

**Abuja Electricity Distribution Plc**

**Annual Report**

**31 December 2018**

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## **Corporate information**

**Registration number**      **638681**

<b>Directors:</b>	Shehu Malami		Chairman
	Ernest Mupwaya	(Zambian)	Managing Director
	Alex Okoh		
	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, Nigeria

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

## Directors' report

### *For the year ended 31 December 2018*

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 2018.

#### **Principal activity and business review**

The Company 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:

<i>Summary of statement of profit or loss</i>	<b>2018</b> NGN'000	<b>2017</b> NGN'000
Revenue	82,220,731	65,715,312
Gross loss	(13,181,795)	(19,291,395)
Operating loss	(62,141,631)	(49,473,493)
<b>Loss before minimum tax and income tax</b>	<b>(85,616,541)</b>	<b>(75,895,144)</b>
<b>Minimum tax</b>	<b>(102,788)</b>	<b>(82,156)</b>
<b>Income tax</b>	<b>-</b>	<b>-</b>
<b>Loss for the year</b>	<b>(85,719,329)</b>	<b>(75,977,300)</b>
<i>Summary of financial position</i>		
Total assets	169,942,529	120,147,561
Total liabilities	298,712,127	206,242,165
Equity	(128,769,598)	(86,094,604)

No dividend has been recommended by the directors (2017: 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 till 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.

## Directors' report Cont'd

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 (NEMSF) amounting to NGN27 billion. During the year, the Company accessed the CBN fund. Drawdowns of NGN23.72 billion from this fund have been used to settle a portion of the market debt during the year.
- 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 eventually as part of the on-going industry reset. These interests and penalties amount to NGN 60.53 billion as at 31 December 2018.
- Subsidies for past and future tariff shortfalls. The PSRP acknowledged that tariff shortfall for 2015 and 2016 accruing to the Company amounted to NGN44.86 billion. During the year, 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 NGN61.37 billion. The directors are of the view that the tariff shortfall accruing to the Company is significantly higher than the amount in the NERC preliminary calculation. The reconciled shortfall will be settled via a net off on NBET/MO payables. The timing of this net off is currently being negotiated.
- Deployment of a new Integrated Commercial Management System (InCMS), an integrated modular system designed to support comprehensive customer management. With the InCMS, the Company is able to maintain one comprehensive customer database for both postpaid and prepaid customers to achieve billing and reporting efficiency and accuracy.

### Directors and their interests

The Directors who served during the year were as follows:

<u>Name</u>	<u>Nationality</u>	<u>Designation</u>
Alex Okoh		
Shehu Malami		Chairman
Ernest Mupwaya	(Zambian)	Managing Director/CEO
Siyanga Malumo	(Zambian)	Vice Chairman
Emmanuel Katepa	(Zambian)	
Ahmad Saci Maiyaki		
Olusegun Doherty		
Muhammad Dikko Abdullahi*		

\* Muhammad Dikko Abdullahi is the alternate director to Alex Okoh. Muhammad Dikko Abdullahi represents Mr. Alex Okoh at all AEDC board meetings in the absence of the latter.

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.

## Directors' report Cont'd

### Shareholding structure

The shareholding structure of the Company is as follows:

	<u>10 million shares at 50k each and 5million shares at N1 each</u>		<u>10 million shares at 50k each and 5million shares at N1 each</u>	
	31 December 2018		31 December 2017	
	%	Number	%	Number
KANN Utility Company Limited	60	9,000,000	60	9,000,000
Bureau of Public Enterprises	32	4,800,000	32	4,800,000
Ministry of Finance Incorporated	8	1,200,000	8	1,200,000
<b>Total</b>	<b>100</b>	<b>15,000,000</b>	<b>100</b>	<b>15,000,000</b>

Subsequent to year end, the Company made filings with the Corporate Affairs Commission (CAC) to increase the Company's authorized share capital from NGN10 million to NGN15 million by changing the nominal value of existing 10 million shares from NGN0.50 each to NGN1 each.

### 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 7 times (2017: 11 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	8 Feb	14-Mar	18 Apr	11 June	26 July	15 Nov	18 Dec
Amb. Shehu Malami	Chairman	X	X	X	-	X	X	X
Ernest Mupwaya	Managing Director/CEO	X	X	X	X	X	X	X
Siyanga Malumo	Director	X	X	X	X	X	X	X
Emmanuel Katepa	Director	X	X	X	X	X	X	X
Ahmad Saci Maiyaki	Director	X	X	X	-	X	-	-
Olusegun Doherty	Director	X	X	X	X	X	X	X
Alex Okoh	Director	X	X	-	X	-	-	-
Muhammad Abdullahi	Dikko Alternate Director	X	-	X	X	X	X	X

*X = Attended; - = Absent*

### Committees and sub-committees of the board

The Board has established Committees consistent with NERC rules, each with written terms of reference approved by the Board. Currently, there are five (5) committees and one (1) sub-committee that have been approved.

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

## Directors' report Cont'd

### 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 Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004. The Audit Committee had 4 meetings (2017: 6 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
Mrs. Ije Ikoku-Okeke	Secretary

The functions of the Finance Committee include optimizing, overseeing and advising on all matters relating to the capital structure, capital management and planning. The Committee also supports and advises the Board in exercising its authority in relation to the finance related function. In addition, the Committee makes recommendations to the Board concerning the revenue requirement of the Company as well as reviews of the Company's investment plans and financial performance. The Finance Committee had 4 meetings (2017: 4 meetings) during the year under review.

### 3. Executive Committee

The members of the Executive Committee are as follows:

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

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 (2017: 6 meetings) during the year under review.

## Directors' report Cont'd

### 4. Risk Management and health safety & environment

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 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 RM/HSE Committee also ensures that the identification and management of all relevant risks are incorporated into the overall business strategy of the Company. The Risk Management, Health Safety and Environment Committee held 4 meetings (2017: 4 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 leadership team and the General Manager, Human Resources 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 Governance, Remuneration, and Nominations Committee had 5 meetings (2017: 7 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 was established to obtain waivers for a substantial portion of the Company's gas indebtedness, restructuring the Company's indebtedness into long term, develop a framework for discussions with the highest levels of Government on the Abuja 24/7 project. The strategic sub-committee had no meetings during the year (2017: 4 meeting).



## Directors' report Cont'd

### 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 no changes to the leadership team. The leadership team comprises:

Name	Designation
Ernest Mupwaya	Managing Director/CEO
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	Chief Change Management Officer
Samuel Kyakilika	Chief Information Officer
Ahmed Salau	Chief Internal Auditor

### 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) for funds amounting to NGN 6.50 billion and NGN 1.21 billion from TCN and NELMCO respectively 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.

#### 2. Nigerian Electricity Stabilization Facility Disbursement agreement with CBN and NERC

As part of the initiatives to solve the liquidity problem in the Nigerian Electricity Supply Industry (NESI), the Federal Government established the Nigerian Electricity Market Stabilization Facility (NEMSF) aimed at settling the outstanding payment obligations due to the Market Participants and the legacy gas debts due to NELMCO. The Company entered into an agreement with the Central Bank of Nigeria (CBN) and the Nigerian Electricity Regulatory Commission (NERC), NGN 23.72 billion was drawn down on this facility during the year. See Note 24(b).

#### 3. Super vendor agreement

As part of the measures to make vending platforms more readily available to prepaid customers, the Company entered into separate agreements with Kallak Power Limited (Kallak), 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 arrangements with quality partners to improve its collection rates.

#### 4. Operations and management (O&M) agreement with related parties

The Company has Operations and Management (O & M) agreement with the parent company, KANN Utility Company Limited for the provision of management services which include corporate services (strategy sitting and change management), risk and compliance services, network planning and operations and capacity building. See Notes 26((d)) to these financial statements.

#### 5. 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.

## Directors' report Cont'd

### (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.

### 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. Financial reporting is done centrally.

### Property, plant and equipment (PPE)

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

### Charitable contributions

During the year, the Company made charitable contributions to various organizations and persons, including Mentally Aware Initiative amounting to NGN0.50 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 ( 2017 : Nil).

### Events after the reporting period

See Note 28 to these 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.

## Directors' report Cont'd

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

The Company has four (4) physically challenged persons in its employment (2017: four (4)). 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:*

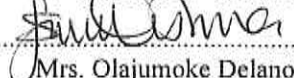
The Company places high premium on the health, safety and welfare of its employees in their places of work. To this end, the Company has various forms of insurance policies, including group personal accident and group life insurance, to adequately secure and protect its employees. It is the Company's 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.

Abuja, Nigeria  
7 May 2019

BY ORDER OF THE BOARD



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

**Statement of directors' responsibilities in relation to the financial statements for the year ended 31 December 2018**

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. See Note 29 to these financial statements for more details.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

  
\_\_\_\_\_  
Signature

Ernest Mupwaya  
\_\_\_\_\_  
Name

FRC/2016/COREN/00000015743  
\_\_\_\_\_

7 May 2019  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Signature

A.M.B. Shehu Malami  
\_\_\_\_\_  
Name

FRC/2015/IODN/00000011270  
\_\_\_\_\_

7 May 2019  
\_\_\_\_\_  
Date

## Report of the statutory 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 2018 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  
FRC/2019/IOD/00000019210  
7 May 2019

Mr Ahmed Rafai Salau  
Secretary

7 May 2019



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Lagos

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Internet www.kpmg.com/ng

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders 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 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information, as set out on pages 17 to 69.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, 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 this 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 29 to these financial statements, which indicates that the Company incurred a loss after tax of NGN85.72 billion (2017: NGN75.98 billion) for the year ended 31 December 2018 and, as of that date, the Company's current liabilities exceeded its current assets by NGN221.21 billion (2017: NGN173.19 billion) and also its total liabilities exceeded its total assets by NGN128.77 billion (2017: NGN86.09 billion). These events or conditions, along with other matters as set forth in Note 29, 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.

#### 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. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

#### Partners:

Adebisi O. Lamikanra  
Adewalé K. Ajayi  
Ayodale A. Soyinka  
Ibitomi M. Adepolu  
Lawrence C. Amadi  
Olabinpe S. Afolabi  
Olumide O. Olayinka  
Oluwatoyin A. Gbagi

Adokunle A. Elebutu  
Ajibola O. Olomola  
Chibuzor N. Anyanochi  
Ijeoma T. Emezie-Ezigbo  
Mohammed M. Adama  
Oladapo R. Okubadojo  
Olusegun A. Sowande  
Temitope A. Onitiri

Adegoke A. Oyelami  
Ayobami L. Salami  
Ehile A. Aibangbee  
Joseph O. Tegbe  
Nnoka C. Eluma  
Oladimeji I. Salaudeen  
Olutoyin I. Ogunlowo  
Tolulope A. Odukelo

Adetola P. Adeyemi  
Ayodele H. Othihiwa  
Goodluck C. Obi  
Kabir O. Okunlofa  
Oguntayo I. Ogunbanro  
Olanike I. James  
Oluwalerni O. Awotayo  
Victor U. Onyenkpa



<b>Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p data-bbox="153 253 424 282"><b>Revenue recognition</b></p> <p data-bbox="153 286 791 573">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 the tariff and billing methodology is regulated and includes several rules that the Company needs to comply with.</p> <p data-bbox="153 607 791 734">Furthermore, the Company adopted IFRS 15 <i>Revenue</i> which became mandatorily effective on 1 January 2018. In adopting IFRS 15, significant judgment and estimation were involved in:</p> <ol data-bbox="197 768 791 958" style="list-style-type: none"><li>1. Assessment of non-paying customers to determine collectability for the purpose of identifying existence of contracts with customers.</li><li>2. Evaluation of the existence or otherwise of significant financing components.</li></ol>	<p data-bbox="823 286 1350 315">Our audit procedures included the following:</p> <p data-bbox="823 349 1449 510">We obtained an understanding of the Company's customer billing and meter reading processes and evaluated the design and implementation of the relevant controls in relation to revenue estimation and billing systems.</p> <p data-bbox="823 544 1449 831">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 Company's assumptions. In addition, we re-performed the computation of deferred revenue and unbilled revenue using parameters such as customers' average daily consumption and compared these to amounts determined by the Company.</p> <p data-bbox="823 864 1449 1055">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.</p> <p data-bbox="823 1088 1449 1249">We evaluated 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 and revenue recognition methodology.</p> <p data-bbox="823 1283 1449 1373">We tested the accuracy of revenue by comparing prices charged to the approved MYTO tariff rates for each customer category.</p> <p data-bbox="823 1406 1449 1534">We tested journal entries recorded in the revenue accounts by checking that they represented valid adjustments to revenue and were in accordance with the regulatory pricing regime.</p> <p data-bbox="823 1568 1449 1729">We assessed whether revenue recognized met the recognition criteria of collectability on initial recognition by challenging the Company's judgment on the collectability of billings to customers, using the historical payment patterns of customers.</p> <p data-bbox="823 1762 1449 1852">We challenged the Company's assessment of the existence or otherwise of significant financing components.</p>



	<p>We evaluated the appropriateness of the accounting policies and related financial statement disclosures based on the requirements of the relevant accounting standards.</p>
<p><i>The Company's accounting policy on revenue recognition and related disclosures are shown in Notes 5(a), 7 and 35(A) of these financial statements respectively.</i></p>	
<p><b>Key Audit Matter</b></p>	<p><b>How the matter was addressed in our audit</b></p>
<p><b>Impairment of trade receivables</b></p>	
<p>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. As a significant proportion of the Company's billings are based on estimated consumption by customers rather than actual meter readings, this makes recoverability of amounts due from customers more difficult for the Company. 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.</p> <p>Furthermore, the implementation of IFRS 9 and the resultant change from the incurred loss model to the expected credit loss model as well as the calculations to determine the historical loss rate and application of forward looking information involved the use of significant judgment and estimates.</p>	<p>Our audit procedures included the following:</p> <p>We evaluated the reasonableness of the Company's assumptions around the recoverability of receivables and the Company's ability to collect.</p> <p>We challenged the basis for categorizing trade receivables into buckets in line with the guidelines of the relevant accounting standard and our understanding of the business.</p> <p>We considered the appropriateness of the historical loss rates and evaluated the reasonableness of the forward looking information applied in calculating the expected credit losses on trade receivables by comparing the assumptions to our expectations based on knowledge of the Company and other externally derived data.</p> <p>We recalculated the expected impairment losses and compared to the amounts recorded in the financial statements.</p> <p>We evaluated the appropriateness of the accounting policies and related financial statement disclosures based on the requirements of the relevant accounting standards.</p>
<p><i>The Company's accounting policy on impairment of trade receivables and related disclosures are shown in Notes 5(l), 17, 30C (a) and 35(B) of these financial statements respectively.</i></p>	





### **Other Information**

The Directors are responsible for the other information which 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.

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 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 have no realistic alternative but to do so.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.



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

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

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

From the matters communicated with 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  
16 May 2019  
Lagos, Nigeria



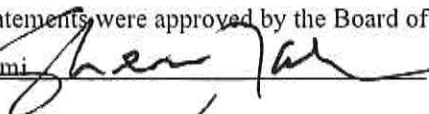
## Statement of financial position

As at 31 December

	Notes	2018 NGN'000	2017 NGN'000
<b>ASSETS</b>			
Property, plant and equipment	13	111,649,532	91,952,036
Intangible assets	14	1,039,954	79,574
Trade and other receivables	17	9,345,410	32,550
Withholding tax receivables	16	114,448	-
Prepayments	18	53,577	16,398
<b>Non current assets</b>		<b>122,202,921</b>	<b>92,080,558</b>
Inventories	15	402,701	323,977
Trade and other receivables	17	42,307,449	22,888,298
Prepayments	18	633,836	512,503
Cash and cash equivalents	19	4,395,622	4,342,225
<b>Current assets</b>		<b>47,739,608</b>	<b>28,067,003</b>
<b>Total assets</b>		<b>169,942,529</b>	<b>120,147,561</b>
<b>EQUITY</b>			
Share capital	20(a)	10,000	10,000
Revaluation reserve	20(b)	43,957,542	19,476,118
Accumulated deficit		(172,737,140)	(105,580,722)
<b>Total equity</b>		<b>(128,769,598)</b>	<b>(86,094,604)</b>
<b>LIABILITIES</b>			
Loans and borrowings	24	19,636,124	1,329,364
Employee benefits obligation	25	451,993	556,619
Deferred income	21	9,315,996	3,097,528
<b>Total non-current liabilities</b>		<b>29,404,113</b>	<b>4,983,511</b>
Current tax liabilities	12(d)	-	477,527
Loans and borrowings	24	4,337,926	1,907,325
Trade and other payables	22	263,007,818	196,171,452
Contract liabilities	7	524,567	-
Deferred income	21	1,082,857	529,411
Employee benefits obligation	25	354,846	-
Provisions	23	-	2,172,939
<b>Current liabilities</b>		<b>269,308,014</b>	<b>201,258,654</b>
<b>Total liabilities</b>		<b>298,712,127</b>	<b>206,242,165</b>
<b>Total equity and liabilities</b>		<b>169,942,529</b>	<b>120,147,561</b>

These financial statements were approved by the Board of Directors on 7 May 2019 and signed on its behalf by:

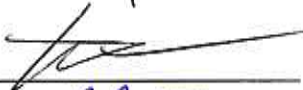
Amb. Shehu Matami



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 21 to 69 are an integral part of these financial statements.

## Statement of profit or loss and other comprehensive income

*For the year ended 31 December*

	<u>Notes</u>	<u>2018</u>	<u>2017</u>
		NGN'000	NGN'000
Revenue	7	82,220,731	65,715,312
Cost of sales	8	<u>(95,402,526)</u>	<u>(85,006,707)</u>
<b>Gross loss</b>		<b>(13,181,795)</b>	<b>(19,291,395)</b>
Other income	9	1,414,139	373,324
Impairment loss on trade and other receivables and contract assets		(19,190,827)	(8,558,144)
Administrative expenses	8	<u>(31,183,148)</u>	<u>(21,997,278)</u>
<b>Operating loss</b>		<b><u>(62,141,631)</u></b>	<b><u>(49,473,493)</u></b>
Finance income	10	885,958	475,664
Finance costs	10	<u>(24,360,868)</u>	<u>(26,897,315)</u>
<b>Net finance costs</b>		<b><u>(23,474,910)</u></b>	<b><u>(26,421,651)</u></b>
<b>Loss before minimum tax and income tax</b>		<b>(85,616,541)</b>	<b>(75,895,144)</b>
Minimum tax	12(a)	<u>(102,788)</u>	<u>(82,156)</u>
<b>Loss before income tax</b>		<b>(85,719,329)</b>	<b>(75,977,300)</b>
Income tax expense	12(b)	<u>-</u>	<u>-</u>
<b>Loss for the year</b>		<b><u>(85,719,329)</u></b>	<b><u>(75,977,300)</u></b>
<b><i>Other comprehensive income</i></b>			
<b>Items that will never be reclassified to profit or loss</b>			
Actuarial gain/(loss)	25(b)	47,357	(1,097)
Revaluation difference on property, plant and equipment	13(d)	<u>24,481,424</u>	<u>898,428</u>
Other comprehensive income, net of tax		<u>24,528,781</u>	<u>897,331</u>
<b>Total comprehensive loss</b>		<b><u>(61,190,548)</u></b>	<b><u>(75,079,969)</u></b>

*The notes on pages 21 to 69 are an integral part of these financial statements.*

## Statement of changes in equity

For the year ended 31 December

	Notes	Share capital	Accumulated deficit	Revaluation reserve	Total equity
		NGN'000	NGN'000	NGN'000	NGN'000
Balance at 1 January 2017		5,000	(29,602,325)	18,577,690	(11,019,635)
<b>Total comprehensive income</b>					
Loss for the year		-	(75,977,300)	-	(75,977,300)
Other comprehensive income		-	(1,097)	898,428	897,331
<b>Total comprehensive income</b>		-	(75,978,397)	898,428	(75,079,969)
Transaction with owners		5,000	-	-	5,000
<b>Balance at 31 December 2017</b>		10,000	(105,580,722)	19,476,118	(86,094,604)
Adjustment on initial application of IFRS 9, net of tax	35(B)	-	11,616,121	-	11,616,121
Adjustment on initial application of IFRS 15, net of tax	35(A)	-	6,899,433	-	6,899,433
<b>Adjusted balance at 1 January 2018</b>		10,000	(87,065,168)	19,476,118	(67,579,050)
<b>Total comprehensive income</b>					
Loss for the year		-	(85,719,329)	-	(85,719,329)
Other comprehensive income		-	47,357	24,481,424	24,528,781
<b>Total comprehensive income</b>		-	(85,671,972)	24,481,424	(61,190,548)
Transaction with owners		-	-	-	-
<b>Balance at 31 December 2018</b>		10,000	(172,737,140)	43,957,542	(128,769,598)

The notes on pages 21 to 69 are an integral part of these financial statements.

**Statement of cash flows**  
*For the year ended 31 December*

	<u>Notes</u>	<b>2018</b> NGN'000	<b>2017</b> NGN'000
<b>Cash flow from operating activities</b>			
Loss for the year		(85,719,329)	(75,977,300)
<i>Adjustments for:</i>			
- depreciation of property, plant and equipment	13	5,028,374	4,557,562
- write off of property, plant and equipment	8	-	46,181
- amortization of intangible asset	14	73,249	42,039
- amortization of government grant	21(a)	(1,082,857)	(79,159)
- impairment loss on trade and other receivables		19,190,827	8,558,144
- revaluation difference on property, plant and equipment	8	6,152,846	(14,679)
- long service awards	11(a)	182,710	296,433
- defined benefit cost	11(a)	130,200	237,025
- CAPMI installation income	9	(1,449)	(208,950)
- finance costs	10	24,360,868	26,934,878
- finance income	10	(885,958)	(475,664)
- write back of provision for NELMCO liabilities	8	(325,642)	-
- minimum tax	12(a)	102,788	82,156
		<u>(32,793,373)</u>	<u>(36,001,334)</u>
<i>Changes in:</i>			
Inventories		(78,724)	86,823
Withholding tax receivables		(335,316)	-
Trade and other receivables	17(b)	(21,098,907)	(1,451,108)
Prepayments		(158,512)	(318,571)
Trade and other payables	22(b)	43,418,573	47,157,745
Contract liabilities		524,567	-
Deferred income		(1,210,206)	72,719
<b>Cash (used in)/generated from operating activities</b>		<u>(11,731,898)</u>	<u>9,546,274</u>
Payment of defined benefit obligation	25(b)	(14,932)	-
Part payment of NELMCO liabilities	23	(284,730)	-
Income taxes paid	12(d)	(400,000)	(500,000)
<i>Net cash (used in)/generated from operating activities</i>		<u>(12,431,560)</u>	<u>9,046,274</u>
<b>Cash flows from investing activities:</b>			
Acquisition of property, plant and equipment	13(b)	(4,737,606)	(8,077,899)
Acquisition of intangible assets	14	(1,033,629)	(88,797)
Payment of letter of credit collateral	17(a)	(8,299,743)	(32,550)
Interest received	10	806,915	119,300
<i>Cash used in investing activities</i>		<u>(13,264,063)</u>	<u>(8,079,946)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from loans and borrowings	34	31,825,238	2,299,689
Interest payments	34	(2,380,791)	(95,540)
Repayment of bank loan		-	(659,419)
Principal repayments	34	(3,244,312)	-
CAPMI refunds	34	(437,121)	(584,068)
<i>Cash generated from financing activities</i>		<u>25,763,014</u>	<u>960,662</u>
<b>Net increase in cash and cash equivalents</b>		<b>67,391</b>	<b>1,926,990</b>
Cash and cash equivalents at 1 January		4,342,225	2,474,110
Effect of movement in exchange rate		(13,994)	(58,875)
<b>Cash and cash equivalents at 31 December</b>		<u><b>4,395,622</b></u>	<u><b>4,342,225</b></u>

*The notes on pages 21 to 69 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). During the year, the Company established the letter of credit required for the participation in the Transitional Electricity Market (TEM). As a result, the business activity of the Company during the year was governed by 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 7 May 2019.

Details of the Company's significant 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 realize its assets and settle its liabilities in the normal course of business. See Note 29 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 judgments, 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.

Note 13((e)) - Property, plant and equipment: recognition of value of land

## **Notes to the financial statements (continued)**

### **(B) Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties as at 31 December 2018 that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities in the next financial year 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 7(B) -Revenue Recognition – Estimation of contract liabilities from prepaid customers.

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

Notes 23 and 27 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resource.

Note 25 - measurement of defined benefit obligations: key actuarial assumptions

Notes 30(C(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, except if mentioned otherwise (Note 35).

Certain comparative amounts in the statement of profit or loss and OCI have been reclassified or re-presented, as a result of a change in accounting policy (Note 35).

#### **(a) Revenue from contract with customers**

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 when it transfers control over a good or service to a customer

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 contract with customers are recognized based on the evaluation of the historical payment patterns of the customers.



## Notes to the financial statements (continued)

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Category of revenue	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Postpaid revenue	The performance obligation of the Company is satisfied overtime as electricity is supplied to the customers.  Billing is done on a monthly basis and payment is contractually within 30 days of billing.	Revenue is recognised over time as electricity is provided. The amount of revenue to recognise during the year (including unbilled revenue for the value of units supplied to customers in December, extracted from the December meter reading (which will be billed in January)) is assessed based on the unit delivered method.  The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers.	Revenue from the sale of electricity to post-paid customers is the value of the units supplied during the year including an estimate of the value of the 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.  Billings to customers are recognized as revenue based on the evaluation of the historical payment patterns of the customers.
Prepaid revenue	Satisfaction of performance obligation is same as postpaid revenue. Payment is received in advance of consumption of electricity	Revenue is recognised over time as electricity is provided.  In case of prepaid customers, an estimate is made for unearned revenue as at year-end and this is included in the statement of financial position as contract liability.	Revenue is recognised over time as electricity is provided.  In case of prepaid 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.

### (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 initial recognition of loans 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.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

Foreign exchange gains and losses are recognized on net basis.

## Notes to the financial statements (continued)

### (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 assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. 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:

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

## Notes to the financial statements (continued)

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 are as follows:

	Life(years)
Customer management system	10
Computer software licences	5

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.

## Notes to the financial statements (continued)

### (f) Financial instruments

#### i. Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

#### ii. Classification and subsequent measurement

##### Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

##### Financial assets – Business model assessment: Policy applicable from 1 January 2018

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

## Notes to the financial statements (continued)

- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

### **Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

### **Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018**

#### **Financial assets at amortised cost**

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

#### **Financial assets – Policy applicable before 1 January 2018**

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

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

Loans and receivables 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.

## Notes to the financial statements (continued)

### Financial liabilities – Classification, subsequent measurement and gains and losses

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

All financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

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.

### iii Derecognition

#### Financial assets

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.

#### Financial liabilities

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

### iv Offsetting

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.

### (g) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash balances with banks and fixed deposits that have maturity periods less than 3 months and form an integral part of the Company's cash management.

### (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 measured 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 (continued)

### (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

##### *Policy applicable from 1 January 2018*

##### **Financial instruments and contract assets**

The Company recognises loss allowances for Expected Credit Losses (ECLs) on:

- financial assets measured at amortised cost; and
- contract assets.

The Company measures loss allowances at an amount equal to lifetime ECLs except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 360 days past due.

## Notes to the financial statements (continued)

The Company considers a debt security to have low credit risk when the security is held with a financial institution that have high credit ratings and meet the cash and liquidity thresholds set by the Central Bank of Nigeria (CBN).

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

### *Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

### *Presentation of allowance for ECL in the statement of financial position*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

### *Write-off*

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

### **Policy applicable before 1 January 2018**

#### *Non-derivative financial assets*

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- 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 would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.



## Notes to the financial statements (continued)

### *Financial assets measured at amortised cost*

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

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

An impairment loss is calculated as the difference between an asset's carrying amount and the estimated recoverable amount. Losses are 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-financial assets**

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is 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.

## Notes to the financial statements (continued)

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.

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.

## **Notes to the financial statements (continued)**

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 6.).

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

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. Offset of current tax assets against current tax assets**

The Company offsets the tax assets arising from WHT credits and current tax liabilities if, and only if, the Company has a legally enforceable right to set off the recognised amounts, and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The tax asset is reviewed at each reporting date and written down to the extent that it is no longer probable that future economic benefits would be realized.

## **Notes to the financial statements (continued)**

### **iv. 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.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

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

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only 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 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.

## Notes to the financial statements (continued)

### 7. Revenue

The effect of initially applying IFRS 15 on the Company's revenue from contracts with customers is described in Note 35. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

#### A. Disaggregation of revenue from contracts with customers

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

##### *Unbilled revenue from post-paid customers*

Unbilled receivables for the value of units supplied to customers in December is extracted from the December meter reading (which is billed in January 2019). Unbilled receivables (i.e. included in current year revenues) amounted to NGN6.36 billion (2017: NGN3.54 billion) and has been included as part of trade receivables.

##### *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 less technical losses 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

	<b>2018</b>	<b>2017</b>
	<b>NGN'000</b>	<b>NGN'000</b>
Private individuals/companies	64,530,039	54,386,407
Government institutions	17,690,692	11,328,905
	<b>82,220,731</b>	<b>65,715,312</b>

#### b. Classification by customer payment mode

	<b>2018</b>	<b>2017</b>
	<b>NGN'000</b>	<b>NGN'000</b>
Postpaid	65,305,262	51,944,849
Prepaid	16,915,469	13,770,463
	<b>82,220,731</b>	<b>65,715,312</b>

#### B. Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	<b>Notes</b>	<b>31 Dec 2018</b>	<b>1 Jan 2018</b>
		<b>NGN'000</b>	<b>NGN'000</b>
Receivables, which are included in 'trade and other receivables'	17	41,285,182	21,170,829
Contract liabilities		524,567	-

The contract liabilities primarily relate to the advance consideration received from customers for supply of electricity, for which revenue is recognised over time. The amount of NGN448.80 million recognised in contract liabilities at the beginning of the period has been recognised as revenue for the year ended 31 December 2018.

## Notes to the financial statements (continued)

### Estimation of contract liabilities from prepaid customers

The Company estimates contract liabilities from contracts with 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 NGN 524.57 million (2017: NGN 448.80 million) and has been recognized as contract liability.

### 8. Expenses by nature

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
Cost of Energy	89,595,699	78,674,859
Consumables and other direct cost	40,508	696,134
Commission to super vendors	616,846	342,227
Maintenance expenses	1,027,622	954,070
Depreciation	5,028,374	4,557,562
Operations and management services fees (Note 26)	1,487,441	1,457,435
Consultancy fees	1,629,094	1,680,737
Security	634,916	583,858
Staff and related costs (Note 11(a))	13,176,776	11,749,068
Recharge from related party *	-	672,337
Directors' remuneration (Note 11(d))	525,266	564,698
Board expenses	26,299	55,547
Bank charges	172,976	61,990
Auditor's remuneration	123,000	92,474
Amortization of intangible assets (Note 14)	73,249	42,039
Transport	1,296,621	573,300
Insurance	482,364	759,913
Rent and accommodation expense	432,219	472,273
Professional services	364,607	399,766
Revaluation deficit/(surplus) (Note 13(d))	6,152,846	(14,679)
Out of court settlements	124,512	-
Write off of property plant and equipment	-	46,181
Write back of provision for NELMCO liabilities (Note 23)	(325,642)	-
Office repairs and maintenance	1,406,713	1,031,776
Office stationery and utilities	2,493,368	1,550,420
<b>Total cost of sales and administrative expenses</b>	<b><u>126,585,674</u></b>	<b><u>107,003,985</u></b>

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

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
Cost of sales	95,402,526	85,006,707
Administrative expenses	31,183,148	21,997,278
	<b><u>126,585,674</u></b>	<b><u>107,003,985</u></b>

\*In 2017, the directors approved a recharge from KANN for the seconded employee costs borne by KANN in previous years.

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

Non audit services paid to the statutory auditors comprise:

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
Tax advisory services	<u>28,787</u>	<u>28,668</u>

## Notes to the financial statements (continued)

### 9. Other income

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
Service re-connection fees	72,293	85,215
Administration charge on meter tampering	221,723	-
Amortization of government grant (Notes 21(a))	1,082,857	79,159
CAPMI installation fees (Notes 24(d))	1,449	208,950
Miscellaneous income(Notes 9(a))	<u>35,817</u>	<u>-</u>
	<u><b>1,414,139</b></u>	<u><b>373,324</b></u>

#### (a) Miscellaneous income

The Company earned income from other services such as sub-lease of training halls and production of identity cards for employees.

### 10. Finance income and finance costs

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
<i>Finance income</i>		
Interest income on short term deposits and letter of credit collateral	806,915	119,300
Fair value gain on CAPMI loan	<u>79,043</u>	<u>356,364</u>
<b>Total finance income</b>	<u><b>885,958</b></u>	<u><b>475,664</b></u>
<i>Finance costs</i>		
Interest on CAPMI loan	(21,531)	(483,614)
Interest on loans	(4,112,502)	(109,058)
Foreign exchange loss (Net)	51,239	(9,223)
Interest on NBET and ONEM bills (Notes 10(a))	<u>(20,278,074)</u>	<u>(26,295,420)</u>
<b>Total finance costs</b>	<u><b>(24,360,868)</b></u>	<u><b>(26,897,315)</b></u>
<b>Net finance costs</b>	<u><b>(23,474,910)</b></u>	<u><b>(26,421,651)</b></u>

#### (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 4% (2017: NIBOR plus 10%, prior to TEM). The interest was unpaid as at the year end and has been included as part of trade payable in trade and other payables.

### 11. Employee benefit expense and director's remuneration

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

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
Salaries and wages	11,677,084	9,993,548
Pension costs	906,745	618,960
Termination benefits	280,037	50,804
Death benefits*	-	552,298
Gratuity (Note 25)	130,200	237,025
Long service awards (LSA) (Note 25)	<u>182,710</u>	<u>296,433</u>
	<u><b>13,176,776</b></u>	<u><b>11,749,068</b></u>

\* This relates to death benefits and other expenses incurred on Andrew Atterbury, the ex-Chief Financial Officer, in 2017.

## Notes to the financial statements (continued)

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

<u>NGN</u>	<u>NGN</u>	<u>2018</u>	<u>2017</u>
		Number	Number
200,001 -	2,200,000	1,902	1,478
2,200,001 -	4,200,000	1,102	962
4,200,001 -	6,200,000	236	128
6,200,001 -	8,200,000	77	93
8,200,001 -	8,200,000	47	48
10,200,001 -	12,200,000	26	19
12,200,001 -	14,200,000	36	11
14,200,001 -	16,200,000	5	3
16,200,001 -	18,200,000	14	17
18,200,001 -	20,200,000	8	3
20,200,001 -	22,200,000	3	1
22,200,001 -	24,200,000	2	2
24,200,001 -	26,200,000	-	1
32,200,001 -	34,200,000	3	5
51,200,001 -	58,200,000	1	1
68,200,001 -	75,900,000	-	1
80,200,001 -	102,500,000	-	2
		<u>3,462</u>	<u>2,775</u>

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

	<u>2018</u>	<u>2017</u>
	Number	Number
Administration	388	271
Finance	397	280
Marketing	1,295	1,073
Technical	<u>1,382</u>	<u>1,151</u>
	<u>3,462</u>	<u>2,775</u>

(d) Directors' remuneration

Directors' remuneration paid during the year comprises:

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
Fees as directors	362,433	383,452
Salaries	141,752	102,454
Other expenses	<u>21,081</u>	<u>78,792</u>
	<u>525,266</u>	<u>564,698</u>

The directors' remuneration shown above includes:

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
Chairman	<u>72,517</u>	<u>79,053</u>
Highest paid director	<u>190,096</u>	<u>155,156</u>



## Notes to the financial statements (continued)

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:

	<b>2018</b>	<b>2017</b>
	<b>Number</b>	<b>Number</b>
NGN20,000,000 - NGN52,000,000	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 2018 is NGN 102.79 million (2017: NGN 82.16 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 2018 (2017: 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 (Notes 12(e)).

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

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

		<b>2018</b>		<b>2017</b>
	%	NGN'000	%	NGN'000
Loss before minimum tax and income tax		(85,616,541)		(75,895,144)
Income tax using the statutory tax rate	30	(25,684,962)	30	(22,768,543)
Effect of tertiary education tax rate based on assessable (loss)	2	(1,712,331)	2	(1,517,903)
Tax effect of:				
Movement in unrecognized deferred tax assets	(27)	22,946,287	(31)	23,168,137
Difference in CIT Rate and TET rates*	(2)	1,433,857	(2)	1,336,233
Non-deductible expenses	(4)	3,017,149	-	(217,924)
Total income tax expense	-	-	-	-

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

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

	<b>2018</b>	<b>2017</b>
	<b>NGN'000</b>	<b>NGN'000</b>
Balance at 1 January	477,527	927,290
Charge for the year (minimum tax (Note 12(a)))	102,788	82,156
Effect of IFRS 15 (Note 35(A))	8,634	-
Day one gain *	-	(55,160)
Unwinding interest on payment restructuring	31,919	23,241
Payments for the year	(400,000)	(500,000)
Balance at 31 December	<b>220,868</b>	<b>477,527</b>
Tax assets offset against tax payable (Note 16)	(220,868)	-
Amount shown in statement of financial position	-	<b>477,527</b>

\* In 2017, the Company applied for settlement of its income tax liability on an installment 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 NGN55.16 million and unwinding interest of NGN31.92 million (2017:NGN23.24 million).

## Notes to the financial statements (continued)

### (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.

	<b>2018</b>	<b>2017</b>
	<b>NGN'000</b>	<b>NGN'000</b>
Tax Losses (will never expire)	67,088,467	47,089,128
PPE	15,000,003	18,846,743
Deductible temporary differences	22,333,401	15,539,713
	<b>104,421,871</b>	<b>81,475,584</b>

## Notes to the financial statements (continued)

### 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
	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000
<b>Cost or valuation</b>							
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)	-
<b>Balance at 31 December 2017</b>	<b>13,094,046</b>	<b>4,469,838</b>	<b>80,852,955</b>	<b>2,293,256</b>	<b>1,156,779</b>	<b>881,836</b>	<b>102,748,710</b>
Balance at 1 January 2018	13,094,046	4,469,838	80,852,955	2,293,256	1,156,779	881,836	102,748,710
Additions	-	40,193	2,386,818	162,363	291,676	3,516,242	6,397,292
Write off	-	-	-	-	-	-	-
Revaluation difference (Net)	-	-	18,328,578	-	-	-	18,328,578
Net off of accumulated depreciation on revaluation	-	-	(13,917,243)	-	-	-	(13,917,243)
Transfers	-	-	2,607,884	593,850	18,327	(3,220,061)	-
<b>Balance at 31 December 2018</b>	<b>13,094,046</b>	<b>4,510,031</b>	<b>90,258,992</b>	<b>3,049,469</b>	<b>1,466,782</b>	<b>1,178,017</b>	<b>113,557,337</b>
<b>Depreciation</b>							
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	-	-	-
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>9,795,392</b>	<b>598,677</b>	<b>402,605</b>	<b>-</b>	<b>10,796,674</b>
Balance at 1 January 2018	-	-	9,795,392	598,677	402,605	-	10,796,674
Charge for the year	-	137,993	4,121,851	510,354	258,176	-	5,028,374
Write off	-	-	-	-	-	-	-
Net off of accumulated depreciation on revaluation	-	-	(13,917,243)	-	-	-	(13,917,243)
Reclassification	-	-	-	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>-</b>	<b>137,993</b>	<b>-</b>	<b>1,109,031</b>	<b>660,781</b>	<b>-</b>	<b>1,907,805</b>
<b>Carrying amounts</b>							
At 1 January 2017	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
At 31 December 2018	13,094,046	4,372,038	90,258,992	1,940,438	806,001	1,178,017	111,649,532

## Notes to the financial statements

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

	<b>2018</b>	<b>2017</b>
	<b>NGN'000</b>	<b>NGN'000</b>
Cost of sales	4,121,851	3,882,243
General and administrative expenses	906,523	675,319
Depreciation charge for the year (Note 8)	<b>5,028,374</b>	<b>4,557,562</b>

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

	<b>2018</b>	<b>2017</b>
	<b>NGN'000</b>	<b>NGN'000</b>
Total additions	(6,397,292)	(11,553,853)
NIPP Assets (Note 13(i))	1,641,984	1,051,446
Government grant (Note 21(a))	17,702	2,424,508
<b>Purchase of property, plant and equipment</b>	<b>(4,737,606)</b>	<b>(8,077,899)</b>

- (c) The Company had capital commitments amounting to NGN334.63 million (2017:NGN435.02 million).

- (d) During the year, the Company revalued its distribution network assets at 31 December 2018. An external valuer, Stella Osugba/Messrs. Aurecon Consulting Engineers Nigeria Limited (FRC/2015/ICENNIG/00000013383) was involved in the revaluation.

Based on the valuation report, the Directors recorded a net surplus of NGN18.28 billion representing an amount of NGN 24.48 billion as revaluation surplus in other comprehensive income and NGN6.15 billion as revaluation deficit 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 Notes 13( g) below for the value of land, building and distribution network assets at historical cost.

As at 31 December 2017, the Company revalued its land and buildings. 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 NGN913.11 million representing an amount of NGN898.43 million as revaluation surplus in other comprehensive income and NGN14.68 million as revaluation surplus in the profit or loss.

- (e) 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.

- (f) *Capital work in progress (CWIP)*

Capital work in progress (CWIP) comprises:

	<b>2018</b>	<b>2017</b>
	<b>NGN'000</b>	<b>NGN'000</b>
PPE items in store *	461,537	580,564
Ongoing works with respect to substations	716,480	301,272
	<b>1,178,017</b>	<b>881,836</b>

## Notes to the financial statements

\* PPE items in store consist mainly of transformers of NGN134.43 million (2017: NGN446.03 million), and meters of NGN142.72 million (2017: NGN74.93 million).

### (g) 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 2018 would be as follows:

	<b>Land</b>	<b>Building</b>	<b>Distribution network assets</b>
	<b>NGN'000</b>	<b>NGN'000</b>	<b>NGN'000</b>
Cost	11,702,055	3,338,092	85,588,624
Accumulated depreciation	-	<u>(711,705)</u>	<u>(33,626,832)</u>
Net book value	<u><b>11,702,055</b></u>	<u><b>2,626,387</b></u>	<u><b>51,961,792</b></u>

### (h) 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. Land and buildings were revalued at 31 December 2017. The distribution network assets were revalued as 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).

	<b>Fair value measurement at 31 December 2018 using Significant other Observable inputs (Level 2) NGN'000</b>	<b>Fair value measurement at 31 December 2017 using Significant other Observable inputs (Level 2) NGN'000</b>
<i>Recurring fair value measurements</i>		
Distribution network assets	90,258,992	71,057,563
Land	13,094,046	13,094,046
Buildings	<u>4,372,038</u>	<u>4,469,838</u>
	<u><b>107,725,076</b></u>	<u><b>88,621,447</b></u>

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

#### *Valuation technique used to derive level 2 fair values*

The external valuations of the distribution network assets have been performed using a depreciated replacement cost 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.

### (i) NIPP Assets

During the year, the Company energized six injection substations constructed by the Niger Delta Power Holding Company (NDPHC). The fair value of these assets was estimated at NGN1.64 billion (2017: NGN1.05) by the directors based on observable prices of similar items purchased during the year (level 2). (See Note 13(b))

## Notes to the financial statements

### 14. Intangible assets

#### (a) Reconciliation of carrying amount

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

	Computer software licenses NGN'000	Customer Management System NGN'000	Total NGN'000
<b>Cost</b>			
Balance at 1 January 2017	106,124	-	106,124
Additions	88,797	-	88,797
<b>Balance at 31 December 2017</b>	<b>194,921</b>	<b>-</b>	<b>194,921</b>
Balance at 1 January 2018	194,921	-	194,921
Additions	20,314	1,013,315	1,033,629
<b>Balance at 31 December 2018</b>	<b>215,235</b>	<b>1,013,315</b>	<b>1,228,550</b>
<b>Accumulated amortization</b>			
Balance at 1 January 2017	73,308	-	73,308
Charge for the year (Note 8)	42,039	-	42,039
<b>Balance at 31 December 2017</b>	<b>115,347</b>	<b>-</b>	<b>115,347</b>
Balance at 1 January 2018	115,347	-	115,347
Charge for the year (Note 8)	73,249	-	73,249
<b>Balance at 31 December 2018</b>	<b>188,596</b>	<b>-</b>	<b>188,596</b>
<b>Carrying amount</b>			
<b>At 31 December 2017</b>	<b>79,574</b>	<b>-</b>	<b>79,574</b>
<b>At 31 December 2018</b>	<b>26,639</b>	<b>1,013,315</b>	<b>1,039,954</b>

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

- (b) During the year, the Company invested in a new integrated customer management system (InCMS) designed to support comprehensive customer management. With the InCMS, the Company is able to maintain one comprehensive customer database for both postpaid and prepaid customers. The InCMS was partially deployed on 18 December 2018 for only prepaid customers and went live in full for all customers subsequent to the year end on 7 February, 2019.

### 15. Inventories

	31 Dec 2018 NGN'000	31 Dec 2017 NGN'000
Consumable spare parts	361,401	166,244
Other Consumables	41,300	157,733
	<b>402,701</b>	<b>323,977</b>

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 NGN 1.03 billion (2017: NGN 954.07 million).

In addition, inventories have been reduced by NGN56.39 million (2017:NGN71.68 million) as a result of the write-down to net realisable value. This write-down was recognised as an expense during 2018.

## Notes to the financial statements

### 16. Withholding tax receivables

The movement in withholding tax receivables account was as follows:

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
At 1 January	-	-
Additions during the year	335,316	-
Utilisation of withholding tax assets	-	-
At 31 December	<u>335,316</u>	-
Offset to current tax liabilities (Note 12(d))	<u>(220,868)</u>	-
Amount shown in the statement of financial position	<u><u>114,448</u></u>	<u><u>-</u></u>

(a) The directors have decided to present withholding tax receivables and current income tax on a net basis to the extent that legally enforceable right of offset exists. The remaining balance of withholding tax receivables after the offset have been classified as non-current assets as these will not be utilized within the next 12 months.

### 17. Trade and other receivables

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Trade receivables	41,285,182	21,170,829
Other receivables (Notes 17(a))	<u>10,367,677</u>	<u>1,750,019</u>
	<u><u>51,652,859</u></u>	<u><u>22,920,848</u></u>
Non current	9,345,410	32,550
Current	<u>42,307,449</u>	<u>22,888,298</u>
	<u><u>51,652,859</u></u>	<u><u>22,920,848</u></u>

#### (a) Other receivables comprises:

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Employee receivables *	170,851	43,730
Letter of credit **	8,299,743	32,550
Amount due from a related party (Notes 26(c))	612,673	1,110,212
Unpaid share capital	5,000	5,000
Advance payment to vendors	<u>1,279,410</u>	<u>558,527</u>
	<u><u>10,367,677</u></u>	<u><u>1,750,019</u></u>

\* This relates to employee advances during the year. Amount has been stated net of impairment amounting to NGN 179.76 million (2017: NGN 263.03 million).

\*\* This relates to the cash collateral on letter of credit facility of NGN 10.5 billion obtained from United Bank of Africa as a requirement for participation in the Transitional Electricity Market (TEM). The tenor of the collateral is 24 months with an interest rate of 7.5%. The Company has a financial commitment of NGN 2.20 billion to fully collateralize the letter of credit facility over the next 19 months.

## Notes to the financial statements

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

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Changes in trade and other receivables	(28,732,011)	7,069,486
Impairment loss on trade and other receivables	(19,190,827)	(8,558,144)
Unpaid share capital (Note 20(a))	-	5,000
Payment of letter of credit collateral	8,299,743	32,550
Effect of IFRS 9 (Note 35(B))	11,616,121	-
Effect of IFRS 15 (Note 35(A))	<u>6,908,067</u>	<u>-</u>
<b>Amount shown in the statement of cash flows</b>	<b><u>(21,098,907)</u></b>	<b><u>(1,451,108)</u></b>

Information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Notes 30C(a) and (c).

### 18. Prepayments

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Rent	172,898	318,312
Insurance	<u>514,515</u>	<u>210,589</u>
	<b><u>687,413</u></b>	<b><u>528,901</u></b>
Non current	53,577	16,398
Current	<u>633,836</u>	<u>512,503</u>
	<b><u>687,413</u></b>	<b><u>528,901</u></b>

### 19. Cash and cash equivalents

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Bank balances (Note 19(a))	4,370,325	4,309,782
Cash on hand	<u>25,297</u>	<u>32,443</u>
	<b><u>4,395,622</u></b>	<b><u>4,342,225</u></b>

(a) Included in bank balances are fixed deposits with maturities below 3 months amounting to NGN 3.11 billion (2017: NGN 2.06 billion).

### 20. Share capital and reserves

(a) Share capital comprise:

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
<b>Authorized:</b>		
10,000,000 ordinary shares at 50k each	5,000	5,000
5,000,000 ordinary shares at N1 each	<u>5,000</u>	<u>5,000</u>
	<b><u>10,000</u></b>	<b><u>10,000</u></b>
<b>Issued and called-up:</b>		
15,000,000 ordinary shares	<u>10,000</u>	<u>10,000</u>
<b>Issued, called-up, and paid:</b>		
10,000,000 ordinary shares at 50k each	<u>5,000</u>	<u>5,000</u>
<b>Unpaid share capital :</b>		
5,000,000 ordinary shares at N1 each	<u>5,000</u>	<u>5,000</u>



## Notes to the financial statements

<i>In thousands of shares</i>	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
In issue at 1 January	15,000	10,000
Issued during the year	-	5,000
<b>In issue at 31 December</b>	<b><u>15,000</u></b>	<b><u>15,000</u></b>

In 2017, the shareholders at a meeting approved an additional issue of ordinary shares of 5 million shares at NGN 1 each, thus increasing the number of ordinary shares to 15 million, and share capital to NGN 10 million.

### *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(d).

Revaluation reserve is made up as follows:

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Land and buildings	4,198,693	4,198,693
Distribution network	39,758,849	15,277,425
	<b><u>43,957,542</u></b>	<b><u>19,476,118</u></b>

### 21. Deferred income

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Government grant (Notes 21(a))	10,398,853	3,176,687
Deferred revenue	-	448,803
Deferred income on CAPMI	-	1,449
	<b><u>10,398,853</u></b>	<b><u>3,626,939</u></b>
	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Non current	9,315,996	3,097,528
Current	1,082,857	529,411
	<b><u>10,398,853</u></b>	<b><u>3,626,939</u></b>

### (a) Government grants

Government grants is made up of:

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Government granted assets*	3,092,499	3,176,687
Day one gain on loans**	7,306,354	-
	<b><u>10,398,853</u></b>	<b><u>3,176,687</u></b>

## Notes to the financial statements

- \* Over the years, the Company received some assets granted to it by the government in a bid to improve the infrastructure within the Company's region of operation. During the year, the Company received a specialised streetlight and line maintenance vehicle from the United States Agency for International Development (USAID). 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.
- \*\* During the year, the Company drew down on three different loans from the Central Bank of Nigeria (CBN), Transmission Company of Nigeria (TCN) and Nigerian Electricity Liability Management Company (NELMCO) respectively at below market interest rates. The Directors have considered that these entities granted the loans in their capacity as agencies of the Federal Government of Nigeria (FGN). As a result, the difference between the fair values at initial recognition and the loan balances at the coupon rates has been recognised as deferred income. Amortization of the deferred income is over the life of the loan.

Amount recognized in profit or loss during the year was NGN 1.08 billion (2017: NGN 79.16 million). See Note 9.

The movement in deferred income during the year was as follows:

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Balance at 1 January	3,176,687	831,338
Additions	8,305,023	2,424,508
Amortization to profit or loss	<u>(1,082,857)</u>	<u>(79,159)</u>
	<u><b>10,398,853</b></u>	<u><b>3,176,687</b></u>
Non-current	9,315,996	3,097,528
Current	<u>1,082,857</u>	<u>79,159</u>
	<u><b>10,398,853</b></u>	<u><b>3,176,687</b></u>

## 22. Trade and other payables

Trade and other payables comprises:

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Trade payables (Note 22(a))	235,103,570	178,981,004
Payables to other vendors	6,193,688	3,731,131
Due to related parties (Note 26(c))	25,590	122,065
Payable to NELMCO (Note 23)	1,562,567	-
Accruals	<u>6,885,433</u>	<u>3,637,775</u>
	249,770,848	186,471,975
Statutory deductions	<u>13,236,970</u>	<u>9,699,477</u>
	<u><b>263,007,818</b></u>	<u><b>196,171,452</b></u>

- (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:

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Opening balance	178,981,004	109,216,709
Cost of energy (Note8)	89,595,699	78,674,859
Interest on shortfall (Note10)	20,278,074	26,295,420
Payments	<u>(53,751,207)</u>	<u>(35,205,984)</u>
	<u><b>235,103,570</b></u>	<u><b>178,981,004</b></u>

## Notes to the financial statements

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

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Changes in trade and other payables	66,836,366	74,492,522
Unrealized foreign exchange gain	64,832	12,089
NIPP Assets	(1,641,984)	(1,051,446)
Payable to NELMCO	(1,562,567)	-
Interest on market operator bill	<u>(20,278,074)</u>	<u>(26,295,420)</u>
<b>Amount shown in the statement of cash flows</b>	<b><u>43,418,573</u></b>	<b><u>47,157,745</u></b>

The Company's exposure to liquidity and market risks for trade and other payables is included in Note 30 C (b) and (c).

### 23. 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. During the year, the Company and NELMCO reached an agreement that the amount payable to NELMCO with respect to cash balance on 1 November 2013 is NGN 1.56 billion. Consequently, the amount agreed was reclassified to trade and other payables as at year end and the amount in excess of the agreed amount amounting to NGN325.64 million (see Note 8) was written back to the Statement of Profit or Loss. See Note 22.

Movement in the account was as follows:

	<u>2018</u>	<u>2017</u>
	NGN'000	NGN'000
At 1 January	2,172,939	2,172,939
Transfer to trade and other payables (Note 22)	(1,562,567)	-
Write back of provision for NELMCO liabilities (Note 8)	(325,642)	-
Payment of NELMCO liabilities	<u>(284,730)</u>	<u>-</u>
	<u>-</u>	<u>2,172,939</u>

### 24. Loans and borrowings

Loans and borrowings comprise:

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Vendor financed loan (Note 24(a))	1,163,869	1,901,538
CBN loan (Note 24(b))	15,916,574	-
CAPMI loan (Note 24(d))	998,892	1,335,151
NELMCO Loan (Note 24(c))	938,232	-
TCN Loan (Note 24(c))	<u>4,956,483</u>	<u>-</u>
<b>Total loans and borrowings</b>	<b><u>23,974,050</u></b>	<b><u>3,236,689</u></b>
Non current	19,636,124	1,329,364
Current	<u>4,337,926</u>	<u>1,907,325</u>
	<b><u>23,974,050</u></b>	<b><u>3,236,689</u></b>

#### (a) Vendor financed loan

In a bid to reduce its aggregate technical, commercial, and collection losses, the Company entered into two unsecured vendor financed contracts for the acquisition and installation of meters during the year.

Both contracts are priced at an interest of 12%, and have tenors of 12 months and 32 months respectively.

## Notes to the financial statements

The Company during the year made interest and principal repayments amounting to NGN71.37 million and NGN443.59 million respectively under these contracts.

Amounts due within one year or less are classified as current. The non current liability under these contracts as at year end amounted to N1.01 billion.

### (b) CBN loan

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 NGN213 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.

During the year, the Company received two tranches of NGN20.23 billion and NGN3.49 billion totaling NGN23.72 billion from the NEMSF. This is to be repaid within 81 months with a contractual interest rate of 10%. See Note 22(a).

### (c) TCN and NELMCO loans

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 drawdowns amounting to NGN6.50 billion and NGN1.21 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).

The contracts have a tenor of 48 months with interest of 10%. See Note 22(a).

### (d) 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 installments 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. As at year end, all the outstanding balance on the loan was current (2017: current NGN1.02 billion; non-current NGN318.15 million).

The installation fees NGN 1.45 million (2017: NGN 208.95 million) earned with respect to the meters that have been installed and energized is included as part of other income (Note 9). This scheme was abolished in 2016 and there has been no additions to the loan.

## 25. Employee benefits obligation

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Long service awards (Note 25(a))	479,143	296,433
Post employment defined benefit obligation (DBO) (Note 25(b))	<u>327,696</u>	<u>260,186</u>
	<b><u>806,839</u></b>	<b><u>556,619</u></b>
Non-current	451,993	556,619
Current	<u>354,846</u>	-
	<b><u>806,839</u></b>	<b><u>556,619</u></b>

## Notes to the financial statements

### (a) Long service awards (LSA)

This scheme 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 amounted to NGN 101.36 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 defined benefit costs recognized in the statement of profit or loss amounted to NGN130.20 million (2017: NGN237.03million).

The defined benefit schemes of the Company is unfunded.

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

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Balance, beginning of year	260,186	22,064
<b>Included in profit or loss (as part of administrative expenses)</b>		
Past service cost	-	47,015
Current service cost	101,357	189,279
Interest cost	<u>28,843</u>	<u>731</u>
<b>Included in other comprehensive income</b>		
Actuarial (gain)/loss due to change in assumptions	(47,357)	1,097
Effect of movements in exchange rates	(401)	-
<b>Other</b>		
Benefit paid	<u>(14,932)</u>	<u>-</u>
<b>Balance at 31 December</b>	<u><u>327,696</u></u>	<u><u>260,186</u></u>

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

### (c) Actuarial assumptions

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

	<u>2018</u>		
	<u>DBO- Other staff</u>	<u>LSA</u>	<u>DBO - EMT</u>
Discount rate (%)	15.80%	15.50%	2.63%
Salary increase rate (%)	5%	5%	2.63%
	<u>2017</u>		
	<u>DBO- Other staff</u>	<u>LSA</u>	<u>DBO - EMT</u>
Discount rate (%)	14.6%	14.6%	1.9%
Salary increase rate (%)	5%	5%	1.9%
Pre retirement mortality rate	A1949/52 Ultimate Table	A1949/52 Ultimate Table	-

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

### (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.

## Notes to the financial statements

### (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.

	NGN'000	NGN'000	NGN'000
	DBO- Other staff	LSA	DBO- EMT
Discount rate (+1% movement)	(13,482)	(12,005)	(728)
Discount rate (-1% movement)	14,957	13,040	1,093
Mortality rate (+1% year)	(1,834)	(790)	-
Mortality rate (-1% year)	1,686	712	-
Salary increase rate (+1% movement)	14,098	12,564	1,093
Salary increase rate (-1% movement)	(15,302)	(11,651)	(728)

### 26. 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 are those involved in key decision making process of the Company and comprise directors and executive management staff.

*Key management personnel compensation comprised:*

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Salaries	514,386	1,325,491
Defined benefit obligation	39,384	48,483
Other short-term benefits	<u>782,260</u>	<u>737,749</u>
	<u><b>1,336,030</b></u>	<u><b>2,111,723</b></u>

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:

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>
	NGN'000	NGN'000
Due from related parties:		
Advance to key management personnel	32,750	-
CEC Africa	234	-
KANN	<u>579,689</u>	<u>1,110,212</u>
<b>Related party balance included in trade and other receivables</b>	<u><b>612,673</b></u>	<u><b>1,110,212</b></u>
Due to related parties:		
Accruals for compensation to key management personnel	16,103	89,485
KANN	9,487	-
CEC Africa	<u>-</u>	<u>32,580</u>
<b>Related party balance included in trade and other payables</b>	<u><b>25,590</b></u>	<u><b>122,065</b></u>
<b>Net related party balance</b>	<u><b>587,083</b></u>	<u><b>988,147</b></u>

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 NGN 0.80 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 NGN 1.49 billion (2017: NGN 1.46 billion). See Note 8.

## **27. 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 Notes 22 and 23. 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 litigants amounts to NGN6.16 billion (2017:NGN3.88 billion). The Company also has a claim from the Bureau of Public Enterprises (BPE) in relation to the procurement of certificate of occupancy for 59 pieces of land for which the Company currently does not have full legal title (See note 13(e)). The maximum exposure based on BPE claim is NGN 263 million.

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.

## **28. Events after the reporting period**

### **(a) BPE revision of performance target dates**

Subsequent to year end, on 21 February 2019, BPE revised the performance target dates as communicated in its presentation to the DISCOs, on the reset of the Power Sector. As contained in the presentation, BPE concluded that the Performance Agreement was effective in the first two years (2015-2016) of operation in line with MYTO-2015 and the other years will be termed force majeure years.

As such, the Discos have three years left to meet their loss reduction targets. Commencement of the three remaining years is subject to the following conditions precedent:

- NERC determines and implements a cost reflective tariff regime
- The FGN would provide required subsidy/support where adjustments to end-user tariffs are delayed or capped below cost-reflective levels
- Reconciled historical tariff shortfalls would be immediately written-off Discos' indebtedness to MO and NBET
- Interest component of the tariff shortfall being accumulated by NBET and MO on unpaid invoices should be written-off as well
- FGN would pay verified MDA debts as at date, and implement a clear and efficient framework for settlement of MDA bills going forward

## **Notes to the financial statements**

- Phased activation of Market contracts would be made concurrently with the implementation of new tariffs on the PA Adjustment/Revision Date
- NERC would approve and implement Business Continuity Regulation

As at the date of approval of these financial statements, none of the above conditions precedent has been achieved.

### **(b) NERC approval of Meter Asset Providers (MAPs)**

In line with the Meter Asset Provider (MAP) Regulation issued by NERC requiring all distribution companies to engage the services of MAPs towards covering the metering gap in the country, the Company appointed Mojec International Limited (Mojec), Meron Consortium (Meron) and Turbo Engineering Limited (Turbo) to supply and install 487,000, 213,000 and 200,000 customers with meters respectively. Mojec will cover FCT and Kogi State, Meron will cover Nasarawa State and Turbo will cover Niger State.

On 5 April 2019, the Nigerian Electricity Regulatory Commission (NERC) approved and issued permits to the three (3) Meter Asset Providers who were appointed by the Company to provide and install meters for its customers. The Commission has directed that the rollout of meters shall commence no later than the 1st of May 2019.

### **(c) Power Purchase Agreement (PPA) with North South Power Company Limited (NSP)**

Subsequent to year end, the Company entered into power purchase agreement with NSP for the purchase of 60 megawatts of electricity directly from NSP for onward distribution to the final consumers. As security cover for payments, the Company shall issue a letter of credit in favour of NSP. As at the date of issue of this financial statements, the Company was yet to issue the required letter of credit.

### **(d) Increase in authorized share capital**

Subsequent to year end, the Company made filings with the Corporate Affairs Commission (CAC) to increase the Company's authorized share capital from NGN10 million to NGN15 million by changing the nominal value of existing 10 million shares from NGN0.50 each to NGN1 each.

## **29. Going concern**

The Company reported a loss after tax of NGN 85.72 billion for the year ended 31 December 2018 (2017: NGN 75.98 billion) and, as of that date, the Company's current liabilities exceeded its current assets by NGN221.57 billion (2017: NGN173.19 billion) and its total liabilities exceeded its total assets by NGN128.77 billion (2017: NGN 86.09 billion). In addition, the Company used NGN 12.43 billion in its operating activities. 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.

Approximately 76.93% (2017:91.24%) 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 NGN 60.53 billion (2017:NGN 40.25 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.

There is a general acknowledgement that the Nigerian Electricity Supply Industry (NESI) is far from where it should be. Contracts have not been honoured and performance obligations both on the side of government as well as operators have not been met. 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.

Government recognises the problems and continues to take measures to support the Industry while seeking a resolution of the structural issues limiting the industry's development. During the year, the Company drew down a total of NGN23.71 billion from the Nigerian Electricity Market Stabilization Fund (NEMSF), also known as the Central Bank of Nigeria (CBN) Intervention Fund. In addition, the Company drew down NGN6.5 billion and NGN1.21 billion respectively on the two loan agreements entered into with the Transmission Company of Nigeria (TCN) and NELMCO in 2017. While the proceeds from the NEMSF were used to reduce amount payable to ONEM (Trade Payables), the proceeds from the NELMCO and TCN loans were used to collateralize a letter of credit in favor of NBET. The letter of credit was required to enable the Company participate in the Transitional Electricity Market (TEM). With the letter of



## Notes to the financial statements

credit effectively posted during the year, the Company entered into the TEM effectively in May 2018. Thus, the supplementary TEM Rule which previously governed the Company's transactions with NBET and ONEM ceased to operate and the Vesting Contract became effective. Under the vesting contract, failure to pay market liabilities demanded by NBET could result in an event of default and termination of the contract.

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 commenced in 2017 with the issuance of NGN701 billion Payment Assurance Guarantee (PAG) by the Federal Government (FG) and the FG's payment of Ministries, Departments, and Agencies' (MDA) verified debts to the Company for 2015 and 2016 amounting to NGN9.1 billion. The implementation of the PSRP continued during the year as follows:

1. The CBN continued to make disbursement to NBET on the NGN701 billion Payment Assurance Guarantee (PAG) by the Federal Government (FG);
2. In line with the FG's commitment to making 100% payment of the Company's billings to MDAs, cash collections directly from the MDAs during the year increased to about 89% of the total billings to MDAs (2017: direct cash collections from MDAs was about 78% of total billings to MDAs);
3. The industry reset promised in the PSRP commenced with NERC performing preliminary computation of the industry tariff shortfalls (minor tariff review).

The Bureau of Public Enterprises (BPE) in its presentation on 21 February 2019 on the review of performance target dates of the DISCOS communicated that BPE in agreement with NERC has resolved on the following:

- Discos now have 3 years left to achieve their loss reduction target in the Performance Agreement.
- There will be certain conditions that must be met before the three years start counting.

Some of the Conditions Precedent include

- i) NERC would determine and implement a cost reflective tariff regime in NESI in line with approved MYTO Methodology that will reflect changes in Minor Review variables and current industry/market conditions;
- ii) The FGN would provide required subsidy/support where adjustments to end-user tariffs are delayed or capped below cost-reflective levels;
- iii) Reconciled historical tariff shortfalls would be immediately written-off Discos' indebtedness to MO and NBET;
- iv) Interest component of the tariff shortfall being accumulated by NBET and MO on unpaid invoices would be written-off as well.

The directors have continued discussions with the key stakeholders in the NESI and the FG with respect to the abolition 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. The major issue in the sector and as indicated in the PSRP, is the absence of cost reflective tariffs. Based on the PSRP, NGN44.86 billion is due to the Company in respect of 2015 and 2016 tariff deficit and NERC's preliminary tariff shortfall estimate indicated that NGN27.36 billion is due to the Company in respect of 2015 and 2016 tariff deficit, and NGN80.07 billion for 2017 and 2018. 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 on a going concern basis. These include :

- I Issuance of NGN701 billion Payment Assurance Guarantee (PAG) to ensure that NBET is able to pay the GENCOS invoices without sole reliance on only DISCOS' remittances.
- II Timely payments of monthly billings and offset of historical MDA debts.
- III Ensuring adequate financing is obtained from the World Bank by achieving set milestones.

The Company has also continued its various initiatives aimed at improving its billings and collections such as :

## Notes to the financial statements

1. Mass metering projects funded by vendors and the implementation of the NERC's Meter Asset Provider Regulation.
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.
6. Investing in customer management system to improve billing efficiencies and assist in blocking revenue leakages.

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

### 30. Financial instruments - Fair values and risk management

The effect of initially applying IFRS 9 on the Company's financial instruments is described in Note 35. Due to the transition method chosen, comparative information has not been restated to reflect the new requirements.

#### A Accounting classifications and fair values

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.

	Financial assets at amortised cost	Other financial liabilities	Total carrying amount	Fair value (level 2)
31 December 2018	NGN'000	NGN'000	NGN'000	NGN'000
<b>Financial assets</b>				
Trade and other receivables	49,760,776	-	49,760,776	-
Cash and cash equivalents	4,370,325	-	4,370,325	-
	<u>54,131,101</u>	<u>-</u>	<u>54,131,101</u>	<u>-</u>
	Financial assets at amortised cost	Other financial liabilities	Total	Fair value (level 2)
	NGN'000	NGN'000	NGN'000	NGN'000
<b>Financial liabilities</b>				
Trade and other payables*	-	249,770,848	249,770,848	-
Loans and borrowings	-	23,974,050	23,974,050	22,776,514
	<u>-</u>	<u>273,744,898</u>	<u>273,744,898</u>	<u>22,776,514</u>
	Loans and receivables	Other financial liabilities	Total	Fair value (level 2)
31 December 2017	NGN'000	NGN'000	NGN'000	NGN'000
<b>Financial assets</b>				
Trade and other receivables	21,252,109	-	21,252,109	20,077,562
Cash and cash equivalents	4,309,782	-	4,309,782	-
	<u>25,561,891</u>	<u>-</u>	<u>25,561,891</u>	<u>20,077,562</u>
	Loans and receivables	Other financial liabilities	Total	Fair value (level 2)
	NGN'000	NGN'000	NGN'000	NGN'000
<b>Financial liabilities</b>				
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
	<u>-</u>	<u>189,708,664</u>	<u>189,708,664</u>	<u>163,056,082</u>

\* Carrying amount of trade and other payables does not include statutory deductions.

## Notes to the financial statements

### B Measurement of fair values

#### (i) Valuation techniques and significant unobservable inputs

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.

### C 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 and finance committees 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:

	<b>Notes</b>	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
		<b>NGN'000</b>	<b>NGN'000</b>
Trade and other receivables		49,760,776	21,252,109
Cash at bank	19	4,370,325	4,309,782
		<b>54,131,101</b>	<b>25,561,891</b>

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows:

	<b>2018</b>	<b>2017</b>
	<b>NGN'000</b>	<b>NGN'000</b>
Impairment loss on trade receivables and contract assets arising from contracts with customers	19,190,827	8,558,144
	<b>19,190,827</b>	<b>8,558,144</b>

#### Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base. 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 characteristics of each category of customers.

## Notes to the financial statements

In monitoring credit risk, customers are grouped according to common credit risk characteristics – geographic region, metering status and volume of consumption. No security is provided for the electricity supplied though the Company retains the right to disconnect non paying customers to enforce collections.

The Company does not require collateral in respect of trade and other receivables. The company does not have trade receivable for which no loss allowance is recognised because of collateral.

### *Trade receivables*

<b>2018</b>	<b>Maximum Demand</b>	<b>Non-maximum Demand</b>	<b>Total</b>
	<b>NGN'000</b>	<b>NGN'000</b>	<b>NGN'000</b>
Private individuals/companies	1,498,823	34,670,777	36,169,600
Government institutions	<u>3,731,806</u>	<u>1,426,017</u>	<u>5,157,823</u>
<b>Total</b>	<b><u>5,230,629</u></b>	<b><u>36,096,794</u></b>	<b><u>41,327,423</u></b>
<b>2017</b>	<b>Maximum Demand</b>	<b>Non-maximum Demand</b>	<b>Total</b>
	<b>NGN'000</b>	<b>NGN'000</b>	<b>NGN'000</b>
Private individuals/companies	1,360,598	12,971,185	14,331,783
Government institutions	<u>6,546,122</u>	<u>292,924</u>	<u>6,839,046</u>
<b>Total</b>	<b><u>7,906,720</u></b>	<b><u>13,264,109</u></b>	<b><u>21,170,829</u></b>

### *Comparative information under IAS 39*

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired as at 31 December 2017 is as follows:

	<b><u>31 Dec 2017</u></b>
	<b>NGN'000</b>
Unbilled*	3,526,170
Past due 0-30 days	4,234,719
Past due 31-90 days	4,587,611
Past due 91-120 days	5,116,951
Past due 120 days and above	<u>3,705,378</u>
	<b><u>21,170,829</u></b>

\* Unbilled receivables were neither past due nor impaired.

Impaired trade receivables at 31 December 2017 had a gross carrying amount of NGN65.40 billion. At 31 December 2017, there was an impairment loss of NGN47.75 billion related to several customers that the Company was not expecting them to pay their outstanding balances.

### *Expected credit loss assessment for customers as at 1 January and 31 December 2018*

The Company uses an allowance matrix to measure the expected credit losses (ECLs) of trade receivables from customers. Loss rates are based on actual credit loss experience over the past three years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables. Scalar factors are based on actual and forecast gross domestic product rates.

Loss rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, metering status and volume of consumption.

## Notes to the financial statements

The following table provides information about the exposure to credit risk and ECLs for trade receivables from individual customers as at 31 December 2018.

<b>31 December 2018</b>	<b>Weighted average loss rate</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>
		<b>NGN'000</b>	<b>NGN'000</b>
Prepaid customers (PPM)*	63%	3,630,979	(2,263,793)
Government Agencies	30%	7,336,032	(2,197,489)
Metered Maximum Demand customers	16%	1,211,721	(188,277)
Unmetered Maximum Demand customers	14%	1,579,555	(1,106,803)
Metered non-Maximum Demand customers (High tier)	6%	148,629	(8,875)
Metered non-Maximum Demand customers (Middle tier)	28%	84,712	(23,940)
Metered non-Maximum Demand customers (Low tier)	51%	2,046,441	(1,036,473)
Unmetered non-Maximum Demand customers (High tier)	41%	19,114	(7,749)
Unmetered non-Maximum Demand customers (Middle tier)	38%	91,696	(34,835)
Unmetered non-Maximum Demand customers (Low tier)	59%	<u>76,869,913</u>	<u>(44,823,135)</u>
		<u><b>93,018,792</b></u>	<u><b>(51,691,369)</b></u>

\* This relates to debts from customers who have migrated from postpaid to prepaid database.

*Movements in the allowance for impairment in respect of trade receivables and contract assets*

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	<b>2018</b>	<b>2017</b>	
	<b>NGN'000</b>	<b>Individual impairments</b>	<b>Collective impairments</b>
	<b>NGN'000</b>	<b>NGN'000</b>	<b>NGN'000</b>
<b>Balance at 1 January under IAS 39</b>	47,751,868	-	39,456,757
Adjustment on initial application of IFRS 9	<u>(11,616,121)</u>	-	-
<b>Balance at 1 January under IFRS 9</b>	36,135,747	-	39,456,757
Net remeasurement of loss allowance	<u>15,555,622</u>	-	<u>8,295,111</u>
<b>Balance at 31 December</b>	<u><b>51,691,369</b></u>	<u>-</u>	<u><b>47,751,868</b></u>

### Cash at bank

The Company held cash and cash equivalents of NGN 4.37 billion at 31 December 2018 (2017:NGN 4.31 billion). The cash and cash equivalents are held with bank and reputable financial institution in Nigeria.

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, the Company recognised no impairment allowance as at 1 January 2018 and this did not change during 2018.

### 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.

## Notes to the financial statements

Receivables above one month are fully impaired. The impairment charge amounted to NGN179.76 million (2017: NGN263.03 million). During the year a write back of impairment amounting to NGN76.44 million was recorded in the statement of profit or loss.

### Due from related parties

The Company has transactions with its parent and other related parties who are related to the Company by virtue of being members of the Copperbelt Energy Group. In the directors' view, all amounts are collectible. Related party receivable balances were assessed for impairment in accordance with IFRS 9.

### Letter of credit

The Company has letter of credit facility of NGN 10.5 billion obtained from United Bank of Africa. A cash collateral of NGN 8.30 billion was deposited with the bank. The Company considers that the letter of credit have low credit risk based on the external credit ratings of the counterparty.

### (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 29) - 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.

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 5 years
	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000
<b>Non-derivative financial liabilities</b>					
<b>31 December 2018</b>					
Trade and other payables	249,770,848	249,770,848	249,770,848	-	-
Loans and borrowings (Note24)	<u>23,974,050</u>	<u>39,255,584</u>	<u>2,142,596</u>	<u>6,653,645</u>	<u>25,177,401</u>
	<b><u>273,744,898</u></b>	<b><u>289,026,432</u></b>	<b><u>251,913,444</u></b>	<b><u>6,653,645</u></b>	<b><u>25,177,401</u></b>
<b>Non-derivative financial liabilities</b>					
<b>31 December 2017</b>					
Trade and other payables	186,471,975	186,471,975	186,471,975	-	-
Loans and borrowings (Note24)	<u>3,236,689</u>	<u>3,453,815</u>	<u>522,562</u>	<u>1,384,762</u>	<u>1,546,491</u>
	<b><u>189,708,664</u></b>	<b><u>189,925,790</u></b>	<b><u>186,994,537</u></b>	<b><u>1,384,762</u></b>	<b><u>1,546,491</u></b>

### (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.

## Notes to the financial statements

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:

	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
	\$	\$
Cash and cash equivalents	139,936	559,292
Trade and other payables	(322,717)	-
<b>Net statement of financial position exposure</b>	<b>(182,781)</b>	<b>559,292</b>

The following significant exchange rates were applied during the year

	Average rate		Reporting date spot rate	
	2018	2017	2018	2017
	NGN	NGN	NGN	NGN
US\$	361.88	365.50	364.18	360

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.

	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
	NGN'000	NGN'000
US\$	9,985	(30,202)

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.

## Notes to the financial statements

### *Interest rate risk- Sensitivity analysis*

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

	Rate	<u>31 Dec 2018</u>	Rate	<u>31 Dec 2017</u>
		NGN'000		NGN'000
<b>Fixed rate instruments</b>				
Vendor financed loan	12%	1,163,869	12%	116,810
Vehicle finance loan	20%	-	20%	24,167
CBN loan	10%	15,916,574	-	-
TCN loan	10%	4,956,483	-	-
NELMCO loan	10%	938,232	-	-
Letter of credit	7.5%	(8,299,743)	-	-
<b>Variable-rate instruments</b>				
MO/NBET market debts	NIBOR+4%	20,278,074	NIBOR+10%	26,295,420

### *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
<u>1,297,597</u>	<u>(1,297,597)</u>	<u>1,161,161</u>	<u>(1,161,161)</u>

## 31. 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.

### (iii) Amounts recognized in profit or loss

Lease expenses recognized in profit or loss during the year amounted to NGN432.22 million (2017: NGN435.65 million). This is included in administrative expenses as rent expense.

## 32. 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

## 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.



## Notes to the financial statements

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.

The Company's adjusted net debt to equity ratio as at December 2018 was as follows:

	31 December 2018 NGN'000	31 December 2017 NGN'000
Total liabilities	298,712,127	206,242,165
Less: cash and cash equivalents	<u>(4,395,622)</u>	<u>(4,342,225)</u>
Adjusted net debt	294,316,505	201,899,940
Total equity	<u>(128,769,598)</u>	<u>(86,094,604)</u>
Total equity to adjusted net debt	<u>(2.29)</u>	<u>(2.35)</u>

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

	CAPMI loan NGN'000	CBN loan NGN'000	NELMCO & TCN loans NGN'000	Vendor financed NGN'000	Total NGN'000
Balance at 1 January 2018	1,335,151	-	-	1,901,538	3,236,689
<b>Changes from financing cashflows</b>					
Proceeds from loans and borrowings	-	23,719,651	7,711,837	393,750	31,825,238
Interest paid	-	(1,551,811)	(567,997)	(260,983)	(2,380,791)
Principal repayment	-	(1,771,617)	(734,325)	(738,370)	(3,244,312)
<b>Total changes from financing cashflows</b>	<u>-</u>	<u>20,396,223</u>	<u>6,409,515</u>	<u>(605,603)</u>	<u>26,200,135</u>
<b>Other changes</b>					
Liability-related					
Day 1 Gain	-	(7,103,903)	(1,551,071)	(393,750)	(9,048,724)
Interest expense	100,862	2,624,254	1,036,271	261,684	4,023,071
Principal repayment (non-cash)*	(437,121)	-	-	-	(437,121)
<b>Total liability-related other changes</b>	<u>(336,259)</u>	<u>(4,479,649)</u>	<u>(514,800)</u>	<u>(132,066)</u>	<u>(5,462,774)</u>
<b>Balance as at 31 December 2018</b>	<u>998,892</u>	<u>15,916,574</u>	<u>5,894,715</u>	<u>1,163,869</u>	<u>23,974,050</u>

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

### 35. Changes in significant accounting policies

The Company has initially applied IFRS 15 (see A) and IFRS 9 (see B) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying these standards is mainly attributed to the following:

- a decrease in impairment losses recognised on financial assets (see B(ii)).

#### (A) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgment.

The Company has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

## Notes to the financial statements

The following table summarises the impact, net of tax, of transition to IFRS 15 on retained earnings at 1 January 2018.

	Notes	<b>Impact of adopting IFRS 15 at 1 January 2018</b>
		NGN'000
<b>Retained earnings</b>		
Non paying customers	(a)	4,187,662
Revenue from MAN customers	(b)	<u>2,720,405</u>
		<b>6,908,067</b>
Related tax		<u>(8,634)</u>
Impact at 1 January 2018		<b><u>6,899,433</u></b>

The following tables summarise the impacts of adopting IFRS 15 on the Company's statement of financial position as at 31 December 2018 and its statement of profit or loss and OCI for the year then ended for each of the line items affected. There was no material impact on the Company's statement of cash flows for the year ended 31 December 2018.

Impact on the consolidated statement of financial position  
**31 December 2018**

	Notes	As reported	Adjustments	Amounts without adoption of IFRS 15
		NGN'000	NGN'000	NGN'000
<b>Assets</b>				
Trade and other receivables		42,307,449	(6,908,067)	35,399,382
Others		<u>127,635,080</u>	-	<u>127,635,080</u>
<b>Total assets</b>		<b><u>169,942,529</u></b>	<b><u>(6,908,067)</u></b>	<b><u>163,034,462</u></b>
<b>Equity</b>				
Retained earnings		(172,737,140)	(6,579,111)	(179,316,251)
Others		<u>43,967,542</u>	-	<u>43,967,542</u>
<b>Total equity</b>		<b><u>(128,769,598)</u></b>	<b><u>(6,579,111)</u></b>	<b><u>(135,348,709)</u></b>
<b>Liabilities</b>				
Trade and other payables		4,337,926	(328,956)	4,008,970
Others		<u>294,374,201</u>	-	<u>294,374,201</u>
<b>Total liabilities</b>		<b><u>298,712,127</u></b>	<b><u>(328,956)</u></b>	<b><u>298,383,171</u></b>
<b>Total equity and liabilities</b>		<b><u>169,942,529</u></b>	<b><u>(6,908,067)</u></b>	<b><u>163,034,462</u></b>

- (a) **Non-paying customers:** Under IAS 18, revenue from these customers were not recognised as all criteria for revenue recognition were not met. Under IFRS 15, if a contract with a customer does not meet the revenue recognition criteria, an entity continues to assess the contract to determine whether the recognition criteria are subsequently met.

Therefore, for those contracts which were previously assessed as not meeting the revenue recognition criteria, the Company continued to assess them and revenue was recognised when all the revenue recognition criteria was met.

- (b) **Revenue from MAN customers:** In reaction to the increase in tariff as stated in MYTO 2.1 (in 2015), the Manufacturing Association of Nigeria (MAN) instituted a court case against NERC seeking for a reversal of the increase. Some of the MAN members have hence been paying on the old tariff, specifically MYTO-2 (June 2014), whilst being billed on the new tariff by the Company. Under IAS 18, revenue was not recognised as it wasn't probable that the economic benefits associated with the transaction will flow to the entity. Under IFRS 15, an entity recognises revenue and a contract asset when it satisfies a performance obligation but does not have an unconditional right to consideration.

## Notes to the financial statements

Therefore, the Company recognised revenue and contract assets for the disputed billings with the affected MAN customers. Contract assets recognised was subsequently impaired during year.

### (B) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising 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.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables in administrative expenses. Consequently, the Company reclassified impairment losses amounting to NGN 8.30 billion, recognised under IAS 39, from 'administrative expenses' to 'impairment loss on trade receivables and contract assets' in the statement of profit or loss and OCI for the year ended 31 December 2017.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings (for a description of the transition method, see (iv)).

	Notes	<b>Impact of adopting IFRS 9 on opening balance</b>
<b>Retained earnings</b>		<b>NGN'000</b>
Recognition of expected credit losses under IFRS 9		11,616,121
Related tax		<u>                    -</u>
<b>Impact at 1 January 2018</b>		<b><u>11,616,121</u></b>

#### (i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, See Note (5(f)).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2018.

## Notes to the financial statements

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

Notes	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 NGN'000	New carrying amount under IFRS 9 NGN'000
<b>Financial assets</b>				
Trade and other receivables	Loans and receivables	Amortised cost	22,920,848	33,495,069
Cash and cash equivalents	Loans and receivables	Amortised cost	<u>4,342,225</u>	<u>4,342,225</u>
<b>Total financial assets</b>			<b><u>27,263,073</u></b>	<b><u>37,837,294</u></b>
<b>Financial liabilities</b>				
Vendor financed loan	Other financial liabilities	Other financial liabilities	(1,901,538)	(1,901,538)
CAPMI payables	Other financial liabilities	Other financial liabilities	<u>(1,335,151)</u>	<u>(1,335,151)</u>
			<b><u>(3,236,689)</u></b>	<b><u>(3,236,689)</u></b>

- (a) Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. A decrease of NGN17.46 billion in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

Additional trade receivables of NGN 1.87 billion were recognised at 1 January 2018 on the adoption of IFRS 15, for which an allowance for impairment of NGN 1.04 billion was recognised (see (ii) below).

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount at 31 December 2017 NGN'000	Reclassifi- cation NGN'000	Remeasure- ment NGN'000	IFRS 9 carrying amount at 1 January 2018 NGN'000
<b>Financial assets</b>				
Cash and cash equivalents:				
Brought forward: Loans and receivables	4,342,225			
Remeasurement				
Carried forward: Amortised cost				4,342,225
Trade and other receivables:				
Brought forward: Loans and receivables	22,920,848*			
Remeasurement			10,574,221	
Carried forward: Amortised cost				<u>33,495,069</u>
<b>Total amortised cost</b>	<b><u>27,263,073</u></b>		<b><u>10,574,221</u></b>	<b><u>37,837,294</u></b>

\* Excludes additional trade receivables of NGN 1.86 billion recognised on the adoption of IFRS 15, for which an allowance for impairment of NGN 1.04 billion was recognised.

## Notes to the financial statements

### (ii) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.<sup>a</sup> Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note (5(l)).

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9’s impairment requirements at 1 January 2018 results in a reduction in allowance for impairment as follows.

	<b>NGN'000</b>
<b>Loss allowance at 31 December 2017 under IAS 39</b>	<b>48,014,901</b>
Additional impairment recognised at 1 January 2018 on:	
Trade and other receivables as at 31 December 2017	(10,574,221)
Additional trade receivables recognised on adoption of IFRS 15	(1,041,900)
Cash and cash equivalents	-
<b>Loss allowance at 1 January 2018 under IFRS 9</b>	<b>36,398,780</b>

Additional information about how the Company measures the allowance for impairment is described in Note (5(l)).

## Notes to the financial statements

### 36 New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

(a) The following standard may have some impact on the financial statements in the period of initial application.

Standard not yet effective		Date issued by IASB	Effective date periods beginning on or after	Summary of the requirements and impact assessment
IFRS 16	Leases	January 2016	1 January 2019 Early adoption is permitted only for entities that adopt IFRS 15 Revenue from Contracts with Customers, at or before the date of initial application of IFRS 16.	<p>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</p> <p>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.</p> <p>The Company is yet to complete its detailed assessment of the potential impact of this standard on its financial statements.</p> <p><b>Transition</b></p> <p>As a lessee, the Company can either apply the standard using a:</p> <ul style="list-style-type: none"> <li>– retrospective approach; or</li> <li>– modified retrospective approach with optional practical expedients.</li> </ul> <p>The lessee applies the election consistently to all of its leases.</p> <p>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.</p> <p>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.</p>

## Notes to the financial statements

### (b) 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 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

## **Other national disclosures**



## Value Added Statement

*For the year ended*

	<u>31 Dec 2018</u>	<u>%</u>	<u>31 Dec 2017</u>	<u>%</u>
	NGN'000		NGN'000	
Revenue	82,220,731		65,715,312	
Bought in materials and services::				
- Local	(127,498,102)		(101,267,203)	
- Foreign	-		-	
	<u>(45,277,371)</u>		<u>(35,551,891)</u>	
Finance income	885,958		475,664	
Other income	<u>1,414,139</u>		<u>373,324</u>	
	<u><b>(42,977,274)</b></u>	<u><b>100</b></u>	<u><b>(34,702,903)</b></u>	<u><b>100</b></u>
<b>To employees:</b>				
- as salaries, wages and other staff costs	13,176,776	(31)	9,695,325	(28)
<b>To providers of finance:</b>				
- Finance cost and similar charges	24,360,868	(57)	26,897,315	(78)
<b>To government as:</b>				
- taxes	102,788	1	82,156	-
<b>Retained in the Business:</b>				
To maintain and replace:				
- property plant and equipment	5,028,374	(12)	4,557,562	(13)
- intangible assets	73,249	-	42,039	-
- To deplete reserves	<u>(85,719,329)</u>	<u>199</u>	<u>(75,977,300)</u>	<u>219</u>
	<u><b>(42,977,274)</b></u>	<u><b>100</b></u>	<u><b>(34,702,903)</b></u>	<u><b>100</b></u>

## Five year financial summary

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000
Revenue	82,220,731	65,715,312	61,147,917	62,534,676	48,097,381
Results from operating activities	-	-	(35,309,576)	(39,196,964)	(24,908,727)
Loss before taxation	-	-	(47,298,250)	(41,718,714)	(25,606,664)
Loss for the year	(85,719,329)	(75,977,300)	(47,447,920)	(41,972,588)	(25,971,035)
Total comprehensive income for the year	<u>(61,190,548)</u>	<u>(75,079,969)</u>	<u>(47,447,920)</u>	<u>(26,695,163)</u>	<u>(22,670,770)</u>

### Statement of financial position

	<u>31 Dec 2018</u>	<u>31 Dec 2017</u>	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>	<u>31 Dec 2014</u>
	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000
<b>Employment of funds</b>					
Property, plant and equipment	111,649,532	91,952,036	84,088,819	83,079,696	86,784,523
Intangible assets	1,039,954	79,574	32,816	32,485	15,177
Non-current trade and other receivables	114,448	-	-	-	-
Withholding tax receivables	9,345,410	32,550	-	-	-
Non-current prepayments	53,577	16,398	11,278	37,043	40,348
Net current liabilities	(221,568,406)	(173,191,651)	(93,625,528)	(45,000,349)	(22,590,711)
Non current liabilities	<u>(29,404,113)</u>	<u>(4,983,511)</u>	<u>(1,527,020)</u>	<u>(1,720,590)</u>	<u>(1,125,889)</u>
<b>Net assets</b>	<b><u>(128,769,598)</u></b>	<b><u>(86,094,604)</u></b>	<b><u>(11,019,635)</u></b>	<b><u>36,428,285</u></b>	<b><u>63,123,448</u></b>
<b>Funds Employed</b>					
Share Capital	10,000	10,000	5,000	5,000	5,000
Retained earnings	(172,737,140)	(105,580,722)	(29,602,325)	17,845,595	59,818,183
Revaluation reserve	43,957,542	19,476,118	18,577,690	18,577,690	3,300,265
	<u>(128,769,598)</u>	<u>(86,094,604)</u>	<u>(11,019,635)</u>	<u>36,428,285</u>	<u>63,123,448</u>