

**Abuja Electricity Distribution Plc**

**Annual Report  
31 December 2016**

<b>Contents</b>	<b>Page</b>
Corporate information	1
Directors' report	2
Statement of directors' responsibilities	9
Report of the audit committee	10
Independent auditor's report	11
Statement of financial position	14
Statement of profit or loss and other comprehensive income	15
Statement of changes in equity	16
Statement of cash flows	17
Notes to the financial statements	18
Other national disclosures	
- Value added statement	54
- Financial summary	55

## Corporate information

**Registration number**

**638681**

**Directors:**

Amb. Shehu Malami  
Vincent Onome Akpotaire  
John Albert Jones  
Ernest Mupwaya  
Siyanga Malumo  
Emmanuel Katepa  
Ahmad Saci Maiyaki

Chairman

Zambian  
Zambian  
Zambian

Managing Director

**Registered office address:**

1 Ziguinchor Street  
Off IBB Way  
Wuse Zone 4  
Abuja

**Business office address:**

1 Ziguinchor Street  
Off IBB Way  
Wuse Zone 4  
Abuja

**Company secretary**

Mrs. Olajumoke Delano  
1 Ziguinchor Street  
Off IBB Way  
Wuse Zone 4  
Abuja

**Auditor:**

KPMG Professional Services  
KPMG Tower  
Bishop Aboyade Cole Street  
Victoria Island  
Lagos

**Bankers:**

United Bank for Africa Plc  
First Bank of Nigeria Limited  
Zenith Bank Plc  
Union Bank of Nigeria Plc  
Diamond Bank Plc  
Ecobank Nigeria Limited  
Unity Bank Plc  
Access Bank Plc  
Guaranty Trust Bank Plc  
Sterling Bank Plc  
Skye Bank Plc

## Directors' report

For the year ended 31 December 2016

The directors present their report on the affairs of Abuja Electricity Distribution Plc ("the Company"), together with the financial statements and auditor's report for the year ended 31 December 2016.

### Principal activity and business review

Abuja Electricity Distribution Plc ("the Company" or "AEDC") was incorporated in Nigeria on 8 November 2005 as a public liability company to take over electricity distribution activities and related businesses of the Power Holding Company of Nigeria ("PHCN") in the Federal Capital Territory (FCT) Abuja, Niger, Kogi and Nasarawa States.

As part of the Federal Government of Nigeria's ("FGN") initiative to transform the power sector, the Nigerian Electricity Regulatory Commission (NERC) was established in October 2005 as required under the Electric Power Sector Reform Act (EPSRA). NERC is Nigeria's independent regulatory agency for the Nigerian electricity industry comprising generation, transmission and distribution sectors and regulates the activities of the Company. In 2008, NERC introduced a Multi-Year Tariff Order (MYTO) as the framework for determining the industry pricing structure and this forms the basis of revenue earned by the Company after taking into consideration changes as applicable per the Transitional Electricity Market (TEM) rules as issued by NERC via Order number 136 dated 29 January 2015 and effective 1 February 2015. The TEM rules were amended on 18 March 2015 and the amended rules became effective April 1 2015.

On 1 November 2013, the FGN completed the privatization of the electricity sector effectively handing over 6 generation and 11 distribution companies to new owners under various share sale agreements. As a result of this, 60% interest of the Company was acquired by a Nigerian Company, KANN Utility Company Limited ("KANN").

### Operating results

The following is a summary of the Company's operating results:

	2016 N'000	2015 N'000
Revenue	61,147,917	62,534,676
Gross (loss)/profit	(5,341,396)	8,338,832
Operating loss	(35,309,576)	(39,196,964)
Loss before minimum tax and income tax	(47,298,250)	(41,718,714)
Minimum tax	(149,670)	(253,874)
Income tax	-	-
Loss for the year	(47,447,920)	(41,972,588)

### Summary of financial position

Total assets	117,207,209	109,485,860
Total liabilities	128,226,844	73,057,575
Equity	(11,019,635)	36,428,285

No dividend has been recommended by the directors (2015: Nil).

### Directors and their interests

The Directors who served during the year were as follows:

<u>Name</u>	<u>Nationality</u>	<u>Designation</u>	<u>Date (resigned)/appointed</u>
Benjamin Ezra Dikki			(21 July 2016)
Vincent Onome Akpotaire			21 July 2016
Amb. Shehu Malami		Chairman	
John Albert Jones***			
Ernest Mupwaya	(Zambian)	Managing Director	1 August 2016
Siyanga Malumo	(Zambian)		
Neil Croucher**	(South African)	Managing Director	(29 July 2016)
Emmanuel Katepa	(Zambian)		

Ahmad Saci Maiyaki

\* Audu Uba Mohammed

\* *Audu Uba Mohammed is the alternate director to Vincent Onome Akpotaire who is the representative of BPE on the board. Alhaji Uba Mohammed represents Mr. Akpotaire at all AEDC meetings.*

\*\**Neil Croucher resigned from the Board following his retirement from the Company upon attaining the retirement age of 60.*

\*\*\**Subsequent to the year end, on 15 April 2017, Mr. John Albert Jones passed away.*

The directors indicate that they do not have any interests required to be disclosed under Section 275 of the Companies and Allied Matters Act of Nigeria.

In accordance with Section 277 of the Companies and Allied Matters Act of Nigeria, none of the directors has notified the Company of any declarable interests in contracts with the Company.

### Shareholding structure

The shareholding structure of the Company is as follows:

	31 December 2016		Ordinary Shares of 50 Kobo each		31 December 2015	
	%	Number	%	Number	%	Number
KANN Utility Company Limited	60	6,000,000	60	6,000,000		
Bureau of Public Enterprises	32	3,200,000	32	3,200,000		
Ministry of Finance Incorporated	8	800,000	8	800,000		
<b>Total</b>	<b>100</b>	<b>10,000,000</b>	<b>100</b>	<b>10,000,000</b>		

### Corporate governance

Consistent with applicable NERC rules, the Board continues to re-emphasize the maintenance of high standards of corporate governance, central to achieving the Company's objective of maximizing shareholder value. As a result, the Board has a schedule of matters reserved specifically for its decision and the Directors have been empowered by the provision of access to learning appropriate professional skills and knowledge development.

The NERC rules requires that the Company has at least five directors of which at least one must be an independent director. The Company currently has seven (7) directors. The Company does not have an independent director but is in the process of evaluating and selecting one.

The executive director in person of the managing director has extensive knowledge of the power sector and is supported by a strong leadership team (see section on leadership team) while the non-executive directors bring to the table their broad knowledge of business, financial, commercial and technical experience.

The board met nine (9) times (2015: 5 times) for meetings to set and monitor strategy as well as approve key policies pertinent to the operations of the Company.

The attendance of Directors at board meetings during the year was as follows:

<b>DIRECTORS</b>	<b>DESIGNATION</b>	<b>18-Feb</b>	<b>31-Mar</b>	<b>1-Apr</b>	<b>28-Apr</b>	<b>2-Jun</b>	<b>7-Jun</b>	<b>21-Jul</b>	<b>24-Nov</b>	<b>15-Dec</b>
Amb. Shehu Malami	Chairman	X	X	X	X	X	X	X	X	X
Neil Croucher	Managing Director	X	X	X	X	X	X	X	N/A	N/A
John Albert Jones	Director	X	X	-	X	X	-	X	X	X
Siyanga Malumo	Director	X	X	X	X	-	X	X	X	-
Audu Uba Mohammed	Alternate Director	X	X	X	X	X	X	X	X	X
Ernest Mupwaya	Managing Director	N/A	N/A	N/A	N/A	N/A	N/A	N/A	X	X
Emmanuel Katepa	Director	X	X	X	X	X	X	X	X	X
Ahmad Saci Maiyaki	Director	X	X	X	X	X	X	-	X	X

*X = Attended; - = Absent; N/A - Not Applicable: not yet a director at date of meetings*

#### **Sub committees of the board**

The Board has established Committees consistent with NERC rules, each with written terms of reference approved by the Board. Currently, there are five (5) sub-committees that have been approved.

The sub-committees are established to assist the Board to effectively and efficiently perform guidance and oversight functions, amongst others.

Neil Croucher who was an Ex-officio of all the sub committees of the board except the audit committee was replaced during the year by Ernest Mupwaya due to his retirement as managing director.

#### **1. The Audit committee**

The current composition of the Audit Committee is as follows:

<b>Members</b>	<b>Designation</b>
Mr. Audu Uba Mohammed	Chairman
Mr. John Albert Jones	Member
Mr. Siyanga Malumo	Member
Mr. Ahmed Rufai Salau	Secretary

The Audit Committee's overall purpose is to enhance confidence in the integrity of the Company's processes and procedures relating to internal control and corporate reporting. On the invitation of the Chairman of the Audit Committee, representatives of Management and the external auditors attend meetings. The Audit Committee is responsible for the review of financial reporting, appointment and provision of oversight for the work of the external auditor. The Audit Committee makes recommendations to the Board concerning internal financial controls, effectiveness of its internal audit functions viz a viz compliance with internal processes and procedures.

The Committee also reviews the arrangement by which staff of the Company may, in confidence, raise concerns about possible improprieties in financial and non financial matters. It also ensures statutory compliance with the provisions of Company and Allied Matters Act of Nigeria.

The Audit Committee had four (4) meetings (2015: 5 meetings) during the year under review.

## 2. Finance Committee

The current composition of the Finance Committee is as follows:

Members	Designation
Mr. John Albert Jones	Chairman
Mr. Audu Uba Mohammed	Member
Mr. Emmanuel Katepa	Member
Mr. Ernest Mupwaya	Ex-officio
Mr. Andrew Atterbury	Secretary*

The functions of the Finance Committee include optimizing, overseeing and advising on all matters relating to the capital structure, capital management and planning. The Committee also supports and advises the Board in exercising its authority in relation to the finance related function. In addition the Committee makes recommendations to the Board concerning the revenue requirement of the Company as well as reviews of the Company's investment plans and financial performance.

The Finance Committee had seven (7) meetings (2015: 4 meetings) during the year under review.

\*Subsequent to the year end, on 19 January 2017, Mr. Andrew Atterbury passed away.

## 3. Executive Committee

The members of the Executive Committee are as follows:

Members	Designation
Mr. Siyanga Malumo	Chairman
Mrs. Olajumoke Delano	Secretary
Alh. Audu Uba Mohammed	Member
Alh. Ahmad Saci Maiyaki	Member
Mr. Ernest Mupwaya	Ex-officio

The responsibilities of the Executive Committee include supervising executive and operational management in between Board meetings, implementing policy recommendations of the Board, approving the annual budget and authorizing categories of expenditure and payments within its mandate, agreeing the terms of and release of Company announcements, approving the agenda for Board meetings and fixing the time and place for such meetings, acting on behalf of the Board during times of exigency, approving annual meeting programs for the Board and its Committees, acting as a communication link between Board and Management and to oversee developmental plans and strategies.

The Executive Committee had twelve (12) meetings (2015: 8 meetings) during the year under review.

## 4. Security and Health, safety and environment Committee

The composition of the Health Safety & Environment Committee is as follows:

Members	Designation
Alh. Audu Uba Mohammed	Chairman
Mr. Siyanga Malumo	Member
Amb. Shehu Malami	Member
Mr. Ernest Mupwaya	Ex-officio
Mr. Collins M Chabuka	Secretary

The Health Safety and Environment (HSE) Committee is responsible for updating the Company on current issues in health and safety in the electricity sector as well as ensuring that the Company maintains strict compliance with regulatory and other relevant Health and Safety Codes. The HSE Committee also ensures that the management of HSE is aligned with the overall business strategy of the Company.

The Health Safety and environment Committee held five (5) meetings (2015: 5 meetings) during the year.

## 5. Remuneration and Employee Development Committee

The composition of the Remuneration & Employee Development Committee is as follows:

Members	Designation
Alh. Ahmad Saci Maiyaki	Chairman
Alh. Audu Uba Mohammed	Member
Mr. Emmanuel Katepa	Member
Mr. Ernest Mupwaya	Ex-officio
Mr. Folorunsho Dada	Secretary

The responsibilities of the Remuneration and Employee Development Committee includes reviewing the contract terms, remuneration and other benefits of the Executive Directors and Senior Management of the Company, making recommendations to the Board on the Company's framework of employee remuneration and its cost, operating the Company's long term incentive plans and reviewing the Company's performance management system.

The Chairman and other directors may be invited to attend meetings of the Committee, but do not take part in any decision making directly affecting their own remuneration. The Committee undertakes an external and independent review of remuneration levels on a periodic basis and ensure that employment policies are strictly adhered to.

The Remuneration and Employee Development Committee had eight (8) meetings (2015: 4 meetings) during the year.

### Leadership team

The Board has delegated the day to day running of the Company to the leadership team of the Company headed by the Managing Director. During the year, there were changes to the leadership team. The leadership team comprises:

Name	Designation
Ernest Mupwaya	Managing Director/CEO
Andrew Atterbury*	Chief Finance Officer
Collins M Chabuka	Chief Risk Officer
Abimbola Odubiyi	Director, Corporate services
Olajumoke Delano	Director, Legal Services & Company Secretary
Ameen Shakur	Head, Commercial Services
Saidu Abdullahi	Head, Technical Services
Clara Musama	Coordinator, Change Management
Samuel Kyakilika	Chief Information Officer
Ahmed Salau	Chief Internal Auditor

\*Subsequent to year end, Mrs. Ije Ikoku Okeke was appointed as acting CFO following the demise of Andrew Atterbury.

### Material agreements

The Company has entered into the following material agreements:

#### 1. Deed of assignment of pre-completion receivables and liabilities

As part of the privatisation completion, the Company through the Bureau of Public Enterprises signed a deed of assignment of pre-completion receivables and liabilities with the Nigerian Electricity Liability Management Company Limited (NELMCO) effective 31 October 2013. NELMCO is a government owned entity, established to take over and manage the stranded assets and liabilities in the Power sector.

##### (a) Pre-completion receivables

Per the Deed of Assignment of Pre-completion Receivables, all the trade receivables of the Company as at 31 October 2013 were transferred to NELMCO without recourse. Further, interpretation accorded to the definition of precompletion receivables by NERC expanded this to include cash and cash equivalents held as at 31 October 2013.



**(b) Pre-completion liabilities**

Per the Deed of Assignment of Pre-completion liabilities all liabilities and contingent liabilities of the Company as at 31 October 2013 were transferred to NELMCO subject to certain terms and conditions which management believes do not limit the transfers.

On the basis of this agreement, management derecognized qualifying assets and liabilities as at 31 October 2013 from the 2013 financial statements. In addition, as a result of the interpretation given by NERC and other industry participants in 2014 on ownership of cash and cash equivalents as at 31 October 2013, the Company has recorded a liability to NELMCO of ₦2.17 billion in the financial statements. See Note 22.

**2. Technical agreement with related party**

See Note 25(d) to these financial statements.

**3. Super vendor agreement**

As part of the measures to make vending platforms more readily available to prepaid customers, the Company entered into separate agreements with Kallak Power Limited (Kallak), eTranzact, UBA and Pagatech. Under the agreement, the super vendors are to provide electronic platforms and web based applications to enable customers vend electricity online paying with credit or debit cards. These super vendors earn a commission of between 0.5% and 4.25% of sales depending on the mode of transaction.

Management intends to continue to enter into this type of arrangement with quality partners to improve its collection rates.

**Geographical presence**

To enable the Company operate in the Federal Capital territory (FCT) Abuja, Kogi, Nasarawa and Niger States where it distributes electricity, it has twenty-eight (28) area offices excluding the head office. The 28 area offices are distributed among six regions across the four states from which the Company operates. The regional offices are headed by regional managers and the area offices are headed by area managers who report to the regional managers. The regional managers subsequently report to the leadership team based at the head office.

**Property, plant and equipment (PPE)**

Information relating to changes in property, plant and equipment is given in Note 13 to the financial statements.

**Charitable contributions**

No contributions or donations was made to charitable organisations during the year (2015: Nil). In accordance with Section 38(2) of the Companies and Allied Matters Act of Nigeria, the Company did not make any donation to any political association, or for any political purpose in the course of the year.

**Events after the reporting period**

See Note 27 to the financial statements.

**Employment and employees**

**(a) Employment consultation and training:**

The Company places considerable value on the involvement of its employees in major policy matters and keeps them informed on matters affecting them as employees and on various factors affecting the performance of the Company. This is achieved through regular meetings with employees and consultations with their representatives. Training is conducted for the Company's employees as the need arises.

Management, professional and technical expertise are the Company's major assets. The Company continues to invest in developing such skills. The Company has in-house training facilities, complemented, when and where necessary, with external training for its employees.

**(b) Dissemination of information**

In order to maintain shared perception of our goals, the Company is committed to communicating information to employees in a fast and effective manner, as possible. This is considered critical to the maintenance of team spirit and high employee morale.

**(c) Employment of physically challenged persons:**

The Company has eight (8) physically challenged persons in its employment (2015: Nil). Applications for employment by physically challenged persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming physically challenged, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that training, career development and promotion of physically challenged persons should, as far as possible, be identical with that of other employees.

**(d) Employee health, safety and welfare:**

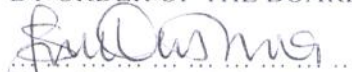
The Company places high premium on the health, safety and welfare of its employees in their places of work. To this end, the Company has various forms of insurance policies, including workmen's compensation and group life insurance, to adequately secure and protect its employees. It is the Company's goal to ensure that incident-free safety record in operations is amongst the best, both locally and globally, upon which it has set its Safety Policy.

**Auditor**

Messrs. KPMG Professional Services, having satisfied the relevant corporate governance rules on their tenure in office have indicated their willingness to continue in office as auditors to the Company. In accordance with Section 357 (2) of the Companies and Allied Matters Act Cap C.20, Laws of the Federation of Nigeria, 2004, therefore, the auditors will be re-appointed at the next annual general meeting of the Company without any resolution being passed.

Abuja, Nigeria  
10 July 2017

BY ORDER OF THE BOARD



Mrs. Olajumoke Delano

Company Secretary

FRC/2014/ICADN/00000006727

**Statement of directors' responsibilities in relation to the financial statements for the year ended 31 December 2016**

The directors accept responsibility for the preparation of the annual financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and Financial Reporting Council of Nigeria Act, 2011.

The directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and 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.

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not remain a going concern in the year ahead.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

  
\_\_\_\_\_  
Signature

ERNEST MUPWAYA  
Name

FRC/2016/COREN/00000015743

10 July 2017  
Date

  
\_\_\_\_\_  
Signature

AMB. SHEHU MALAMI  
Name

FRC/2015/IODN/00000011270

10 July 2017  
Date

## Report of the audit committee

To the members of Abuja Electricity Distribution Plc

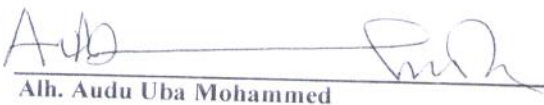
In accordance with the terms of reference as contained in the Company's Audit Committee Charter and the provisions of section 359(6) of the Companies and Allied Matters Act of Nigeria, we the members of the Audit Committee of Abuja Electricity Distribution Plc, having carried out our functions hereby report that:

- (a) the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices;
- (b) the scope and planning of the audit for the year ended 31 December 2016 are satisfactory;
- (c) having reviewed the independent auditor's memorandum of recommendations on accounting procedures and internal controls, we are satisfied with management responses thereon.

Members of the Audit Committee are:

- 1) Alh. Audu Uba Mohammed
- 2) Mr. Ahmed Rufai Salau
- 3) Mr. John Albert Jones
- 4) Mr Siyanga Malumo

Chairman  
Secretary



**Alh. Audu Uba Mohammed**

Chairman

10 July 2017

FRC/2014/CIPSMN/00000010485

## INDEPENDENT AUDITOR'S REPORT

To the Members of Abuja Electricity Distribution Plc

### Report on the Audit of the Financial Statements

#### **Opinion**

We have audited the financial statements of Abuja Electricity Distribution Plc (the Company), which comprise the statement of financial position as at 31 December, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 14 to 52.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Material Uncertainty Related To Going Concern**

We draw attention to Note 28 to these financial statements which indicates that the Company incurred a loss after tax of ₦47.45 billion during the year ended 31 December 2016 and, as of that date, the Company's current liabilities exceeded its current assets by ₦93.63 billion and also the total liabilities exceeded total assets by ₦11.02 billion. As stated in Note 28, these events or conditions, along with other matters as set forth in Note 28, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### ***Information Other than the Financial Statements and Audit Report thereon***

The Directors are responsible for the Other Information. The Other Information comprises the Corporate Profile, List of Directors, Results at a Glance, Report of the Directors, Statement of Directors' Responsibilities, Report of the Statutory Audit Committee, Other National Disclosures, (but does not include the financial statements and our audit report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

### ***Responsibilities of the Directors for the Financial Statements***

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 Nigeria and the Financial Reporting Council of Nigeria Act, 2011, 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.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

#### **Report on Other Legal and Regulatory Requirements**

*Compliance with the requirements of Schedule 6 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004*

In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books and the Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Signed:

Ayodele A. Soyinka, FCA

FRC/2012/ICAN/00000000405

For: KPMG Professional Services

Chartered Accountants

10 July 2017


Lagos, Nigeria

## Statement of financial position

As at 31 December

	Notes	2016 N'000	2015 N'000
<b>ASSETS</b>			
Property, plant and equipment	13	84,088,819	83,079,696
Intangible assets	14	32,816	32,485
Prepayments	17	11,278	37,043
<b>Non-current assets</b>		<b>84,132,913</b>	<b>83,149,224</b>
Inventories	15	410,800	736,422
Trade and other receivables	16	29,990,334	23,605,830
Prepayments	17	199,052	222,942
Cash and cash equivalents	18	2,474,110	1,771,442
<b>Current assets</b>		<b>33,074,296</b>	<b>26,336,636</b>
<b>Total assets</b>		<b>117,207,209</b>	<b>109,485,860</b>
<b>EQUITY</b>			
Share capital	19(a)	5,000	5,000
Retained earnings		(29,602,325)	17,845,595
Revaluation reserve	19(b)	18,577,690	18,577,690
<b>Total equity</b>		<b>(11,019,635)</b>	<b>36,428,285</b>
<b>LIABILITIES</b>			
Deferred income	20	808,139	831,338
Loans and borrowings	23	718,881	889,252
<b>Non-current liabilities</b>		<b>1,527,020</b>	<b>1,720,590</b>
Provisions	22	2,172,939	2,172,939
Deferred income	20	609,682	462,655
Trade and other payables	21	121,700,994	67,100,359
Current tax liabilities	12(d)	927,290	1,036,826
Loans and borrowings	23	1,288,919	564,206
<b>Current liabilities</b>		<b>126,699,824</b>	<b>71,336,985</b>
<b>Total liabilities</b>		<b>128,226,844</b>	<b>73,057,575</b>
<b>Total equity and liabilities</b>		<b>117,207,209</b>	<b>109,485,860</b>

These financial statements were approved by the Board of Directors on 10 July 2017 and signed on its behalf by:

Amb. Shehu Malami  Director  
FRC/2015/IODN/00000011270

Ernest Mupwaya  Chief Executive Officer  
FRC/2016/COREN/00000015743

Additionally certified by:  
Ije Ikoku  Chief Finance Officer

Mrs. Ije Ikoku obtained a waiver from the FRC on 27 March 2017 permitting her to certify these financial statements without an FRC number.

The notes on pages 18 to 52 are an integral part of these financial statements.



## Statement of profit or loss and other comprehensive income

For the year ended 31 December

	Notes	2016 N'000	2015 N'000
Revenue	7	61,147,917	62,534,676
Cost of sales	8	(66,489,313)	(54,195,844)
<b>Gross profit/loss</b>		<b>(5,341,396)</b>	<b>8,338,832</b>
Other income	9	410,865	524,020
Administrative expenses	8	(30,379,045)	(48,059,816)
<b>Operating loss</b>		<b>(35,309,576)</b>	<b>(39,196,964)</b>
Finance income	10	255,257	301,125
Finance costs	10	(12,243,931)	(2,822,875)
<b>Net finance costs</b>		<b>(11,988,674)</b>	<b>(2,521,750)</b>
<b>Loss before minimum tax and income tax</b>		<b>(47,298,250)</b>	<b>(41,718,714)</b>
Minimum tax	12(a)	(149,670)	(253,874)
<b>Loss before income tax</b>		<b>(47,447,920)</b>	<b>(41,972,588)</b>
Income tax expense	12(b)	-	-
<b>Loss for the year</b>		<b>(47,447,920)</b>	<b>(41,972,588)</b>
<b>Other comprehensive income</b>			
<i>Items that will never be reclassified to profit or loss</i>			
Revaluation surplus on property, plant and equipment	13(e)	-	15,277,425
Other comprehensive income, net of tax		-	15,277,425
<b>Total comprehensive income</b>		<b>(47,447,920)</b>	<b>(26,695,163)</b>

The notes on pages 18 to 52 are an integral part of these financial statements.

## Statement of changes in equity

For the year ended 31 December 2016

	Note	Share capital ₦'000	Retained earnings ₦'000	Revaluation		Total equity ₦'000
				Surplus ₦'000		
Balance at 1 January 2015		5,000	59,818,183	3,300,265		63,123,448
<b>Total comprehensive income</b>						
Loss for the year		-	(41,972,588)	-		(41,972,588)
Other comprehensive income	13(e)	-	-	15,277,425		15,277,425
<b>Total comprehensive income</b>		-	<b>(41,972,588)</b>	<b>15,277,425</b>		<b>(26,695,163)</b>
Transaction with owners		-	-	-		-
<b>Balance at 31 December 2015</b>		<b>5,000</b>	<b>17,845,595</b>	<b>18,577,690</b>		<b>36,428,285</b>
Balance at 1 January 2016		5,000	17,845,595	18,577,690		36,428,285
<b>Total comprehensive income</b>						
Loss for the year		-	(47,447,920)	-		(47,447,920)
Other comprehensive income		-	-	-		-
<b>Total comprehensive income</b>		-	<b>(47,447,920)</b>	-		<b>(47,447,920)</b>
Transaction with owners		-	-	-		-
<b>Balance at 31 December 2016</b>		<b>5,000</b>	<b>(29,602,325)</b>	<b>18,577,690</b>		<b>(11,019,635)</b>

The notes on pages 18 to 52 are an integral part of these financial statements.

## Statement of cash flows

For the year ended 31 December

	Notes	2016 N'000	2015 N'000
<b>Cash flows from operating activities:</b>			
Loss for the year		(47,447,920)	(41,972,588)
<i>Adjustments for :</i>			
- depreciation of property, plant and equipment	13(b)	3,975,125	5,317,230
- amortization of intangible asset	14	53,074	12,062
- amortization of government grant	20(a)	(23,199)	(23,199)
- impairment loss on trade and other receivables	8	13,219,831	18,343,412
- write off of cash and cash equivalents	8(b)	-	104,783
- revaluation deficit on property, plant and equipment	13(e)	-	15,952,156
- customer contributed assets	9	(23,384)	(127,192)
- CAPMI installation income	9	(242,735)	-
- CAPMI refunds	23(d)	(167,485)	-
-finance cost		12,062,771	2,822,875
-finance income	10	(255,257)	(301,125)
- minimum tax	12(a)	149,670	253,874
		<b>(18,699,509)</b>	<b>382,288</b>
<b>Changes in:</b>			
- Inventories		325,622	(181,520)
- Trade and other receivables	16(b)	(19,604,335)	(27,425,717)
- Prepayments		49,655	(36,129)
- Trade and other payables	21(b)	42,810,725	27,297,012
- Deferred revenue/income		67,321	(230,903)
<i>Cash generated from/(used in) operating activities</i>		<b>4,949,479</b>	<b>(194,969)</b>
Income taxes paid	12(d)	(259,206)	-
<i>Net cash generated/(used in) from operating activities</i>		<b>4,690,273</b>	<b>(194,969)</b>
<b>Cash flows from investing activities:</b>			
Acquisition of property, plant and equipment	13(c)	(4,960,864)	(2,159,942)
Acquisition of intangible assets	14	(53,405)	(29,370)
Interest received	10	9,455	3,334
<i>Cash used in investing activities</i>		<b>(5,004,814)</b>	<b>(2,185,978)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from loans and borrowings	23(d)	1,172,550	1,041,237
Interest payment	23(d)	(69,316)	-
Repayment of bank loan	23(d)	(238,577)	-
Repayment of intercompany loan	23(d)	(28,608)	(214,383)
<i>Cash generated from financing activities</i>		<b>836,049</b>	<b>826,854</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>521,508</b>	<b>(1,554,093)</b>
Cash and cash equivalents at 1 January		1,771,442	3,428,277
Write off of cash and cash equivalents		-	(104,783)
Effect of movement in exchange rate		181,160	2,041
<b>Cash and cash equivalents as at 31 December</b>		<b>2,474,110</b>	<b>1,771,442</b>

The notes on pages 18 to 52 are an integral part of these financial statements.

## Notes to the financial statements

### 1 Reporting entity

Abuja Electricity Distribution Plc ("the Company") is a public liability company incorporated on 8 November 2005 to take over as a going concern, the electricity distribution activities and related business of the Power Holding Company of Nigeria (PHCN) in the Federal Capital Territory (FCT) Abuja, Niger, Kogi and Nasarawa States. The Company is domiciled in Nigeria and has its registered office address at 1 Ziguinchor Street Off IBB Way Wuse Zone 4, Abuja.

The Company supplies electricity within the captive regions above based on a licence granted to it by the Nigerian Electricity Regulatory Commission (NERC). The licence is for a period of 15 years and expires in 2028 with an option to renew for another 10 years. Based on the terms and conditions of the licence and regulations as contained in the Electrical Power Sector Reform Act (EPSRA) 2005, the Company is a monopoly within its geographical coverage area and operates under a price control regime known as the Multi Year Tariff Order (MYTO). As a result of the privatization of the power sector, the business activity of the Company during the year was governed by "the Interim Electricity Market Rules for the period between completion of privatization and the start of the Transitional Electricity Market (TEM) of the Nigerian Electricity Supply Industry (NESI)", and the TEM Rules which became effective from 1 February 2015.

On 1 November 2013, a Nigerian Company, KANN Utility Company Limited acquired 60% interest in the Company thereby acquiring control of the Company. The remaining 40% shareholding is held by Bureau of Public Enterprises (32%) and Ministry of Finance Incorporated (8%). The acquisition of the 60% interest in the Company was as a result of the privatization initiative of the power sector embarked on by the Federal Government of Nigeria.

### 2 Basis of accounting

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Companies and Allied Matters Act of Nigeria and the Financial Reporting Council of Nigeria Act, 2011. The financial statements were authorised for issue by the Board of Directors on 10 July 2017.

Details of the Company's accounting policies are included in Note 5.

#### *Going concern basis of accounting*

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations for at least twelve months from the reporting date. See Note 28 for more details.

### 3 Functional and presentation currency

These financial statements are presented in Nigerian Naira (NGN), which is the Company's functional currency. All amounts stated in NGN have been rounded to the nearest thousand, unless otherwise indicated.

### 4 Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

## Notes to the financial statements

### (a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

*Note 12(e) – Unrecognized deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used.*

*Note 13(a) – Review of useful life of leasehold land.*

*Notes 22 and 26 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resource.*

### (b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments in the year ending 31 December 2016 is included in the following notes:

*Note 7-Revenue Recognition – Estimation of deferred revenue from prepaid customers and unbilled revenue from Post-paid customers.*

*Notes 13(i) – Property, plant and equipment: fair values of land, building and distribution network assets.*

*Note 29(a) - Impairment of trade receivables.*

## 5 Significant accounting policies

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

### (a) Revenue

Revenue primarily represents the sales value of electricity and other related energy services supplied to customers during the year and excludes Value Added Tax. The Company generally recognizes revenue upon delivery of goods to customers or upon completion of services rendered. Delivery is deemed complete when the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed i.e. the electricity has been consumed by the customers, compensation has been contractually established and collection of the resulting receivable is probable. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of electricity to post-paid customers is the value of the volume of units supplied during the year including an estimate of the value of volume of units supplied to these customers between the date of their last meter reading (which coincides with the last invoice date) and the year-end. In case of prepaid meter customers, an estimate is made for unearned revenue as at year-end and this is included in the statement of financial position as deferred revenue.

In line with the applicable tariff framework, prices charged by the Company for electricity distribution are regulated. However, the Company is allowed to recover excess costs incurred through future price increases charged on future deliveries. Similarly, where current regulated rates are determined to be excessive, the Company may be subject to a rate reduction in the future against future deliveries. The Company does not recognise an asset or liability, as the case may be, on account of under-recovery or over-recovery except where it is obligated to provide future services at a loss in which case a provision is recognised.

Revenue from rendering of services is recognised when such services are rendered.

## Notes to the financial statements

### (b) Finance income and finance costs

Finance income comprises interest income on short-term deposits with banks and foreign exchange gains. Interest income on short-term deposits is recognised using the effective interest method. In addition, day-one-gain on recognition of CAPMI loan at fair value is recognized as finance income.

Finance costs comprise interest expense on interest bearing borrowings, unwinding discount from CAPMI and foreign exchange losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss using the effective interest method.

Foreign exchange gains and losses are recognised on net basis.

### (c) Foreign currency transactions

Transactions denominated in foreign currencies are translated and recorded in the functional currency (Nigerian Naira) at the actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the rates of exchange prevailing at that date.

Foreign currency differences are generally recognized in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

### (d) Property, plant and equipment

#### *i Recognition and measurement*

Land, buildings and distribution network assets measured at revalued amounts, based on valuations by external independent valuers, less subsequent accumulated depreciation and accumulated impairment losses. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Increases in the carrying amount arising on revaluation of land, buildings and distribution network assets are recognised in other comprehensive income (OCI) and shown as revaluation reserve in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and reduces the amount accumulated in equity under the heading of revaluation surplus; all other decreases are recognised in profit or loss.

Assets under construction are stated at cost which includes cost of materials and direct labour and any costs incurred in bringing it to its present location and condition.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

#### *ii Subsequent expenditure*

Subsequent expenditure is included in the asset's carrying amount or recognized as a separate asset as appropriate, only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

## Notes to the financial statements

### iii Depreciation

Depreciation is calculated to write off the cost or revalued amount of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful life of items of property, plant and equipment are as follows:

	Life (years)
Buildings	5-50
Distribution network assets	15 - 50
Motor vehicles	5
Office equipment, fixtures & fittings	5

Capital work in progress is not depreciated until when the asset is available for use and transferred to the relevant category of property, plant and equipment.

Land is not depreciated as it is a leasehold asset with an infinite useful life.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### iv Derecognition of PPE

The carrying amount of an item of property, plant and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

The gains or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised.

### v Contribution of assets by customer

Contributions by customers of items of property, plant and equipment, which require an obligation to supply goods to the customer in the future, are recognised at the fair value when the Company has control of the item. The Company assesses whether the transferred item meets the definition of an asset, and if so recognizes the transferred asset as PPE. At initial recognition, its cost is measured at fair value, and a corresponding amount is recognized as income when the Company has no future performance obligations. If the Company is yet to discharge the future performance obligation, the corresponding amount is recognized as a deferred income pending the performance of the obligation.

### (e) Intangible assets

Intangible assets with finite useful lives that are acquired separately are measured at cost less accumulated amortisation and accumulated impairment losses. Acquired computer software licences are capitalized on the basis of its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any directly attributable cost of preparing the software for its intended use.

#### *Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, are recognised in profit or loss as incurred.

## Notes to the financial statements

### *Amortization*

Amortization is calculated to write-off the cost of intangible assets less the estimated residual values using the straight line method over their estimated useful lives and is generally recognized in profit or loss. The estimated useful life of intangible assets (Computer software) is determined by the number of years the Company would receive economic benefits from the continued use of that asset.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### *Derecognition of Intangible Assets*

The carrying amount of an item of intangible assets shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal.

The gains or losses arising from the derecognition of an item of intangible asset shall be included in profit or loss when the item is derecognised.

### **(f) Financial instruments**

The Company classifies non-derivative financial assets as loans and receivables.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

#### *(i) Non-derivative financial assets and financial liabilities – recognition and derecognition*

The Company initially recognises loans and receivables on the date when they are originated. Financial assets and financial liabilities are initially recognised on the trade date.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

#### *(ii) Non-derivative financial assets – measurements*

##### *Loans and receivables*

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. They are included in current assets, except for non-trade receivables that have maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

#### *(iii) Non-derivative financial liabilities – measurements*

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. Non-derivative financial liabilities with maturity date more than twelve months from the year end are classified as non-current. Otherwise they are classified as current.

#### **(g) Cash and cash equivalents**

In the statement of cash flows, cash and cash equivalents include bank overdrafts that have maturity periods less than 3 months and form an integral part of the Company's cash management. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.



## Notes to the financial statements

### (h) Share capital

#### Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

### (i) Government grants

Government grants are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. They are then recognised in profit or loss as other income on a systematic basis over the useful life of the associated asset.

Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the periods in which the expenses are recognised.

### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost principle. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

### (k) Leases

#### *i Determining whether an arrangement contains a lease*

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease.

At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

#### *ii Leased assets*

Assets held by the Company under leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

#### *iii Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### (l) Impairment

#### *i Non-derivative financial assets*

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment.

## Notes to the financial statements

Objective evidence that financial assets are impaired includes:

- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;

### *Financial assets measured at amortised cost*

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the estimated recoverable amount. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

### *ii Non-financial assets*

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### *m Employee benefits*

#### *i Short term employee benefits*

Short – term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employee renders the related service. Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

## Notes to the financial statements

### ii *Defined contribution plan*

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or reduction in future payments is available.

In line with the provisions of the Pension Reform Act 2014, the Company has instituted a defined contribution pension scheme for all staff effective from 1 November 2013. Staff contributions to the scheme are funded through payroll deductions while the Company's contribution is recognized in profit or loss as employee benefit expense in the periods during which services are rendered by employees.

Employees contribute 8% each of their basic salary, transport and housing allowances to the Fund on a monthly basis. The Company's contribution is 10% of each employee's basic salary, transport and housing allowances.

### iii *Defined benefits plan*

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognised assets is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the assets ceiling (if any, excluding interest), are recognised immediately in OCI. The Company determines the net interest expense (income) on the defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability (asset), taking into account any changes in the defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to the past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

## (u) Provisions and contingent liabilities

### *Provisions*

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss that has occurred on the assets dedicated to that contract.

## Notes to the financial statements

### *Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are only disclosed and not recognized as liabilities in the statement of financial position.

If the likelihood of an outflow of resources is remote, the possible obligation is neither a provision nor a contingent liability and no disclosure is made.

### (o) **Minimum tax**

Minimum tax payable is calculated using the tax rate applicable based on certain parameters stipulated in the Nigerian Tax Law. Any amount by which this minimum amount exceeds Company income tax is shown as minimum tax expense and presented separately in the statement of profit or loss and other comprehensive income.

### (p) **Income tax**

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

#### *(i) Current tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income tax, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset if certain criteria are met.

## Notes to the financial statements

### (ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans and reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax are reassessed at each reporting date and recognised to the extent that it has become probable that future profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from 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 only certain criteria are met.

### (q) Operating Loss

Operating loss is the result generated from the continuing principal revenue producing activities of the Company as well as other income and expenses related to operating activities. Operating loss excludes net finance costs, minimum tax, and income taxes.

### (r) Other Income

Other income comprises interest income service reconnection fees, amortisation of government grants, CAPMI installation fees, customer granted assets and connection fees.

## 6 Measurement of fair values

Some of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. The Acting Chief Finance Officer (CFO) has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Audit Committee and Board of Directors.

The Acting CFO regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the Acting CFO assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Audit Committee and Board of Directors. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised 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).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Notes to the financial statements

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

### 7 Revenue

Revenue comprise amounts derived from delivering of electricity and other related activities across the Company's distribution network in the Federal Capital Territory (FCT) Abuja, Kogi, Nasarawa and Niger States.

*Estimation of unbilled revenue from post-paid customers.*

For unbilled receivables, a consumption factor is also determined based on billings for the year and this is used to multiply the number of outstanding days till the year end from the last billing date. Unbilled receivables (i.e. included in current year revenues) amounted to ₦3.58 billion (2015: ₦2.77 billion) and has been included as part of trade receivables.

Revenue for the year is analysed as follows:

	2016	2015
	₦'000	₦'000
Private individuals/companies	33,047,589	45,811,130
Government institutions	28,100,328	16,723,546
	<u>61,147,917</u>	<u>62,534,676</u>

### 8 Expenses by nature

	2016	2015
	₦'000	₦'000
Cost of Energy	61,178,576	47,586,281
Imbalance penalty (Note 8(a))	-	278,913
Consumables and other direct costs	905,520	687,255
Commision to super vendors	106,254	39
Maintenance expenses	1,082,205	801,724
Depreciation (Note 13 (b))	3,975,125	5,317,230
Unreconciled disbursements (Note 8(b))	-	104,783
Operations and management services fees (Note 25(d))	1,038,625	920,194
Consultancy fees	1,127,644	675,294
Security	584,813	608,153
Staff and related costs (Note 11(a))	9,695,325	7,709,180
Directors' remunerations (Note 11(d))	585,513	304,153
Board expenses	110,104	43,335
Bank charges	80,189	46,243
Auditor's remuneration	92,474	67,307
Amortization of intangible assets (Note 14)	53,074	12,062
Insurance and transport	1,018,432	748,785
Rent and accommodation expense	661,263	451,762
Professional services	599,276	925,730
Non audit services paid to the statutory auditors	13,174	10,481
Impairment loss on trade and other receivables	13,219,831	18,343,412
Revaluation deficit (Note 13(e))	-	15,952,156
Office repairs and maintenance	214,616	152,857
Office stationery and utilities	526,325	508,331
<b>Total cost of sales and administrative expenses</b>	<u>96,868,358</u>	<u>102,255,660</u>

## Notes to the financial statements

Analysed in the income statement as follows

	2016	2015
	N'000	N'000
Cost of sale	66,489,313	54,195,844
Administrative expense	30,379,045	48,059,816
	<u>96,868,358</u>	<u>102,255,660</u>

(a) **Imbalance penalty**

Imbalance penalty relates to penalty incurred by the Company for receiving more energy from the national grid than its MYTO 2 allocation of 11.5%. It is computed at 60% of the normal tariff rate and billed by the Market Operator. The imbalance penalty was abolished by NERC in prior year effective July 2015.

(b) **Unreconciled disbursements**

This represents amounts written off the bank ledger as a result of difficulties encountered in reconciling to the respective bank statements in prior year. The directors, based on evidence obtained from the reconciliation process believe these arose from errors in the treasury process which was redesigned to prevent future occurrences.

(c) **Non audit services paid to the statutory auditors**

Non audit services paid to the statutory auditors comprise:

	2016	2015
	N'000	N'000
Tax advisory services	<u>13,174</u>	<u>10,481</u>

9 **Other income**

	2016	2015
	N'000	N'000
Service re-connection fees	92,212	70,365
Amortization of government grant	23,199	23,199
CAPMI installation fees (Note 23(c))	242,735	277,887
Customer contributed assets (Note 13(j))	23,384	127,192
Connection fees	29,335	25,377
	<u>410,865</u>	<u>524,020</u>

10 **Finance income and finance costs**

	2016	2015
	N'000	N'000
<i>Finance income</i>		
Interest income on short term deposits	9,455	3,334
Fair value gain on initial recognition of CAPMI payables	245,802	297,791
<b>Total finance income</b>	<u>255,257</u>	<u>301,125</u>
<i>Finance cost</i>		
Interest on CAPMI payable	(139,627)	(118,473)
Unwinding of discount on CAPMI payable	(245,078)	(97,209)
Interest on working capital facility	(69,316)	(13,295)
Foreign exchange loss (Net)	(889,514)	(280,278)
Interest on Market Operator's bill (Note 10(a))	(10,900,396)	(2,313,620)
<b>Total finance costs</b>	<u>(12,243,931)</u>	<u>(2,822,875)</u>
<b>Net finance costs</b>	<u>(11,988,674)</u>	<u>(2,521,750)</u>

## Notes to the financial statements

### (a) Interest on Market Operator's (MO) bill

This represents interest arising from the non payment of minimum/base line remittances on the Nigerian Bulk Electricity Trading (NBET) and Operator of the Nigerian Electricity Market (ONEM) invoices during the year. In line with the Transitional Electricity Market (TEM) rule, the Company should remit 100% of the NBET and ONEM bills from 1 February 2015. The shortfall on base line remittance attracts interest at NIBOR plus 10% (NIBOR plus 7.5% during the interim rule period). The interest is unpaid as at the year end and has been included as part of payable to the MO in trade and other payables.

## 11 Employee benefit expense and director's remuneration

### (a) Employee benefit expense during the year amounted to:

	<u>2016</u>	<u>2015</u>
	N'000	N'000
Salaries and wages	9,111,774	7,319,257
Pension costs	583,551	389,923
	<u><u>9,695,325</u></u>	<u><u>7,709,180</u></u>

### (b) Number of employees of the Company as at 31 December, whose duties were wholly or mainly discharged in Nigeria, received annual remuneration excluding pension contributions and certain benefits) in the following ranges:

		<u>2016</u>	<u>2015</u>
N	N	Number	Number
200,001	2,200,000	1,501	1,118
2,200,001	4,200,000	891	853
4,200,001	6,200,000	139	125
6,200,001	8,200,000	72	85
8,200,001	10,200,000	51	52
10,200,001	12,200,000	16	10
12,200,001	14,200,000	9	7
14,200,001	16,200,000	2	2
16,200,001	18,200,000	19	12
18,200,001	20,200,000	3	5
20,200,001	22,200,000	1	2
22,200,001	24,200,000	2	-
24,200,001	26,200,000	1	2
32,200,001	34,200,000	1	-
34,200,001	36,200,000	-	2
38,200,001	40,200,000	1	1
42,200,001	44,200,000	1	1
46,200,001	52,200,000	2	-
56,200,001	58,200,000	1	-
68,200,001	70,200,000	1	-
80,200,001	84,200,000	2	-
		<u><u>2,716</u></u>	<u><u>2,277</u></u>



## Notes to the financial statements

(c) The average number of full time personnel employed by the Company during the year are as follows:

	<u>2016</u>	<u>2015</u>
	Number	Number
Administration	281	249
Finance	276	257
Marketing	1,044	865
Technical	1,115	906
	<u>2,716</u>	<u>2,277</u>

(d) Directors' remuneration  
Directors' remuneration paid during the year comprises:

	<u>2016</u>	<u>2015</u>
	N'000	N'000
Fees as directors	382,865	192,780
Salaries	118,167	51,581
Other expenses	84,481	59,792
	<u>585,513</u>	<u>304,153</u>

The directors' remuneration shown above includes:

	<u>2016</u>	<u>2015</u>
	N'000	N'000
Chairman	76,573	39,800
Highest paid director	<u>139,437</u>	<u>83,845</u>

The number of directors (excluding the Chairman and highest paid director) who received emoluments excluding pension contributions and certain benefits were within the following range:

	<u>2016</u>	<u>2015</u>
	Number	Number
N26,000,000 - N46,000,000	<u>5</u>	<u>5</u>

## 12 Taxation

### (a) Minimum Tax

The Company has applied the provisions of the Companies Income Tax Act that mandates a minimum tax assessment, where a tax payer does not have taxable profit which would generate an eventual tax liability when assessed to tax. The Company's assessment based on the minimum tax legislation for the year ended 31 December 2016 is N76.45 million (2015: N253.85 million). Prior year under provision of minimum tax recognised in current year amounted to N73.22 million (2015: Nil). Total minimum tax recognised for the year ended 31 December 2016 is N149.67 million (2015: N253.85 million).

## Notes to the financial statements

### (b) Income Tax expense

The Company is subject to tax under the Companies Income Tax Act as amended to date. Companies Income Tax and Tertiary Education Tax were not charged during the year as the Company did not have taxable or assessable profit for the year ended 31 December 2016 (2015: Nil). No deferred tax has been recorded on loss incurred to date by the Company because of the uncertainties around the recoverability of the losses (Note 12(e)).

### (c) Reconciliation of effective tax rates

The tax on the Company's loss before tax differs from the theoretical amount as follows:

	2016		2015	
	%	N'000	%	N'000
Loss before minimum tax and income tax		(47,298,250)		(41,718,714)
Income tax using the statutory tax rate	30	(14,189,475)	30	(12,515,614)
Effect of tertiary education tax rate based on assessable (loss)/ profits	2	(1,002,263)	-	-
Tax effect of:				
Movement in unrecognized deferred tax assets	(31)	14,775,902	(19)	7,817,610
Difference in CIT Rate and TET rates*	-	145,953	-	-
Non-deductible expenses	(1)	269,883	(11)	4,698,004
Total income tax expense	-	-	-	-

\*CIT- Company Income Tax, TET- Tertiary Education Tax

### (d) Movement in current tax liability

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Balance at 1 January	1,036,826	782,952
Charge for the year (minimum tax (Note 12(a)))	76,446	253,874
-Prior year under provision (minimum tax (Note 12(a)))	73,224	-
Payments for the year	(259,206)	-
Balance at 31 December	927,290	1,036,826

### (e) Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profits will be available against which the Company can use the benefits therefrom.

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Tax Losses (will never expire)	16,609,818	15,665,959
Unutilized capital allowance	25,185,893	15,687,381
Deductible temporary differences	12,856,490	8,522,959
	54,652,201	39,876,299

## Notes to the financial statements

### 13 Property, plant and equipment

The movements on these accounts were as follows:

	Land N'000	Buildings N'000	Distribution network assets N'000	Office		Capital work in progress N'000	Total N'000
				Equipment fixtures & fittings N'000	Motor vehicles N'000		
<b>Cost or valuation</b>							
Balance at 1 January 2015	11,997,110	4,171,322	84,488,431	186,904	144,272	170,124	101,158,163
Additions	-	-	1,339,426	276,512	273,352	397,844	2,287,134
Revaluation surplus (net)	-	-	(674,731)	-	-	-	(674,731)
Net off of accumulated depreciation on revaluation	-	-	(16,803,336)	-	-	-	(16,803,336)
Transfers	-	-	118,537	93,778	-	(212,315)	-
Balance at 31 December 2015	<b>11,997,110</b>	<b>4,171,322</b>	<b>68,468,327</b>	<b>557,194</b>	<b>417,624</b>	<b>355,653</b>	<b>85,967,230</b>
Balance at 1 January 2016	11,997,110	4,171,322	68,468,327	557,194	417,624	355,653	85,967,230
Additions	-	13,257	1,986,248	482,842	467,303	2,034,598	4,984,248
Net off of accumulated depreciation on reassessment of useful life of land (Note 13(a))	(244,793)	-	-	-	-	-	(244,793)
Transfers	-	74,291	804,150	21,888	-	(900,329)	-
Balance at 31 December 2016	<b>11,752,317</b>	<b>4,258,870</b>	<b>71,258,725</b>	<b>1,061,924</b>	<b>884,927</b>	<b>1,489,922</b>	<b>90,706,685</b>
<b>Depreciation</b>							
Balance at 1 January 2015	-	-	14,310,409	47,456	15,775	-	14,373,640
Charge for the year	244,793	123,609	4,841,632	70,300	36,896	-	5,317,230
Net off of accumulated depreciation on revaluation	-	-	(16,803,336)	-	-	-	(16,803,336)
Balance at 31 December 2015	<b>244,793</b>	<b>123,609</b>	<b>2,348,705</b>	<b>117,756</b>	<b>52,671</b>	-	<b>2,887,534</b>
Balance at 1 January 2016	244,793	123,609	2,348,705	117,756	52,671	-	2,887,534
Charge for the year	-	124,428	3,570,660	146,660	133,377	-	3,975,125
Net off of accumulated depreciation on reassessment of useful life of land (Note 13(a))	(244,793)	-	-	-	-	-	(244,793)
Balance at 31 December 2016	-	<b>248,037</b>	<b>5,919,365</b>	<b>264,416</b>	<b>186,048</b>	-	<b>6,617,866</b>
<b>Carrying amounts</b>							
At 31 December 2015	<b>11,752,317</b>	<b>4,047,713</b>	<b>66,119,622</b>	<b>439,438</b>	<b>364,953</b>	<b>355,653</b>	<b>83,079,696</b>
At 31 December 2016	<b>11,752,317</b>	<b>4,010,833</b>	<b>65,339,360</b>	<b>797,508</b>	<b>698,879</b>	<b>1,489,922</b>	<b>84,088,819</b>

## Notes to the financial statements

(a) Review of useful life of leasehold land

During the year, the Company reviewed the estimated useful life of its leasehold land as unlimited on the basis that the Kogi, Niger and Nasarawa State Governors and the Minister of the Federal Capital Territory would renew the leases upon expiration except otherwise required in the public interest. As there is no information to suggest the leases would not be renewed, the substance of the lease is that the Company has ownership of the land, not a right to use the land for a predefined period. Had this reassessment not occurred, depreciation of N244.79 million would be recorded in current year with respect to land.

Consequently, the Company has discontinued depreciation of leasehold land.

(b) The depreciation charge for the year is allocated as follows:

	<u>2016</u>	<u>2015</u>
	N'000	N'000
Cost of sales	3,570,660	4,841,632
General and administrative expenses	404,465	475,598
Depreciation charge for the year (Note 8)	<u>3,975,125</u>	<u>5,317,230</u>

(c) Additions to property, plant and equipment during the year comprises the following:

	<u>2016</u>	<u>2015</u>
	N'000	N'000
Purchase of property, plant and equipment	4,960,864	2,159,942
Recognition of Customer contributed assets (Note 13(j))	23,384	127,192
	<u>4,984,248</u>	<u>2,287,134</u>

(d) The Company had capital commitments amounting to N217.06 million (2015: N139.71 million).

(e) On 31 December 2015, the Company changed the measurement model for distribution network assets from cost model to revaluation model and as such engaged external valuers, Osugba Stellamaris Ochenya (FRC/2015/ICENNIG/00000013383)/Messrs Aurecon Consulting (FRC/2014/00000004210), to value the distribution network assets belonging to the Company as at that date. Based on the valuation report, the Directors recorded a net deficit of N0.67 billion representing an amount of N15.28 billion as revaluation surplus in other comprehensive income and N15.95 billion as revaluation deficit in the profit or loss.

As at year end land, building and distribution network assets are the Company's category of assets that are carried at valuation. Please see Note 13(h) below for the value of land, building and distribution network assets at historical cost.

(f) The Company is yet to obtain full legal title to its Land. The recognition of land is on the basis that the share sale agreement signed with the current shareholders of the Company by the Federal Government of Nigeria during the privatization process, recognizes that the properties belong to the Company and the Company has unfettered access to the properties. As such, the Directors believe the Company has beneficial ownership to the land and will continue to derive economic benefits from these landed properties. The Directors are in the process of obtaining full legal title to all the affected land.

(g) *Capital work in progress (CWIP)*

Capital work in progress (CWIP) comprises:

	<u>2016</u>	<u>2015</u>
	N'000	N'000
PPE items in store *	1,441,960	293,713
Ongoing works with respect to substations	47,962	61,940
	<u>1,489,922</u>	<u>355,653</u>

\* PPE items in store consist mainly of CAPMI meters of N875.60 million and transformers of N266.02 million.

## Notes to the financial statements

(h) *Land, Building and Distribution network assets: historical costs*

If land, building and distribution network assets were stated on the historical cost basis, the carrying amounts as at 31 December 2016 would be as follows:

	Land	Building	Distribution network assets
	N'000	N'000	N'000
Cost	11,145,255	3,313,644	77,131,808
Accumulated depreciation	-	(447,939)	(10,455,994)
Net book value	<u>11,145,255</u>	<u>2,865,705</u>	<u>66,675,814</u>

(i) *Fair values of land, building and distribution network assets*

Independent valuations of the Company's land, building and distribution network assets was performed by external valuers to determine the fair values. Land and building were revalued at 31 December 2014 and distribution network assets was revalued at 31 December 2015. The revaluation surplus was credited to other comprehensive income and is shown in 'revaluation reserves' in shareholders equity. Revaluation deficit was recorded in profit or loss as part of administrative expenses. The following table analyses the non-financial assets carried at fair value, by valuation method. The fair value input level 2 as detailed below was adopted for the purpose of the valuation.

The fair value measurement for Distribution network assets, land and building was performed using significant other observable inputs (Level 2). Level 2 is defined as inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

**Fair value measurement at 31 December 2016 using  
Significant other  
observable inputs (Level 2)**

	N'000
<i>Recurring fair value measurements</i>	
Distribution network assets	65,339,360
Land	11,752,317
Building	4,010,833
	<u>81,102,510</u>

There were no transfers between fair value hierarchies during the year.

*Valuation technique used to derive level 2 fair values*

The external valuations of the distribution network assets have been performed using a sales comparison approach. The external valuers, derived the significant other observable inputs by collating prices of similar items from six independent vendors and adjusting for differences in key attributes such as age, conditions of assets (as might be applicable) and cost of installation.

(j) *Customer contributed assets*

During the year, the Company received some distribution network assets granted to it by its customers. The fair value of these assets was estimated at N23.38 million by the directors based on observable prices of similar items purchased during the year (level 2). This has been recorded as other income (Note 9).

(k) Motor vehicles amounting to N404.78 million served as collateral to the Company's bank loan. Note 25(b).

## Notes to the financial statements

### (i) Impairment test

The directors had assessed the Company's non-financial assets for indication of impairment at the year end. Considering the continuous loss making of the Company since incorporation to date and other factors including the non-cost reflective tariff and the inability of the Company to pass on to its customers, the impact of devaluation of the naira by over 100% during the year, the directors had determined that indication of impairment exists. As a result, the property, plant and equipment were tested for impairment as at 31 December 2016.

Considering the nature of operation and structure, management identified that the Company has only one cash generating unit (CGU). Hence, the cash flow forecast of the Company as a whole was used in estimating the recoverable amount of the CGU.

The recoverable amount of the CGU was estimated based on the value in use (VIU) determined by discounting the future cash flows to be generated from the continuing use of the CGU to the present value. The discount rate was 34.56% and a terminal value growth rate was 4%.

The discount rate is a pre-tax measure derived from the estimated local risk free rate (RF) of 12.95% based on the average yield on Federal Government of Nigeria's (FGN) 20-year bond issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the Company specific risk premium.

Five years of cash flows were included in the discounted cash flow model. A long-term growth rate of 4% into perpetuity has been determined in line with the long term growth of Nigeria's economy. Budgeted EBITDA was based on expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth. Revenue growth was projected taking into account the average growth levels experienced over the past three years and the estimated volume energy to be distributed and increase in tariff for the next five years.

Based on the above assumptions, the directors have estimated that the recoverable amount of the CGU was estimated to be higher than its carrying amount and no impairment was required.

### 14 Intangible assets

Intangible assets comprise the cost of computer software acquired. The movement in the account during the year is as follows:

	Computer software licences	
	2016 N'000	2015 N'000
<b>Cost</b>		
Balance at 1 January	52,719	23,349
Additions	53,405	29,370
Balance at 31 December	<u>106,124</u>	<u>52,719</u>
<b>Accumulated amortisation</b>		
Balance at 1 January	20,234	8,172
Charge for the year (Note 8)	53,074	12,062
Balance at 31 December	<u>73,308</u>	<u>20,234</u>
<b>Carrying amount</b>		
<b>At 31 December</b>	<u>32,816</u>	<u>32,485</u>

Amortisation of intangible assets is included as part of administrative expenses.

## Notes to the financial statements

### 15 Inventories

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	N'000	N'000
Consumable spare parts	210,797	547,909
Other Consumables	200,003	188,513
	<u>410,800</u>	<u>736,422</u>

Inventories recognised as expense include consumable spare parts and other consumables used in maintenance during the year. They are included in maintenance expenses in cost of sales and amounted to N728.30 million (2015: N801.73 million).

No inventory was written down during the year (2015: Nil).

### 16 Trade and other receivables

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	N'000	N'000
Trade receivables	28,417,498	23,090,722
Other receivables (Note 16 (a))	1,572,836	515,108
	<u>29,990,334</u>	<u>23,605,830</u>

(a) Other receivables comprises:

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	N'000	N'000
Employee receivables	155,386	125,025
Margin deposit *	61,348	-
Amount due from a related party	194,384	26,847
Advance payment to vendors	1,161,718	363,236
	<u>1,572,836</u>	<u>515,108</u>

\* Margin deposit represents balance deposited in a Debt Service Reserve Account maintained with a Nigerian bank for the asset finance loan obtained by the Company (Note 23(b)). N369.24 million was deposited in the account, during the year, N307.89 million was utilised to settle both interest and principal repayment obligations due on the loan.

(b) Reconciliation of changes in trade and other receivables to statement of cashflows is as follows:

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	N'000	N'000
Changes in trade and other receivables	(6,384,504)	(9,082,305)
Impairment loss on trade and other receivables	(13,219,831)	(18,343,412)
Amount shown in the statement of cash flows	<u>(19,604,335)</u>	<u>(27,425,717)</u>

Credit and market risk and impairment losses information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Notes 29 (a) and (c).

## Notes to the financial statements

- (a) Trade payables comprise amount due to the Nigerian Bulk Electricity Trading Plc (NBET) and the Operator of the Nigerian Electricity Market (ONEM). Following the commencement of the Transitional Electricity Market (TEM), NBET became the supplier of power to the Company and bills for the cost of energy while other administrative charges incidental to the cost of energy are billed by ONEM.
- (b) Reconciliation of changes in trade and other payables to statement of cashflows is as follows:

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	N'000	N'000
Changes in trade and other payables	53,711,121	29,610,632
Interest on market operator bill	(10,900,396)	(2,313,620)
Amount shown in the cash flow statement	<u>42,810,725</u>	<u>27,297,012</u>

The Company's exposure to liquidity and market risks for trade and other payables is included in Note 29 (b) and (c).

### 22 Provisions

Based on correspondence between NERC and NELMCO in 2014 and industry trends, the Directors assessed that the Company may have to pay NELMCO the cash in bank as at 1 November 2013 and as such, the Directors recorded their best estimate of the potential cash outflow with respect to this as a payable to NELMCO.

The probable timing of resulting cash outflow is expected within the next 12 months and as such the effect of discounting is not material.

### 23 Loans and borrowings

Loans and borrowings comprise:

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	N'000	N'000
Loan from parent company (Note 23 (a))	-	28,608
Bank loan (Note 23 (b))	215,831	445,696
CAPMI payables (Note 23(c))	1,791,969	979,154
Total loans and borrowings	<u>2,007,800</u>	<u>1,453,458</u>
Noncurrent	718,881	889,252
Current	<u>1,288,919</u>	<u>564,206</u>
	<u>2,007,800</u>	<u>1,453,458</u>

#### (a) Loan from parent Company

During the year, the Company fully settled the unsecured working capital financing facility obtained from KANN Utility Company Ltd (the parent company).

#### (b) Bank loan

The Company obtained a secured loan of N884.23 million in 2015 for the purpose of financing purchase of motor vehicles at an interest rate of 18% per annum. This facility was to be drawn down within six months of the first drawdown. The tenor of the loan is 2 years with a moratorium of 6 months and 9 months on interest and principal respectively. During the year, N136.76 million was called back by the financial institution as the amount had not been drawn down within the six months stipulated in the agreement. The Company during the year made interest and principal repayments amounting to N69.32 million and N238.58 million respectively. The outstanding balance on the loan is due within 12 months from the year end.



## Notes to the financial statements

### 20 Deferred income

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Government grant (Note 20(a))	831,338	854,537
Deferred revenue (Note 20(b))	376,083	308,762
Deferred income on CAPMI (Note 23(c))	210,400	130,694
	<u>1,417,821</u>	<u>1,293,993</u>
Non current	808,139	831,338
Current	609,682	462,655
	<u>1,417,821</u>	<u>1,293,993</u>

#### (a) Government grants

In 2014, the Company received some assets granted to it by the government in a bid to improve the infrastructure within the Abuja region. These assets have been included in property, plant and equipment. Amortisation of the deferred income is at the same rate as the associated PPE is depreciated. Amount recognised in profit or loss during the year was N23.20 million (2015: N23.20 million). The movement in the account during the year was as follows:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Balance at 1 January	854,537	877,736
Amortization to profit or loss	(23,199)	(23,199)
	<u>831,338</u>	<u>854,537</u>
Non-current	808,139	831,338
Current	23,199	23,199
	<u>831,338</u>	<u>854,537</u>

#### (b) Estimation of deferred revenue from prepaid customers and unbilled revenue from post-paid customers:

The Company estimates deferred revenue from prepaid customers by calculating an energy consumption factor which shows the average energy consumption for each customer based on energy unit purchased during the year. This is used to prorate the last units of energy purchased by the customer before year end. Unearned revenue (excluded from current year revenues) amounted to N376.08 million (2015: N308.76 million) and has been recognized as deferred revenue.

### 21 Trade and other payables

Trade and other payables comprises:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Trade payables (Note 21(a))	109,216,709	56,723,268
Payable to vendors	2,503,269	1,122,911
Due to related parties (Note 25(c))	165,561	1,681,879
Accruals	2,257,597	2,764,674
	<u>114,143,136</u>	<u>62,292,732</u>
Statutory deductions	7,557,858	4,807,627
	<u>121,700,994</u>	<u>67,100,359</u>

## Notes to the financial statements

### 17 Prepayments

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Rent	171,840	205,618
Insurance	38,490	54,367
	<u>210,330</u>	<u>259,985</u>
Non current	11,278	37,043
Current	199,052	222,942
	<u>210,330</u>	<u>259,985</u>

### 18 Cash and cash equivalents

	31 Dec 2015	31 Dec 2014
	N'000	N'000
Bank balances (Note 18(a))	2,432,845	1,741,712
Cash on hand	41,265	29,730
	<u>2,474,110</u>	<u>1,771,442</u>

(a) Included in this balance are fixed bank deposits with maturities below 3 months amounting to N1.01 billion (2015: Nil).

### 19 Share capital and reserves

(a) Share capital comprise:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
<i>Authorized:</i>		
10,000,000 ordinary shares of 50k each	5,000	5,000
<i>Issued, called-up and fully paid:</i>		
10,000,000 ordinary shares of 50k each	5,000	5,000

#### Ordinary Shares

All shares rank equally with regard to the Company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at the general meetings of the Company.

#### (b) Nature and purpose of reserves

##### Revaluation reserve

The revaluation reserves relate to the revaluation surplus arising from the revaluation of land, buildings and distribution network assets in prior years. This was recorded in other comprehensive income and was classified as an item that will not be reclassified to profit or loss. See Note 13(e).

Revaluation reserve is made up as follows:

	31 Dec 2016	31 Dec 2015
		N'000
Land and building	3,300,265	3,300,265
Distribution Network	15,277,425	15,277,425
	<u>18,577,690</u>	<u>18,577,690</u>

## Notes to the financial statements

### (c) CAPMI Payables

In a bid to bridge the metering gap and to reduce estimated billings, NERC issued the Credited Advance Payment for Metering Implementation (CAPMI) scheme. The CAPMI scheme allowed willing customers to advance funds to the distribution companies for meter procurement and installation. Amounts advanced by a customer under this scheme plus a one off nominal interest of 12% less cost of installation, is refundable to the customer in monthly instalments such that the repayment shall not exceed 3 years.

The CAPMI payable has been recognised initially at fair value and subsequently measured at amortised costs using the effective interest rate method. Amounts due within one year or less are classified as current, if not they are classified as noncurrent liabilities. The non current liability recognized as at year end amounted to ₦718.88 million (2015: ₦646 million).

The installation fees ₦242.74 million (2015: ₦277.89 million) earned with respect to the meters that have been installed and energized is included as part of other income (Note 9). Cost of installation of CAPMI meters not yet installed as at year end was ₦210.40 million (2015: ₦130.69 million) and is recorded as deferred income (Note 20).

The CAPMI scheme was abolished during the year and as a result, the Company stopped accepting payments for CAPMI.

(d) Reconciliation of loans received to statement of cashflows is as follows:

	31 Dec 2016	31 Dec 2015
	₦'000	₦'000
Changes in loans and borrowings	554,342	959,128
Fair value gain on initial recognition of CAPMI loans	245,802	297,791
Interest on CAPMI loans	(139,627)	(118,473)
Unwinding of discount on CAPMI loans	(245,078)	(97,209)
Interest on bank loan	(69,316)	-
Installation income	242,735	277,887
Changes in CAPMI collection account (deferred income)	79,706	114,048
CAPMI refund	167,485	-
Payment of intercompany loan (KANN)	28,608	-
Payment of interest on bank loan	69,316	-
Repayment of bank loan	238,577	-
Proceeds from loans and borrowings	<u>1,172,550</u>	<u>1,433,172</u>

### 24 Employee benefits

	31 Dec 2016	31 Dec 2015
	₦'000	₦'000
Post employment defined benefit obligation (Note 24(a))	22,064	-
	<u>22,064</u>	<u>-</u>

#### (a) Defined benefit plan

Defined benefit obligation (DBO) comprise of gratuity provision for certain members of staff (including the managing director) and is based upon an independent actuarial valuation performed by Alexander Forbes insurance consulting using the project unit credit basis as prescribed by IAS 19. The Company does not maintain any assets for the gratuity plan but ensures that it has sufficient funds for the obligations as they crystallize.

The FRC number of the actuary is FRC/2016/NAS/00000013781.

The movement in the defined benefit obligation during the year was as follows:

## Notes to the financial statements

	2016	2015
	N'000	N'000
Balance, beginning of year	-	-
Included in profit or loss (as part of administrative expenses)	-	-
Past service cost	22,064	-
<b>Balance at 31 December</b>	<b>22,064</b>	<b>-</b>

There are no amounts recognised in other comprehensive income in current year as there are no gains or losses on remeasurement of the DBO.

### (b) Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	2016
Discount rate (%)	1.20%
Salary increase rate (%)	1.20%

These assumptions depict management's estimate of the likely future experience of the Company.

### (c) Withdrawal from service

The DBO valuation made no allowance for mortality or withdrawal for the duration of the employment contract.

### (d) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	N'000
Discount rate (+1% movement)	21,262
Discount rate (-1% movement)	22,461
Salary increase rate (+1% movement)	22,461
Salary increase rate (-1% movement)	21,262

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

## 25 Related party transactions

### (a) Parent and ultimate controlling party

KANN Utility Company Ltd (KANN) acquired a majority of the Company's shares from BPE and Ministry of Finance on 1 November 2013. As a result, the parent company is KANN Utility Company Ltd. KANN is a joint venture between Xerxes Global Investment Ltd and CEC Africa Investment Ltd.

### (b) Transactions with key management personnel

Key management personnel compensation comprised:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Salaries	562,611	294,401
Other short-term benefits	256,220	244,526
	<b>818,831</b>	<b>538,927</b>

Other than as detailed above, in terms of compensation, there were no transactions between key management personnel and the Company. From time to time directors of the Company, or their related entities, may purchase energy from the Company. These purchases are on the same terms and conditions as those entered into by other Company employees and customers.

## Notes to the financial statements

### (c) Other related party balances

Other related party balances at the yearend were as follows:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Loan from parent company (Note 23(a))	-	28,608
Due to related parties:		
Operations and management services (Note 25 (d))	21,259	1,371,391
Accruals for compensation to key management personnel	144,302	310,488
Due to related parties (Note 21)	165,561	1,681,879
<b>Total related party balance</b>	<b>165,561</b>	<b>1,710,487</b>

None of the balances due to related parties is secured.

### (d) Operations and management services

Operations and management services fees is calculated at 2% of net cash collected by the Company during the year from customers on the basis of ongoing assistance received from the Company's parent, KANN Utility Company Limited (KANN) under an operations and management service agreement. The fees charged to profit or loss amounted to N1.04 billion (2015: 920.19 million). See Note 8.

## 26 Contingent liabilities

### (a) Transfer of pre-completion liabilities and trade receivables

As part of the privatisation completion, the Company through the Bureau of Public Enterprises signed a deed of assignment of pre-completion receivables and liabilities with the Nigerian Electricity Liability Management Company Limited (NELMCO) effective 31 October 2013. The Company and NELMCO are yet to agree on the individual trade debtors and liabilities transferred as at 1 November 2013. The Directors, based on independent legal advice obtained as well as their understanding of the Share Purchase Agreement between KANN, BPE and the Ministry of Finance Incorporated are of the opinion that all trade receivables and pre-completion liabilities (crystallised or contingent) as at 31 October 2013 have been effectively transferred. The Company does not have an estimate of those debtors and liabilities since in its view this is the responsibility of NELMCO. The Company believes that it will neither realise those receivables nor settle any liabilities existing as at 31 October 2013 and as such, no recognition of provision is required other than that shown in Note 22. If in the process of agreeing the individual trade debtors and liabilities, certain items are identified and agreed to be borne by the Company, the amounts would be recorded in the period they were identified.

### (b) Litigations and claims

The Company is involved in certain litigations and claims (separate from those taken over by NELMCO). Maximum exposure based on the damages being claimed by the litigants amounts to N3.69 billion (2015: N897.95 million). The Directors based on a review of the circumstances of each claim and advice from external solicitors, believe the risk of material loss to the Company is remote and as such no provisions have been recorded.

## 27 Events after the reporting period

Subsequent to the year end, the Federal executive Council (FEC) approved the Power Sector Recovery Program. The Directors believe that this would have a positive impact on the industry and the Company's operations going forward.

Other than as disclosed above, there were no events after the reporting period which could have had a material effect on the state of affairs of the Company as at 31 December 2016 and on the loss for the year then ended which have not been adequately provided for or disclosed in the financial statements.

## Notes to the financial statements

### 28 Going concern

The Company reported a loss after tax of ₦47.45 billion (2015: ₦41.97 billion) during the year ended 31 December 2016 and, as of that date, the Company's current liabilities exceeded its current assets by ₦93.63 billion and also the total liabilities exceeded total assets by ₦11.02 billion. The Company has historically incurred losses due to the existing electricity pricing regime which has not allowed the full recovery of costs through price increases.

85.23% of the total liabilities are payable to NBET and ONEM (included in trade payables). These include interest on unpaid NBET and ONEM invoices to date. During the year, as a result of low remittance on NBET/ONEM invoices by the Company, NERC instructed CBN to escrow the collection accounts of the Company. The Company obtained a court injunction which stopped the escrow of the Company's bank account. Therefore, the Company still has access to all its bank accounts.

NERC issued MYTO 2015 which is a 10 year tariff Order effective 1 February 2016 which resulted in an average of 49% increase in 2016 tariffs over 2015 tariffs across all customer categories. Based on MYTO 2015, the directors have revised the Company's 10 year budget and cash flow forecast which now indicates that the Company is expected to operate profitably from the 2018 financial year. The realisation of the projections is subject to the sustainability of MYTO 2015, receipt of the Company's share of the CBN intervention fund currently estimated at ₦27 billion, receipt of debts due from MDAs estimated at ₦11.75 billion at 31 December 2016, and the successful restructuring of the amount payable to NBET and ONEM into a long term loan payable over an eight (8) year period with a moratorium period of 18 months.

There have been ongoing discussions with the Ministries of Power and Finance to facilitate collection of receivables estimated at ₦11.75 billion due from Federal Government Ministerial Departments and Agencies (MDAs). As at the date of approval of these financial statements, validation of amounts submitted by the Company to the Advisory Power Team of the Office of the Vice President of the Federal Republic of Nigeria is still on going. The Directors expect to receive payment once the validation check is completed.

The current economic environment in the Nigerian Electricity Supply Industry is challenging and the current depreciation of the Naira presents significant challenges to planned future investments required to expand and achieve required growth. Nevertheless, the foregoing indicates the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern into the foreseeable future and therefore the Company may be unable to realise its assets and settle its liabilities in the normal course of business. The directors have instituted various strategies aimed at billing efficiencies and are working with the government to secure cheaper access to the foreign exchange market. In addition, based on the ongoing discussions with market participants (generation companies and other distribution companies), NERC and the CBN as well as the recent Power Sector Recovery Program approved by the Federal Executive Council of the Federal Republic of Nigeria, the directors have concluded that preparation of the financial statements using accounting policies applicable to a going concern is appropriate.

## Notes to the financial statements

### 29 Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

#### Risk management framework

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board of directors is also responsible for developing and monitoring the Company's risk management policies.

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. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's audit committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The audit committee is assisted in its oversight role by Internal Audit. Internal Audit is expected to undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

#### (a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and government related entities.

The Company's credit risk exposure on cash is minimized substantially by ensuring that cash is held with Nigerian financial institutions.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Note	31 Dec 2016	31 Dec 2015
		N'000	N'000
Trade and other receivables		28,828,616	23,242,594
Cash at bank	18	2,432,845	1,741,712
		<u>31,261,461</u>	<u>24,984,306</u>

#### Trade and other receivables

The Company has a large customer base within its licensed area of supply thereby reducing its concentration of credit risk. To further mitigate credit risk, the Company is continually increasing the share of prepaid customers in its portfolio. The Company's exposure to credit risk is influenced by the individual characteristics of each customer.

In monitoring credit risk, customers are grouped according to their credit characteristics, including whether they are maximum demand or non-maximum demand customers, and whether they are private individuals/companies, government institutions or military establishments. No security is provided for the electricity supplied though the Company retains the right to disconnect non paying customers to enforce collections.

## Notes to the financial statements

### Trade receivables

	Maximum Demand N'000	Non-maximum Demand N'000	Total N'000
<b>2016</b>			
Private individuals/companies	1,734,106	18,001,499	19,735,605
Government institutions	8,268,408	413,485	8,681,893
<b>Total</b>	<b>10,002,514</b>	<b>18,414,984</b>	<b>28,417,498</b>
	Maximum Demand N'000	Non-maximum Demand N'000	Total N'000
<b>2015</b>			
Private individuals/companies	3,344,437	12,581,454	15,925,891
Government institutions	3,152,526	4,012,305	7,164,831
<b>Total</b>	<b>6,496,963</b>	<b>16,593,759</b>	<b>23,090,722</b>

At 31 December 2016, the aging of trade receivables that were not impaired was as follows:

	31 Dec 2016 N'000	31 Dec 2015 N'000
Unbilled*		
Past due 0-30 days	3,580,074	2,773,750
Past due 31-90 days	993,497	692,722
Past due 91-120 days	1,490,245	1,154,536
Past due 120 days and above	1,738,620	923,629
	20,615,062	17,546,085
	28,417,498	23,090,722

\* Unbilled receivables are neither past due nor impaired.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	31 Dec 2016 N'000	31 Dec 2015 N'000
Balance at 1 January	26,236,926	7,893,514
Net impairment loss recognised (Note 8)	13,219,831	18,343,412
Balance at 31 December	39,456,757	26,236,926

Analysis into general and specific impairment is as follows:

	31 Dec 2016 N'000	31 Dec 2015 N'000
General impairment	22,550,916	26,236,926
Specific impairment	16,905,841	-
	39,456,757	26,236,926



## Notes to the financial statements

Management monitors the Company's trade and other receivables for indicators of impairment. During the year, no write off on bad debt was recorded (2015: Nil).

The directors have recorded an impairment allowance amounting to ₦14.46 billion (2015: ₦18.34 billion) with respect to the outstanding trade receivables at the year end. The impairment is required mainly to cater for the losses that arise from the difficulties in enforcing payments from certain classes of customers due to certain geographical challenges such as coverage and accessibility.

The Company believes that past due amounts not impaired are collectible as follows:

- It retains the right to disconnect the customers and based on historical patterns, collections improve after disconnections.
- Current metering plan, will convert a significant number of these customers to prepaid and outstanding balances will be recovered through the prepaid platform.
- Ongoing discussions with the Accountant General and Ministry of Power, that amounts due from government parastatals will be paid for through deductions in their allocations.

It is also important to note that the Company has strategies to minimize credit losses going forward as follows:

- Investment in prepaid meters and conversion of more post paid customers to prepaid;
- More efficient internal processes e.g. timely billings and delivery of bills, system automation of billings and collections, system of issuing letters of demand and notices to non-paying customers;
- Involvement of the Minister of Finance in enforcing collection of receivables from government agencies.
- Aggressive disconnections
- Setting KPIs for employees to drive debt collections

### Cash at bank

The Company held cash of ₦2.43 billion (2015: ₦1.74 billion) with banks and financial institutions operating in Nigeria.

### (b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

In order to manage liquidity risks and ensure that it has sufficient cash to match outflows expected in the normal course of its business, the Company is doing the following:

- Intensifying efforts to collect trade receivables.
- Restructuring trade payables which is made up of NBET and ONEM payables into a long term facility with a tenor of 8 years. This will reduce the cashflow demand in the short to medium term.
- In addition, the Company expects to receive ₦27 billion with respect to CBN intervention funds following the disbursement agreement it signed with NERC in 2014. The Company has not received any monies from the CBN with respect to this scheme as at year end as it has not yet fulfilled all the conditions precedent. ₦25 billion of this will be applied towards settlement of outstanding MO payables.

## Notes to the financial statements

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount ₦'000	Contractual cash flows			
		Total ₦'000	0 - 3 Months ₦'000	4 - 12 Months ₦'000	Above 1 year ₦'000
<b>Non-derivative financial liabilities</b>					
<b>31 December 2016</b>					
Trade and other payables	114,143,136	114,143,136	114,143,136	-	-
Loans and borrowings (Note 23)	2,007,800	2,380,582	330,989	976,505	1,073,088
	<u>116,150,936</u>	<u>116,523,718</u>	<u>114,474,125</u>	<u>976,505</u>	<u>1,073,088</u>
<b>Non-derivative financial liabilities</b>					
<b>31 December 2015</b>					
Trade and other payables	62,292,732	62,292,732	62,292,732	-	-
Loans and borrowings (Note 23)	1,453,458	1,829,033	28,608	475,580	1,324,845
	<u>63,746,190</u>	<u>64,121,765</u>	<u>62,321,340</u>	<u>475,580</u>	<u>1,324,845</u>

### (c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates 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 market risk exposures within acceptable parameters, while optimizing the return.

The Company manages market risks by keeping costs low through various cost optimization programs. Moreover, market developments are monitored and discussed regularly, and mitigating actions are taken where necessary.

### Currency risk

The Company, based on operations to date has limited exposure to currency risks based on the fact that its revenue is earned in its functional currency and the cost of energy supplied paid in same. Exposure to currency risk is currently limited to the working capital facility and other related party payables and are denominated in US Dollar. The currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.

In managing currency risk, the Company aims to reduce the impact of short-term fluctuations on earnings. Although the Company has various measures to mitigate exposure to foreign exchange rate movement, over the long term, permanent changes in exchange rates would have an impact on profit or loss. It monitors the movement in the currency rates on an ongoing basis.

### Exposure to currency risk

The summary of quantitative data about the Company's exposure to currency risk as reported by management is as follows:

	31 Dec 2016	31 Dec 2015
	\$	\$
Cash and cash equivalents	434,443	721,888
Payable to a parent company	-	(8,409,395)
Loan from the parent company	-	(143,040)
<b>Net statement of financial position exposure</b>	<u>434,443</u>	<u>(7,830,547)</u>

## Notes to the financial statements

The following significant exchange rates were applied during the year

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
	₦	₦	₦	₦
US\$	382.87	199.00	496.00	200.00

The Company translates its US Dollar denominated transaction using the rates of its principal banker.

### Sensitivity analysis

A 50% strengthening of the USD at 31 December would have increased/(decreased) loss for the year and equity by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period and has no impact on equity. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 Dec 2016	31 Dec 2015
	₦'000	₦'000
US\$	(107,742)	783,055

A weakening of the US\$ against the Naira at 31 December would have had the equal but opposite effect on equity and on the above naira to the amounts shown above, on the basis that all other variables remain constant.

### Interest rate risk

#### Interest rate risk management

The Company is exposed to interest rate risk arising from the interest bearing loans from its parent, KANN and the vehicle finance loan.

#### Interest rate risk- Sensitivity analysis

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	rate	31 Dec 2016	31 Dec 2015
		₦'000	₦'000
<b>Fixed rate instruments</b>			
Loan from parent company	10%	-	28,608
Vehicle finance loan	18%	215,831	445,696

No sensitivity analysis is disclosed as changes in interest rate would not affect profit or loss.

## (d) Fair values

### Fair values versus carrying amounts

The table below shows the classification of financial assets and financial liabilities of the Company not measured at fair value. These carrying amounts shown are a reasonable approximation of the fair values of the financial assets and financial liabilities.

	Loans and receivables	Other financial liabilities	Total
	₦'000	₦'000	₦'000
<b>31 December 2016</b>			
<b>Financial assets not measured at fair value</b>			
Trade and other receivables	28,828,616	-	28,828,616
Cash and cash equivalents	2,474,110	-	2,474,110
	<u>31,302,726</u>	<u>-</u>	<u>31,302,726</u>

## Notes to the financial statements

	Loans and receivables N'000	Other financial liabilities N'000	Total N'000
<b>Financial liabilities not measured at fair value</b>			
Trade and other payables	-	114,143,136	114,143,136
Loans and borrowings	-	2,007,800	2,007,800
	-	116,150,936	116,150,936

	Loans and receivables	Other financial liabilities	Total
<b>31 December 2015</b>			
<b>Financial assets not measured at fair value</b>			
Trade and other receivables	23,242,594	-	23,242,594
Cash and cash equivalents	1,771,442	-	1,771,442
	25,014,036	-	25,014,036

	Loans and receivables	Other financial liabilities	Total
<b>Financial liabilities not measured at fair value</b>			
Trade and other payables	-	62,292,732	62,292,732
Loans and borrowings	-	1,453,458	1,453,458
	-	63,746,190	63,746,190

### 30 Operating leases

#### (a) Leases as lessee

The Company leases a number of buildings under operating leases. The leases typically run for a period of 1 year, with an option to renew the lease after that date. Lease payments are renegotiated when necessary to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain operating leases, the Company is restricted from entering into any sublease arrangements.

#### (i) Future minimum lease payments

At 31 December 2016, the future minimum lease payments under non-cancellable leases were payable within 1 year and amounted to ₦ 16.66 million (2015: ₦8.59 million).

#### (ii) Amounts recognised in profit or loss

Lease expenses recognised in profit or loss during the year amounted to ₦465.08 million (2015: ₦348.49 million). This is included in administrative expenses as rent expense.

### 31 Basis of measurement

These financial statements have been prepared on the historical cost basis except for certain items of PPE such as distribution network assets, land and building where measurement is by revaluation method, recognition of assets granted by customers or by government which are initially recognized at fair value and financial instruments measured based on fair value.

## Notes to the financial statements

### 32 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and early application is permitted, however, the Company has not applied the new or amended standard in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated.

#### **Effective for the financial year commencing 1 January 2017**

- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

#### **Effective for the financial year commencing 1 January 2018**

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from contracts with customers*

#### **Effective for the financial year commencing 1 January 2019**

- IFRS 16 *Leases*

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

IFRS 10, IFRS 12 and IAS 28 amendment Investment entities, Sale or Contribution of Assets between an Investor and its Associate or joint Venture (Amendment to IFRS 10 and IAS 28), Equity method in Separate Financial Statements (Amendments to IAS 27), Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41), Regulatory Deferral Accounts (IFRS 14), Accounting for Acquisitions of Interest in Joint Operations (Amendment to IFRS 11), Clarification of Acceptable Methods of Depreciation and Amortisation (Amendment to IAS 16 and IAS 38 ) are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

#### **Disclosure Initiative (Amendments to IAS 7)**

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances arising from financing activities.

#### **Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)**

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The amendment is not expected to have any significant impact on the financial statements of the Company.

## Notes to the financial statements

### IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Company is yet to carry out an assessment to determine the impact that the initial application of IFRS 9 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2018.

### IFRS 15 Revenue from contracts with customers

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

This new standard will most likely have a significant impact on the Company, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised.

The Company is yet to carry-out an assessment to determine the impact that the initial application of IFRS 15 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2018.

### IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as operating leases or finance leases as required by IAS 17 and introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (b) depreciation of lease assets separately from interest on lease liabilities in the profit or loss.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company is yet to carry out an assessment to determine the impact that the initial application of IFRS 16 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2019.

### 33 Capital Management

The Company monitors capital using a ratio of 'adjusted net debt' to 'total equity'. For this purpose, adjusted net debt is defined as total liabilities, less cash and cash equivalents.

The Company's adjusted net debt to equity ratio as at December 2016 was as follows:

	31 December 2016	31 December 2015
Total liabilities	128,226,844	73,057,575
Less: cash and cash equivalents	(2,474,110)	(1,771,442)
Adjusted net debt	125,752,734	71,286,133
Total equity	(11,019,635)	36,428,285
Total equity to adjusted net debt	(11.41)	1.96

## Other national disclosures

### Financial summary

#### Statement of profit or loss and other comprehensive income

	2016	2015	2014	2013
	N'000	N'000	N'000	N'000
Revenue	61,147,917	62,534,676	48,097,381	36,025,798
Results from operating activities	(35,309,576)	(39,196,964)	(24,908,727)	(13,371,972)
Loss before taxation	(47,298,250)	(41,718,714)	(25,606,664)	(13,370,753)
Loss for the year	(47,447,920)	(41,972,588)	(25,971,035)	(13,789,334)
Total comprehensive income for the year	(47,447,920)	(26,695,163)	(22,670,770)	(13,789,334)

#### Statement of financial position

	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	1 Jan 2013
	N'000	N'000	N'000	N'000	N'000
<b>Employment of Funds</b>					
Property, plant and equipment	84,088,819	83,079,696	86,784,523	88,805,163	81,392,538
Intangible assets	32,816	32,485	15,177	19,847	-
Non-current prepayments	11,278	37,043	40,348	-	-
Net (current liabilities)/assets	(93,625,528)	(45,000,349)	(22,590,711)	(3,030,792)	7,475,525
Non current liabilities	(1,527,020)	(1,720,590)	(1,125,889)	-	-
<b>Net assets</b>	<b>(11,019,635)</b>	<b>36,428,285</b>	<b>63,123,448</b>	<b>85,794,218</b>	<b>88,868,063</b>
<b>Funds Employed</b>					
Share capital	5,000	5,000	5,000	5,000	5,000
Retained earnings	(29,602,325)	17,845,595	59,818,183	85,789,218	88,863,063
Revaluation reserve	18,577,690	18,577,690	3,300,265	-	-
	<b>(11,019,635)</b>	<b>36,428,285</b>	<b>63,123,448</b>	<b>85,794,218</b>	<b>88,868,063</b>

The financial information presented above reflects historical summaries based on International Financial Reporting Standards. Information related to prior periods has not been presented as it is based on a different financial reporting framework (Nigerian GAAP) and is therefore not directly comparable.

**Other national disclosures**



**Other national disclosures**  
**Value added statement**

For the year ended

	<u>31 Dec 2016</u>	%	<u>31 Dec 2015</u>	%
	N'000		N'000	
Revenue	61,147,917		62,534,676	
Bought-in-materials and services				
- Local	(83,144,834)		(89,217,188)	
- Foreign	-		-	
Finance income	(21,996,917)		(26,682,512)	
Other income	255,257		301,125	
	410,865		524,020	
	<u>(21,330,795)</u>	<u>100</u>	<u>(25,857,367)</u>	<u>100</u>
<b>To employees:</b>				
- as salaries, wages and other staff costs	9,695,325	(45)	7,709,180	(30)
<b>To providers of finance:</b>				
- Finance cost and similar charges	12,243,931	(57)	2,822,875	(10)
<b>To government as:</b>				
- taxes	149,670	(1)	253,874	(1)
<b>Retained in the business:</b>				
<b>To maintain and replace:</b>				
- property plant and equipment	3,975,125	(18)	5,317,230	(20)
- intangible assets	53,074	(1)	12,062	(1)
- To deplete reserves	(47,447,920)	222	(41,972,588)	162
	<u>(21,330,795)</u>	<u>100</u>	<u>(25,857,367)</u>	<u>100</u>

## Other national disclosures Financial summary

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