ELECTRICITY SUPPLY CORPORATION
OF MALAWI LIMITED

Financial Statements for the year ended
30 June 2008

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ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
REPORT OF THE DIRECTORS
For the year ended 30 June 2008

The Directors have pleasure in presenting their report together with the balance sheet of Electricity Supply Corporation of Malawi Limited together with the income, equity and cash flow statements for the year ended 30 June 2008.

ACTIVITIES

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

	2008 K'000	2007 K'000
FINANCIAL PERFORMANCE		
Loss for the year	(2,793,895)	(827,267)

SHARE CAPITAL

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

The shareholders and their respective holdings are:	2008	2007
Malawi Government	99%	99%
MDC Limited in liquidation	1%	1%
	100%	100%

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

AUDITORS

The auditors, Deloitte, have signified their willingness to continue in office and a resolution is to be proposed at the forthcoming Annual General Meeting in relation to their appointment as auditors in respect of the year ending 30 June 2009.

REGISTERED OFFICE

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

DIRECTORS

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

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

FOR AND ON BEHALF OF THE BOARD

Director: ____

Director: ____

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 30 June 2008

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

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

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

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

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

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

Director: ____

Director: ____

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

We have audited the financial statements of Electricity Supply Corporation of Malawi Limited as set out on pages 5 to 48, which comprise the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of Electricity Supply Corporation of Malawi Limited as of 30 June 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 1984 and the Public Finance Management Act, 2003.

Emphasis of matter – Going Concern
Without qualifying our opinion, we draw attention to note 27 to the financial statements. The company has incurred a loss for the year of K2,794m (2007: K827m) and the accumulated losses at the end of the year were K9,089m (2007: K6,356m). In addition, current liabilities exceed current assets by K4,881m (2007: K4,111m). These are indicators which cast doubt over the company's ability to continue as a going concern.

6 April 2010

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

BALANCE SHEET

30 June 2008

	Notes	2008 K'000	2007 K'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	5	22,521,854	22,515,728
Capital work in progress	6	3,435,651	3,271,831
Total non-current assets		25,957,505	25,787,559
CURRENT ASSETS			
Inventories	7	1,126,155	1,168,940
Receivables	8	2,259,522	2,167,396
Bank current account and cash		144,335	100,644
Bank deposit accounts		402,098	347,098
Taxation recoverable		14,189	12,329
Total current assets		3,946,299	3,796,407
TOTAL ASSETS		29,903,804	29,583,966
EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY			
Share capital		100,000	100,000
Share premium		610,000	610,000
Advance contribution for share capital		12,763,159	12,763,159
Pre-incorporation reserves		391,142	391,142
Nordic Development Fund Loan		917,661	865,579
Assets reserve		77,390	115,225
Revaluation reserve		984,338	1,006,880
Accumulated losses		(9,089,210)	(6,355,692)
Total shareholders' equity		6,754,480	9,496,293
NON-CURRENT LIABILITIES			
Deferred income	9	3,019,633	3,492,852
Severance allowance provision	10	2,264,440	1,291,602
Retirement benefit fund	11	643,408	309,752
Borrowings	12	4,871,634	4,006,536
HIPC funds	13	2,858,067	2,705,617
Bank borrowings	14	342,657	359,571
ESCOM Limited Pension Fund loan	15	265,868	-
Finance leases	16	55,851	14,239
Total non-current liabilities		14,321,558	12,180,169
CURRENT LIABILITIES			
Bank overdraft	17	957,885	400,397
Payables	18	1,855,413	1,161,784
Borrowings	12	5,543,444	5,713,373
HIPC funds	13	65,650	145,756
Bank borrowings	14	215,456	341,819
ESCOM Limited Pension Fund loan	15	118,702	-
Finance leases	16	46,216	119,375
Dividends payable		25,000	25,000
Total current liabilities		8,827,766	7,907,504
TOTAL EQUITY AND LIABILITIES		29,903,804	29,583,966

The financial statements were authorised for issue by the Board of Directors on 29 October 2009 and were signed on its behalf by:

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

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

INCOME STATEMENT

For the year ended 30 June 2008

	Notes	2008 K'000	2007 K'000
INCOME FROM OPERATIONS			
Sales of energy		7,147,530	6,403,608
Capital contributions and grants released	9	115,575	119,276
Release of Marep grants	9	1,099,474	-
Total income from operations		8,362,579	6,522,884
OPERATING EXPENDITURE			
Generation		853,041	846,383
Transmission		709,885	579,908
Distribution		3,126,459	2,298,132
Head Office		2,722,725	1,193,805
Write off of Marep IV assets	5	1,336,849	-
Depreciation		1,165,488	929,568
Interest on loans, finance leases and bank borrowings		730,544	172,326
Interest on bank overdraft		53,470	77,223
Total operating expenditure		10,698,461	6,097,345
(LOSS)/PROFIT BEFORE SUNDRY (EXPENDITURE)/INCOME		(2,335,882)	425,539
SUNDRY (EXPENDITURE)/INCOME			
Exchange losses	19	(487,454)	(305,579)
Increase in doubtful debt provisions		(1,424)	(1,048,763)
Loss on disposal of property, plant and equipment		(12,471)	-
Training expenses		(30,321)	(62,694)
Interest receivable		67,998	75,193
Other income		5,659	89,037
Net sundry expenditure		(458,013)	(1,252,806)
LOSS BEFORE TAXATION	20	(2,793,895)	(827,267)
Taxation	21	-	-
LOSS FOR THE YEAR		(2,793,895)	(827,267)

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED

STATEMENT OF CHANGES IN EQUITY

30 June 2008

	Share capital K'000	Share premium K'000	Advance contribution for share capital K'000	Pre-incorporation reserves K'000	Nordic Development Fund loan K'000	Asset reserve K'000	Revaluation reserve K'000	Accumulated losses K'000	Total K'000
Year ended 30 June 2007									
At beginning of the year	100,000	610,000	12,763,159	391,142	777,920	153,060	-	(5,566,260)	9,229,021
Loss for the year	-	-	-	-	-	-	-	(827,267)	(827,267)
Transfer to accumulated losses	-	-	-	-	-	(37,835)	-	37,835	-
Revaluation surplus	-	-	-	-	-	-	1,006,880	-	1,006,880
Advance contribution for share capital	-	-	-	-	87,659	-	-	-	87,659
At end of the year	100,000	610,000	12,763,159	391,142	865,579	115,225	1,006,880	(6,355,692)	9,496,293
Year ended 30 June 2008									
At beginning of the year	100,000	610,000	12,763,159	391,142	865,579	115,225	1,006,880	(6,355,692)	9,496,293
Loss for the year	-	-	-	-	-	-	-	(2,793,895)	(2,793,895)
Transfer to accumulated losses	-	-	-	-	-	(37,835)	-	37,835	-
Excess depreciation	-	-	-	-	-	-	(22,542)	22,542	-
Advance contribution for share capital	-	-	-	-	52,082	-	-	-	52,082
At end of the year	100,000	610,000	12,763,159	391,142	917,661	77,390	984,338	(9,089,210)	6,754,480

	2008	2007
	K'000	K'000
Analysis of share capital		
Authorised, issued and fully paid		
50,000,000 Ordinary shares of K2 each	100,000	100,000

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

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

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

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

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

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

ELECTRICITY SUPPLY CORPORATION OF MALAWI LIMITED
CASH FLOW STATEMENT
For the year ended 30 June 2008

	2008 K'000	2007 K'000
Cash generated from operations (Note 22)	1,660,416	1,755,615
Interest paid	(423,544)	(159,296)
Taxation paid	(1,860)	(5,207)
Net cash generated from operations	1,235,012	1,591,112
Cash flows from investing activities		
Expenditure on property, plant and equipment including capital work in progress	(2,801,809)	(3,065,457)
Proceeds from sale of property, plant and equipment	16,680	-
Interest received	67,998	75,193
Net cash used in investing activities	(2,717,131)	(2,990,264)
Cash flows from financing activities		
Proceeds from finance leases	67,680	179,571
Repayment of finance leases	(99,227)	(47,502)
Proceeds from borrowings	53,690	-
Advance contribution on share capital on NDF loan	50,888	86,831
Repayment of borrowings	(6,821)	(307,634)
Proceeds from bank borrowings	226,939	915,981
Repayments of bank borrowings	(371,657)	(264,539)
Repayment of ESCOM Limited Pension Fund loan	(40,000)	-
Proceeds from ESCOM Limited Pension Fund loan	400,000	-
Grants and capital contributions received	741,830	631,984
Net cash flow from financing activities	1,023,322	1,194,692
Decrease in cash and cash equivalents	(458,797)	(204,460)
Cash and cash equivalents at beginning of the year	47,345	251,805
Cash and cash equivalents at end of the year	(411,452)	47,345
Analysis of cash and cash equivalents		
Bank current accounts and cash	144,335	100,644
Bank deposit accounts	402,098	347,098
Bank overdraft	(957,885)	(400,397)
	(411,452)	47,345

1. General Information

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

2. Adoption of new and revised International Financial Reporting Standards

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 July 2007. In the current year, the Company has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for periods beginning on or after 1 January 2007. The adoption of IFRS 7 has expanded the disclosures provided in these financial statements regarding the Company's financial instruments and management of risks arising from financial instruments.

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

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

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

3. Significant accounting policies

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

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

3.1 *Property, plant and equipment*

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

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

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

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

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

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

3. Significant accounting policies (Continued)

3.1 *Property, plant and equipment* (Continued)

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

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

3.2 *Foreign currency translation*

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

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

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

3.3 *Financial assets*

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

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

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

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

<u>Loans and receivables</u>
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are initially measured at fair value and subsequently at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. Significant accounting policies (Continued)

3.3 *Financial assets* (Continued)

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

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

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

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

3.4 *Financial liabilities and equity instruments*

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

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

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

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

3. Significant accounting policies (Continued)

3.4 *Financial liabilities and equity instruments* (Continued)

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the company manages together and has a recent:
  - (i) Actual pattern of short-term profit-taking; or
  - (ii) It is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

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

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

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

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

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

3.5 *Provisions*

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

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

3.6 *Capital work in progress*

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

3. Significant accounting policies (Continued)

3.7 *Inventories*

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

Cost is determined on the following basis:-

- Consumable stores are valued at average landed cost.
- Goods in transit are valued at invoiced cost.

3.8 *Impairment of non-financial assets*

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

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

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

3.9 *Revenue*

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

3.10 *Deferred income*

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

3. Significant accounting policies (Continued)

3.11 *Taxation*

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

Current tax

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

Deferred tax

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

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

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

3.12 *Retirement benefits*

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

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

3.13 *Severance allowance*

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

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

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

3. Significant accounting policies (Continued)

3.14 *Borrowing costs*

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

4. Critical accounting judgements and key sources of estimation uncertainty

4.1 Critical judgements in applying the company's accounting policies

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

4.2 Key sources of estimation uncertainty

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

4.2.1 <u>Provision for doubtful debts</u>

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

4.2.2 <u>Valuation of Land and Buildings</u>

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

5. Property, plant and equipment

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

5. Property, plant and equipment (Continued)

2008	**Land and buildings** K'000	**Plant and machinery generation** K'000	**Distribution** K'000	**Other office equipment** K'000	**Motor vehicles** K'000	**Total** K'000
COST OR VALUATION						
At beginning of year	1,181,368	15,171,330	8,272,680	1,485,502	1,035,325	27,146,205
Additions	-	63,938	883,194	125,557	2,606	1,075,295
Transfers from capital work in progress	-	98,140	1,392,009	-	-	1,490,149
Marep assets write off	-	-	(1,392,009)	-	-	(1,392,009)
Write off of other assets	-	-	-	(100,801)	-	(100,801)
Disposals	-	-	-	(1,066)	(81,134)	(82,200)
At end of the year	1,181,368	15,333,408	9,155,874	1,509,192	956,797	28,136,639
At beginning of the year	-	2,153,635	1,472,300	623,013	381,529	4,630,477
Charge for the year	34,153	422,335	428,185	183,024	97,791	1,165,488
Write off of other assets - depreciation release	-	-	-	(72,971)	-	(72,971)
Marep assets - depreciation on write offs	-	-	(55,160)	-	-	(55,160)
Disposals	-	-	-	(273)	(52,776)	(53,049)
At end of the year	34,153	2,575,970	1,845,325	732,793	426,544	5,614,785
NET BOOK AMOUNT						
At end of the year	1,147,214	12,757,438	7,310,549	776,399	530,253	22,521,854

5. Property, plant and equipment (Continued)

Siltation

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

To maintain operational capacity the company is involved in a continuous process of desiltation. This involves the dredging of the dams and during the rainy season efforts are also undertaken to remove debris from the Shire River. These efforts are set to continue for the foreseeable future. All costs associated with these efforts are expensed to the income statement as they are incurred. The costs of dredging during the year were K57.9m (2007: K27.3m).

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

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

Tedzani I and II

Included in property, plant and equipment is Tedzani I and II with a cost of K15.3m and net book value of K4.0m (2007: K4.7m), which has not been operational since 2001. The Hydro Power Station is currently being rehabilitated by Hydel Engineering and Construction Limited of India on a turn key basis.

As at 30 June 2008, work in progress relating to the US$16.8 million Tedzani Project is being funded by financial assistance from Hydel Engineering and Construction Limited. The outstanding balance attracts interest of 2% above libor on a reducing balance basis with a repayment period of 48 months and no Government guarantee. The last installment is due in November 2009.

The project was 87% complete as at 30 June 2008. It was envisaged that all the works would be completed by April 2009.

Asset write offs

As a result of a physical verification exercise carried out in the year ended 30 June 2008, there were some assets that were included in the accounting records but did not actually exist. These assets, which had a carrying value of K27m, have been written off during the year.

Valuation of land and buildings

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

5. Property, plant and equipment (Continued)

Marep IV assets written off

In accordance with the requirements of the Government, though the Department of Energy Affairs and the Rural Electrification Act, 2004, management has reversed the Marep IV assets, with a carrying value of K1,337m, that were capitalised during the current and earlier years. The Rural Electrification Act, 2004, states that the owner of these assets is the Government of Malawi. This has also resulted in the release of K1,099m recognised as Marep IV grant to the income statement (refer note 9). The accounting treatment going forward is that funds received will be used to build assets which will not be recognised in the books of the company.

	2008 K'000	2007 K'000
Land and buildings at cost or revaluation comprises the following:		
Freehold - at 2007 valuation	104,572	104,572
Leasehold - at 2007 valuation	1,076,796	1,076,796
Total cost or valuation at end of the year	1,181,368	1,181,368

6. Capital work in progress

	2008 K'000	2007 K'000
Balance at beginning of the year	3,271,831	6,423,813
Additions:		
Funded from borrowings	615,226	793,709
Funded from internal resources	1,017,894	711,318
Interest capitalised	64,160	304,336
Funded from project creditors	123,645	152,898
Exchange (gains)/losses on foreign loans capitalised	(166,956)	37,783
	4,925,800	8,423,857
Work in progress written off	-	(13,924)
Transfer to property, plant and equipment	(1,490,149)	(5,138,102)
Balance at end of the year	3,435,651	3,271,831
Capital work in progress is analysed as follows:		
Projects	2,381,930	2,588,106
General development	1,053,721	683,725
Total capital work in progress	3,435,651	3,271,831

7. Inventories

	2008 K'000	2007 K'000
General stores	811,248	814,434
Goods in transit	314,907	354,506
Total inventories	1,126,155	1,168,940

8. Receivables

	2008 K'000	2007 K'000	2008 K'000	2007 K'000
Trade receivable			3,205,544	3,675,840
Staff loans and advances			813,698	489,947
Other receivables and prepayments			352,095	5,868
Gross receivables			4,371,607	4,171,655
Doubtful debt provisions:				
- trade receivables	(1,366,385)	(1,364,961)		
- government accounts	(550,398)	(550,398)		
			(1,916,783)	(1,915,359)
Loans and advances impairment provision			(195,302)	(88,900)
Total receivables			2,259,522	2,167,396

Included in staff loans and advances are housing loans of K233m (2007: K235m) which are repayable over periods of up to twelve years. Staff housing loans are secured by charges over the related properties.

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

	2008 K'000	2007 K'000
Movement in allowance for doubtful debts		
At beginning of the year	1,915,359	901,321
Additions	54,921	1,014,038
Recoveries	(53,497)	-
At end of the year	1,916,783	1,915,359

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

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

Included in receivables are balances with a carrying amount of K1,071m (2007: K1,556m) which are past due date at the reporting date for which the company has not provided for as in the opinion of management and based on previous experience they are considered recoverable.

9. Deferred income

	Government grants K'000	Capital contributions K'000	2008 Total K'000	2007 Total K'000
At beginning of the year	1,752,937	1,739,915	3,492,852	2,980,144
Received during the year	283,708	458,122	741,830	631,984
Marep IV grant released during the year (note 5)	(1,099,474)	-	(1,099,474)	-
Released to income statement during the year	(62,893)	(52,682)	(115,575)	(119,276)
At end of the year	874,278	2,145,355	3,019,633	3,492,852

10. Severance allowance provision

	2008 K'000	2007 K'000
At beginning of the year	1,291,602	962,657
Charge for the year	972,838	328,945
At end of the year	2,264,440	1,291,602

Severance allowance provision
Section 35 (1) of the Employment Act No. 6 of 2000 requires employers to pay severance allowance to employees whose employment contracts are terminated either by mutual agreement between the employer and the employee or unilaterally by the employer. The provision of K2,264m has been made in accordance with IAS 19, Employee Benefits, as a defined benefits scheme.

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

a) Discount rate - 1.5%
b) Retirement - 60
c) Withdraws - 12% at age 18 reducing to nil from age 50
d) Redundancy - 3%
e) Mortality - SA 85/90

11. Retirement benefit fund

	2008 K'000	2007 K'000
At beginning of the year	309,752	248,219
Payment made during the year	(30,130)	(26,528)
Charge for the year	363,786	88,061
At end of the year	643,408	309,752

11. Retirement benefit fund (Continued)

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

The provision, which is unfunded, is based on the assumption that salaries will increase broadly in line with inflation. An actuarial valuation of the obligation was carried out as at 30 June 2008 by QED Actuaries and Consultants (Pty) Limited of South Africa represented by Giulia Tognon, Fellow of the Actuarial Society of South Africa.

12. Borrowings

		2008 K'000	2007 K'000
Balance at beginning of the year		9,719,909	9,711,606
Additions:	- new borrowings	104,578	86,831
	- interest charged	440,291	100,287
	- interest capitalised	64,140	53,216
	- exchange losses on foreign loans capitalised in WIP	274,468	25,857
	- exchange losses expensed	163,118	229,252
Less:	- repayments	(6,821)	(307,634)
	- interest paid	(170,444)	(19,383)
	- amount transferred to HIPC funds	(65,650)	(145,756)
	- movement in fair value of zero coupon bond	(56,429)	73,292
	- NDF transfer to advance share capital	(52,082)	(87,659)
Total borrowings at end of the year		10,415,078	9,719,909
Less amounts included in current liabilities		(5,543,444)	(5,713,373)
Non-current borrowings		4,871,634	4,006,536

	2008 K'000	2007 K'000
Analysis of current borrowings		
Amounts due within one year	1,831,605	2,556,578
Principal and interest in arrears	3,711,839	3,156,795
	5,543,444	5,713,373

12. **Borrowings** (Continued)

Details of borrowings are set out below.

	2008 K'000	2007 K'000
Government of Malawi These Malawi Kwacha loans are repayable over terms of up to 30 years and carry interest at rates varying between 3% (2007: 3%) and 12% (2007: 12%). The last payment is due in 2034.	6,193,251	5,995,464
European Investment Bank The loan, which is denominated in Euros, was obtained from this lender and qualifies for HIPC relief. As the principal amounts fall due the amount due is transferred to a separate HIPC account. The amount converted to the HIPC loan fund was K65.6m (2007: K62.1m). The loan attracts interest at a rate of 3.5% per annum. The last installment is due in 2017. The amount is now payable to the Government of Malawi	657,867	614,498
European Investment Bank The loan is denominated in GB pounds, Japanese Yen and Swiss Franc (CHF). It is repayable in half yearly installments, the last of which is due in November 2007. Interest rates vary between 10% and 15% per annum.	-	18
SEB SCADA The loan is denominated in Swedish Kroner. It is repayable in half yearly instalments in April and October over a period of 25 years after a grace period of 7 years. The agreement was signed in 1997 and all interest to April 2005 will be capitalised. The loan is on lent to ESCOM from the Government of Malawi. The loan attracts interest at a rate of 3% per annum.	63,187	47,652
SIDA This loan is in Swedish Kroners. The agreement was signed on 17 November 2000. The loan was obtained through the Malawi Government. The loan attracts interest at a rate of 3% per annum. Repayments commenced in 2007. The loan is on lent to ESCOM from Government of Malawi.	2,161,148	1,823,958
Development Bank of Southern Africa The loan is denominated in South African Rands. The capital amount is repayable in one payment after a grace period of 15 years in 2019. The loan is secured by a Cessation and Pledge Agreement in respect of a zero coupon bond with a maturity value of the principal amount which is R79 million after 15 years. Interest is at the rate of 3 months ZAR-JIBAR-SAFEX plus operating and funding cost margin currently 0.9% plus 5% risk margin. Interest is repayable half yearly in arrears. The loan is guaranteed by the Government of Malawi.	1,748,665	1,644,843
Fair value of zero coupon bond held with Investec Bank	(512,628)	(456,199)
World Bank Project Preparatory Fund The purpose of this fund is to finance the preparation activities for the Southern African Power Pool Project. The fund amount is USD 380,000. The loan is guaranteed by the Government of Malawi.	103,588	49,675
Total borrowings	10,415,078	9,719,909

12. Borrowings (Continued)

	2008 K'000	2007 K'000
The following summary indicates the repayment terms of the loans outstanding:		
Dates of repayment:		
Within 5 years	6,763,861	3,496,356
Between 5 and 10 years	852,461	1,330,309
After 10 years	2,798,756	4,893,244
	10,415,078	9,719,909
The loans are repayable in:		
Malawi Kwacha	6,193,251	2,775,767
Foreign currencies	4,221,827	6,944,142
	10,415,078	9,719,909

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

Defaults and breaches on Development Bank of Southern African Limited Loan

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

Ratios	Required	Actual 2008	Actual 2007
Debt/Equity	1:1	2.44	1.38:1
Debt to capital Employed ratio %	50	152	103
Liquidity ratio	1.2:1	0.60:1	0.65:1

Article 11 of the Agreement states that DBSA is entitled, after giving the borrower 30 days notice, to suspend draw downs from the loan or to terminate the agreement and claim from the borrower immediate payment of all outstanding amounts should the borrower commit any breach of this agreement, provided that DBSA may at its entire discretion, dispense with the giving of the 30 (thirty) days notice. ESCOM has obtained a waiver dated December 2008 from DBSA to prevent the loan from being recalled. Interest payments continue to be made when due on the loan.

13. HIPC funds

	2008 K'000	2007 K'000
Industrial Development Company of South Africa	32,051	32,051
Commonwealth Development Corporation Company plc	2,489,559	2,489,559
European Investment Bank	305,528	233,571
Eksportifinans (NORAD) –NOK	89,885	89,885
Principal amounts transferred from loans	2,917,023	2,845,066
Interest accrued on funds	6,694	6,307
Total HIPC funds at the end of the period	2,923,717	2,851,373
Less- due within one year included in current liabilities	(65,650)	(145,756)
Non-current HIPC funds	2,858,067	2,705,617
Movement in HIPC funds:		
At beginning of the year	2,851,373	2,699,310
Amount qualifying for HIPC during the period	65,650	145,756
Accrued interest on HIPC funds	6,694	6,307
At end of the year	2,923,717	2,851,373

Following Malawi's qualification for the Highly Indebted Poor Countries (HIPC) initiative from its multilateral donors in 2004, certain loans that the company had from Commonwealth Development Corporation Company plc, European Investment Bank and the Industrial Development Company of South Africa were waived. The loans are now repayable to the Government. The liability is set out at the Kwacha value at the date the loans qualified for the HIPC initiative and the repayment terms remain unchanged. In a letter dated 15 February 2005 from the Secretary of Treasury to ESCOM, the Malawi Government advised ESCOM to credit this amount to a HIPC account held at Reserve Bank of Malawi as the loan repayments fell due. Interest has been accrued at the rates of the original loans from third parties and no objection has been received from Government to this treatment.

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

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

14. Bank borrowings

	2008 K'000	2007 K'000
Malawi Savings Bank Limited	49,446	126,537
National Bank of Malawi	508,667	574,853
Total bank borrowings	558,113	701,390
Analysed as:		
Amount due within one year	215,456	341,819
Amount due after one year	342,657	359,571
Total	558,113	701,390
Movement in the year		
At beginning of the year	701,390	48,450
New loans	226,939	915,981
Repayments	(371,657)	(264,538)
Interest charge	140,871	41,772
Interest paid	(139,430)	(40,275)
At end of the year	558,113	701,390

The borrowings carry interest of 21.5% p.a. for National Bank of Malawi (2% above the base rate) and 22% p.a. for Malawi Savings Bank Limited. The National Bank of Malawi borrowings, which are secured over certain land and buildings of ESCOM Limited, are repayable over a period of 48 months and the last installment is due on 30 June 2011. The Malawi Savings Bank loan is payable over a period of 24 months with the last installment due on 31 December 2008 and is secured over the assets (vehicles) purchased from the proceeds of the loan.

15. ESCOM Limited Pension Fund loan

	2008 K'000	2007 K'000
Loan received during the year	400,000	-
Interest	66,075	-
Repayments	(40,000)	-
Interest paid	(41,505)	-
At end of the year	384,570	-
Analysed as:		
Amount due within one year	118,702	-
Amount due after one year	265,868	-
	384,570	-

On 27 September 2007, ESCOM entered into an agreement with the registered Trustees of Electricity Supply Corporation of Malawi Limited Pension Fund to advance K400 million which ESCOM used to advance to its employees who are members of the Pension Fund. The loan attracts interest of 21% per annum and is repayable quarterly over a period of five years.

16. Finance leases

	2008 K'000	2007 K'000
Leasing and Finance Company of Malawi Limited	10,660	59,828
National Bank of Malawi	91,407	73,786
Total finance leases	102,067	133,614
Analysed as:		
Amount due within one year	46,216	119,375
Amount due after one year	55,851	14,239
Total	102,067	133,614
Movement in the year		
At beginning of year	133,614	-
Additions	67,680	179,571
Repayments	(99,227)	(47,502)
Interest charge	18,695	23,960
Interest paid	(18,695)	(22,415)
At end of year	102,067	133,614

The leases carry interest of 19% p.a. for National Bank of Malawi (0.5% below the base rate) and 19% p.a. for Leasing and Finance Company of Malawi Limited. The finance leases are secured by the motor vehicles they finance. The leases are repayable over a period of two years from September 2006 to November 2008 for Leasing and Finance Company lease and from October 2006 to December 2008 for the National Bank of Malawi lease.

17. Bank overdraft

The bank overdraft facility is unsecured. Ministry of Finance gave its consent to the company to obtain a bank overdraft of up to K520m (2007: K200m) in line with statutory corporations borrowing requirements. In addition, the company has a documentary credit facility of K270m.

18. Payables

	2008 K'000	2007 K'000
Trade and other payables	1,633,387	917,720
Project payables and retention	123,645	168,466
Consumer deposits	98,381	75,598
Total payables	1,855,413	1,161,784

Included in payables are liabilities of K116m (2007: K176m) denominated in foreign currencies. The average trade payables period is 60 days and interest is charged by most of the suppliers except for a few foreign payables used to finance some projects.

19. Exchange losses

		Funding of capital assets K'000	Other liabilities K'000	2008 K'000	2007 K'000
Realised	- borrowings	-	-	-	2,714
	- short-term (payables)	-	(2,184)	(2,184)	-
Total realised		-	(2,184)	(2,184)	2,714
Unrealised	- borrowings	478,114	-	478,114	299,830
	- short-term (payables)	-	11,524	11,524	3,035
Total unrealised		478,114	11,524	489,638	302,865
Total exchange losses		478,114	9,340	487,454	305,579

20. Loss before taxation

Loss before taxation is arrived at after taking into account:

		2008 K'000	2007 K'000
Auditors' remuneration	- current period	14,933	15,200
	- prior period	11,395	(4,825)
Directors' fees		1,347	1,712
Staff costs		1,936,248	1,859,872
Severance allowance charge		972,838	328,945
Retirement benefit charge		363,786	88,061
Pension costs		107,331	58,216

21. Taxation

21.1 Income tax

The company did not earn any taxable income during the year. The company has carried forward estimated tax losses of K20 billion (2007: K17.4 billion).

21.2 Deferred tax

A notional deferred tax asset arises as follows:	2008 K'000	2007 K'000
Accelerated capital allowances	5,101,149	4,710,201
Estimated tax losses carried forward	(5,991,883)	(5,215,939)
Other temporary differences	(727,835)	(537,955)
Deferred tax asset	(1,618,569)	(1,043,693)

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

22. Reconciliation of loss before interest and taxation to cash generated from operations

	2008 K'000	2007 K'000
Loss before interest and taxation	(2,077,879)	(652,911)
Release of MAREP grant	(1,099,474)	-
Depreciation of property, plant and equipment	1,165,488	929,568
Loss of disposal of property, plant and equipment	12,471	-
MAREP assets written off	1,336,849	-
Capital contributions and grants released to the income statement	(115,575)	(119,276)
Exchange losses expensed	487,454	305,579
	(290,666)	462,960
Movements in working capital:		
Movement in inventories	42,785	(248,032)
Movement in receivables	(92,126)	1,652,031
Movement in payables	693,929	(501,822)
Movement in retirement benefit provision	333,656	61,533
Movement in severance provision	972,838	328,945
Cash generated from operations	1,660,416	1,755,615
Loss before interest and taxation is determined as follows:		
Loss before taxation	(2,793,895)	(827,267)
Interest on borrowings, financed leases and bank borrowings	730,544	172,326
Interest on bank overdraft	53,470	77,223
Interest receivable	(67,998)	(75,193)
Loss before interest and taxation	(2,077,879)	(652,911)

23. Capital commitments

	2008 K'000	2007 K'000
Authorised by the company and contracted	939,933	2,000,044
Authorised by the company but not contracted	5,379,974	7,363,637
Total commitments	6,319,907	9,363,681

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

	2008 K'000	2007 K'000
24. Contingent liabilities		
Legal claims	201,643	153,208

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

Guarantees

The Company makes an undertaking by introducing its employees to various financial institutions to obtain personal loans. The Company undertakes to continue remitting the employees' salaries to such institutions and should there be a default on such loans, the Company's responsibility is to remit the employees' terminal benefits to the financial institutions. The Company's obligation is limited to the employees' terminal benefits. If such benefits are not adequate to cover the outstanding employees' loans, the financial institutions have no recourse against the Corporation. Escom is unable to quantify the contingent liability payable to the various financial institutions in the event that employees default and in cases where final benefits are insufficient to repay the outstanding loan balances.

25. Related party transactions

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

	2008 K'000	2007 K'000
Receivables		
Statutory corporations	221,415	14,345
Government departments	760,699	731,984
Specific provision for bad debts	(550,398)	(550,398)
	431,716	195,931
Loans		
Government of Malawi (Note 12)	6,193,251	5,995,464
HIPC Funds		
Government of Malawi (Note 13)	2,923,717	2,851,373
Dividend payable Government of Malawi	25,000	25,000
Compensation of key management staff		
Salaries, bonuses and benefits	162,275	62,696

26. Financial assets and liabilities

Accounting categories and fair values

	Notes	Held to maturity K'000	Loans and receivables K'000	Other amortised cost K'000	Total carrying amount K'000	Fair value K'000
30 June 2008						
Assets						
Receivables	8	-	2,259,522	-	2,259,522	2,259,522
Bank current account and cash		-	144,335	-	144,335	144,335
Bank deposit account		402,098	-	-	402,098	402,098
Taxation recoverable		-	14,189	-	14,189	14,189
Total financial assets		402,098	2,418,016	-	2,820,144	2,820,144
Liabilities						
Borrowings	12	-	-	10,415,078	10,415,078	10,415,078
HIPC Funds	13	-	-	2,923,717	2,923,717	2,923,717
Bank borrowings	14	-	-	558,113	558,113	558,113
ESCOM Limited Pension Fund loan	15	-	-	384,570	384,570	384,570
Finance leases	16	-	-	102,067	102,067	102,067
Bank overdraft	17	-	-	957,885	957,885	957,885
Payables	18	-	-	1,855,413	1,855,413	1,855,413
Total financial liabilities		-	-	17,196,843	17,196,843	17,196,843

26. Financial assets and liabilities (Continued)

Accounting categories and fair values	Note	Held to maturity K'000	Loans and receivables K'000	Amortised cost K'000	carrying amount K'000	Fair value K'000
30 June 2007						
Assets						
Receivables	8	-	2,167,396	-	2,167,396	2,167,396
Bank current account and cash		-	100,644	-	100,644	100,644
Bank deposit account		347,098	-	-	347,098	347,098
Taxation recoverable		-	12,329	-	12,329	12,329
Total financial assets		347,098	2,280,369	-	2,627,467	2,627,467
Liabilities						
Borrowings	12	-	-	9,719,909	9,719,909	9,719,909
HIPC Funds	13	-	-	2,851,373	2,851,373	2,851,373
Bank borrowings	14	-	-	701,350	701,350	701,350
Finance leases	16	-	-	133,614	133,614	133,614
Bank overdraft	17	-	-	400,397	400,397	400,397
Payables	18	-	-	1,161,784	1,161,784	1,161,784
Total financial liabilities		-	-	14,968,427	14,968,467	14,968,467

26. Financial risk management (Continued)

(a) Introduction and overview

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

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

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

Risk management framework

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

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

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

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

26. Financial risk management (Continued)

(b) Credit risk

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

Management of credit risk

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

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

Exposure of credit risk

Maximum exposure to credit risk

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

	2008 K'000	2007 K'000
26. Financial risk management (Continued)		

Gross maximum exposure

30 June 2008

	2008 K'000	2007 K'000
Financial assets		
Receivables	4,371,607	4,171,655
Bank current account and cash	144,335	100,644
Bank deposits accounts	402,098	347,098
Taxation recoverable	14,189	12,329
Total	4,933,229	4,631,726

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

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

	2008 K'000	2007 K'000
Trade receivables		
Gross amount	3,205,544	3,675,840
Allowance for impairment losses	(1,916,783)	(1,915,359)
Carrying amount	1,288,761	1,760,481
Past due but not impaired	1,071,217	1,557,601
Past due comprises:		
60 days	99,846	143,345
60 - 90 days	73,259	102,860
90 -120days	898,112	1,311,396
	1,071,217	1,557,601

Past due but not impaired receivables

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

26. Financial risk management (Continued)

c) Liquidity risk

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

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

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

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

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

Management of Liquidity Risk

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

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

Other methods that are used include:

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

26. Financial risk management (Continued)

(c) Liquidity risk (Continued)

The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at 30 June 2008 to the contractual maturity date.

	Notes	Less than 1 months K'000	1 - 3 months K'000	3 - 12 months K'000	Over 1 year K000	Total K'000	Carrying amount K'000
30 June 2008							
Assets							
Receivables	8	1,285,529	248,589	93,134	632,270	2,259,522	2,259,522
Bank current account and cash		144,335	-	-	-	144,335	144,335
Bank deposits accounts		370,580	32,864	-	-	403,444	402,098
Taxation recoverable		-	-	14,189	-	14,189	14,189
Total financial assets		1,800,444	281,453	107,323	632,270	2,821,490	2,820,144
Liabilities							
Borrowings	12	3,711,839	-	2,731,436	6,257,162	12,700,437	10,415,078
HIPC Funds	13	-	-	72,343	2,891,552	2,963,895	2,923,717
Bank borrowing	14	34,661	74,577	169,270	405,709	684,217	558,113
ESCOM Limited Pension Fund loan	15	43,727	35,075	106,503	386,474	571,779	384,570
Finance leases	16	13,147	30,962	39,349	83,757	167,215	102,067
Bank overdraft	17	957,885	-	-	-	957,885	957,885
Payables	18	1,096,609	536,780	123,643	98,381	1,855,413	1,855,413
Total financial liabilities		5,857,868	677,394	3,242,544	10,123,035	19,900,841	17,196,843
Contractual liquidity mismatch		**(4,057,424)**	**(395,941)**	**(3,135,221)**	**(9,490,765)**	**(17,079,351)**	**(14,376,699)**

26. Financial risk management (Continued)

	Notes	Less than 1 months K'000	1 - 3 months K'000	3 - 12 months K'000	Over 1 year K'000	Total K'000	Carrying amount K'000
30 June 2007							
Assets							
Receivable	8	1,527,480	220,730	75,852	343,334	2,167,396	2,167,396
Bank current account and cash		100,644	-	-	-	100,644	100,644
Bank deposits accounts		348,096	-	-	-	348,096	347,098
Taxation recoverable		-	-	12,329	-	12,329	12,329
Total financial assets		1,976,220	220,730	88,181	343,334	2,628,465	2,627,467
Liabilities							
Borrowings	12	3,203,936	141,425	2,933,706	6,679,962	12,959,029	9,719,909
HIPC Funds	13	-	-	152,449	2,739,082	2,891,531	2,851,373
Bank borrowing	14	33,382	65,261	444,047	563,494	1,106,184	761,390
Finance leases	16	7,896	25,188	104,487	17,229	154,800	133,614
Bank overdraft	17	400,397	-	-	-	400,397	400,397
Payables	18	385,319	532,421	168,446	75,598	1,161,784	1,161,784
Total financial liabilities		4,030,930	764,295	3,803,135	10,095,365	18,673,725	15,028,467
Contractual liquidity mismatch		**(2,054,710)**	**(543,565)**	**(3,714,954)**	**(9,731,994)**	**(16,045,260)**	**(12,401,000)**

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

26. Financial risk management (Continued)

(d) Market risk

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

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

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

Management of market risks

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

Exposure of interest rate risk: non-trading portfolio

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

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

26. Financial risk management (Continued)

	Notes	Less than 1 months K'000	1 - 3 months K'000	3 - 12 months K'000	over 1 year K'000	Non-interest Sensitive K'000	Total K'000	Carrying amount K'000
30 June 2008								
Assets								
Receivables	8	-	-	-	-	2,259,522	2,259,522	2,259,522
Bank current account and cash		144,335	-	-	-	-	144,335	144,335
Bank deposits accounts		370,580	32,864	-	-	-	403,444	402,098
Taxation recoverable		-	-	-	-	14,189	14,189	14,189
Total financial assets		514,915	32,864	-	-	2,273,711	2,821,490	2,820,144
Liabilities								
Borrowings	12	3,711,839	-	2,731,436	6,257,162	-	12,700,437	10,415,078
HIPC Funds	13	-	-	72,343	2,891,552	-	2,963,895	2,923,717
Bank borrowing	14	34,661	75,577	169,270	405,709	-	685,217	558,113
ESCOM Limited Pension Fund loan	15	43,727	35,075	106,503	386,474	-	571,779	384,570
Finance leases	16	13,147	30,962	39,349	83,757	-	167,215	102,067
Bank overdraft	17	957,885	-	-	-	-	957,885	957,885
Payables	18	-	-	-	-	1,855,413	1,855,413	1,855,413
Total financial liabilities		4,761,259	141,614	3,118,901	10,024,654	1,855,413	19,901,841	17,196,843
Contractual liquidity mismatch		**(4,246,344)**	**(108,750)**	**(3,118,901)**	**(10,024,654)**	**418,298**	**(17,080,351)**	**14,376,699**

26. Financial risk management (Continued)

	Notes	Less than 1 months K'000	1 - 3 months K'000	3 - 12 months K'000	over 1 year K'000	interest Sensitive K'000	Carrying amount K'000	Total K'000
30 June 2007								
Assets								
Receivables	8	-	-	-	-	2,167,396	2,167,396	2,167,396
Bank current account and cash		100,644	-	-	-	-	100,644	100,644
Bank deposits accounts		348,096	-	-	-	-	347,098	348,096
Taxation recoverable		-	-	-	-	12,329	12,329	12,329
Total financial assets		448,740	-	-	-	2,179,725	2,627,467	2,628,465
Liabilities								
Borrowings	12	3,203,936	141,425	2,933,706	6,679,962	-	9,719,909	12,959,029
HIPC Funds	13	-	-	152,449	2,739,082	-	2,851,373	2,891,531
Bank borrowing	14	33,382	65,261	444,047	563,494	-	761,390	1,106,184
Finance leases	16	7,896	25,188	104,487	17,229	-	133,614	154,800
Bank overdraft	17	400,397	-	-	-	-	400,397	400,397
Payables	18	-	-	-	-	1,161,784	1,161,784	1,161,784
Total financial liabilities		3,645,611	231,874	3,634,689	9,999,767	1,161,784	15,028,467	18,673,725
Contractual liquidity mismatch		**(3,196,871)**	**(231,874)**	**(3,634,689)**	**(9,999,767)**	**(1,017,941)**	**(12,401,000)**	**16,045,260**

26. Financial risk management (Continued)

(e) Currency risk

The company had the following significant foreign currency positions:

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

26. Financial risk management (Continued)

(e) Currency risk (Continued)

	Notes	USD K'000	ZAR K'000	Swedish Kroner K'000	EURO K'000	Total K'000
30 June 2007						
Assets						
Bank deposits accounts		17,241	-	-	-	17,241
Total financial assets		17,241	-	-	-	17,241
Liabilities						
Borrowings	12	49,675	1,188,644	47,652	614,498	1,900,469
Payables	18	6,492	137,609	-	37,597	181,698
Total financial liabilities		56,167	1,326,253	47,652	652,095	2,082,167
Net open position		**(38,926)**	**(1,326,253)**	**(47,652)**	**(652,095)**	**(2,064,926)**

26. Financial risk management (Continued)

(f) Operational risk

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

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

Management of Operational Risk

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

Capital risk management

The company manages its capital to ensure that it will be able to continue as a going concern while maximising the returns to stakeholders through the optimisation of the debt and equity balance. The entity's overall strategy remains unchanged from 2007.

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

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

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

	2008 K'000	2007 K'000
Debt (i)	17,227,741	15,408,037
Cash and cash equivalents	546,433	447,742
Net debt	16,681,308	14,960,295
Equity (ii)	6,754,480	9,496,293
Net debt to equity ratio	2.47:1	1.57:1

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

27. Going concern

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

28. Exchange rates and inflation

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

	2008	2007
Kwacha/US Dollar	140.51	140.60
Kwacha/Rand	18.24	20.30
Kwacha/Euro	225.26	194.12
Inflation rate (%)	8.5	7.4

As at 10 September 2009, the exchange rates and inflation had moved as follows:

Kwacha/US Dollar	140.60
Kwacha/South African Rand	18.83
Kwacha/Euro	206.96
Inflation rate (%) (July 2009)	8.0