued)

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

3.13 Retirement benefits

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

3.14 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. All other borrowing costs are expensed in the period in which they are incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

4. Adoption of new and revised International Financial Reporting Standards

4.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements

In the current year, the company has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 July 2015.

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, not yet effective

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

Effective date	Standard, Amendment or Interpretation
Annual periods beginning on or after 1 January 2018	IFRS 9 <i>Financial Instruments</i>
	IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

4. Adoption of new and revised International Financial Reporting Standards

4.2 Standards and Interpretations in issue, not yet effective

Effective date	Standard, Amendment or Interpretation
Annual periods beginning on or after 1 January 2018	<p>IFRS 15 <i>Revenue from Contracts with Customers</i></p> <p>IFRS 15 specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p>
Annual periods beginning on or after 1 January 2016	<p>Clarifications to IFRS 15 <i>'Revenue from Contracts with Customers'</i></p> <p>Amends IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.</p>
Annual periods beginning on or after 1 January 2019	<p>IFRS 16 <i>Leases</i></p> <p>IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying assets as a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.</p>
Annual periods beginning on or after 1 January 2016	<p>Amendments to IAS 1 <i>Disclosure Initiative</i></p> <p>The amendments to IAS 1 give some guidance on how to apply the concept of materiality in practice.</p> <ul style="list-style-type: none"> • An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. • An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. • In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

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

4.2 Standards and Interpretations in issue, not yet effective (Continued)

Effective date	Standard, Amendment or Interpretation
Annual periods beginning on or after 1 January 2016	<p>Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i></p> <p>The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:</p> <ol style="list-style-type: none"> when the intangible asset is expressed as a measure of revenue; or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.
Annual periods beginning on or after 1 January 2016	<p>Amendments to IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i></p> <p>The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.</p>
Annual periods beginning on or after 1 January 2017	<p><i>Recognition of Deferred Tax Assets for Unrealised Losses</i> (Amendments to IAS 12)</p> <p>Amends IAS 12 <i>Income Taxes</i> to clarify the following aspects:</p> <ul style="list-style-type: none"> Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. The carrying amount of an asset does not limit the estimation of probable future taxable profits. Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.
Annual periods beginning on or after 1 January 2017	<p><i>Disclosure Initiative</i> (Amendments to IAS 7)</p> <p>Amends IAS 7 <i>Statement of Cash Flows</i> to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.</p>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

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

4.2 Standards and Interpretations in issue, not yet effective (Continued)

Effective date	Standard, Amendment or Interpretation
Effective for annual periods beginning on or after 1 January 2018	<p>Classification and Measurement of Share-based Payment Transactions</p> <p>Amends IFRS 2 <i>Share-based Payment</i> to clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.</p>
Annual periods beginning on or after 1 January 2016	<p><i>Annual Improvements to IFRSs 2012 - 2014 Cycle</i></p> <p>The <i>Annual Improvements to IFRSs 2012 - 2014 Cycle</i> include a number of amendments to various IFRSs, which are summarised below.</p> <p>The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.</p> <p>The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.</p> <p>The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.</p>

The directors anticipate that other than IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, these Standards and Interpretations in future periods will have no significant impact on the financial statements of the company.

The amendments to IFRS 9 *Financial Instruments* will impact the measurement of financial instruments. IFRS 15 *Revenue from Contracts with Customers* will affect recognition of revenue.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

5. Critical accounting judgements and key sources of estimation uncertainty

5.1 Critical judgements in applying the Corporation's accounting policies

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

5.2 Key sources of estimation uncertainty

Key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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 10), management has taken into account the past payment history of the individual debtors, the willingness or otherwise of customers to acknowledge their indebtedness, together with other objective evidence of impairment as a result of events that have occurred after initial debt recognition which suggest that future cash flows may be impaired. Provisioning on this basis can be subjective by nature as it requires the assessment of financial, as well as non-financial information in arriving at an impairment value, which can only be borne out by future events.

5.2.2 Valuation of land and buildings

Land and building were revalued as at 28 February 2013 by D.R. Whayo BSC UK, Dip (Urb Man) BA, MRICS MSIM, a chartered surveyor of Knight Frank (Malawi) Limited. The basis of valuation used was depreciated replacement cost for all properties which do not have ready and active market and the comparative investment method for all properties that have a ready and active market.

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

5.2.3 Measurement of fair values

A number of the Corporation's accounting policies and disclosures require the measurement of fair values, both financial and non-financial assets and liabilities. When measuring the fair value of an asset or liability, the Corporation uses market observable data as far as possible.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Corporation recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about assumptions made in measuring fair values is included in the following notes:

- Note 6 – valuation of land and buildings; and
- Note 10 – valuation of financial instruments – trade and other receivables.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

6. **Property, plant and equipment**

	Land and buildings K'000	Plant and machinery generation and transmission K'000	Distribution K'000	Other office equipment K'000	Motor vehicles K'000	Total K'000
2016						
Cost or valuation						
At the beginning of the year	8 215 888	21 544 030	23 953 588	2 846 185	5 133 372	61 693 063
Re-allocation of depreciation	15 592	622 438	-	44 323	22 250	704 603
Additions during the year	615 000	-	-	268 656	2 643 121	3 526 777
Transfers from capital work in progress	174 536	7 014 088	11 451 6439	-	-	18 640 263
Disposals during the year	-	-	(1 335 562)	-	(123 497)	(1 459 059)
At the end of the year	<u>9 021 016</u>	<u>29 180 556</u>	<u>34 072 745</u>	<u>3 159 164</u>	<u>7 675 246</u>	<u>83 105 647</u>
Depreciation and impairment						
At the beginning of the year	473 400	5 987 246	4 919 724	1 090 951	1 600 892	14 072 213
Re-allocation of depreciation	15 592	622 438	-	44 323	22 250	704 603
Charge for the year	304 565	990 467	1 568 421	275 902	843 472	3 982 827
Released on disposals	-	-	(201 689)	-	(51 550)	(253 239)
At the end of the year	<u>793 557</u>	<u>7 600 151</u>	<u>6 286 456</u>	<u>1 411 176</u>	<u>2 415 064</u>	<u>18 506 404</u>
Net book amount						
At the end of the year	<u>8 227 459</u>	<u>21 580 405</u>	<u>27 783 209</u>	<u>1 747 988</u>	<u>5 260 182</u>	<u>64 599 243</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

6. Property, plant and equipment

2015	Land and buildings	Plant and machinery generation and transmission	Distribution	Other office equipment	Motor vehicles	Total
Cost or valuation	K'000	K'000	K'000	K'000	K'000	K'000
At the beginning of year	7 615 391	20 580 173	19 107 974	2 128 558	3 670 595	53 102 691
Additions during the year	-	-	-	717 627	1 469 377	2 187 004
Transfers from capital work in progress	600 497	963 857	4 845 614	-	-	6 409 968
Disposals during the year	-	-	-	-	(6 600)	(6 600)
At the end of the year	<u>8 215 888</u>	<u>21 544 030</u>	<u>23 953 588</u>	<u>2 846 185</u>	<u>5 133 372</u>	<u>61 693 063</u>
Depreciation and impairment						
At the beginning of year	224 511	5 439 729	3 997 188	847 012	1 062 404	11 570 844
Charge for the year	248 889	547 517	922 536	243 939	542 943	2 505 824
Released on disposals	-	-	-	-	(4 455)	(4 455)
At the end of the year	<u>473 400</u>	<u>5 987 246</u>	<u>4 919 724</u>	<u>1 090 951</u>	<u>1 600 892</u>	<u>14 072 213</u>
Carrying amount						
At the end of the year	<u>7 742 488</u>	<u>15 556 784</u>	<u>19 033 864</u>	<u>1 755 234</u>	<u>3 532 480</u>	<u>47 620 850</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

6. Property, plant and equipment (Continued)

Siltation

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

To maintain operational capacity, the Corporation is involved in a continuous process of desiltation. This involves the dredging of the dams 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.

Impairment of assets

International Accounting Standard 36: *Impairment of Assets*, requires that where there is evidence that indicates that an asset's economic performance will be less than expected then the asset is assessed for impairment. An impairment loss should then be recognised in the financial statements where appropriate.

Impairment loss of K73 million was recognised in respect of Nkula A machines, in 2015, which are going to be decommissioned in January 2017 for major rehabilitation under the MCC Project.

Assets that were fully depreciated at 30 June 2016 but are still in use

The following assets were operational during the period under review although they had been fully depreciated:

	<u>Cost</u>
Buildings	189 884
Transmission & distribution	136 090
Generation plant & equipment	48 322
Motor vehicles	18 643
Office furniture and equipment	<u>942 922</u>
Total	<u>1 335 861</u>

Carrying amount that would have been recognised had the assets been measured under the cost model

The carrying amount that would have been recognised had the assets been measured under the cost model, for land and buildings was not disclosed because it is impracticable to do so. Most of the Corporation's land and buildings were inherited from the Electricity Supply Commission of Malawi and some were granted to the then Commission by the Government of Malawi at values that the company is currently unable to ascertain due to lack of sufficient records taken over.

Measurement of fair values

Land and buildings were valued at 30 June 2013 by independent valuers, D.R. Whayo BSc UK. Dip (Urb Man) BA. MRICS MSIM, a Chartered Surveyor of Knight Frank, (Malawi) Limited, who have experience in the location and category of Land and Buildings. Due to the varied nature of the Corporation's properties, two methods are used to determine fair values namely:

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6. Property, plant and equipment (Continued)

Measurement of fair values (Continued)

1. The depreciated replacement cost which is used for all properties which do not have a ready and active market such as remote and purpose built properties.
2. The comparative and investment method which is used for all properties that have a ready and active market such as all residential and properties in the urban and trading centres.

The fair value measurement for all of the land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of land and buildings, as well as significant unobservable inputs used;

Valuation method adopted	Observable inputs	Unobservable input
Comparative and investment Method.	Adjusted sales comparables.	professional judgment in adjusting inputs.
	Adjusted market rentals Comparables.	Expected level of rental escalation.
		Estimated capitalisation rate.
		Perceived market conditions.
Depreciation replacement cost.	Building cost information sourced from quantity surveyors.	Estimated depreciation rates on location and obsolescence.

International Accounting Standards (IAS) 16, Property, Plant and Equipment

IAS 16, *Property, Plant and Equipment* has not been fully complied with. The standard requires that an entity whose properties are carried at fair value after initial recognition should value its properties with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. The Corporation's properties were last revalued in February 2013.

Derecognition and verification of assets

The Corporation carried out a physical verification of assets as at 30 June 2016. The exercise revealed that there were assets, mainly other office equipment which were not being used due to the fact that they were in a state of disrepair or that they are damaged beyond repair. Such assets' value in the opinion of the directors were considered immaterial to the overall financial statements. The Corporation continues to carry out this exercise for the future periods.

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

Encumbrance

As at year end 30 June 2016, none of the assets were encumbered.

Title deeds for properties

The Corporation is still in the process of acquiring title deeds to seven properties with a value of K696.9million located in various places throughout the country. Government agencies have been engaged in that regard.

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	<u>2016</u> K'000	<u>2015</u> K'000
7. Capital work in progress		
Balance at beginning of the year	2 769 585	3 334 472
Reversal Kapichira II	-	-
Write offs	(1 179 812)	(1 589 792)
Additions:		
Funded from internal resources	20 039 701	4 808 145
Funded from project creditors and grants	<u>3 350 611</u>	<u>2 626 728</u>
	23 390 312	7 434 873
Transfer to property, plant and equipment	24 980 085 <u>(18 640 263)</u>	9 179 553 <u>(6 409 968)</u>
Balance at the end of the year	<u>6 339 822</u>	<u>2 769 585</u>

The WIP write off amounting to K1.2 billion relates to preparatory costs for the following projects: World Bank ESSP (K906 million), MCC Project (K184 million), diesel generators for Lilongwe (K198 million) and others.

Capital work in progress is analysed as follows:

Projects	10 937	969 135
General development	<u>6 328 885</u>	<u>1 800 450</u>
Total work in progress	<u>6 339 822</u>	<u>2 769 585</u>

In 2014, the Corporation entered into a Concession Agreement with Malawi Government. In that arrangement, the loan which was due and payable to Malawi Government, being the amount which was capitalised at Kapichira Generation Facility was reversed and the Kapichira Power Facility was derecognised from the company's records. The Corporation pays concession fees to Malawi Government amounting to Malawi Kwacha equivalent of US\$9.2 million or 30% of gross revenue generated from Kapichira II per annum whichever is the lesser.

	<u>2016</u> K'000	<u>2015</u> K'000
8. Inventories		
Line materials, maintenance spares, fuels, lubricants and consumable stores	25 523 795	7 634 372
Goods in transit	344 692	1 677 354
Inventories written down to net realisable value	<u>(792 514)</u>	<u>(368 104)</u>
Total inventories	<u>25 075 973</u>	<u>8 943 622</u>

No inventory was pledged as security.

Write-down of inventory through profit or loss amounted to K0.424 billion (2015: K0.660 billion).

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

	<u>2016</u> K'000	<u>2015</u> K'000
9. Notes receivables		
Government of Malawi promissory notes	-	<u>839 508</u>
The Government of Malawi paid the Corporation the sum of K840 million in respect of Electricity consumed and billed to various government agencies as at 30 June 2014. The notes were discounted during the year.		
10. Trade and other receivables		
Trade receivables including government receivables	13 518 474	10 155 881
Staff loans and advances	408 318	166 110
Future employee benefit	324 066	-
Other receivables and prepayments to suppliers	<u>14 835 686</u>	<u>7 833 309</u>
Gross receivables	29 086 544	18 155 300
Allowance for doubtful debts:		
- Trade receivables	(4 079 033)	(3 858 657)
- Other government related accounts	<u>(2 975 021)</u>	<u>(849 878)</u>
Staff loans and advances impairment allowance	22 032 490	13 446 765
	<u>(324 066)</u>	<u>(239 648)</u>
Receivables recoverable within a year	21 708 424	13 207 117
Staff loans recoverable over one year	<u>675 671</u>	<u>610 883</u>
	<u>22 384 095</u>	<u>13 818 000</u>

Included in staff loans and advances are housing loans of K675.7 million (2015: K610 million) which are repayable over periods of up to twelve years. Staff housing loans are secured by charges over related properties.

The future employee benefit asset relates to the benefit arising from loans that are extended to members of staff at below market interest rates.

An impairment loss of K2.297 billion (2015: K0.687 billion) in respect of trade receivables was recognised in the profit or loss.

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.

	<u>2016</u> K'000	<u>2015</u> K'000
Movement in allowance for doubtful debts		
At the beginning of the year	4 708 534	4 047 776
Reclassification/bad debts written off	47 735	(26 479)
Increase during the year	<u>2 297 785</u>	<u>687 237</u>
At the end of the year	<u>7 054 054</u>	<u>4 708 534</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
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For the year ended 30 June 2016

10. Trade and other receivables (Continued)

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 end of the reporting period.

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 due to the short term nature of the receivables, the value of the receivables as at 30 June 2016 approximate their fair values as at that date.

	<u>2016</u> K'000	<u>2015</u> K'000
11. Cash and cash equivalents		
Bank current accounts and cash	4 806 505	4 508 657
Deposit accounts	<u>5 643 326</u>	<u>16 640 906</u>
Total cash and cash equivalents	<u>10 449 831</u>	<u>21 149 563</u>

The deposits accounts were earning interest at average rates between 6% and 25% as at 30 June 2016 (2015: 6% and 23.5%). Current accounts were earning interest at an average rate of 0.15% to 0.2% as at 30 June 2016 (2015: 0.15% to 0.5%).

	<u>Government grants K'000</u>	<u>Capital contributions K'000</u>	<u>Prepaid electricity & OFC sales K'000</u>	<u>2016 Total K'000</u>
12.1 Deferred income				
At the beginning of the year	4 922 868	10 789 902	832 502	16 545 272
Received during the year	5 297 670	2 926 464	2 395 077	10 619 211
Released to statement of comprehensive income during the year	<u>(321 268)</u>	<u>(221 525)</u>	<u>(1 744 527)</u>	<u>(2 287 320)</u>
At the end of the year	<u>9 899 270</u>	<u>13 494 841</u>	<u>1 483 052</u>	<u>24 877 163</u>
	<u>Government grants K'000</u>	<u>Capital contributions K'000</u>	<u>Prepaid electricity & OFC sales K'000</u>	<u>2015 Total K'000</u>
At the beginning of the year	3 263 908	8 096 257	468 475	11 828 640
Received during the year	1 661 048	2 992 781	1 172 779	5 826 608
Released to statement of comprehensive income during the year	<u>(2 088)</u>	<u>(299 136)</u>	<u>(808 752)</u>	<u>(1 109 976)</u>
At the end of the year	<u>4 922 868</u>	<u>10 789 902</u>	<u>832 502</u>	<u>16 545 272</u>

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For the year ended 30 June 2016

	<u>2016</u> K'000	<u>2015</u> K'000
12.2 Customer deposits		
Balance at the beginning of the year	311 707	288 568
Receipts during the year	<u>121 237</u>	<u>23 139</u>
Balance at the end of the year	<u>432 944</u>	<u>311 707</u>
	<u>2016</u> K'000	<u>2015</u> K'000 Restated
13. Taxation		
13.1 Income tax expense		
Income tax expense		
Deferred taxation	5 246 401	(138 603)
Current tax	1 635 999	2 994 195
- in respect of current year	(1 109 961)	-
- in respect of prior year		
Total income tax	<u>5 722 439</u>	<u>2 855 592</u>
The standard rate of tax is reconciled as follows:		
Standard rate	30.0%	30.0%
Permanent differences	<u>12.2%</u>	<u>(11.5%)</u>
Effective rate of tax	<u>42.2%</u>	<u>18.8%</u>
13.2 Income tax payable		
Balance at the beginning of the year	2 469 078	426 559
Charge for the year	526 038	2 994 195
Income tax paid	<u>(1 646 424)</u>	<u>(951 676)</u>
Balance at the end of the year	<u>1 348 692</u>	<u>2 469 078</u>

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For the year ended 30 June 2016

	<u>Assets</u> <u>K'000</u>	<u>Liabilities</u> <u>K'000</u>	<u>Total</u> <u>K'000</u>
13.3 Deferred tax			
Deferred tax assets and liabilities			
<u>2016</u>			
Revaluation surplus	-	(2 140 172)	(2 140 172)
Accelerated capital allowances	-	(11 558 931)	(11 558 931)
Deferred income	-	(6 573 317)	(6 573 317)
Other temporary differences	<u>55 632</u>	<u>-</u>	<u>55 632</u>
	<u>55 632</u>	<u>(20 272 420)</u>	<u>(20 216 788)</u>
<u>2015 - Restated</u>			
Revaluation surplus	-	(2 140 172)	(2 140 172)
Accelerated capital allowances	-	(9 605 170)	(9 605 170)
Deferred income	-	(4 963 581)	(4 963 581)
Other temporary differences	<u>1 738 536</u>	<u>-</u>	<u>1 738 536</u>
	<u>1 738 536</u>	<u>(16 708 923)</u>	<u>(14 970 387)</u>
	<u>At the beginning of the year</u>	<u>Recognised in the profit or loss</u>	<u>At the end of the year</u>

Movement in deferred tax was as follows:

<u>2016</u>			
Deferred income	4 963 581	1 609 736	6 573 317
Accelerated capital allowances	9 605 170	1 953 761	11 558 931
Revaluation surplus	2 140 172	-	2 140 172
Other temporary differences	<u>(1 738 536)</u>	<u>1 682 904</u>	<u>(55 632)</u>
	<u>14 970 387</u>	<u>5 246 401</u>	<u>20 216 788</u>
<u>2015 - Restated</u>			
Deferred income	2 482 119	2 481 462	4 963 581
Accelerated capital allowances	11 152 955	(1 547 785)	9 605 170
Revaluation surplus	2 076 042	64 130	2 140 172
Other temporary differences	<u>(602 126)</u>	<u>(1 136 410)</u>	<u>(1 738 536)</u>
	<u>15 108 990</u>	<u>(138 603)</u>	<u>14 970 387</u>

14. Trade and other payables

	<u>2016</u> <u>K'000</u>	<u>2015</u> <u>K'000</u>
Trade and other payables	19 437 566	3 652 735
Project payables and retention	<u>155 845</u>	<u>532 840</u>
Total payables	<u>19 593 411</u>	<u>4 185 575</u>

Included in payables are liabilities of K6.728 billion (2015: K512 million) denominated in foreign currencies. The average trade payables period is 60 days. No interest is charged on overdue balances.

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For the year ended 30 June 2016

	<u>2016</u> K'000	<u>2015</u> K'000
15. Pension arrears		
At the beginning of the year	-	641
Payments made during the year	-	(641)
At the end of the year	-	-
The amount related to transition pension dues which arose on adoption of the Pensions Act, 2010 for Executive Directors and was settled in the year ended 30 June 2015.		
16. Revenue		
Electricity sales-post-paid	50 363 856	42 552 337
Electricity sales-prepaid	23 442 321	13 109 208
Malawi Rural Electrification Programme (MAREP) sales	416 720	456 659
Malawi Energy Regulatory Authority (MERA) & MAREP levies	(4 148 171)	(3 120 440)
Optic Fibre Communication	1 744 527	808 752
	<u>71 819 253</u>	<u>53 806 516</u>
As at 30 June 2016 the corporation has deferred revenue amounting to K1.483 billion (2015: K832 million) with respect to electricity prepaid sales and Optic Fibre Communication sales (Note 12.1).		
	<u>2016</u> K'000	<u>2015</u> K'000
17. Other income		
(Loss)/profit on disposal of assets	(1 081 683)	43 343
Grants released	321 268	2 088
Foreign exchange gain - realised gain/(loss)	795 533	277 100
- unrealised (loss)/gain	-	(1 505)
Capital contributions released	221 525	299 136
Sundry income	2 710 675	671 569
	<u>2 967 318</u>	<u>1 291 731</u>
18a. Expenses by nature		
Depreciation expenses	3 982 827	2 050 824
Increase in bad debts provision	2 297 785	687 237
Kapichira concession fees	3 981 078	2 116 955
Likoma expenses	206 781	373 685
Maintenance expenses	13 273 221	11 432 732
MAREP expenses	28 435	30 922
Operations expenses	2 504 156	2 078 959
Payroll costs	15 582 079	12 562 970
Project write-offs	1 179 812	1 589 792
Service, supplies and sundry expenses (SSS)	16 805 763	8 344 098
Training costs	2 646 314	1 302 822
	<u>62 488 251</u>	<u>43 025 996</u>

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	<u>2016</u> K'000	<u>2015</u> K'000
18b. Expenses by function		
Generation		
Generation payroll	2 639 421	2 165 044
Generation-services, supplies and sundry expenses (SSS)	1 364 662	1 115 668
Generation operations	637 486	397 952
Generation maintenance	2 106 351	1 491 246
Generation depreciation	681 074	371 258
Generation training costs	<u>291 050</u>	<u>156 968</u>
Generation expenses	<u>7 720 044</u>	<u>5 698 136</u>
Transmission		
Transmission payroll	1 551 881	1 301 627
Transmission-services, supplies and sundry expenses (SSS)	440 456	345 997
Transmission operations	234 357	260 556
Transmission maintenance	1 270 782	1 470 780
Transmission depreciation	549 681	259 491
Transmission training	<u>379 410</u>	<u>163 660</u>
Transmission expenses	<u>4 426 567</u>	<u>3 802 111</u>
Distribution		
Distribution cost payroll	7 059 961	5 683 071
Distribution cost-services, supplies and sundry expenses (SSS)	7 012 169	3 032 075
Distribution operations	1 323 815	1 126 158
Distribution cost maintenance	9 449 323	8 042 402
Distribution depreciation	1 424 265	392 368
Distribution training costs	550 926	215 290
MAREP expenses	28 435	30 922
Likoma expenses (Incl. fuel)	<u>206 781</u>	<u>373 685</u>
Distribution expenses	<u>27 055 675</u>	<u>18 895 971</u>
Head office		
Head office payroll	4 330 817	3 413 228
Head office-services, supplies and sundry expenses (SSS)	7 988 474	3 850 358
Head office operations	308 499	294 293
Head office maintenance	446 765	428 304
Head office depreciation	1 327 807	1 482 707
Bad debts (movement)	2 297 785	687 237
Head office training costs	1 424 928	766 904
Kapichira II concession fees	3 981 078	2 116 955
Projects write offs	<u>1 179 812</u>	<u>1 589 792</u>
Head office expenses	<u>23 285 965</u>	<u>14 629 778</u>
Total expenditure	<u>62 488 251</u>	<u>43 025 996</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

	<u>2016</u> K'000	<u>2015</u> K'000
19. Net finance income		
Interest received - bank deposits	1 233 916	2 782 806
- customer balances	130 477	327 788
- staff receivables	<u>25 677</u>	<u>13 762</u>
	<u>1 390 070</u>	<u>3 124 356</u>
Finance costs		
Interest paid -bank overdraft	<u>(12 586)</u>	<u>(1 927)</u>
	<u>(12 586)</u>	<u>(1 927)</u>
Net finance income	<u>1 377 484</u>	<u>3 122 429</u>
20. Profit before income tax expenses		
Profit before taxation is arrived at after taking into account:		
Auditors' remuneration	30 381	27 000
Directors' fees	2 022	2 297
Directors' expenses	128 450	83 094
Foreign exchange loss/ (gain)	(795 533)	(275 595)
Pension costs	1 018 996	846 440
Staff costs (excluding pension expenses)	<u>14 563 083</u>	<u>11 716 530</u>
21. Capital commitments		
Approved by the Board	68 821 120	50 636 984
Expenditure contracted but not yet incurred	<u>(17 852 669)</u>	<u>(11 297 801)</u>
Analysis of amounts to be expended		
Amounts not contracted at year end	<u>50 968 451</u>	<u>39 339 183</u>
The capital expenditure will be financed by internally generated funds and capital contributions by customers together with external borrowings from providers of finance.		
	<u>2016</u> K'000	<u>2015</u> K'000
22. Contingent liabilities		
Legal claims	<u>301 082</u>	<u>1 897 858</u>
Tax claims	<u>1 752 944</u>	<u>-</u>

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22. Contingent liabilities (Continued)

Legal claims

The corporation is defendant to several legal cases in the courts of Malawi. The corporation engages both external and internal legal counsel to attend to such matters as they arise. These are claims, inclusive of legal fees by various customers against ESCOM in respect of goods damaged, etc., due to surges in power supply. The amounts are estimated based on information provided by the Corporation's lawyers both internal and external, however, the actual amounts payable and the timing of the outflow will be determined by the outcome of the court process. In preparing these financial statements other than as disclosed, the directors have made an assessment and have informed an opinion that the outcome of such cases will not have a material effect on these financial statements.

Tax claim

The tax claim of K1.8 billion represents a claim by the MRA for under declaration of VAT. In the opinion of the directors, the claim is not expected to give rise to a cost to the entity.

Guarantees

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

	<u>2016</u> K'000	<u>2015</u> K'000
Letters of credit	-	3 600 000

Included in contingent liabilities are irrevocable letters of credit without cash cover, for which the corporation had undertaken to pay its suppliers but as the reporting date, 30 June 2015 the obligation to make payment has not risen.

23. Related party transactions

Identification of related parties

The corporation has related party relationships with the Government of Malawi which is sole shareholder of the company and key management personnel. Key management personnel comprise executive management.

	<u>2016</u> K'000	<u>2015</u> K'000
Transactions with key management personnel		
The key management personnel compensations are as follows:		
Short-term benefits	377 035	285 791
Post-employment benefits	29 198	23 038
	<u>406 233</u>	<u>308 829</u>

During the year, the corporation, in the ordinary course of business, sold power to its shareholder and fellow government owned entities and departments.

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	<u>2016</u> K'000	<u>2015</u> K'000
23. Related party transaction (Continued)		
Sales to statutory corporations	5 666 882	4 046 150
Sales to Government	<u>2 666 362</u>	<u>2 422 185</u>
	<u>8 333 244</u>	<u>6 468 335</u>
<i>Related party receivables</i>		
Statutory corporations	2 721 890	758 249
Government departments	352 184	754 543
Allowance for bad debts	<u>(2 975 021)</u>	<u>(849 879)</u>
	<u>99 053</u>	<u>662 913</u>
Related party promissory notes receivables		
Government of Malawi	<u>-</u>	<u>839 508</u>
Concession fees to government		
Kapichira II concession fees	<u>3 981 078</u>	<u>2 116 955</u>

Electricity is sold to related parties on an arm's length basis at market-related prices.

24. Financial assets and liabilities classification

	<u>Note</u>	<u>Held to maturity</u> K'000	<u>Loans and receivables</u> K'000	<u>Other financial liabilities at amortised cost</u> K'000	<u>Total carrying amount</u> K'000
30 June 2016					
Assets					
Receivables	10	-	7 224 343	-	7 224 343
Banks deposit accounts	11	-	5 643 505	-	5 643 505
Bank current account and cash	11	<u>-</u>	<u>4 806 123</u>	<u>-</u>	<u>4 806 123</u>
Total financial assets		<u>-</u>	<u>17 673 971</u>	<u>-</u>	<u>17 673 971</u>
Liabilities					
Payables	14	<u>-</u>	<u>-</u>	<u>19 953 411</u>	<u>19 953 411</u>

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

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

24. Financial assets and liabilities classification (Continued)

	<u>Note</u>	<u>Held to maturity</u> K'000	<u>Loans and receivables</u> K'000	<u>Other financial liabilities at amortised cost</u> K'000	<u>Total carrying amount</u> K'000
30 June 2015					
Assets					
Receivables	10	-	5 984 691	-	5 984 691
Notes receivable	9	839 508	-	-	839 508
Banks deposit accounts	11	-	16 640 906	-	16 640 906
Bank current account and cash	11	-	4 508 657	-	4 508 657
Total financial assets		839 508	27 134 254	-	27 973 762
Liabilities					
Payables	15	-	-	4 875 575	4 875 575
Total financial liabilities		-	-	4 875 575	4 875 575

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

25. Financial risk management

(a) Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risk; and
- Operational risk

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

Risk management framework

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

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

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

25. Financial risk management (Continued)

(a) Introduction and overview (Continued)

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

(b) Credit risk

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

Management of credit risk

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

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

Exposure of credit risk

Maximum exposure to credit risk

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

Gross maximum exposure

	Note	2016 K'000	2015 K'000
Financial assets			
Notes receivable	9	-	839 508
Receivables	10	7 224 343	5 984 691
Bank current accounts and cash	11	4 806 505	4 508 657
Bank deposits	11	5 643 326	16 640 906
Total		<u>17 674 174</u>	<u>27 973 762</u>

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

25. Financial risk management (Continued)

(b) Credit risk (Continued)

	<u>2016</u> K'000	<u>2015</u> K'000
Trade receivables		
Gross amount	13 518 474	10 155 881
Provision for doubtful debts	<u>(7 054 054)</u>	<u>(4 708 535)</u>
Carrying amount	6 464 420	5 447 346
Past due but not impaired	<u>993 810</u>	<u>573 192</u>
Past due comprises:		
60 days	756 035	1 254 710
60-90 days	550 942	292 703
90-120 days	<u>4 163 633</u>	<u>3 734 314</u>
	<u>5 470 610</u>	<u>5 281 727</u>

Past due not but impaired receivables

These are debtors over 30 days that have not been provided for because in the opinion of directors and based on past experience, some customers delay paying for their bills because either the bills are received late or the disconnection campaign has not been carried out efficiently.

(c) Liquidity risk

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

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

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

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

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

Management of liquidity risk

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

- Weekly cashflow reviews by senior management to look at the corporation's 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;
- Ensuring that debtor days do not exceed 30 days. Where 30 days are exceeded, ensuring that the customer premises are disconnected of electricity.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

25. Financial risk management (Continued)

(c) Liquidity risk (Continued)

Management of liquidity risk (Continued)

Other methods that are used include:

- Looking at the future net cash flows on a day-by-day basis. Any day that has a sizable negative net cash flow is a 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 received according to due dates patterns.

The table below analyses assets and liabilities to relevant maturity profiles based on the remaining period at 30 June 2016 to the contractual maturity date.

	Note	Less than 1 month K'000	1-3 months K'000	3-12 months K'000	Over 1 year K'000	Total K'000
30 June 2016						
Assets						
Notes receivable	9	-	-	-	-	-
Trade and other receivables	10	5 467 333	1 081 339	-	675 671	7 224 343
Bank current accounts and cash	11	4 806 505	-	-	-	4 806 505
Bank deposits accounts	11	-	5 643 326	-	-	5 643 326
Total financial assets		10 273 838	6 724 665	-	675 671	17 674 174
Liabilities						
Payables	15	1 189 698	18 206 297	197 416	-	19 593 411
Total financial liabilities		1 189 698	18 206 297	197 416	-	19 593 411
Contractual liquidity match		9 084 140	(11 481 632)	(197 416)	675 571	(1 919 337)
Cumulative match		9 084 140	(2 397 492)	(2 594 908)	(1 919 337)	
30 June 2015						
Assets						
Notes receivable	9	-	-	839 508	-	839 508
Trade and other receivables	10	4 064 954	878 857	429 997	610 883	5 984 691
Bank current accounts and cash	11	4 508 657	-	-	-	4 508 657
Bank deposits accounts	11	-	16 640 906	-	-	16 640 906
Total financial assets		8 573 611	17 519 763	1 269 505	610 883	27 973 762
Liabilities						
Payables	15	1 044 950	3 140 625	-	-	4 185 575
Total financial liabilities		1 044 950	3 140 925	-	-	4 185 575
Contractual liquidity match		7 528 661	14 379 138	1 269 505	610 883	23 788 187
Cumulative match		7 528 661	21 907 799	23 177 304	23 788 187	-

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

25. Financial risk management (Continued)

(d) Market risk

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

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

This could be unexpected changes 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 corporation's interests.

Management of market risks

- Marketing, Environmental and Corporate Planning departments monitor the external environment (market) to detect market changes to ensure that the corporation is in line with those changes;
- Prompt connection of new customers avoids alternative power usage by customers;
- Converting or replacing overdraft and floating rate finance with the 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 cashflow or fair values of financial instruments because of a change in market interest rates. The corporation's interest rate risk is managed principally through borrowings from different banks at the best interest rates it can obtain and monitoring these loans to ensure that they are repaid on a timely basis.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

25. Financial risk management (Continued)

Interest rate sensitivity analysis (Continued)

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

	Note	Less than <u>1 month</u> K'000	1-3 <u>months</u> K'000	3-12 <u>months</u> K'000	<u>Total</u> K'000
30 June 2016					
Assets					
Bank current accounts and cash	11	4 806 505	-	-	4 806 505
Bank deposits accounts	11	-	5 643 326	-	5 643 326
Total financial assets		4 806 505	5 643 326	-	10 449 831
Contractual liquidity mismatch		4 806 505	5 643 326	-	10 449 831
Cumulative mismatch		4 806 505	10 449 831	10 449 831	
30 June 2015					
Assets					
Bank current accounts and cash	11	4 508 657	-	-	4 508 657
Bank deposits accounts	11	-	16 640 906	-	16 640 906
Note receivable	9	-	-	839 508	839 508
Total financial assets		4 508 657	16 640 906	839 508	21 989 071
Contractual liquidity mismatch		4 508 657	16 640 906	839 508	21 989 071
Cumulative mismatch		4 508 657	21 149 563	21 989 071	-

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

25. Financial risk management (Continued)

(e) Currency risk

The corporation had the following significant foreign currency positions:

	<u>USD</u> <u>K'000</u>	<u>ZAR</u> <u>K'000</u>	<u>GBP</u> <u>K'000</u>	<u>EURO</u> <u>K'000</u>	<u>Total</u> <u>K'000</u>
30 June 2016					
Assets					
Bank deposits accounts	<u>3 424 559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3 424 559</u>
Total financial assets	<u>3 424 559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3 424 559</u>
Liabilities					
Payables	<u>6 399 494</u>	<u>3 100</u>	<u>-</u>	<u>325 330</u>	<u>6 727 924</u>
Total financial liabilities	<u>6 399 494</u>	<u>3 100</u>	<u>-</u>	<u>325 330</u>	<u>6 727 924</u>
Net open position	<u>(2 974 935)</u>	<u>(3 100)</u>	<u>-</u>	<u>(325 330)</u>	<u>(3 303 365)</u>
30 June 2015					
Assets					
Advance payments	<u>4 015 583</u>	<u>443 407</u>	<u>101 005</u>	<u>1 164 069</u>	<u>5 724 064</u>
Bank deposits accounts	<u>2 792 121</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2 792 121</u>
Total financial assets	<u>6 807 704</u>	<u>443 407</u>	<u>101 005</u>	<u>1 164 069</u>	<u>8 516 185</u>
Liabilities					
Payables	<u>364 497</u>	<u>10 335</u>	<u>-</u>	<u>137 326</u>	<u>512 158</u>
Total financial liabilities	<u>364 497</u>	<u>10 335</u>	<u>-</u>	<u>137 632</u>	<u>512 158</u>
Net open position	<u>6 443 207</u>	<u>433 072</u>	<u>101 005</u>	<u>1 026 743</u>	<u>8 004 027</u>

Foreign currency sensitivity analysis

The corporation is exposed mainly to South African Rand, US Dollar, and the Euro as follows: If the external value of the Kwacha was to move by 10% (2015: 10%) the corporation would incur exchange losses as follows:

	<u>Rand</u>		<u>US Dollar</u>		<u>GBP</u>		<u>Euro</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Profit or loss (Kwacha strengthening by 10%)	310	30 315	297 494	451 024	-	7 070	32 533	71 872
Profit or loss (Kwacha weakening by 10%)	(310)	(30 315)	(297 494)	(451 024)	-	(7 070)	(32 533)	(71 872)

This is mainly attributable to the exposure (Foreign Currency Denominated Accounts) denominated in US dollars.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

25. Financial risk management (Continued)

(f) Operational risk

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

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

Management of operational risk

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

Capital risk management

ESCOM manages the total shareholders' equity reserves and debt as capital. The corporation's objectives when managing its capital are to ensure its ability to continue as a going concern and to maintain an optimal capital structure appropriate to the stage of development of the Corporation's business in order to preserve investor, creditor and consumer confidence and to sustain future development of the business.

	<u>2016</u> K'000	<u>2015</u> K'000 Restated
The Corporation manages the following as capital:		
Ordinary shares	13 860 820	13 860 820
Preference shares	530 000	530 000
Advance contribution for share capital	12 885 036	12 885 036
Pre incorporation reserves	391 142	391 142
Revaluation reserves	5 027 703	5 178 981
Accumulated reserves	<u>29 685 265</u>	<u>23 813 130</u>
Total shareholders' equity	<u>62 379 966</u>	<u>56 659 109</u>

The major items that impact the capital of the corporation include:

- i. the revenue received from electricity sales which is a function of price and sales volumes and the cost of funding the business;
- ii. the cost of operating the electricity business;
- iii. the cost of expanding the business to ensure that the capacity growth is in line with electricity sales demand (funding and additional depreciation);
- iv. interest paid;
- v. taxation paid; and
- vi. dividends.

The Board has the responsibility to ensure that the corporation is adequately capitalised through debt and equity management

Under the funding from the Millennium Challenge Corporation (MCC), certain covenants are imposed on ESCOM's capital requirements. These covenants being a minimum debt service cover ratio of 1.2, no dividend pay-out interest cover of 3 to 1, total Interest Charge as proportion turnover (%) =<5% and a maximum debt equity ratio of 65.35. The corporation maintained the required covenants for the year under review as it had no loans. These covenants are used for forecasted financial planning to ensure and manage the loan conditions set.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

25. Financial risk management (Continued)

(f) Operational risk (Continued)

Capital risk management (Continued)

The tariff increases for the electricity business is subject to the process laid down by the Malawi Energy Regulatory Authority (MERA).

The electricity business is expanding and as a result the company is carrying out major maintenance works. The funding related to new transmitting and distributing capacity is envisaged to be obtained from cash generated by the business, cooperating partners, like World Bank (WB), Japan International Cooperation Agency (JICA) and the MCC, and funds borrowed on the local and overseas markets. The adequacy of tariff increases allowed by the Regulator and the level and timing of shareholder support are key factors in the sustainability of ESCOM.

Gearing ratio

Management reviews the capital structure on a regular basis. As at the end of the reporting period, the corporation did not have any borrowings.

26. Fair value

26.1 Classes and fair value of financial instruments

The fair values of the financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	Note	2016 Carrying amount K'000	2015 carrying amount K'000
Assets carried at amortised cost			
Notes receivable	9	-	839 508
Trade and other receivables	10	7 224 343	13 818 000
Cash and cash equivalents	11	<u>10 449 831</u>	<u>21 149 563</u>
		<u>17 674 174</u>	<u>35 807 071</u>
Liabilities carried at amortised cost			
Trade and other payables	15	<u>19 953 411</u>	<u>4 185 575</u>
		<u>19 953 411</u>	<u>4 185 575</u>

There are no unrecognised fair value gains or losses with respect to financial instruments.

It is the director's opinion that the carrying value of notes receivable, Trade receivables and trade payables approximate their fair values due to the short term maturities of these instruments.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

26. Fair value (Continued)

26.2 Fair value hierarchy and measurements

The table below analyses financial instruments carried at fair value, by using the valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: input for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets and liabilities that are not measured at fair value on a recurring basis.

	Note	<u>Level 1</u> K'000	<u>Level 2</u> K'000	<u>Level 3</u> K'000	<u>Total</u> K'000
30 June 2016					
Assets carried at amortised cost					
Notes receivable	9	-	-	-	-
Trade and other receivables	10	-	-	7 224 343	7 224 343
Cash and cash equivalents	11	-	-	10 449 831	10 449 831
		-	-	17 674 174	17 674 174
Liabilities carried at amortised cost					
Trade and other payables	15	-	-	19 953 411	19 953 411
30 June 2015					
Assets carried at amortised cost					
Notes receivable	9	-	-	839 508	839 508
trade and other receivables	10	-	-	13 818 000	13 818 000
Cash and cash equivalents	11	-	-	21 149 563	21 149 563
		-	-	35 807 071	35 807 071
Liabilities carried at amortised cost					
Trade and other payables	15	-	-	4 185 575	4 185 575

There have been no transfers between the fair value hierarchy levels (2015: no transfers).

The fair values of the financial assets and liabilities disclosed under level 3 above have been determined in accordance with generally accepted pricing models based on discounted flow analysis, with the most significant inputs being the discount rate.

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)
For the year ended 30 June 2016

27. Exchange rates and inflation

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

	2016	2015
Kwacha/US Dollar		
Kwacha/Rand	720.00	449.00
Kwacha/Euro	49.22	38.14
Kwacha/GBP	802.29	501.43
	968.37	709.48
Inflation rate (%)	<u>22.6</u>	<u>21.3</u>

At the date of signing the financial statements, the exchange rates

Kwacha/US Dollar	725.43
Kwacha/Rand	53.04
Kwacha/Euro	763.65
Kwacha/GBP	886.84

Inflation rate (%) (November 2016) 19.9

28. Comparative figures

Certain prior year figures were regrouped and reclassified where necessary to confirm to the current year presentation.

29. Subsequent events

Unbundling

In the context of the Power Sector Reform Agenda, the Government of Malawi has resolved to unbundle (curve out) the Generation activity from ESCOM, creating an independent Generator, the Electricity Generation Company (EGENCO) of Malawi Limited. The Residual ESCOM will be responsible for Electricity Transmission and Distribution and new functions of System & Market Operator (SMO) and Single Buyer (SB) Divisions to carry out the functions of a liberalised power market structure.

The target date for the implementation is 1 January 2017 and activities to ensure full execution of the plan are underway:

1. All staff members have been communicated to;
2. New organisational structures for the two entities have been developed;
3. An exercise to identify Fixed assets for the two companies was undertaken and completed;
4. Government of Malawi has assured all staff member that there will be no redundancies;
5. The full extent of the costs associated with the unbundling process are known;
6. A team has been appointed from the current Escom Limited to manage the unbundling process.