Abuja Electricity Distribution Plc

Annual Report
31 December 2017

Contents

Corporate information

Registration number	**638681**		
Directors:	Amb. Shehu Malami		-Chairman
	Alex Okoh		
	Ernest Mupwaya	(Zambian)	-Managing Director
	Siyanga Malumo	(Zambian)	
	Emmanuel Katepa	(Zambian)	
	Ahmad Saci Maiyaki		
	Olusegun Doherty		
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 2017

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 2017.

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 1 April 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:

Summary of statement of profit or loss	2017 ₦'000	2016 ₦'000
Revenue	65,715,312	61,147,917
Gross loss	(19,291,395)	(5,341,396)
Operating loss	(49,473,493)	(35,309,576)
Loss before minimum tax and income tax	(75,895,144)	(47,298,250)
Minimum tax	(82,156)	(149,670)
Income tax	-	-
Loss for the year	(75,977,300)	(47,447,920)
Summary of financial position		
Total assets	120,147,561	117,207,209
Total liabilities	206,242,165	128,226,844
Equity	(86,094,604)	(11,019,635)

No dividend has been recommended by the directors (2016: Nil).

Industry overview and actions by the directors

In recognition of the various exogenous sector challenges, the Federal Government of Nigeria (FGN) in April 2017 approved the Power Sector Recovery Program (PSRP) which is a comprehensive series of policy actions as well as operational and financial interventions to be implemented by the FGN to attain financial viability of the power sector, and reset the Nigerian Electricity Supply Industry (NESI). Some of the key initiatives include:

- Elimination of accumulated deficits for the 2015, 2016 & 2017 financial years;
- Commitment to fund future sector deficits from 2018 – 2021;
- Payment of MDA debts and implementation of a payment mechanism for future bills;
- Implementation of off-grid renewable solutions to increase energy access;
- Implementation of a foreign exchange policy for the power sector;
- Ensuring effectiveness of the electricity market contracts; and
- Implementation of an end user tariff trajectory to ensure cost reflective tariffs are achieved over 5 years.

The implementation of some of these initiatives has commenced and would be critical to ensure that the Company achieves profitability in the future.

The directors have commenced certain initiatives aimed at improving the financial position of the Company. These include:

- Access to the CBN Nigerian Electricity Market Stabilisation Fund amounting to ₦27 billion. Subsequent to year end, the Company accessed the CBN fund. Drawdowns from this fund has been used to settle a portion of the market debt subsequent to year end.
- Write off of interest and penalties on the NBET/MO debt. The Company is in discussions with the NERC to write off accumulated interest and penalties on market debts. The directors believe that the interests will be written off in 2018. These interests amount to ₦40.25 billion as at 31 December 2017.
- Subsidies for past and future tariff shortfalls. The PSRP acknowledged that tariff shortfall for 2015 and 2016 accruing to the Company amounted to ₦44.86 billion. Subsequent to the year end, NERC commenced the tariff review exercise and the preliminary calculation done by the regulator indicated that AEDC has an accumulated tariff shortfall for 2015 to 2017 of ₦61.37 billion. This shortfall will be settled via a net off on NBET/MO payables. The timing of this net off is currently being negotiated.

Directors and their interests

The Directors who served during the year were as follows:

Name	Nationality	Designation	Date (resigned)/appointed
Vincent Onome Akpotaire			(07 June 2017)
Alex Okoh			07 June 2017
Amb. Shehu Malami		Chairman	
John Albert Jones*			(27 July 2017)
Ernest Mupwaya	(Zambian)	Managing Director	
Siyanga Malumo	(Zambian)		
Emmanuel Katepa	(Zambian)		
Ahmad Saci Maiyaki			
Olusegun Doherty			09 November 2017
Alh. Audu Uba Mohammed			(27 April 2017)
Muhammad Dikko Abdullahi**			27 April 2017

* *On 15 April 2017, Mr. John Albert Jones passed away. He was replaced by Olusegun Doherty.*

** *Muhammad Dikko Abdullahi is the alternate director to Alex Okoh who replaced Vincent Onome Akpotaire as the representative of BPE on the board. Muhammad Dikko Abdullahi represents Mr. Alex Okoh at all AEDC board meetings in the absence of the latter. He replaced Alh. Audu Uba Mohammed who was the alternate director to Vincent Onome Akpotaire on 27 April 2017.*

The directors indicate that they do not have any interests required to be disclosed under Section 275 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004.

In accordance with Section 277 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, 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:

	10million shares at 50k each, and 5million shares at ₦1 each		Ordinary Shares of 50K each	
		31 December 2017		31 December 2016
	%	Number	%	Number
KANN Utility Company Limited	60	9,000,000	60	6,000,000
Bureau of Public Enterprises	32	4,800,000	32	3,200,000
Ministry of Finance Incorporated	8	1,200,000	8	800,000
Total	**100**	**15,000,000**	**100**	**10,000,000**

During the year, the shareholders at an extraordinary general meeting approved the creation and issue of another class of ordinary shares of 5 million shares at ₦1 each. These shares were allotted to the shareholders in proportion to the original shareholding structure. These shares remained unpaid at year end, and have been included as unpaid share capital in trade and other receivables. See Notes 16 and 19.

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 but is yet to appoint an independent director.

The executive director in the 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 11 times (2016: 9 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:

DIRECTORS	DESIGNATION	24-Jan	10-Feb & 31-Mar	29-Mar	25-Apr	27-Apr	7-Jun	6-Jul	27-Jul & 9-Nov	15-Dec
Amb. Shehu Malami	Chairman	X	X	X	X	X	X	X	-	X
Ernest Mupwaya	Managing Director	X	X	X	X	X	X	X	X	X
John Albert Jones	Director	X	X	X	N/A	N/A	N/A	N/A	N/A	N/A
Siyanga Malumo	Director	X	X	-	X	-	X	X	X	-
Audu Uba Mohammed	Alternate Director	X	X	X	X	X	N/A	N/A	N/A	N/A
Emmanuel Katepa	Director	-	X	X	X	X	X	X	X	X
Ahmad Saci Maiyaki	Director	X	X	X	X	X	X	X	X	-
Olusegun Doherty	Director	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	X
Alex Okoh	Director	N/A	N/A	N/A	N/A	N/A	X	X	-	-
Muhammad Dikko Abdullahi	Alternate Director	N/A	N/A	N/A	N/A	N/A	X	-	X	X

X = Attended; - = Absent; N/A - Not Applicable: not yet a director/no longer a director as 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 six (6) 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.

1. The Audit committee

The current composition of the Audit Committee is as follows:

Members	Designation
Mr. Alex Okoh	Chairman
Mr. Olusegun Doherty	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 6 meetings (2016: 4 meetings) during the year under review.

2. Finance Committee

The current composition of the Finance Committee is as follows:

Members	Designation
Mr. Emmanuel Katepa	Chairman
Mr. Alex Okoh	Member
Mr. Olusegun Doherty	Member
Mr. Ernest Mupwaya	Ex-officio

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 4 meetings (2016: 7 meetings) during the year under review.

3. Executive Committee

The members of the Executive Committee are as follows:

Members	Designation
Mr. Siyanga Malumo	Chairman
Mrs. Olajumoke Delano	Secretary
Mr. Alex Okoh	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 5 meetings (2016: 12 meetings) during the year

4. Risk management and health safety & environment Committee

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

Members	Designation
Mr. Alex Okoh	Chairman
Mr. Siyanga Malumo	Member
Mr. Ernest Mupwaya	Ex-officio
Mr. Collins M Chabuka	Secretary

The risk management and health safety & environment 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 4 meetings (2016: 5 meetings) during the year.

5. Governance, remuneration, and nominations committee

The composition of the Governance, remuneration & nominations Committee is as follows:

Members	Designation
Alh. Ahmad Saci Maiyaki	Chairman
Mr. Alex Okoh	Member
Mr. Emmanuel Katepa	Member
Mr. Ernest Mupwaya	Ex-officio
Mr. Abimbola Odubiyi	Secretary

The responsibilities of the Governance, Remuneration and Employee Development Committee include reviewing the contract terms, remuneration and other benefits of the Executive Directors and Senior Management of the Company, board nomination and training, 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 7 meetings (2016: 8 meetings) during the year.

6 Strategic sub-committee

The composition of the strategic sub-committee is as follows:

Members	Designation
Mr. Emmanuel Katepa	Chairman
Alh. Ahmad Saci Maiyaki	Member
Mr. Olusegun Doherty	Member
Mr. Alex Okoh	Member

The strategic sub-committee is responsible for obtaining waivers for a substantial portion of the Company's gas indebtedness, restructuring the Company's indebtedness into long term, developing a framework for discussions with the highest levels of Government on the Abuja 24/7 project. The strategic sub-committee had 4 meetings during the year (2016: 1 meeting).

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	Ex-Chief Finance Officer
Ije Ikoku Okeke*	Chief Finance Officer
Collins M Chabuka	Director, Risk and compliance
Abimbola Odubiyi	Director, Corporate services
Olajumoke Delano	Director, Legal Services & Company Secretary
Clara Musama	Coordinator, Change Management
Samuel Kyakilika	Chief Information Officer
Ahmed Salau	Chief Internal Auditor

*During the year, Mrs. Ije Ikoku Okeke was appointed as the interim CFO following the demise of Andrew Atterbury.

Material agreements

The Company has entered into the following material agreements:

1. **Loan agreements with NELMCO and TCN**

In a bid to raise required cash to collateralize a letter of credit in favour of NBET, the Company entered into loan agreements with the Nigeria Electricity Liability Management Company (NELMCO) and the Transmission Company of Nigeria (TCN). The funds amounting to ₦6.50 billion and ₦1.21 billion from TCN and NELMCO respectively were utilized by the Company to establish the letter of credit required for participation in the Transitional Electricity Market (TEM). Under TEM, all the Company's trading arrangements will be consummated through the Power Purchase Agreements, and Vesting Contracts.

Subsequent to year end, the Company entered into an agreement with a financial institution, and obtained the letter of credit amounting to ₦10.5 billion. The first tranche of the CBN intervention fund amounting to ₦20.23 billion was also drawn down. See Note 27.

2. **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), UBA and Pagatech. Under the agreements, 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.

3 **Operations and management (O&M) agreement with related party**

See Note 25(d) to these financial statements.

4 **Deed of assignment of pre-completion receivables and liabilities**

As part of the privatization 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.

Geographical presence

To enable the Company operate in the Federal Capital territory (FCT), Kogi, Nasarawa and Niger States where it distributes electricity, it has thirty-two (32) area offices excluding the head office. The 32 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

During the year, the Company made charitable contributions to various organizations and persons, including a primary health center, hospitals, internally displaced persons (IDP) Camps, amounting to ₦7.11 million.

In accordance with Section 38(2) of the Companies and Allied Matters Act of Nigeria, Cap C.20, Laws of the Federation of Nigeria, 2004, the Company did not make any donation or gift to any political party, political association or for any political purpose in the course of the year (2016:Nil).

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 four (4) physically challenged persons in its employment (2016: eight (8)). 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 its 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.

BY ORDER OF THE BOARD

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Mrs. Olajumoke Delano
Company Secretary
FRC/2014/ICADN/00000006727

Abuja, Nigeria
14 May 2018

Statement of directors' responsibilities in relation to the financial statements for the year ended 31 December 2017

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	Signature
Ernest Mupwaya	AMB. Shehu Malami
Name	Name
FRC/2016/COREN/00000015743	*FRC/2015/IODN/00000011270*
14 May 2018	14 May 2018
Date	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 2017 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)	Mr. Alex Okoh	Chairman
2)	Mr. Ahmed Rufai Salau	Secretary
3)	Mr. Olusegun Doherty	
4)	Mr Siyanga Malumo	

Mr. Alex Okoh
Chairman
14 May 2018

Mr. Alex Okoh obtained a waiver from the FRC on 14 May 2018 permitting him to certify these financial statements without an FRC number.

KPMG

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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, 2017, 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 16 to 57.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December, 2017, 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 the financial statements which indicates that the Company incurred a loss after tax of ₦75.98 billion during the year ended 31 December 2017 and, as of that date, the Company's current liabilities exceeded its current assets by ₦173.16 billion and its total liabilities exceeded total assets by ₦86.10 billion. 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.

KPMG

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The Key audit matter

Revenue recognition	***How the matter was addressed in our audit***
Revenue recognition was a matter of significance in our audit of the financial statements due to significant judgment and estimation involved in determining the amounts billed to unmetered customers, unbilled revenue for postpaid customers, and consumption by prepaid customers as at year end; as well as the fact that tariff and billing methodology are regulated. A significant proportion of the Company's postpaid customers are not metered and as a result, there is a high degree of estimation involved in determining the amount of revenue billed to these customers. In addition, due to the fact that the timing of meter readings for post-paid customers does not coincide to the period end and the prepaid meters do not automatically quantify units not yet consumed at period end, the directors estimate consumption patterns of these customers to enable the Company determine the unbilled receivables for postpaid customers and deferred revenue for prepaid customers at period end. Collection rates of amounts billed remain low with some customers not settling their bills over long periods of time. Therefore, the directors apply judgment in determining whether it is probable that amounts billed will be recovered and consequently, at what point it might become inappropriate to recognize revenues in respect of defaulting customers.	Our audit procedures included the following: We obtained an understanding of the Company's customer billing and meter reading processes and evaluated the design and implementation of the relevant controls. We inspected the various NERC guidelines issued with respect to metering and billing of customers and assessed how the Company has complied with those guidelines in formulating its billing methodology. For revenue recognized in respect of unmetered customers, we challenged the assumptions used in the Company's estimated billing methodology by assessing the reasonability of the parameters used and compared these to the parameters included in the filings to NERC. With respect to the estimation of deferred revenue from prepaid energy sales and unbilled revenue from the postpaid energy sales, we evaluated the reasonableness of the directors' assumptions. In addition, we re-performed the computation of customers' average daily consumption and compared this to amounts determined by directors. We assessed whether revenue recognized met the recognition criteria of recoverability on initial recognition by challenging the directors' judgment on the recoverability of billings to customers, using the historical payment patterns of customers. In addition, we considered the revenue in dispute with respect to certain classes of customers. We tested journal entries recorded in the respective revenue accounts by checking that they represented valid adjustments to revenue and were in accordance with the regulatory pricing regime.

The Company's accounting policy on revenue recognition and related disclosures are shown in notes 5(a) and 7 to the financial statements respectively.

The Key audit matter

Impairment of trade receivables	***How the matter was addressed in our audit***
A significant proportion of the Company's billings are based on estimated consumption by customers rather than actual meter readings and the Company encounters difficulty in collecting these receivables from its customers. Impairment of trade receivables was considered a key audit matter during our audit, due to significant estimates applied in determining the recoverability of amounts due from customers as well as the materiality of the receivables balance. In addition, collection is a significant key performance indicator (KPI) used by the regulator to measure the performance of the Company and by the directors to measure performance of the management team. In addition, significant judgment is involved in the Company's credit control process particularly with respect to the determination of impairment scores applicable to the various categories of customers.	Our audit procedures included the following: We evaluated the reasonableness of the directors' assumptions around the collectability of receivables such as customers' willingness to pay and the Company's ability to collect considering each customer's meter status and activity status, by assessing the customers' historical payment levels against the level of impairment recorded on each customer's balance. We assessed the accuracy of the parameters applied by the directors in estimating impairment allowance; such as classification of customer into the various categories and the impairment scores assigned to the customers by agreeing the data to the relevant report as well as evaluating judgments applied by the directors in determining the applicable impairment scores to be applied to the respective customers. We recalculated the expected impairment losses based on agreed assumptions and compared to the amounts recorded in the financial statements. We evaluated the feasibility of the directors' planned recovery of receivables through installation of prepaid meters and the impact this would have on collectability of the balances as at yearend. This was done by assessing recoveries from installed meters prior to year end and collections from customers migrated to prepaid platform subsequent to year end.

The Company's accounting policy on impairment of trade receivables and related disclosures are shown in notes 5(f) 16, and 29(a) to the financial statements respectively.

KPMG

Information Other than the Financial Statements and Audit Report thereon

The Directors are responsible for the Other Information. The Other Information comprises the Directors' report, 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.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

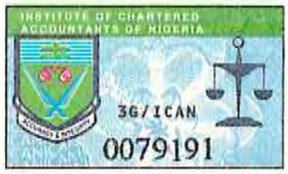
FRC/2012/ICAN/00000000405

For: KPMG Professional Services

Chartered Accountants

23 May 2018

Lagos, Nigeria



Statement of financial position

As at 31 December

	Notes	2017 ₦'000	2016 ₦'000
ASSETS			
Property, plant and equipment	*13*	91,952,036	84,088,819
Intangible assets	*14*	79,574	32,816
Prepayments	*17*	16,398	11,278
Non-current assets		**92,048,008**	**84,132,913**
Inventories	*15*	323,977	410,800
Trade and other receivables	*16*	22,920,848	29,990,334
Prepayments	*17*	512,503	199,052
Cash and cash equivalents	*18*	4,342,225	2,474,110
Current assets		**28,099,553**	**33,074,296**
Total assets		**120,147,561**	**117,207,209**
EQUITY			
Share capital	*19(a)*	10,000	5,000
Revaluation reserve	*19(b)*	19,476,118	18,577,690
Accumulated deficit		(105,580,722)	(29,602,325)
Total equity		**(86,094,604)**	**(11,019,635)**
LIABILITIES			
Loans and borrowings	*23*	1,329,364	718,881
Employee benefits obligation	*24*	556,619	22,064
Deferred income	*20*	3,097,528	808,139
Non-current liabilities		**4,983,511**	**1,549,084**
Current tax liabilities	*12(d)*	477,527	927,290
Loans and borrowings	*23*	1,907,325	1,288,919
Trade and other payables	*21*	196,171,452	121,678,930
Deferred income	*20*	529,411	609,682
Provisions	*22*	2,172,939	2,172,939
Current liabilities		**201,258,654**	**126,677,760**
Total liabilities		**206,242,165**	**128,226,844**
Total equity and liabilities		**120,147,561**	**117,207,209**

These financial statements were approved by the Board of Directors on 14 May 2018 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 Okeke) Chief Finance Officer
FRC/2018/ANAN/00000018049

The notes on pages 20 to 57 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income
For the year ended 31 December

	Notes	2017	2016
		₦'000	**₦'000**
Revenue	*7*	65,715,312	61,147,917
Cost of sales	*8*	(85,006,707)	(66,489,313)
Gross loss		**(19,291,395)**	**(5,341,396)**
Other income	*9*	373,324	410,865
Administrative expenses	*8*	(30,555,422)	(30,379,045)
Operating loss		**(49,473,493)**	**(35,309,576)**
Finance income	*10*	475,664	255,257
Finance costs	*10*	(26,897,315)	(12,243,931)
Net finance costs		**(26,421,651)**	**(11,988,674)**
Loss before minimum tax and income tax		(75,895,144)	(47,298,250)
Minimum tax	*12(a)*	(82,156)	(149,670)
Loss before income tax		**(75,977,300)**	**(47,447,920)**
Income tax expense	*12(b)*	-	-
Loss for the year		**(75,977,300)**	**(47,447,920)**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Actuarial loss	*24(b)*	(1,097)	-
Revaluation difference on property, plant and equipment	*13(e)*	898,428	-
Other comprehensive income, net of tax		**897,331**	-
Total comprehensive income		**(75,079,969)**	**(47,447,920)**

The notes on pages 20 to 57 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December 2017

	Note	Share capital	Accumulated deficit	Revaluation reserve	Total equity
		₦'000	**₦'000**	**₦'000**	**₦'000**
Balance at 1 January 2016		5,000	17,845,595	18,577,690	36,428,285
Total comprehensive income					
Loss for the year		-	(47,447,920)	-	(47,447,920)
Other comprehensive income	*13(e)*	-	-	-	-
Total comprehensive income		-	**(47,447,920)**	-	**(47,447,920)**
Transaction with owners		-	-	-	-
Balance at 31 December 2016		**5,000**	**(29,602,325)**	**18,577,690**	**(11,019,635)**
Balance at 1 January 2017		5,000	(29,602,325)	18,577,690	(11,019,635)
Total comprehensive income					
Loss for the year		-	(75,977,300)	-	(75,977,300)
Other comprehensive income		-	(1,097)	898,428	897,331
Total comprehensive income		-	**(75,978,397)**	**898,428**	**(75,079,969)**
Transaction with owners		**5,000**	-	-	5,000
Balance at 31 December 2017		**10,000**	**(105,580,722)**	**19,476,118**	**(86,094,604)**

The notes on pages 20 to 57 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

	Notes	2017 ₦'000	2016 ₦'000
Cash flows from operating activities:			
Loss for the year		(75,977,300)	(47,447,920)
Adjustments for :			
- depreciation of property, plant and equipment	*13(b)*	4,557,562	3,975,125
- write off of property, plant and equipment	*8*	46,181	-
- amortization of intangible asset	*14*	42,039	53,074
- amortization of government grant	*20(a)*	(79,159)	(23,199)
- impairment loss on trade and other receivables	*8*	8,295,111	13,219,831
- impairment loss on employee receivables	*8*	263,033	-
-revaluation difference on property, plant and equipment	*8*	(14,679)	-
- long service awards	*24(a)*	296,433	
- defined benefit cost	*24(b)*	237,025	22,064
- customer contributed assets	*9*	-	(23,384)
- CAPMI installation income	*9*	(208,950)	(242,735)
- CAPMI refunds	*34*	(584,068)	(167,485)
-finance costs		26,934,878	12,062,771
-finance income	*10*	(475,664)	(255,257)
- minimum tax	*12(a)*	82,156	149,670
		(36,585,402)	**(18,677,445)**
Changes in:			
- Inventories		86,823	325,622
- Trade and other receivables	*16(b)*	(1,483,658)	(19,604,335)
- Prepayments		(318,571)	49,655
- Trade and other payables	*21(b)*	48,209,191	42,788,661
- Deferred revenue/income		72,719	67,321
Cash generated from operating activities		**9,981,102**	**4,949,479**
Income taxes paid	*12(d)*	(500,000)	(259,206)
Net cash generated from operating activities		**9,481,102**	**4,690,273**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	*13(c)*	(9,129,345)	(4,960,864)
Acquisition of intangible assets	*14*	(88,797)	(53,405)
Interest received	*10*	119,300	9,455
Cash used in investing activities		**(9,098,842)**	**(5,004,814)**
Cash flows from financing activities:			
Proceeds from loans and borrowings	*34*	2,299,689	1,172,550
Interest payment	*34*	(95,540)	(69,316)
Repayment of bank loan	*34*	(659,419)	(238,577)
Repayment of intercompany loan		-	(28,608)
Cash generated from financing activities		**1,544,730**	**836,049**
Net increase in cash and cash equivalents		1,926,990	521,508
Cash and cash equivalents at 1 January		2,474,110	1,771,442
Effect of movement in exchange rate		(58,875)	181,160
Cash and cash equivalents as at 31 December		**4,342,225**	**2,474,110**

The notes on pages 20 to 57 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 14 May 2018.
Details of the Company's accounting policies are included in Note 5.

Going concern basis of accounting

These 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.

(a) Judgments

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

Note 5(a) - Revenue - Determination of whether billings to non-paying customers meet the revenue recognition criteria

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

Notes to the financial statements

(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 2017 is included in the following notes:

Note 7-Revenue Recognition – Estimation of unbilled revenue from Post-paid customers, and estimation of bills to unmetered customers.

Note 20 (b)-Revenue Recognition – Estimation of deferred revenue from prepaid customers.

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

Note 13(l) - Property, plant and equipment: impairment test - key assumptions underlying recoverable amounts, discount rate, growth rate, and local risk free rate.

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

Note 24 - measurement of defined benefit obligations: key actuarial assumptions

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 recognize 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 recognized.

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

Billings to customers are recognized as revenue based on the evaluation of the historical payment patterns of the customers.

(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 recognized 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 liabilities, 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 recognized in profit or loss using the effective interest method.

Notes to the financial statements

Foreign exchange gains and losses are recognized on net basis.

(c) Foreign currency transactions

Transactions denominated in foreign currencies are translated and recorded in the functional currency (Nigerian Naira) at the spot 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 spot 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 are 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 recognized in other comprehensive income (OCI) and shown as revaluation reserve in equity. Decreases that offset previous increases of the same asset are recognized in other comprehensive income and reduces the amount accumulated in equity under the heading of revaluation reserve; all other decreases are recognized in profit or loss.

Likewise, increases that offset previous deficits of the same asset are recognized in the profit or loss to the extent of the previous decrease.

Assets under construction are stated at cost which includes cost of materials and direct labor 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 derecognized. All other repairs and maintenance are recognized in profit or loss during the financial period in which they are incurred.

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 recognized 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

Notes to the financial statements

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 derecognized 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 derecognized.

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 recognized 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. This is then released to profit or loss as the performance obligation is discharged overtime.

(e) Intangible assets

Intangible assets with finite useful lives that are acquired separately are measured at cost less accumulated amortization and accumulated impairment losses. Acquired computer software licenses 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 recognized in profit or loss as incurred.

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. This in most cases, is the number of years to expire.
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 derecognized 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 derecognized.

(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.

Notes to the financial statements

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

The Company initially recognizes loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognizes 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 derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes 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 currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – measurements

Loans and receivables

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized 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 recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized 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.

(h) Share capital

Ordinary shares

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

(i) Government grants

Government grants are initially recognized 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 recognized 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 recognized in profit or loss on a systematic basis in the periods in which the expenses are recognized.

(j) Inventories

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

Notes to the financial statements

(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 recognized 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 recognized 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.

Assets held under other leases are classified as operating leases and are not recognized in the statement of financial position.

iii Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized 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.

Objective evidence that financial assets are impaired includes:

• default or delinquency by a debtor;

• 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;

• observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.;

• adverse changes in the payment status of borrowers or issuers:

Financial assets measured at amortized 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.

Notes to the financial statements

An impairment loss is calculated as the difference between an asset's carrying amount and the estimated recoverable amount. Losses are recognized 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 recognized, then the previously recognized impairment loss is reversed through profit or loss.

ii Non current 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 recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized 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 amortization, if no impairment loss had been recognized.

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.

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 its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, and discounting that amount.

The calculation of defined benefit obligations is performed annually by qualified actuary using the projected unit credit method. Currently, none of the plans is funded.

Remeasurements of the defined benefit liability, which comprise actuarial gains and losses are recognized immediately in OCI.

Notes to the financial statements

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 recognized in profit or loss.

***iv* Other long term employee benefits**

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

***v* Termination benefits**

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(n) 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 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 on the assets associated with that contract.

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) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see Note 4).

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument.

Notes to the financial statements

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(p) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized 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 assets and liabilities are offset if certain criteria are met.

***(ii)* Minimum tax**

The Company is subject to the Companies Income Tax Act (CITA). Total amount of tax payable under CITA is determined based on the higher of two components namely Company Income Tax (based on taxable income (or loss) for the year); and Minimum tax (determined based on the sum of (i) the highest of; 0.25% of revenue of N500,000, 0.5% of gross profit, 0.25% of paid up share capital and 0.5% of net assets; and (ii) 0.125% of revenue in excess of N500,000). Taxes based on taxable profit for the period are treated as income tax in line with IAS 12; whereas Minimum tax which is based on a gross amount is outside the scope of IAS 12 and therefore, are not presented as part of income tax expense in the profit or loss. Where the minimum tax charge is higher than the Company Income Tax (CIT), a hybrid tax situation exists. In this situation, the CIT is recognized in the income tax expense line in the profit or loss and the excess amount is presented above the income tax line as Minimum tax.

***(iii)* 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 reversal of relevant taxable temporary differences.

If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Company as approved by the Board.

Notes to the financial statements

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 avaiable 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 if 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.

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 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 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 categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

• Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

• Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

• Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized 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 recognizes 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 determined on the assumption that energy consumption is uniform 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 ₦3.53 billion (2016: ₦3.58 billion) and has been included as part of trade receivables.

Notes to the financial statements

Estimation of bills to unmetered customers

Bills to unmetered customers are estimated per feeder. The energy consumed by metered customers (postpaid and prepaid) on a feeder represents the accounted quantum of energy, while the difference between the total energy supplied to the feeder and the accounted energy represents the unaccounted energy which is billed to unmetered customers in the proportion of their load wattage.

The load wattage represents the estimated monthly minimum consumption of an unmetered customer. This is then used to multiply the grid factor which is the proportion of the unaccounted energy distributed to the feeder to the cumulative load wattage of all unmetered customers on the feeder.

Revenue for the year is analysed as follows:

a ***Classification by customer type***

	2017	2016
	₦'000	₦'000
Private individuals/companies	54,386,407	50,606,402
Government institutions	11,328,905	10,541,515
	65,715,312	61,147,917

b ***Classification by customer payment mode***

	2017	2016
Postpaid	51,944,849	50,249,967
Prepaid	13,770,463	10,897,950
	65,715,312	61,147,917

8 Expenses by nature

	2017	2016
	₦'000	₦'000
Cost of Energy	78,674,859	61,178,576
Consumables and other direct costs	696,134	905,520
Commision to super vendors	342,227	106,254
Maintenance expenses	954,070	1,082,205
Depreciation (Note 13 (b))	4,557,562	3,975,125
Operations and management services fees (Note 25(d))	1,457,435	1,038,625
Consultancy fees	1,680,737	1,127,644
Security	583,858	584,813
Staff and related costs (Note 11(a))	11,749,068	9,695,325
Recharge from related party *	672,337	-
Directors' remuneration (Note 11(d))	564,698	585,513
Board expenses	55,547	110,104
Bank charges	61,990	80,189
Auditor's remuneration	92,474	92,474
Amortization of intangible assets (Note 14)	42,039	53,074
Transport	573,300	569,667
Insurance	759,913	448,765
Rent and accommodation expense	472,273	661,263
Professional services	371,098	599,276
Non audit services paid to the statutory auditors	28,668	13,174
Impairment loss on trade and other receivables (Note 16)	8,295,111	13,219,831
Impairment loss on employee receivables	263,033	-
Revaluation difference (Note 13(e))	(14,679)	-
Write of property plant and equipment	46,181	-
Office repairs and maintenance	1,031,776	214,616
Office stationery and utilities	1,550,420	526,325
Total cost of sales and administrative expenses	**115,562,129**	**96,868,358**

Notes to the financial statements

Analysed in the statement of profit or loss and other comprehensive income as follows:

	2017	2016
	₦'000	₦'000
Cost of sales	85,006,707	66,489,313
Administrative expenses	30,555,422	30,379,045
	115,562,129	**96,868,358**

*During the year, the directors approved a recharge from KANN for the seconded employee costs borne by KANN in prior years.

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

Non audit services paid to the statutory auditors comprise:

	2017	2016
	₦'000	₦'000
Tax advisory services	**28,668**	**13,174**

9 **Other income**

	2017	2016
	₦'000	₦'000
Service re-connection fees	85,215	121,547
Amortization of government grant (Note 20(a))	79,159	23,199
CAPMI installation fees (Note 23(c))	208,950	242,735
Customer contributed assets (Note 13(j))	-	23,384
	373,324	**410,865**

10 **Finance income and finance costs**

	2017	2016
	₦'000	₦'000
Finance income		
Interest income on short term deposits	119,300	9,455
Fair value gain on CAPMI loan	356,364	245,802
Total finance income	475,664	255,257
Finance costs		
Interest on CAPMI loan	(483,614)	(384,705)
Interest on bank and vendor financed loans	(109,058)	(69,316)
Foreign exchange loss (Net)	(9,223)	(889,514)
Interest on NBET and ONEM bills (Note 10(a))	(26,295,420)	(10,900,396)
Total finance costs	**(26,897,315)**	**(12,243,931)**
Net finance costs	**(26,421,651)**	**(11,988,674)**

(a) **Interest on NBET and ONEM bills**

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 is required to remit 100% of the NBET and ONEM bills. The shortfall on remittance attracts interest at NIBOR plus 10%. The interest was unpaid as at the year end and has been included as part of trade payable in trade and other payables.

Notes to the financial statements

11 Employee benefit expense and director's remuneration

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

	2017	2016
	₦'000	₦'000
Salaries and wages	10,044,352	9,089,710
Pension costs	618,960	583,551
Death benefits*	552,298	-
Gratuity	237,025	22,064
Long service awards (LSA)	296,433	-
	11,749,068	9,695,325

* This relates to death benefits and other expenses incurred on Andrew Atterbury during the year.

(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:

₦	₦	2017 Number	2016 Number
200,001	2,200,000	1,478	1,501
2,200,001	4,200,000	962	891
4,200,001	6,200,000	128	139
6,200,001	8,200,000	93	72
8,200,001	10,200,000	48	51
10,200,001	12,200,000	19	16
12,200,001	14,200,000	11	9
14,200,001	16,200,000	3	2
16,200,001	18,200,000	17	19
18,200,001	20,200,000	3	3
20,200,001	22,200,000	1	1
22,200,001	24,200,000	2	2
24,200,001	26,200,000	1	1
32,200,001	34,200,000	5	1
34,200,001	36,200,000	-	-
38,200,001	40,200,000	-	1
42,200,001	44,200,000	-	1
46,200,001	52,200,000	-	2
51,200,001	58,200,000	1	1
68,200,001	75,900,000	1	1
80,200,001	102,500,000	2	2
		2,775	2,716

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

	2017	2016
	Number	Number
Administration	271	281
Finance	280	276
Marketing	1,073	1,044
Technical	1,151	1,115
	2,775	2,716

Notes to the financial statements

(d) Directors' remuneration

Directors' remuneration paid during the year comprises:

	2017	2016
	₦'000	**₦'000**
Fees as directors	383,452	382,865
Salaries	102,454	118,167
Other expenses *	78,792	84,481
	564,698	**585,513**

*Included in other expenses is the burial cost for John Albert Jones.

The directors' remuneration shown above includes:

	2017	2016
	₦'000	**₦'000**
Chairman	79,053	76,573
Highest paid director	155,156	139,437

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:

	2017	2016
	Number	Number
₦20,000,000 - ₦52,000,000	5	5

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 2017 is ₦82.16 million (2016: ₦149.67 million).

(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 2017 (2016: 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)).

Notes to the financial statements

(c) **Reconciliation of effective tax rates**

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

	%	2017 ₦'000	%	2016 ₦'000
Loss before minimum tax and income tax		(75,895,144)		(47,298,250)
Income tax using the statutory tax rate	30	(22,768,543)	30	(14,189,475)
Effect of tertiary education tax rate based on assessable (loss)/ profits	2	(1,517,903)	2	(1,002,263)
Tax effect of:				
Movement in unrecognized deferred tax assets	(31)	23,168,137	(30)	14,775,902
Difference in CIT Rate and TET rates*	(2)	1,336,233	(2)	145,953
Non-deductible expenses	-	(217,924)	-	269,883
Total income tax expense	-	-	-	-

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

(d) **Movement in current tax liabilities**

	2017 ₦'000	2016 ₦'000
Balance at 1 January	927,290	1,036,826
Charge for the year (minimum tax (Note 12(a)))	82,156	76,446
Prior year under provision (minimum tax (Note 12(a)))	-	73,224
Day one gain *	(55,160)	-
Unwinding interest on payment restructuring	23,241	-
Payments for the year	(500,000)	(259,206)
Balance at 31 December	477,527	927,290

* During the year, the Company applied for settlement of its income tax liability on an instalment basis. This application was approved by the tax authority and the liability was discounted to net present value.

This resulted in a day one gain of ₦55.16 million and unwinding interest of ₦23.24 million.

The tenor for the restructured payment is expected to end by 30 September 2018, as such, the balance was classified as current.

(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.

	2017 ₦'000	2016 ₦'000
Tax Losses (will never expire)	47,089,128	28,412,895
PPE	18,846,743	17,260,634
Deductible temporary differences	15,539,713	12,633,918
	81,475,584	58,307,447

Notes to the financial statements

13 Property, plant and equipment

The movements on these accounts were as follows:

	Land	Buildings	Distribution network assets	Equipment fixtures & fittings	Motor vehicles	Capital work in progress	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Cost or valuation							
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/reclass	-	74,291	804,150	21,888	-	(900,329)	-
Balance at 31 December 2016	**11,752,317**	**4,258,870**	**71,258,725**	**1,061,924**	**884,927**	**1,489,922**	**90,706,685**
Balance at 1 January 2017	11,752,317	4,258,870	71,258,725	1,061,924	884,927	1,489,922	90,706,685
Additions	710,000	332,009	8,601,717	1,201,451	271,852	436,824	11,553,853
Write off	-	-	(52,397)	-	-	-	(52,397)
Revaluation difference (Net)	631,729	281,378	-	-	-	-	913,107
Net off of accumulated depreciation on revaluation	-	(372,538)	-	-	-	-	(372,538)
Transfers	-	(29,881)	1,044,910	29,881	-	(1,044,910)	-
Balance at 31 December 2017	**13,094,046**	**4,469,838**	**80,852,955**	**2,293,256**	**1,156,779**	**881,836**	**102,748,710**
Depreciation							
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
Netoff of accumulated depreciation on reassessment of useful life of land (Note 13(a))	(244,793)	-	-	-	-	-	(244,793)
Balance at 31 December 2016	-	**248,037**	**5,919,365**	**264,416**	**186,048**	-	**6,617,866**
Balance at 1 January 2017	-	248,037	5,919,365	264,416	186,048	-	6,617,866
Charge for the year	-	125,309	3,882,243	333,453	216,557	-	4,557,562
Write off	-	-	(6,216)	-	-	-	(6,216)
Net off of accumulated depreciation on revaluation	-	(372,538)	-	-	-	-	(372,538)
Reclassification	-	(808)	-	808	-	-	-
Balance at 31 December 2017	-	-	**9,795,392**	**598,677**	**402,605**	-	**10,796,674**
Carrying amounts							
At 31 December 2016	11,752,317	4,010,833	65,339,360	797,508	698,879	1,489,922	84,088,819
At 31 December 2017	13,094,046	4,469,838	71,057,563	1,694,579	754,174	881,836	91,952,036

Notes to the financial statements

(a) Review of useful life of leasehold land

In the prior 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 ₦244.79 million would be recorded in current year with respect to land.

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

	2017	2016
	₦'000	₦'000
Cost of sales	3,882,243	3,570,660
General and administrative expenses	675,319	404,465
Depreciation charge for the year (Note 8)	4,557,562	3,975,125

(c) Reconciliation of additions of property, plant and equipment to statement of cashflows:

	2017	2016
	₦'000	₦'000
Total additions	(11,553,853)	(4,984,248)
Government grant (Note 20(a))	2,424,508	-
Recognition of Customer contributed assets (Note 13(j))	-	23,384
Purchase of property, plant and equipment	**(9,129,345)**	**(4,960,864)**

(d) The Company had capital commitments amounting to ₦435.02 million (2016:₦217.06 million).

(e) During the year, the Company revalued its land and buildings as at 31 December 2017. The external valuer, Mike Achoru/Messrs. Achoru Associates Limited (FRC/2016/NIESV/00000013731) was involved in the year end revaluation.

Based on the valuation report, the Directors recorded a net surplus of ₦913.11 million representing an amount of ₦898.43 million as revaluation surplus in other comprehensive income and ₦14.68 million as revaluation surplus in the profit or loss. Revaluation surplus recognized in the profit or loss relates to specific assets on which past revaluations resulted in deficits which were recognized in the profit or loss. The surplus were to reduce the previous revaluation deficits on the same assets, to the extent of the deficits previously recognized on the assets.

As at year end land, building and distribution network assets are the Company's category of assets that are carried at valuation. 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 lands.

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

Capital work in progress (CWIP) comprises:

	2017	2016
	₦'000	₦'000
PPE items in store *	580,564	1,441,960
Ongoing works with respect to substations	301,272	47,962
	881,836	1,489,922

* PPE items in store consist mainly of transformers of ₦446.03 million (2016: ₦266.02 million), and meters of ₦74.93 million (2016: ₦875.60 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 2017 would be as follows:

	Land	Building	Distribution network assets
	₦'000	₦'000	₦'000
Cost	11,702,055	3,297,899	98,363,249
Accumulated depreciation	-	(573,712)	(29,504,981)
Net book value	11,702,055	2,724,187	68,858,268

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

Independent valuations of the Company's land, building and distribution network assets are performed by external valuers to determine the fair values. The distribution network assets was revalued at 31 December 2015. Land and buildings were revalued at year end in line with the accounting policy. 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 buildings 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 2017 using Significant other observable inputs (Level 2)
	₦'000
Recurring fair value measurements	
Distribution network assets	71,057,563
Land	13,094,046
Buildings	4,469,838
	88,621,447

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.

The external valuations of the land and buildings have been performed using a fair market value approach. the valuation took into consideration the investment basis on which a prospective purchaser may make his bid, this being the discounted summation of the net benefits derivable from the property over its useful economic life or in the alternative, the amount it would cost to construct a new substitute and competing property with the same utility whilst making some allowance for physical, economic and functional obsolescence.

(j) ***Customer contributed assets***

In prior year, the Company received some distribution network assets granted to it by its customers. The fair value of these assets was estimated at ₦23.38 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). The Company did not receive any customer contributed asset during the year.

(k) **NIPP Assets**

During the year, the Company energized four substations constructed by the Niger Delta Power Holding Company (NDPHC). The fair value of these assets was estimated at ₦1.05 billion (2016: Nil) by the directors based on observable prices of similar items purchased during the year (level 2).

Notes to the financial statements

(l) ***Impairment test***

The directors assessed the Company's property, plant and equipment for indication of impairment at the year end. Considering the significant increase in operating losses and net cash outflow flowing from the assets, 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 2017.

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 32.70% (2016: 34.56%) and a terminal value growth rate was 3.8% (2016: 4%).

The discount rate is a pre-tax measure derived from the estimated local risk free rate (RF) of 13.80% (2016:12.95%) based on the average yield on Federal Government of Nigeria's (FGN) 10-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 terminal growth rate of 3.8% into (2016: 4%) 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 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 licenses	
	2017	**2016**
	₦'000	**₦'000**
Cost		
Balance at 1 January	106,124	52,719
Additions	88,797	53,405
Balance at 31 December	**194,921**	**106,124**
Accumulated amortization		
Balance at 1 January	73,308	20,234
Charge for the year (Note 8)	42,039	53,074
Balance at 31 December	**115,347**	**73,308**
Carrying amount		
At 31 December	79,574	32,816

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

15 Inventories

	31 Dec 2017	**31 Dec 2016**
	₦'000	**₦'000**
Consumable spare parts	166,244	210,797
Other Consumables	157,733	200,003
	323,977	**410,800**

Notes to the financial statements

Inventories recognized 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 ₦954.07 million (2016: ₦728.30 million).

16 Trade and other receivables

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Trade receivables	21,170,829	28,417,498
Other receivables (Note 16 (a))	1,750,019	1,572,836
	22,920,848	**29,990,334**

(a) Other receivables comprises:

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Employee receivables *	43,730	155,386
Margin deposit	-	61,348
Letter of credit **	32,550	-
Amount due from a related party (Note 25 (c))	1,110,212	194,384
Unpaid share capital	5,000	-
Advance payment to vendors	558,527	1,161,718
	1,750,019	**1,572,836**

* This relates to employee advances during the year. Amount has been stated net of impairment amounting to ₦263.03 million (2016: Nil).

** This relates to the letter of credit obtained in favour of the vendor the Company engaged for the mass metering contracts. See (Note 23(a).

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

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Changes in trade and other receivables	7,069,486	(6,384,504)
Impairment loss on trade and other receivables (Note 8)	(8,295,111)	(13,219,831)
Impairment loss on employee receivables (Note 8)	(263,033)	-
Unpaid share capital (Note 19 (a))	5,000	-
Amount shown in the statement of cash flows	**(1,483,658)**	**(19,604,335)**

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).

17 Prepayments

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Rent	318,312	171,840
Insurance	210,589	38,490
	528,901	210,330
Non current	16,398	11,278
Current	512,503	199,052
	528,901	**210,330**

18 Cash and cash equivalents

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Bank balances (Note 18(a))	4,309,782	2,432,845
Cash on hand	32,443	41,265
	4,342,225	2,474,110

(a) Included in bank balances are fixed bank deposits with maturities below 3 months amounting to ₦2.06 billion (2016: ₦1.01 billion).

Notes to the financial statements

19 Share capital and reserves

(a) Share capital comprise:

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Authorized:		
10,000,000 ordinary shares at 50k each	5,000	5,000
5,000,000 ordinary shares at ₦1 each	5,000	-
	10,000	5,000
Issued and called-up:		
15,000,000 ordinary shares	10,000	5,000
Issued, called-up, and paid:		
10,000,000 ordinary shares at 50k each	5,000	5,000
Unpaid share capital :		
5,000,000 ordinary shares at ₦1 each	5,000	-

In thousands of shares	31 Dec 2017	31 Dec 2016
In issue at 1 January	10,000	10,000
Issued during the year	5,000	-
In issue at 31 December	**15,000**	**10,000**

During the year, the shareholders at a meeting approved an additional issue of another class of ordinary shares of 5 million shares at ₦1 each, thus increasing the number of ordinary shares to 15 million, and share capital to ₦10 million . The unpaid share capital was not shown in the statement of cashflows.

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 reserve relates to the revaluation surplus arising from the revaluation of land, buildings and distribution network assets. 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 2017	31 Dec 2016
	₦'000	₦'000
Land and buildings	4,198,693	3,300,265
Distribution Network	15,277,425	15,277,425
	19,476,118	**18,577,690**

20 Deferred income

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Government grant (Note 20(a))	3,176,687	831,338
Deferred revenue (Note 20(b))	448,803	376,083
Deferred income on CAPMI	1,449	210,400
	3,626,939	1,417,821
Non current	3,097,528	808,139
Current	529,411	609,682
	3,626,939	**1,417,821**

Notes to the financial statements

(a) **Government grants**

The Company received some assets granted to it by the government in a bid to improve the infrastructure within its region of operation. These assets have been included in property, plant and equipment. Amortization of the deferred income is at the same rate as the associated PPE is depreciated. Amount recognized in profit or loss during the year was ₦79.16 million (2016: ₦23.20 million). See Note 9.

The movement in the account during the year was as follows:

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Balance at 1 January	831,338	854,537
Additions (Note 13(c))	2,424,508	-
Amortization to profit or loss	(79,159)	(23,199)
	3,176,687	831,338
Non-current	3,097,528	808,139
Current	79,159	23,199
	3,176,687	831,338

(b) **Estimation of deferred revenue from prepaid 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 amounted to ₦448.80 million (2016: ₦376.08 million) and has been recognized as deferred revenue.

21 Trade and other payables

Trade and other payables comprises:	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Trade payables (Note 21(a))	178,981,004	109,216,709
Payable to vendors	3,731,131	2,481,205
Due to related parties (Note 25(c))	122,065	165,561
Accruals	3,637,775	2,257,597
	186,471,975	114,121,072
Statutory deductions	9,699,477	7,557,858
	196,171,452	121,678,930

(a) Trade payables comprise amount due to the Nigerian Bulk Electricity Trading Plc (NBET) and the Operator of the Nigerian Electricity Market (ONEM). NBET is 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.

The movement in the account is as follows:

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Opening balance	109,216,709	56,723,268
Cost of energy (Note 8)	78,674,859	61,178,576
Interest on shortfall (Note 10)	26,295,420	10,900,396
Payments	(35,205,984)	(19,585,531)
	178,981,004	109,216,709

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

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Changes in trade and other payables	74,492,522	53,608,946
Unrealized foreign exchange gain	12,089	80,111
Interest on market operator bill	(26,295,420)	(10,900,396)
Amount shown in the statement of cash flows	48,209,191	42,788,661

Notes to the financial statements

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.

NELMCO requested for immediate payment and as such, the provision has been classified as current.

23 Loans and borrowings

Loans and borrowings comprise:

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Vendor financed loan (Note 23 (a))	1,901,538	-
Bank loan (Note 23 (b))	-	215,831
CAPMI payables (Note 23(c))	1,335,151	1,791,969
Total loans and borrowings	3,236,689	2,007,800
Noncurrent	1,329,364	718,881
Current	1,907,325	1,288,919
	3,236,689	2,007,800

(a) Vendor financed loan

In a bid to reduce its aggregate technical, commercial, and collection losses, the Company entered into two vendor financed contracts for the acquisition and installation of meters. Both contracts are not secured.

The first contract has a tenor of 24 months with interest of 12%, while the second contract has a tenor of 36 months, with the interest rate for the first 2 years at 12%, and the third year at 15%.

The Company during the year made interest and principal repayments amounting to ₦71.37 million and ₦443.59 million respectively under these contracts.

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 ₦1.01 billion.

(b) Bank loan

The Company obtained a secured loan of ₦884.23 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. The loan was fully paid during the year with interest and principal repayments amounting to ₦24.17 million and ₦215.83 million respectively.

(c) CAPMI Loan

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 period shall not exceed 3 years.

The CAPMI payable has been recognized initially at fair value and subsequently discounted to present value using the market rate. 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 ₦318.15 million (2016: ₦718.88 million).

The installation fees ₦208.95 million (2016: ₦242.74 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 ₦1.45 million (2016: ₦210.40 million) and is recorded as deferred income (Note 20).

Notes to the financial statements

24 Employee benefits obligation

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Long service awards (Note 24(a))	296,433	-
Post employment defined benefit obligation (DBO) (Note 24(b))	260,186	22,064
	556,619	22,064

(a) Long service awards (LSA)

This scheme which commenced during the year, entitles employees who have worked for 5 years and above to a monetary reward amounting to a certain percentage of their total annual emolument. The independent actuarial valuation was performed by Alexander Forbes Consulting (FRC/2016/NAS/00000013781) using the projected unit credit method. The valuation has a retrospective impact as the number of years already spent by each employee was put into consideration. The current service cost which also equals the closing balance amounted to ₦296.43 million. This scheme is not funded.

(b) Defined benefit plan

This entitles employees and members of the executive management team (EMT) who have worked for at least three years to a certain percentage of their total annual emolument upon retirement or end of contract. The measurement is based upon an independent actuarial valuation performed by Alexander Forbes 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 defined benefit costs recognized in the statement of profit or loss amounted to ₦237.03 million (2016: ₦22.06 million).

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

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Balance, beginning of year	22,064	-
Included in profit or loss (as part of administrative expenses)		
Past service cost	47,015	22,064
Current service cost	189,279	-
Interest cost	731	-
Included in other comprehensive income		
Actuarial loss due to change in assumptions	1,097	-
Balance at 31 December	260,186	22,064

The defined benefit plan exposes the Company to actuarial risks such as currency risk and interest rate risk.

(c) Actuarial assumptions

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

	2017		
	DBO- Other staff	**LSA**	**DBO - EMT**
Discount rate (%)	14.60%	14.60%	1.90%
Salary increase rate (%)	5.00%	5.00%	1.90%
Pre retirement mortality rate	A1949/52 Ultimate Table	A1949/52 Ultimate Table	-

	2016		
	DBO- Other staff	**LSA**	**DBO - EMT**
Discount rate (%)	-	-	1.90%
Salary increase rate (%)	-	-	1.90%

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

Notes to the financial statements

(d) Withdrawal from service

The DBO valuation for EMT had no allowance for mortality or withdrawal for the duration of the employment contract. Allowance for mortality was made for the DBO for other staff and the long service award.

(e) 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.

	₦'000	₦'000	₦'000
	DBO- Other staff	**LSA**	**DBO- EMT**
Discount rate (+1% movement)	(11,391)	(9,471)	(2,147)
Discount rate (-1% movement)	12,644	10,546	1,096
Mortality rate (+1% year)	(1,538)	(644)	-
Mortality rate (-1% year)	1,414	581	-
Salary increase rate (+1% movement)	12,910	10,392	731
Salary increase rate (-1% movement)	(11,766)	(9,709)	(2,147)

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 Investments Ltd.

(b) Transactions with key management personnel

Key management personnel compensation comprised:

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Salaries	1,325,491	562,611
Defined benefit obligation	48,483	-
Other short-term benefits	737,749	256,220
	2,111,723	818,831

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.

(c) Other related party balances

Other related party balances at the year end were as follows:

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Due from related parties:		
KANN	1,110,212	194,384
Related party balance included in trade and other receivables	**1,110,212**	**194,384**
Due to related parties:		
Accruals for compensation to key management personnel & Directors (Note 21)	89,485	165,561
CEC Africa	32,580	-
Related party balance included in trade and other payables	**122,065**	**165,561**
Total related party balance	**988,147**	**28,823**

None of the balances due to related parties is secured.

Notes to the financial statements

(d) Operations and management (O&M) 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 Company made an advance payment amounting to ₦1.11 billion for the O&M fees during the year. The amount charged to profit or loss with respect to the O&M services amounted to ₦1.46 billion (2016: ₦1.04 billion). See Note 8.

26 Contingent liabilities/Assets

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

As part of the privatization 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 (crystallized 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 realize 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 or when payment becomes probable.

(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 ₦3.88 billion (2016:₦3.69 billion). The Directors based on a review of the circumstances of each claim and advice from external solicitors (where deemed necessary), 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

(a) NBET bank guarantee

On 3 February 2018, the Company obtained a bank guarantee in favor of NBET as required by the vesting contract signed with NBET. The bank guarantee which amounts to ₦10.5 billion has a tenor of 2 years and would enable the Company to participate in the Transitional Electricity Market (TEM).

(b) CBN intervention fund

In prior years, the Central Bank of Nigeria commenced disbursement to market participants who have met the conditions precedent to the disbursement of the CBN-Nigerian Electricity Stabilization facility (CBN NEMSF). The NEMSF amounting to ₦213 billion, is aimed at settling outstanding payment obligations due to the market participants during the interim rules period as well as the legacy debts of the PHCN generation Companies owed to gas suppliers which have been transferred to NELMCO.

Subsequent to year end, the Company received the first tranche amounting to ₦20.23 billion from the NEMSF. This is to be repaid within 81 months.

28 Going concern

The Company reported a loss after tax of ₦75.98 billion during the year ended 31 December 2017 (2016: ₦47.45 billion) and, as of that date, the Company's current liabilities exceeded its current assets by ₦173.16 billion (2016: ₦93.60 billion) and its total liabilities exceeded its total assets by ₦86.10 billion (2016: ₦11.02 billion). The Company has historically incurred losses due to the existing electricity pricing regime which has not allowed for full recovery of costs through price increases.

Notes to the financial statements

Approximately 91% (2016:85%) of the Company's total liabilities are due to the Nigerian Bulk Electricity Trading Plc (NBET) and the Operator of the Nigerian Electricity Market (ONEM), and are included in trade payables. These include interest on unpaid NBET and ONEM invoices to date amounting to ₦40.25 billion (2016:₦13.96 billion). While the Company is able to settle all other liabilities as and when due, it does so only by moderating the amount it pays to NBET/ONEM on a monthly basis.

The current economic environment in Nigerian Electricity Supply Industry (NESI) is challenging and the recent fall in the value of the Naira together with the non-cost reflective nature of the tariffs presents significant challenges to planned future investments required to achieve the growth targets of the Company. The eligible customer regulation, recently enacted by NERC which allows customers who meet certain criteria to access power directly from the Generation Companies (GENCOS) has the potential to strip the Company of some of its customers. However, based on the directors' assessment, the probability of losing these customers in the short to medium term is low as the logistics required for direct purchase from the GENCOS are enormous. In addition as of date, none of the Company's customers has indicated interest in the scheme.

During the year, the Company entered into two loan agreements with the Transmission Company of Nigeria (TCN) for ₦6.5 billion and NELMCO for ₦1.21 billion in a bid to raise required cash to collateralize a letter of credit in favor of NBET. The letter of credit is required to enable the Company participate in the Transitional Electricity Market (TEM), which is a condition precedent to drawdown on the Nigerian Electricity Market Stabilization Fund (NEMSF), also known as the CBN Intervention Fund valued at ₦27 billion.

Subsequent to year end, ₦20.23 billion of the ₦27 billion and the TCN and NELMCO loans were drawn down. The amount drawn on the NEMSF was applied to reduce the NBET/ONEM payables subsequent to year end.

In April 2017, the FG approved the Power Sector Recovery Program (PSRP) backed by the World Bank, which is expected to address the liquidity issues in the NESI. The implementation of the PSRP has gradually commenced with the issuance of ₦701 billion Payment Assurance Guarantee (PAG) by the Federal Government (FG) and the FG's payment of Ministries, Departments, and Agencies' (MDA) debts to the Distribution Companies (DISCOs). With the commencement of the implementation of the PSRP, the FG has committed to making 100% payment of the Company's billings to MDAs. During the year, the Company recovered the 2015 and 2016 verified MDA debts amounting to ₦9.1 billion from the Federal Government, through a net off against the amounts due to NBET. In addition, cash collections directly from the MDAs during the year averaged about 78% of MDAs' monthly billings.

The directors have continued discussions with the key stakeholders in the NESI and the FG with respect to the abolishment of the interest on the shortfall on remittances to the NBET and ONEM; and extension of the MDA debt verification exercise to cover 2013 and 2014 MDA billings. As at the date of approval of these financial statements, the major issue in the sector and as indicated in the PSRP, is the absence of cost reflective tariffs. Based on the PSRP, ₦44.86 billion is due to the Company in respect of 2015 and 2016 tariff deficit, however, negotiations are ongoing to determine the actual amount of tariff deficits due to the Company. Based on the PSRP, the Government intends to fund the tariff deficit by offsetting amounts determined to be tariff deficits against the Company's payable to ONEM/NBET, until such a time as cost reflective tariffs are implemented. The successful actualization of the budgeted results of the Company is largely dependent on successful implementation of the PSRP (especially around the implementation of cost reflective tariffs) by the FG, and this is not within the control of the Company.

The foregoing indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern in the foreseeable future, therefore, the Company may be unable to realize its assets and settle its liabilities in the normal course of business. The directors have considered that the FGN has acknowledged in the PSRP, that the illiquidity of the DISCOs is mainly due to the tariff deficit and has instituted various mechanisms that will enable the Company continue to operate for at least one year from the year end. These include :

1 Issuance of ₦701 billion Payment Assurance Guarantee (PAG) to ensure that NBET is able to pay the GENCOS invoices without sole reliance on only DISCOs' remittances.

Notes to the financial statements

2 Timely payments of monthly billings and offset of historical MDA debts.

3 Ensuring adequate financing is obtained from the World Bank by achieving set milestones.

In addition, based on TEM Supplementary Order, the current recourse of NBET/ONEM with respect to the Company's non-payment of bills for electricity purchased is limited to penalty interest which has been recorded in the financial statements. As such, the likelihood of ONEM/NBET successfully demanding full payment of the payable of ₦178.98 billion within one year from the year end is assessed as low. The Company has also continued its various initiatives aimed at improving its billings and collections such as :

1 Mass metering projects funded by vendors (Note 23(a))
2 Strengthening the revenue assurance function to identify areas of revenue losses and putting in place mechanisms to reduce these losses.
3 Reporting instances of energy theft to relevant authorities to deter future occurrences
4 Enforcing regular customer meter reading to ensure that it is as envisaged under the NERC guidelines.
5 Disconnecting non-paying customers and only connecting when a portion or all of past due bills are paid.

On the basis of the above, the directors have concluded that they have reasonable expectation that the Company will able to realize its assets and settle its liabilities in the ordinary course of business. Accordingly, these financial statements have been prepared on the basis of accounting policies applicable to a going concern.

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

	Note	31 Dec 2017	31 Dec 2016
		₦'000	₦'000
Trade and other receivables		21,252,109	28,828,616
Cash at bank	18	4,309,782	2,432,845
		25,561,891	31,261,461

Notes to the financial statements

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.

Trade receivables

	Maximum Demand	Non-maximum Demand	Total
2017	₦'000	₦'000	₦'000
Private individuals/companies	1,360,598	12,971,185	14,331,783
Government institutions	6,546,122	292,924	6,839,046
Total	7,906,720	13,264,109	21,170,829

	Maximum Demand	Non-maximum Demand	Total
2016	₦'000	₦'000	₦'000
Private individuals/companies	1,734,106	18,001,499	19,735,605
Government institutions	8,268,408	413,485	8,681,893
Total	10,002,514	18,414,984	28,417,498

At 31 December 2017, the aging of trade receivables that were not impaired was as follows:

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Unbilled*	3,526,170	3,580,074
Past due 0-30 days	4,234,719	993,497
Past due 31-90 days	4,587,611	1,490,245
Past due 91-120 days	5,116,951	1,738,620
Past due 120 days and above	3,705,378	20,615,062
	21,170,829	28,417,498

* Unbilled receivables are neither past due nor impaired.

The directors believe that the amounts which are neither impaired nor past due are collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available.

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

	31 Dec 2017	31 Dec 2016
	₦'000	₦'000
Balance at 1 January	39,456,757	26,236,926
Net impairment loss recognized (Note 8)	8,295,111	13,219,831
Balance at 31 December	47,751,868	39,456,757

Notes to the financial statements

The directors monitor the Company's trade and other receivables for indicators of impairment. During the year, no write off on bad debt was recorded (2016: Nil).

The directors have recorded a net impairment allowance amounting to ₦8.30 billion (2016: ₦13.22 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.
- Improved payment patterns from MDAs post implementation of the PSRP.

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;
- Aggressive disconnections
- Setting KPIs for employees to drive debt collections

Employee receivables

The Company advances funds to employees for operational activities. To mitigate credit risk, the Company monitors the progress of such activities which have been funded.
Receivables above one month are fully impaired. The impairment charge amounted to ₦263.03 million (2016: Nil).

Cash at bank

The Company held cash of ₦4.31 billion (2016: ₦2.43 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.
- Accessing the various financial interventions applicable to the Company under the PSRP (See note 28- going concern)
- Managing operational cashflows by delaying payments to the ONEM/NBET on the basis that the implication of such delays are limited to interest charges.

Notes to the financial statements

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

	Carrying amount	Contractual cash flows			
		Total	**0 - 3 Months**	**4 - 12 Months**	**Above 1 year**
	₦'000	**₦'000**	**₦'000**	**₦'000**	**₦'000**
Non-derivative financial liabilities					
31 December 2017					
Trade and other payables	186,471,975	186,471,975	186,471,975	-	-
Loans and borrowings (Note 23)	3,236,689	3,453,816	522,562	1,384,762	1,546,491
	189,708,664	189,925,791	186,994,537	1,384,762	1,546,491
Non-derivative financial liabilities					
31 December 2016					
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
	116,150,936	116,523,718	114,474,125	976,505	1,073,088

(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 majorly limited to cash balances which 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 2017	31 Dec 2016
	$	$
Cash and cash equivalents	559,292	434,443
Net statement of financial position exposure	559,292	434,443

Notes to the financial statements

The following significant exchange rates were applied during the year

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
	₦	₦	₦	₦
US$	365.50	382.87	360.00	496.00

The Company translates its US Dollar denominated balances using the Nigerian autonomous foreign exchange (NAFEX) rate.

Sensitivity analysis

A 15% 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 2017	31 Dec 2016
	₦'000	₦'000
US$	(30,202)	(32,323)

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 obligations from the MO/NBET payables, vehicle finance, and vendor financed loans.

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 2017	31 Dec 2016
		₦'000	₦'000
Fixed rate instruments			
Vendor financed loan	12%	116,810	-
Vehicle finance loan	20%	24,167	215,831
Variable-rate instruments			
MO/NBET market debts	NIBOR + 10%	26,295,420	10,900,396

Fair value sensitivity analysis for fixed-rate instruments

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, or designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 300 basis points in interest rates at the reporting date would have increased/(decreased) loss by the amounts shown below.

300 bp Increase	300 bp Decrease	300 bp Increase	300 bp Decrease
2,802,543	(2,802,543)	1,161,161	(1,161,161)

(d) Fair values

Fair values versus carrying amounts

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Notes to the financial statements

	Loans and receivables ₦'000	Other financial liabilities ₦'000	Total carrying amount ₦'000	Fair value (level 2) ₦'000
31 December 2017				
Financial assets				
Trade and other receivables	21,252,109	-	21,252,109	20,077,562
Cash and cash equivalents	4,309,782	-	4,309,782	-
	25,561,891	-	25,561,891	20,077,562

	Loans and receivables ₦'000	Other financial liabilities ₦'000	Total ₦'000	Fair value (level 2) ₦'000
Financial liabilities				
Trade and other payables	-	186,471,975	186,471,975	159,963,026
Loans and borrowings	-	3,236,689	3,236,689	3,093,056
	-	189,708,664	189,708,664	163,056,082

	Loans and receivables ₦'000	Other financial liabilities ₦'000	Total ₦'000	Fair value (level 2) ₦'000
31 December 2016				
Financial assets				
Trade and other receivables	28,828,616	-	28,828,616	27,235,336
Cash and cash equivalents	2,474,110	-	2,474,110	-
	31,302,726	-	31,302,726	27,235,336

	Loans and receivables ₦'000	Other financial liabilities ₦'000	Total ₦'000	Fair value (level 2) ₦'000
Financial liabilities				
Trade and other payables	-	114,143,136	114,143,136	97,916,491
Loans and borrowings	-	2,007,800	2,007,800	-
	-	116,150,936	116,150,936	97,916,491

The valuation technique is the discounted cash flows which considers the present value of the expected future payments, discounted using the rate at which the Company would have assessed funds from a bank.

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 expiration. Lease payments are renegotiated when necessary to reflect market rentals.

(i) *Amounts recognized in profit or loss*

Lease expenses recognized in profit or loss during the year amounted to ₦435.65 million (2016: ₦465.08 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 the following items, which are measured on an alternative basis on each reporting date

Items	Measurement bases
Land, buildings, and distribution network assets	Revaluation model
Defined benefit obligations and Long service award	Present value of the defined benefit obligation
Government and Customer granted assets	Fair value

Notes to the financial statements

32 New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following standards may have some impact on the financial statements in the period of initial application.

(a) Estimated impact of the adoption of IFRS 9 and IFRS 15

The Company is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Company has assessed the estimated impact that the initial application of IFRS 15 (see (c)) will have on its financial statements. IFRS 9 will require complex assumptions and considerable judgments, and its impact will be included in the financial statements for the year ended 31 December 2018. Its quantitative impact has however not been assessed as at date of authorization of these financial statements.

The actual impacts of adopting the standards at 1 January 2018 may change until the Company presents its first financial statements that include the date of initial application.

(b) IFRS 9 Financial instruments

IFRS 9 Financial Instruments sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

i. Classification - financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables and loans.

ii. Impairment – Financial assets and contract assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

– 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

The Company is yet to complete its assessment of the impact of this standard.

Notes to the financial statements

iii. Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated at FVTPL are recognized in profit or loss, whereas under IFRS 9, these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI;
- and the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of Financial liabilities at 1 January 2018.

iv. Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and ECLs. In a bid to adopt IFRS 9, the Company will perform an analysis to identify data gaps against current processes, and also implement the system and controls changes that it believes will be necessary to capture the required data.

(c) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

i. Sales of goods

For the sale of electricity, revenue is currently recognized when the electricity is consumed by customers, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods, which is when the consumer consumes electricity. This is not different from what is currently applicable under IAS 18, as such, the application of IFRS 15 will not result in significant differences in the timing of revenue recognition for the sale of electricity.

ii. Rendering of services

The Company earns income via the reconnection of customers who were disconnected due to default in payment. In the normal course of business, the Company connects customers to the grid so it can sell electricity. The reconnection of customers is however a punitive measure for default in payment. This is also not in the Company's ordinary line of business, as such, IFRS 15 will not apply. The Company currently classifies the reconnection fees (which is an income recognized at a point in time) as other income. See Note 9.

iii. Customer contributed assets

IFRS 15 supersedes the current IFRIC 18 transfer of assets from customers. Under the new standard, an entity assesses whether it obtains control of the assets received and applies the guidance on non-cash consideration. The entity measures the non-cash consideration received from the customer at fair value if they can be reliably estimated; if not, then the entity uses the stand-alone selling price of the good or service that was promised in exchange for the non cash consideration.

Notes to the financial statements

The entity then uses the general guidance in IFRS 15 to determine timing for revenue recognition i.e. whether to recognize revenue immediately (point in time), or defer it (over time).
The Power industry in Nigeria is peculiar as customers construct assets such as transformers and transfer them to the Company without any performance obligation to the Company.
The Company is yet to complete its assessment of the impact of this standard in this regard.

iv. Other considerations relating to IFRS 15

Variable consideration

Variable consideration encompasses any amount that is variable under a contract, including, for example, performance bonuses, penalties, discounts, rebates, price concessions, incentives and the customer's right to return products. When the consideration receivable is variable, the entity must estimate the amount of the consideration using either the expected value (i.e., a probability-weighted amount) or the most likely amount, depending on which method better predicts the amount of consideration.

The Company's assessment of the impact of variable consideration is yet to be completed.

Significant financing components

Contracts in which payment by the customer and performance by the entity occur at significantly different times will need to be assessed to determine whether the contract contains a significant financing component.
In assessing whether a significant financing component exists, IFRS 15 requires an assessment of the relevant facts and circumstances. Factors that should be considered in this assessment include both of the following:
a. the difference, if any, between the amount of promised consideration and the cash selling price of the promised goods or services; and
b. the combined effect of both of the following
i. the expected length of time between when the entity transfers the promised goods or services to the customer and when the customer pays for those goods or services; and
ii. the prevailing interest rates in the relevant market.

The Company will perform a detailed assessment of the impact of significant financing components on the Company.

The entity delivers energy to postpaid customers on credit. The timing of payment implicitly agreed to by both parties is 30 days. Significant financing component can only exist at the inception of a contract, and since the agreed payment term is below one year, IFRS 15 will not have an impact on the current revenue process.

iv. Disclosures

The Company is yet to complete an initial assessment of the potential impact of this standard on its financial statements.
In addition, if there are changes to the Company's operations in the future which will lead to an IFRS 15 impact, revenue recognition according to IFRS 15 will be applied.

(d) IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including 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.

Notes to the financial statements

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company is yet to complete its detailed assessment of the potential impact of this standard on its financial statements.

i. Transition

As a lessee, the Company can either apply the standard using a:

– retrospective approach; or

– modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

(e) Other standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements.

Effective for the financial year commencing 1 January 2018

- Classification & Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- IFRIC 22 Foreign currency transactions and advance consideration
- Transfer of Investment Property (Amendments to IAS 40)
- Annual Improvements to IFRS 2014 - 2017 Cycle (Amendments to IFRS 1 First-time Adoption of IFRS's and IAS 28 Investments in Associates and Joint Ventures).

Effective for the financial year commencing 1 January 2019

- IFRIC 23 Uncertainty over Income Tax Treatments
- Long Term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Prepayment features with Negative Compensation (Amendments to IFRS 9)

Effective for the financial year commencing 1 January 2021

- IFRS 17 Insurance Contracts

33 Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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. Total equity comprises all components of equity.

The board of directors seeks to achieve a more favourable total equity to adjusted net debt by engaging in mass metering projects and strengthening the revenue assurance function.

Notes to the financial statements

The Company's adjusted net debt to equity ratio as at December 2017 was as follows:

	31 December 2017	31 December 2016
Total liabilities	206,242,165	128,226,844
Less: cash and cash equivalents	(4,342,225)	(2,474,110)
Adjusted net debt	201,899,940	125,752,734
Total equity	(86,094,604)	(11,019,635)
Total equity to adjusted net debt	(2.35)	(11.41)

34 Reconciliation of movements of liabilities to cash flows arising from financing activities

	CAPMI loan	Bank loan	Vendor financed	Total
	₦'000	**₦'000**	**₦'000**	**₦'000**
Balance at 1 January 2017	1,791,969	215,831	-	2,007,800
Changes from financing cashflows				
Proceeds from loans and borrowings	-	-	2,299,689	2,299,689
Interest paid	-	(24,167)	(71,373)	(95,540)
Principal repayment	-	(215,831)	(443,588)	(659,419)
Total changes from financing cashflows	-	**(239,998)**	**1,784,728**	**1,544,730**
Other changes				
Liability-related				
Interest expense	127,250	24,167	116,810	268,227
Principal repayment (non-cash)*	(584,068)	-	-	(584,068)
Total liability-related other changes	**(456,818)**	**24,167**	**116,810**	**(315,841)**
Balance as at 31 December 2017	**1,335,151**	-	**1,901,538**	**3,236,689**

* This relates to refunds to CAPMI customers via units of energy. This was recognized as revenue.

Other national disclosures

Other national disclosures

Value added statement

For the year ended

	31 Dec 2017	%	31 Dec 2016	%
	₦'000		₦'000	
Revenue	65,715,312		61,147,917	
Bought-in-materials and services				
- Local	(101,267,203)		(83,144,834)	
- Foreign	-		-	
	(35,551,891)		(21,996,917)	
Finance income	475,664		255,257	
Other income	373,324		410,865	
	(34,702,903)	100	(21,330,795)	100
To employees:				
- as salaries, wages and other staff costs	9,695,325	(28)	9,695,325	(45)
To providers of finance:				
- Finance cost and similar charges	26,897,315	(78)	12,243,931	(57)
To government as:				
- taxes	82,156	-	149,670	(1)
Retained in the business:				
To maintain and replace:				
- property plant and equipment	4,557,562	(13)	3,975,125	(18)
- intangible assets	42,039	-	53,074	(1)
- To deplete reserves	(75,977,300)	219	(47,447,920)	222
	(34,702,903)	**100**	**(21,330,795)**	**100**

Other national disclosures
Five year financial summary

Statement of profit or loss and other comprehensive income

	2017	2016	2015	2014	2013
	₦'000	₦'000	₦'000	₦'000	₦'000
Revenue	65,715,312	61,147,917	62,534,676	48,097,381	36,025,798
Results from operating activities	(49,473,493)	(35,309,576)	(39,196,964)	(24,908,727)	(13,371,972)
Loss before taxation	(75,895,144)	(47,298,250)	(41,718,714)	(25,606,664)	(13,370,753)
Loss for the year	(75,977,300)	(47,447,920)	(41,972,588)	(25,971,035)	(13,789,334)
Total comprehensive income for the year	(75,079,969)	(47,447,920)	(26,695,163)	(22,670,770)	(13,789,334)

Statement of financial position

	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013
	₦'000	₦'000	₦'000	₦'000	₦'000
Employment of Funds					
Property, plant and equipment	91,952,036	84,088,819	83,079,696	86,784,523	88,805,163
Intangible assets	79,574	32,816	32,485	15,177	19,847
Non-current prepayments	16,398	11,278	37,043	40,348	-
Net current liabilities	(173,159,101)	(93,625,528)	(45,000,349)	(22,590,711)	(3,030,792)
Non current liabilities	(4,983,511)	(1,527,020)	(1,720,590)	(1,125,889)	-
Net assets	**(86,094,604)**	**(11,019,635)**	**36,428,285**	**63,123,448**	**85,794,218**
Funds Employed					
Share capital	10,000	5,000	5,000	5,000	5,000
Retained earnings	(105,580,722)	(29,602,325)	17,845,595	59,818,183	85,789,218
Revaluation reserve	19,476,118	18,577,690	18,577,690	3,300,265	-
	(86,094,604)	**(11,019,635)**	**36,428,285**	**63,123,448**	**85,794,218**