Abuja Electricity Distribution Plc

Annual Report

31 December 2019

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Corporate information

Registration number **638681**

	Name	Nationality	Designation
Directors:	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 2019

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 2019.

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:

Summary of statement of profit or loss	2019 NGN'000	2018 NGN'000
Revenue	255,987,711	82,220,731
Gross profit/(loss)	151,937,949	(13,181,795)
Operating profit/(loss	107,605,424	(62,141,631)
Profit/(Loss) before minimum tax and income tax	**125,790,733**	**(85,616,541)**
Minimum tax	(1,246,219)	(102,788)
Income tax	(251,979)	-
Profit/(Loss) for the year	**124,292,535**	**(85,719,329)**
Summary of financial position		
Total assets	166,191,380	169,942,529
Total liabilities	170,761,977	298,712,127
Equity	(4,570,597)	(128,769,598)

The increased revenue and profit for the year is as a result of tariff shortfalls awarded to the Company by the Nigerian Electricity Regulatory Commission (NERC) of NGN 164.91 billion. See Note 7A(a) to these financial statements.

No dividend has been recommended by the directors (2018: Nil)

Directors' report (Cont'd)

The directors have continued with certain initiatives aimed at improving the financial position and operations of the Company. These include:

- Access to the Central Bank of Nigeria (CBN) Nigerian Electricity Market Stabilisation Fund (NEMSF) amounting to NGN27 billion. In 2018, the Company accessed the CBN fund. Drawdowns of NGN23.72 billion from this fund had been used to settle a portion of the market debt in prior year. During the year, NGN1.08 billion of this fund was drawn down to settle legacy gas debts.

- Subsidies for past and future tariff shortfalls. During the year, NERC awarded the Company an accumulated tariff shortfall for 2015 to 2018 of NGN102.22 billion, tariff shortfall for 2019 of NGN62.69 billion and a projected tariff shortfall for 2020 of NGN57.27 billion. The shortfall have been settled via a net off of NBET payables. Similarly, interest related to tariff shortfall for 2015 to 2018 of NGN 38.12 billion and interest related to tariff shortfall for 2019 of NGN 21.11 billion have been netted off of the interests payable on the NBET payables.

- 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.

- Deployment of a new enterprise resource planning system, Microsoft Dynamics which provides robust solutions to a wide variety of the Company's business process such as financial planning and reporting, and human resource management.

Directors and their interests

The Directors who served during the year were as follows:

Name	Nationality	Designation
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:

	15 million shares at N1 each		10 million shares at 50k each and 5million shares at N1 each	
	31 December 2019		31 December 2018	
	%	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
Total	**100**	**15,000,000**	**100**	**15,000,000**

During the year, 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.

NGN7.5 million of this remains unpaid at year end, and have been included as unpaid share capital in trade and other receivables. See Notes 18(a) and 21(a).

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 6 times (2018: 7 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	7 Feb	9 May	22 Aug	30 Sept	14 Nov	16 Dec
Amb. Shehu Malami	Chairman	X	X	X	-	X	X
Ernest Mupwaya	Managing Director/CEO	X	X	X	X	X	X
Siyanga Malumo	Director	X	X	X	X	X	X
Emmanuel Katepa	Director	X	X	X	X	X	-
Ahmad Saci Maiyaki	Director	X	-	X	X	X	-
Olusegun Doherty	Director	X	X	X	X	X	X
Alex Okoh	Director	-	-	-	X	-	X
Muhammad Dikko Abdullahi	Alternate Director	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
Mrs. Olajumoke Delano	

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 5 meetings (2018: 4 meetings) during the year under review.

2. Finance Committee

The current composition of the Finance Committee is as follows:

Members	**Designation**
Mr. Emmanuel Katepa	Chairman
Mr. Alex Okoh	Member
Mr. Olusegun Doherty	Member
Mr. Ernest Mupwaya	Ex-officio
Mrs. Olajumoke Delano	Secretary

The functions of the Finance Committee include optimizing, overseeing and advising on all matters relating to the capital structure, capital management and planning, approving the annual budget and authorizing categories of expenditure and payments within its mandate. 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 (2018: 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, 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 (2018: 5 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
Mrs. Olajumoke Delano	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 (2018: 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
Mrs. Olajumoke Delano	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 6 meetings (2018: 5 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
Mrs. Olajumoke Delano	Secretary

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 (2018: nil).

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 changes to the leadership team. The leadership team comprises:

Name	Designation
Ernest Mupwaya	Managing Director/CEO
Ije Ikoku Okeke	Chief Finance Officer
Saidu A.Gorebe	Chief Operating 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

* During the year, Mr. Saidu A. Gorebe was appointed as the COO.

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 24.80 billion was drawn down on this facility as at year end. See Note 25(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 Note 27((e)) to these financial statements.

Directors' report (Cont'd)

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.

(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 pre-completion 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 14 to these financial statements.

Charitable contributions

During the year, the Company made charitable contributions to various organizations and persons, including Youth Lead Nigeria amounting to NGN0.30 million (2018 : 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 (2018 : Nil).

Events after the reporting date

See Note 29 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.

Directors' report (Cont'd)

(b) ***Dissemination of information:***

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

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

The Company has four (4) physically challenged persons in its employment (2018: 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 served as the independent auditor during the year under review. KPMG Professional Services in accordance with the existing regulation, which limits the tenure of the independent auditor, will not continue in office as the Company's independent auditor after the conclusion of the forthcoming Annual General Meeting. ln accordance with Section 357(2) of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, the Board will propose at the forth coming Annual General Meeting, the appointment of another firm as the independent auditors to the Company effective after the conclusion of the meeting.

BY ORDER OF THE BOARD

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

Abuja, Nigeria
12 August 2020

Statement of directors' responsibilities in relation to the financial statements for the year ended 31 December 2019

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 31 to these financial statements for more details.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Signature

Ernest Mupwaya
Name

FRC/2016/COREN/00000015743

12 August 2020

Date

Signature

AMB. Shehu Malami
Name

FRC/2015/IODN/00000011270

12 August 2020

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 2019 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	Mrs. Olajumoke Delano	Secretary
3	Mr. Olusegun Doherty	
4	Mr Siyanga Malumo	

Mr. Alex Okoh
Chairman
FRC/2019/IOD/00000019210

12 August 2020

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

12 August 2020

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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 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information, as set out on pages 18 to 75.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the *International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards)* (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.

Emphasis of matter - Material Uncertainty Related to Going Concern

We draw attention to Note 31 to these financial statements, which indicates that although the Company reported a profit after tax of NGN124.29 billion for the year ended 31 December 2019 (2018: loss after tax of NGN85.72 billion), as of that date, the Company's current liabilities exceeded its current assets by NGN94.52 billion (2018: NGN221.57 billion) and its total liabilities exceeded its total assets by NGN4.57 billion (2018: NGN128.77 billion).

As stated in Note 31, these events or conditions, along with other matters as set forth in Note 31, 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.

The key audit matter	
Revenue recognition	***How the matter was addressed in our audit***
Revenue recognition was a matter of significance in our audit of the financial statements due to: • Significant judgment and estimation involved in determining revenue from unmetered customers based on an estimated billing methodology; and • Significant judgment and estimation involved in determining: unbilled revenue for postpaid energy sales to customers between the date of their last bill and the year-end date, and deferred revenue from prepaid energy sales as at year end which require estimation of electricity units consumed by customers up to the year- end date with reference to electricity unit purchases and other assumptions. Additionally, tariffs are regulated and include multiple guidelines issued by the regulator, Nigerian Electricity Regulatory Commission ("NERC"). The Company's process of implementing the multiple guidelines is manual and prone to error.	Our audit procedures in this area included the following: • We obtained an understanding of the Company's customer billing and meter reading processes and evaluated the design and implementation of the relevant controls in relation to revenue estimation and billing systems. • For revenue recognized in respect of unmetered customers, we evaluated the reasonableness of the assumptions underlying the Company's estimated billing methodology. We also evaluated the reasonableness of billings to unmetered customers by comparing unmetered customer billings in the respective tariff classes to billings made to metered customers in the same tariff classes. • With respect to the estimation of deferred revenue from prepaid energy sales and unbilled revenue from the postpaid energy sales, we re-computed deferred revenue using parameters such as customers' average daily consumption and compared these to amounts determined by the Company. We also considered the estimate made for unbilled revenue at year end in comparison to actual billing data in the subsequent month. • We evaluated the various NERC guidelines issued with respect to metering and billing of customers and assessed how the Company had complied with those guidelines in formulating its billing and revenue recognition methodology.
The Company's accounting policy on revenue recognition and related disclosures are shown in Notes 5(a) and 7B to the financial statements respectively.	

The key audit matter	
Recognition of tariff shortfalls	***How the matter was addressed in our audit***
During the year, the NERC issued Order No. NERC/GL/170 "The 2016 - 2018 Minor Review of the Multi Year Tariff Order (MYTO) 2015 and Minimum Remittance Order for the year 2019" and Order No. NERC/GL/184/2019 "December 2019 Minor Review Multi Year Tariff Order 2015 and Minimum Remittance Order for the year 2020". These orders awarded tariff shortfalls to the Company. The recognition of the tariff shortfall is a significant unusual transaction due to its size and frequency of occurrence (one-off transaction). As such, recognition of the tariff shortfall was a matter of significance to our audit.	Our audit procedures in this area included the following: • We evaluated the various NERC orders issued with respect to the tariff shortfall and assessed how the Company complied with the orders in the recognition of the tariff shortfall. • We evaluated whether or not the offset of the tariff shortfalls against amounts due to the Nigerian Bulk Electricity Trading Plc (NBET) is appropriate given the criteria for derecognition of financial liabilities. • We evaluated whether the accounting treatment of the tariff shortfall is in line with our understanding of the business.
The Company's accounting policy on recognition of tariff shortfall and related disclosures are shown in Notes 5(a) and 7A to the financial statements respectively.	

The key audit matter	
Recognition of assets under the Meter Asset Providers (MAP) Regulation	***How the matter was addressed in our audit***
In line with the Meter Asset Providers (MAPs) regulation issued by NERC, meters were procured and installed for customers within the Company's distribution network by the MAPs and recognized as customer-contributed assets by the Company. The recognition and computation of the fair values of these meters was a matter of significance to our audit and involved significant judgment due to the size and novelty of the transactions.	Our audit procedures in this area included the following: • We read the MAPs regulation issued and evaluated how the Company has complied with the regulation in the recognition of the customer contributed assets. • We agreed the fair value of the customer contributed assets to the Metering Service Agreements checking that the parameters used for fair value determination are appropriate. • We evaluated the accounting treatment of the customer contributed assets by assessing whether the Company obtains control of the customer-contributed assets.
The Company's accounting policy on recognition of customer contributed assets and related disclosures are shown in Notes 5(d)v and 7A to the financial statements respectively.	

The key audit matter	
Implementation of IFRS 16 - Measurement of right-of-use assets and lease liability	***How the matter was addressed in our audit***
The Company adopted IFRS 16 Leases which became mandatorily effective on 1 January 2019. In adopting IFRS 16, significant judgment and estimation were involved in: a) The assessment and interpretation of relevant contractual terms in the various rental agreements of the Company. b) Evaluation of the existence or otherwise of a lease in the various rental agreements of the Company. c) Determination of the transition adjustments. Due to the nature of the Company's operations, it has a large portfolio of leases especially with respect to office space and accommodation. The large portfolio of leases together with the nature of judgments and estimates required made this a matter of significance to our audit.	Our audit procedures in this area included the following: • We tested the inputs to the key assumptions, which include contractual and estimated inputs (e.g. discount rates, renewal options assessment) by comparing the assumptions to our expectations based on knowledge of the Company and other externally derived data. • We tested the lease liabilities and right of use assets by setting our expectations based on our knowledge of the client and experience of the industry and compared to the amounts recorded in the financial statements. • We evaluated the key judgments and estimates made in preparing the transition adjustments.
The Company's accounting policy on lease recognition and related disclosures are shown in notes 5(k), 33 and 37 to the financial statements respectively.	

Information Other than the Financial Statements and Audit Report thereon

The Directors are responsible for the other information. The other information comprises the Directors' report, Statement of Directors' Responsibilities, Report of the Statutory Audit Committee, Other National Disclosures, but does not include the financial statements and our auditor's 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.

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.

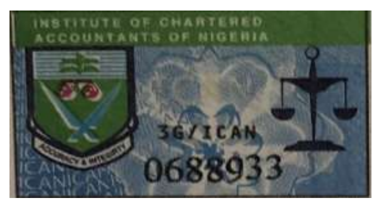
Report on Other Legal and Regulatory Requirements

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
27 August 2020
Lagos, Nigeria



Statement of financial position
As at 31 December

	Notes	2019 NGN'000	2018 NGN'000
ASSETS			
Property, plant and equipment	*14*	113,589,891	111,649,532
Right-of-use assets	*33(a)(i)*	820,401	-
Intangible assets	*15*	920,334	1,039,954
Trade and other receivables	*18*	-	9,345,410
Withholding tax receivables	*17*	-	114,448
Prepayments	*19*	-	53,577
Non current assets		**115,330,626**	**122,202,921**
Inventories	*16*	256,568	402,701
Trade and other receivables	*18*	48,903,340	42,307,449
Prepayments	*19*	433,695	633,836
Cash and cash equivalents	*20*	1,267,151	4,395,622
Current assets		**50,860,754**	**47,739,608**
Total assets		**166,191,380**	**169,942,529**
EQUITY			
Share capital	*21(a)*	15,000	10,000
Revaluation reserve	*21(b)*	43,957,542	43,957,542
Accumulated deficit		(48,543,139)	(172,737,140)
Total equity		**(4,570,597)**	**(128,769,598)**
LIABILITIES			
Loans and borrowings	*25*	17,303,510	19,636,124
Employee benefits obligation	*26*	733,211	451,993
Deferred income	*22*	7,341,699	9,315,996
Total non-current liabilities		**25,378,420**	**29,404,113**
Current tax liabilities	*13(d)*	1,300,473	-
Loans and borrowings	*25*	4,978,317	4,337,926
Trade and other payables	*23*	136,249,149	263,007,818
Contract liabilities	*7(C)*	635,894	524,567
Deferred income	*22*	1,528,577	1,082,857
Employee benefits obligation	*26*	330,107	354,846
Provisions	*24*	361,040	-
Current liabilities		**145,383,557**	**269,308,014**
Total liabilities		**170,761,977**	**298,712,127**
Total equity and liabilities		**166,191,380**	**169,942,529**

These financial statements were approved by the Board of Directors on 12 August 2020 and signed on its behalf by:

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

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

Additionally certified by:
Ije Ikoku Okeke — Chief Finance Officer — *FRC/2018/ANAN/00000018049*

The notes on pages 22 to 75 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December

	Notes	2019	2018
		NGN'000	**NGN'000**
Revenue	*7*	255,987,711	82,220,731
Cost of sales	*8*	(104,049,762)	(95,402,526)
Gross profit/(loss)		**151,937,949**	**(13,181,795)**
Other income	*9*	2,630,985	1,414,139
Impairment loss on trade and other receivables and contract assets	*32B(a)*	(21,937,679)	(19,190,827)
Administrative expenses	*8*	(25,025,831)	(31,183,148)
Operating profit/(loss)		**107,605,424**	**(62,141,631)**
Finance income	*10*	24,226,682	937,197
Finance costs	*10*	(6,041,373)	(24,412,107)
Net finance income/(costs)		**18,185,309**	**(23,474,910)**
Profit/(Loss) before minimum tax and income tax		**125,790,733**	**(85,616,541)**
Minimum tax	*13(a)*	(1,246,219)	(102,788)
Profit/(Loss) before income tax		**124,544,514**	**(85,719,329)**
Income tax expense	*13(b)*	(251,979)	-
Profit/(Loss) for the year		**124,292,535**	**(85,719,329)**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Actuarial (loss)/gain	*26(b)*	(98,534)	47,357
Revaluation difference on property, plant and equipment	*14*	-	24,481,424
Other comprehensive income, net of tax		**(98,534)**	**24,528,781**
Total comprehensive income/(loss)		**124,194,001**	**(61,190,548)**

The notes on pages 22 to 75 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 2018		10,000	(87,065,168)	19,476,118	(67,579,050)
Total comprehensive income					
Loss for the year		-	(85,719,329)	-	(85,719,329)
Other comprehensive income, net of tax		-	47,357	24,481,424	24,528,781
Total comprehensive income		**-**	**(85,671,972)**	**24,481,424**	**(61,190,548)**
Transaction with owners		-	-	-	-
Balance at 31 December 2018		**10,000**	**(172,737,140)**	**43,957,542**	**(128,769,598)**
Total comprehensive income					
Profit for the year		-	124,292,535	-	124,292,535
Other comprehensive loss, net of tax		-	(98,534)	-	(98,534)
Total comprehensive income		**-**	**124,194,001**	**-**	**124,194,001**
Transaction with owners of the Company:					
Increase in nominal value of share capital	*21(a)*	5,000	-	-	5,000
Total transactions with owners of the Company		**5,000**	**-**	**-**	**5,000**
Balance at 31 December 2019		**15,000**	**(48,543,139)**	**43,957,542**	**(4,570,597)**

The notes on pages 22 to 75 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

	Notes	2019	2018
Cash flow from operating activities		**NGN'000**	**NGN'000**
Profit/(Loss) for the year		124,292,535	(85,719,329)
Adjustments for:			
- Tariff shortfall awarded by NERC	*7A*	(164,909,064)	-
- Income from customer contributed assets	*7A*	(2,756,178)	-
- depreciation of property, plant and equipment	***14***	4,473,085	5,028,374
- depreciation of right-of-use assets	***33(a)(i)***	383,401	-
- write off of property, plant and equipment	***8***	53,217	-
- amortization of intangible asset	***15***	119,620	73,249
- amortization of government grant	***22(a)***	(1,528,577)	(1,082,857)
- impairment loss on trade and other receivables and contract assets	***32B(a)***	21,937,679	19,190,827
- revaluation deficit on property, plant and equipment	***8***	-	6,152,846
- long service awards	***12(a)***	221,491	182,710
- defined benefit cost	***12(a)***	158,108	130,200
- CAPMI installation income	***9***	-	(1,449)
- finance costs	***10***	6,041,373	24,412,107
- finance income	***10***	(24,226,682)	(937,197)
- write back of provision for NELMCO liabilities	***8***	-	(325,642)
- minimum tax	***13(a)***	1,246,219	102,788
- income tax expense	***13(b)***	251,979	-
		(34,241,794)	**(32,793,373)**
Changes in:			
Inventories		146,133	(78,724)
Withholding tax receivables		(33,277)	(335,316)
Trade and other receivables	***18(b)***	(18,191,876)	(21,098,907)
Prepayments		1,221,817	(158,512)
Trade and other payables	***23(b)***	61,709,236	43,133,843
Contract liabilities		111,327	524,567
Deferred income		-	(1,210,206)
Provisions		361,040	-
Cash generated from/(used in) operating activities		**11,082,606**	**(12,016,628)**
Payment of defined benefit obligation	***26(b)***	(84,919)	(14,932)
Payment of long service award	***26(a)***	(146,241)	-
Payment of letter of credit collateral	***18(b)***	(991,281)	(8,299,743)
Income taxes paid	***13(d)***	(50,000)	(400,000)
Net cash generated from/(used in) operating activities		**9,810,165**	**(20,731,303)**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	***14(b)***	(3,710,483)	(4,737,606)
Additions to right-of-use assets	***33(a)(i)***	(1,203,802)	-
Acquisition of intangible assets	***15***	-	(1,033,629)
Interest received	***10***	669,501	806,915
Cash used in investing activities		**(4,244,784)**	**(4,964,320)**
Cash flows from financing activities:			
Proceeds from loans and borrowings	***36***	-	31,825,238
Interest payments	***36***	(2,837,490)	(2,380,791)
Principal repayments	***36***	(5,545,132)	(3,244,312)
Payment of lease liabilities	***36***	(281,610)	-
CAPMI refunds	***36***	-	(437,121)
Cash (used in)/generated from financing activities		**(8,664,232)**	**25,763,014**
Net (decrease)/increase in cash and cash equivalents		(3,098,851)	67,391
Cash and cash equivalents at 1 January		4,395,622	4,342,225
Effect of movement in exchange rate		(29,620)	(13,994)
Cash and cash equivalents at 31 December		**1,267,151**	**4,395,622**

The notes on pages 22 to 75 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, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011. The financial statements were authorised for issue by the Board of Directors on 12 August 2020.

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

This is the first set of the Company’s annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Notes 5(k).

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 31 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 13(e) – Unrecognized deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used.

Notes to the financial statements

Note 7A(a) - Recognition of tariff shortfall
Note 33 - Lease term: whether the Company is reasonably certain to exercise extension options.

(B) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties as at 31 December 2019 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:
Notes 7(B) - Revenue Recognition – Estimation of unbilled revenue from Post-paid customers, and estimation of bills to unmetered customers.
7 -Revenue Recognition – Estimation of contract liabilities from prepaid customers.
Note 14((g)) – Property, plant and equipment: fair values of land, building and distribution network assets.
Notes 24 and 28 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resource.
Note 26 - Measurement of employee benefit obligations: key actuarial assumptions
Notes 32(B(a)) - Measurement of ECL allowance for trade receivables: key assumptions in determining the weighted-average loss rate.

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 37).

(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.

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.

Notes to the financial statements (continued)

Category of revenue	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
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 consumed by customers in December, extracted from the December meter reading (which will be billed in January)) is assessed based on the unit consumed method. The stand-alone selling price is determined based on the NERC approved tariff for the different categories of 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. The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers.

Tariff shortfalls

Tariff shortfalls arising from the difference between actual end-user tariffs approved by the Nigerian Electricity Regulatory Commission (NERC) and cost-reflective tariffs allowed by NERC for recovery are based on regulatory orders and subject to recovery through means other than recovery through billings to customers. Revenue is recognized at the point in time the regulatory orders are issued and a financial asset is created or a financial liability is derecognized as might be applicable.

(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 are 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.

Write back of interest attributable to tariff shortfalls and interest expenses on liabilities to NBET are recognized on a net basis as either finance income or finance cost depending on whether the summation of both results in a net gain or a net loss position.

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:

	Life (years)
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 in revenue 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 revenue 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

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

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

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

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 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.

Notes to the financial statements (continued)

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.

(k) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

Notes to the financial statements (continued)

i **As a lessee**

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
— fixed payments, including in-substance fixed payments;
— variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
— amounts expected to be payable under a residual value guarantee; and
— the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets
The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the financial statements (continued)

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:
— fulfillment of the arrangement was dependent on the use of a specific asset or assets; and
— the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

i. As a lessee

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(l) Impairment

i. **Non-derivative financial assets**

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 30 days past due.

The Company considers a financial asset to be in default when:
— the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
— the financial asset is more than 90 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 360 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. For customers, the Company makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. 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.

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.

Notes to the financial statements (continued)

(m) Employee benefits

i. **Short term employee benefits**

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

ii. **Defined contribution plan**

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

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

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

iii. **Defined benefits plan**

The Company's net obligation in respect of its defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, and discounting that amount.

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

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

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.

Notes to the financial statements (continued)

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

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

Contingent liabilities

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

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

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

(o) Fair value measurement

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

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see Note 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 tax (company income tax, tertiary education tax, and Nigeria Police Trust Fund levy) and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The Company had determined that interest and penalties relating to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

Notes to the financial statements (continued)

***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 and is assessed as follows:

- Company income tax is computed on taxable profits
- Tertiary education tax is computed on assessable profits
- Nigeria Police Trust Fund levy is computed on net profit (i.e. profit after deducting all expenses and taxes from revenue earned by the company during the year)

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

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. Taxes based on profit for the period are treated as income tax in line with IAS 12.

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

The Company offsets the tax assets arising from withholding tax (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.

***iii.* Deferred tax**

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

Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

– temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

– taxable temporary differences arising on the initial recognition of goodwill.

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 the 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.

Notes to the financial statements (continued)

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) Minimum tax

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.

In line with the Finance Act 2019, minimum tax is determined as 0.5% of turnover. In previous years, minimum tax was 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.

Where the minimum tax charge is higher than the Company Income Tax (CIT), a hybrid tax situation exists. In this situation, the CIT is recognised 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.

(r) Operating Profit/Loss

Operating profit/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 profit/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

A. Revenue streams

The Company generates revenue primarily 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. Other sources of revenue in the current period include tariff shortfall issued by the regulator, Nigerian Electricity Regulatory Commission (NERC) and assets contributed by the customers.

	2019	2018
	NGN'000	**NGN'000**
Revenue from contracts with customers	**88,322,469**	**82,220,731**
Other revenue		
Tariff shortfall awarded by NERC (Note 7A(a))	164,909,064	-
Customer contributed assets (Note 7A(b))	2,756,178	-
	167,665,242	**-**
Total revenue	**255,987,711**	**82,220,731**

(a) Tariff shortfall awarded by NERC

On 1 July 2019 and 31 December 2019, the Nigerian Electricity Regulatory Commission (NERC) issued the Minor Review and Minimum Remittance Orders - Order No. NERC/GL/170 “The 2016 - 2018 Minor Review of the Multi Year Tariff Order (MYTO) 2015 and Minimum Remittance Order for the year 2019” and Order No. NERC/GL/184/2019 “December 2019 Minor Review Multi Year Tariff Order 2015 and Minimum Remittance Order for the year 2020”. These Orders award the Company a sum of NGN 102.22 billion to the Company as the computed tariff shortfall for the years 2015 to 2018 and NGN 62.69 billion as the tariff shortfall for 2019. In line with the orders, the awarded tariff shortfalls are netted off the Company's payables to NBET (see Note 23(a)).

(b) Customer contributed assets

The Nigerian Electricity Regulatory Commission (NERC) issued the Meter Asset Provider (MAP) Regulation requiring all distribution companies to engage the services of MAPs towards covering the metering gap in the country. During the year, the Company appointed three (3) MAP entities to supply and install meters to its customers within the network. In line with the regulation, the customers bear all costs relating to delivery, activating and maintaining the meters though ownership resides with the Company and these meters are a requirement of the Company to fulfil its contract with the customers. Meters amounting to NGN 2.63 billion were contributed by the customers during the year and have been recorded at their fair values (see Note 14(b)).

During the year, the Company also received a substation amounting to NGN 121.24 million a customer (see Note 14(b)).

B. Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by customer type, and mode of payment.

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 2020). Unbilled receivables (i.e. included in current year revenues) amounted to NGN (5.69) billion (2018: NGN 6.36 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.

Notes to the financial statements (continued)

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.

a. Classification by customer type

	2019	2018
	NGN'000	NGN'000
Private individuals/companies	70,414,144	64,530,039
Government institutions	17,908,325	17,690,692
	88,322,469	**82,220,731**

b. Classification by customer payment mode

	2019	2018
	NGN'000	NGN'000
Postpaid	65,522,895	65,305,262
Prepaid	22,799,574	16,915,469
	88,322,469	**82,220,731**

C. Contract balances

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

	Notes	31 Dec 2019	31 Dec 2018
		NGN'000	NGN'000
Receivables, which are included in 'trade and other receivables'	*18*	37,892,554	41,285,182
Contract liabilities		635,894	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 NGN524.57 million included in contract liabilities at 31 December 2018 has been recognised as revenue in 2019 (2018: NGN448.80 million).

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 635.89 million (2018: NGN 524.57 million) and has been recognized as contract liability.

Notes to the financial statements (continued)

8. Expenses by nature

	2019	2018
	NGN'000	NGN'000
Cost of Energy	98,053,024	89,595,699
Consumables and other direct cost	110,680	40,508
Commission to super vendors	1,311,492	616,846
Maintenance expenses	1,222,555	1,027,622
Depreciation (Note 14)	4,473,085	5,028,374
Depreciation - right-of-use-assets (Note 33(i))	383,401	-
Operations and management services fees (Note 27(e))	1,734,021	1,487,441
Consultancy fees	531,404	1,629,094
Security and safety	913,525	768,728
Staff and related costs (Note 12(a))	14,262,132	13,176,776
Directors' remuneration (Note 12(d))	576,884	525,266
Board expenses	2,242	26,299
Bank charges	104,307	172,976
Auditor's remuneration	108,000	123,000
Amortization of intangible assets (Note 15)	119,620	73,249
Transport	1,069,020	1,296,621
Insurance	556,152	482,364
Rent and accommodation expense	142,687	432,219
Professional services	490,790	364,607
Revaluation deficit (Note 14)	-	6,152,846
Litigation expenses	10,500	124,512
Write back of provision for NELMCO liabilities	-	(325,642)
Write off of property plant and equipment	53,217	-
Office repairs and maintenance	528,919	1,406,713
Office stationery and utilities	1,276,935	1,212,861
Subscription and registration	327,823	240,373
Other expenses	713,178	906,322
Total cost of sales and administrative expenses	**129,075,593**	**126,585,674**

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

	2019	2018
	NGN'000	NGN'000
Cost of sales	104,049,762	95,402,526
Administrative expenses	25,025,831	31,183,148
	129,075,593	**126,585,674**

(c) Non audit services paid to the statutory auditors

Non audit services paid to the statutory auditors comprise:

	2019	2018
	NGN'000	NGN'000
Tax advisory services	28,698	28,787

Notes to the financial statements (continued)

9. Other income

	2019	2018
	NGN'000	NGN'000
Service re-connection fees	432,532	72,293
Administrative charge on meter tampering	572,365	221,723
Amortization of government grant (Notes 22(a))	1,528,577	1,082,857
CAPMI installation fees (Notes 25(d))	-	1,449
Insurance claims	57,831	-
Miscellaneous income (Notes 9(a))	39,680	35,817
	2,630,985	1,414,139

(a) Miscellaneous income

The Company earned income from other services such as production of identity cards for employees.

10. Finance income and finance costs

	2019	2018
	NGN'000	NGN'000
Finance income		
Interest income on short term deposits and letter of credit collateral	669,501	806,915
Foreign exchange gain (Net)	-	51,239
Fair value gain on CAPMI loan	-	79,043
Net interest on NBET and ONEM bills (Note 10(a))	23,557,181	-
Total finance income	**24,226,682**	**937,197**
Finance costs		
Interest on CAPMI loan	-	(21,531)
Interest on loans (Note 36)	(5,055,298)	(4,112,502)
Foreign exchange loss (Net)	(37,464)	-
Fair value loss on loans	(948,611)	-
Net interest on NBET and ONEM bills (Note 10(a))	-	(20,278,074)
Total finance costs	**(6,041,373)**	**(24,412,107)**
Net finance costs	**18,185,309**	**(23,474,910)**

(a) Net interest on NBET and ONEM bills	2019	2018
	NGN'000	NGN'000
Write back of interest attributable to the tariff shortfalls (Note 10(a)(ii))	56,982,523	-
Interest on NBET and ONEM bills (Note 10(a)(i))	(33,425,342)	(20,278,074)
	23,557,181	(20,278,074)

(i) 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 NERC order No. NERC/GL/170 “The 2016 - 2018 Minor Review of the Multi Year Tariff Order (MYTO) 2015 and Minimum Remittance Order for the year 2019” issued during the year, the Company is required to remit 45% and 100% of the NBET and ONEM bills respectively. The shortfall on remittance attracts interest at NIBOR plus 4%.

Notes to the financial statements (continued)

(ii) Write back of interest attributable to the tariff shortfalls

This represents write back of interests attributable to the tariff shortfall awarded by NERC during the year. In line with the NERC order No. NERC/GL/170 "The 2016 - 2018 Minor Review of the Multi Year Tariff Order (MYTO) 2015 and Minimum Remittance Order for the year 2019" issued during the year, the Company has written back interest payable on unpaid NBET and ONEM invoices and attributable to the tariff shortfall (See Note 23(a)).

11. Profit/(Loss) before minimum tax and income tax

	2019	2018
	NGN'000	NGN'000
Profit/(Loss) before income tax is stated after charging/(crediting)		
Auditor's remuneration	108,000	123,000
Depreciation (Note 14)	4,473,085	1,027,622
Depreciation - right-of-use-assets (Note 33(i))	383,401	5,028,374
Amortization of intangible assets (Note 15)	119,620	73,249
Staff and related costs (Note 12(a))	14,262,132	13,176,776
Directors' remuneration (Note 12(d))	576,884	525,266
Net foreign exchange loss/(gain)	37,464	(51,239)
Write off of property plant and equipment	53,217	-

12. Employee benefit expense and director's remuneration

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

	2019	2018
	NGN'000	NGN'000
Salaries and wages	12,856,606	11,677,084
Pension costs	999,488	906,745
Termination benefits	26,439	280,037
Gratuity (Note 26)	158,108	130,200
Long service awards (LSA) (Note 26)	221,491	182,710
	14,262,132	**13,176,776**

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:

NGN		NGN	2019 Number	2018 Number
200,001	-	2,200,000	1,749	1,902
2,200,001	-	4,200,000	1,223	1,102
4,200,001	-	6,200,000	282	236
6,200,001	-	8,200,000	77	77
8,200,001	-	10,200,000	62	47
10,200,001	-	12,200,000	26	26
12,200,001	-	14,200,000	29	36
14,200,001	-	16,200,000	10	5
16,200,001	-	18,200,000	5	14
18,200,001	-	20,200,000	4	8
20,200,001	-	22,200,000	11	3
22,200,001	-	24,200,000	8	2
24,200,001	-	26,200,000	3	-
30,200,001	-	32,200,000	1	-
32,200,001	-	34,200,000	-	3
38,200,001	-	40,200,000	1	-
51,200,001	-	58,200,000	1	1
68,200,001	-	75,900,000	1	-
80,200,001	-	102,500,000	1	-
			3,494	**3,462**

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

	2019 Number	2018 Number
Administration	412	388
Finance	380	397
Marketing	1,347	1,295
Technical	1,355	1,382
	3,494	**3,462**

(d) Directors' remuneration

Directors' remuneration paid during the year comprises:

	2019 NGN'000	2018 NGN'000
Fees as directors	373,027	362,433
Salaries	141,387	141,752
Other emoluments	62,470	21,081
	576,884	**525,266**

The directors’ remuneration shown above includes:

	2019 NGN'000	2018 NGN'000
Chairman	72,322	72,517
Highest paid director	189,608	190,096

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:

	2019 Number	2018 Number
NGN20,000,000 - NGN52,000,000	5	5

13. Taxation

(a) Minimum tax

The Company has applied the provisions of the Companies Income Tax Act and the Finance Act 2019 that mandates a minimum tax assessment, where a tax payer's tax liability based on taxable profit is less than the minimum tax liability.

	2019 NGN'000	2018 NGN'000
Current year minimum tax	774,499	102,788
Prior years' under provision of minimum tax***	471,720	-
	1,246,219	**102,788**

(b) Income tax expense

The Company is subject to tax under the Companies Income Tax Act as amended to date. No deferred tax has been recorded by the Company because of the uncertainties around the recoverability of the losses (Notes 13(e)). Amounts recognised in profit or loss are as follows:

	2019 NGN'000	2018 NGN'000
Tertiary Education Tax (TET)	245,689	-
Nigeria Police Trust Fund Levy (NPTF)*	6,290	-
	251,979	**-**

* The Nigeria Police Trust Fund (Establishment) Act, 2019 imposes a levy of 0.005% of the net profit of companies operating business in Nigeria.

(c) Reconciliation of effective tax rates

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

	%	2019 NGN'000	%	2018 NGN'000
Profit/(Loss) before minimum tax and income tax		125,790,733		(85,616,541)
Income tax using the statutory tax rate	30	37,737,220	30	(25,684,962)
Effect of tertiary education tax rate based on assessable profit/ (loss)	2	2,515,815	2	(1,712,331)
Tax effect of:				
Current year losses for which no deferred tax is recognised	4	5,113,525	(27)	22,946,287
Prior years tariff shortfalls***	(36)	(44,909,063)	-	-
Tax exempt income	-	(448,738)	-	-
Tax incentives	-	(156,199)	-	-
Nigeria Police Trust Fund Levy (NPTF)	-	6,290	-	-
Difference in CIT and TET rates**	-	(89,462)	(2)	1,433,857
Non-deductible expenses	-	482,591	(3)	3,017,149
Total income tax expense	**-**	**251,979**	**-**	**-**

Notes to the financial statements (continued)

*** This relates to 2015-2018 tariff shortfalls and related interests awarded by NERC to the Company during the year. The tariff shortfalls and related interests have been allocated to the respective years for tax purposes. Minimum taxes for these years have been re-computed based on these and an underprovision of minimum tax amounting to NGN 471.72 million has been recognized. See Note 13(a).

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

(d) Movement in current tax liabilities

	2019 NGN'000	2018 NGN'000
Balance at 1 January	-	477,527
Charge for the year:		
Minimum tax (Note 13(a))	1,246,219	102,788
Income tax expense (Note 13(b))	251,979	-
Effect of IFRS 15	-	8,634
Unwinding interest on payment restructuring	-	31,919
Payments for the year	(50,000)	(400,000)
Balance at 31 December	**1,448,198**	**220,868**
Tax assets offset against tax payable (Note 17)	(147,725)	(220,868)
Amount shown in statement of financial position	**1,300,473**	**-**

(e) Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items because of the uncertainty around availability of future taxable profits against which the Company can use the benefits therefrom.

	2019 NGN'000	2018 NGN'000
Tax Losses (will never expire)	21,680,359	67,088,467
PPE	16,505,679	15,000,003
Deductible temporary differences	24,469,578	22,333,401
	62,655,616	**104,421,871**

Notes to the financial statements (continued)

14. 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
Cost or valuation	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**
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
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)	-
Balance at 31 December 2018	**13,094,046**	**4,510,031**	**90,258,992**	**3,049,469**	**1,466,782**	**1,178,017**	**113,557,337**
Balance at 1 January 2019	13,094,046	4,510,031	90,258,992	3,049,469	1,466,782	1,178,017	113,557,337
Additions	-	177,875	2,102,243	-	574,546	3,611,997	6,466,661
Write off	-	-	-	(7,118)	-	(49,777)	(56,895)
Transfers	-	-	3,104,395	514,020	-	(3,618,415)	-
Balance at 31 December 2019	**13,094,046**	**4,687,906**	**95,465,630**	**3,556,371**	**2,041,328**	**1,121,822**	**119,967,103**
Depreciation							
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
Net off of accumulated depreciation on revaluation	-	-	(13,917,243)	-	-	-	(13,917,243)
Balance at 31 December 2018	**-**	**137,993**	**-**	**1,109,031**	**660,781**	**-**	**1,907,805**
Balance at 1 January 2019	-	137,993	-	1,109,031	660,781	-	1,907,805
Charge for the year	-	139,924	3,352,011	632,718	348,432	-	4,473,085
Write off	-	-	-	(3,678)	-	-	(3,678)
Balance at 31 December 2019	**-**	**277,917**	**3,352,011**	**1,738,071**	**1,009,213**	**-**	**6,377,212**
Carrying amounts							
At 1 January 2018	**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**
At 31 December 2019	**13,094,046**	**4,409,989**	**92,113,619**	**1,818,300**	**1,032,115**	**1,121,822**	**113,589,891**

Notes to the financial statements (continued)

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

	2019	2018
	NGN'000	NGN'000
Cost of sales	3,352,011	4,121,851
General and administrative expenses	1,121,074	906,523
Depreciation charge for the year (Note 8)	**4,473,085**	**5,028,374**

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

	2019	2018
	NGN'000	NGN'000
Total additions	(6,466,661)	(6,397,292)
NIPP Assets (Note 14(h))	-	1,641,984
Government grant	-	17,702
Customer contributed assets (Note 7A(b))	2,756,178	-
Purchase of property, plant and equipment	**(3,710,483)**	**(4,737,606)**

(c) The Company had capital commitments amounting to NGN 999.79 million (2018:NGN 334.63 million).

(d) On 31 December 2018, the Company revalued its distribution network assets. 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 14(f) below for the value of land, building and distribution network assets at historical cost.

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

Capital work in progress (CWIP) comprises:

	2019	2018
	NGN'000	NGN'000
PPE items in store *	472,390	461,537
Ongoing works with respect to substations	649,432	716,480
	1,121,822	**1,178,017**

* PPE items in store consist mainly of transformers of NGN 166.34 million (2018: NGN 134.43 million), and meters of NGN 220.32 million (2018: NGN 142.72 million).

Notes to the financial statements (continued)

(f) ***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 would be as follows:

	Land	Building	Distribution network assets
	NGN'000	NGN'000	NGN'000
31 December 2019			
Cost	11,702,055	4,719,767	90,795,262
Accumulated depreciation	-	(1,235,030)	(32,856,992)
Net book value	**11,702,055**	**3,484,737**	**57,938,270**
31 December 2018			
Cost	11,702,055	3,338,092	85,588,624
Accumulated depreciation	-	(711,705)	(33,626,832)
Net book value	**11,702,055**	**2,626,387**	**51,961,792**

(g) ***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 at 31 December 2018 in line with the accounting policy. The following table analyses the non-financial assets carried at fair value, by valuation method. The fair value input level 2 as detailed below was adopted for the purpose of the valuation.
The fair value measurement for Distribution network assets, land and buildings was performed using significant other observable inputs (Level 2). Level 2 is defined as inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Fair value measurement using significant other observable inputs (Level 2)

	Distribution network assets	Land	Buildings
Recurring fair value measurements			
31 December 2018			
At 1 January	80,852,955	13,094,046	4,469,838
Additions	4,994,702	-	40,193
Net revaluation difference	4,411,335	-	-
At 31 December	**90,258,992**	**13,094,046**	**4,510,031**
31 December 2019			
At 1 January	90,258,992	13,094,046	4,510,031
Additions	5,206,638	-	177,875
At 31 December	**95,465,630**	**13,094,046**	**4,687,906**

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.

Notes to the financial statements (continued)

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.

(h) NIPP Assets

In 2018, the Company energized six injection substations constructed by the Niger Delta Power Holding Company (NDPHC). The fair value of these assets was estimated at NGN 1.64 billion by the directors based on observable prices of similar items purchased during the year (level 2). (See Note 14(b))

15. Intangible assets

(a) Reconciliation of carrying amount

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

	Computer software licenses	Customer Management System	Total
	NGN'000	**NGN'000**	**NGN'000**
Cost			
Balance at 1 January 2018	194,921	-	**194,921**
Additions	20,314	1,013,315	**1,033,629**
Balance at 31 December 2018	**215,235**	1,013,315	**1,228,550**
Balance at 1 January 2019	215,235	1,013,315	**1,228,550**
Additions	-	-	-
Balance at 31 December 2019	**215,235**	**1,013,315**	**1,228,550**
Accumulated amortization			
Balance at 1 January 2018	115,347	-	**115,347**
Charge for the year (Note 8)	73,249	-	**73,249**
Balance at 31 December 2018	**188,596**	**-**	**188,596**
Balance at 1 January 2019	188,596	**-**	**188,596**
Charge for the year (Note 8)	18,288	**101,332**	**119,620**
Balance at 31 December 2019	**206,884**	**101,332**	**308,216**
Carrying amount			
At 1 January 2018	**79,574**	**-**	**79,574**
At 31 December 2018	**26,639**	**1,013,315**	**1,039,954**
At 31 December 2019	**8,351**	**911,983**	**920,334**

Amortization of intangible assets is included as part of administrative expenses (Note 8).

16. Inventories

	31 Dec 2019	31 Dec 2018
	NGN'000	**NGN'000**
Consumable spare parts	219,193	361,401
Other Consumables	37,374	41,300
	256,568	**402,701**

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 1.22 billion (2018: NGN 1.03 billion).

Notes to the financial statements (continued)

In addition, inventories have been reduced by NGN 36.60 million (2018: NGN 56.39 million) as a result of the write-down to net realisable value. This write-down was recognised as an expense in cost of sales during 2019.

17. Withholding tax receivables

The movement in withholding tax receivables account was as follows:

	2019	2018
	NGN'000	NGN'000
At 1 January	114,448	-
Additions during the year	33,277	335,316
Utilisation of withholding tax assets	-	-
At 31 December	**147,725**	**335,316**
Offset to current tax liabilities (Note 13(d))	(147,725)	(220,868)
Amount shown in the statement of financial position	**-**	**114,448**

(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.

18. Trade and other receivables

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Trade receivables	37,892,554	41,285,182
Other receivables (Notes 18(a))	11,010,786	10,367,677
	48,903,340	**51,652,859**
Non current	-	9,345,410
Current	48,903,340	42,307,449
	48,903,340	**51,652,859**

(a) Other receivables comprises:

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Employee receivables *	59,490	170,851
Letter of credit **	9,291,024	8,299,743
Amount due from a related party (Notes 27(d))	57,287	612,673
Unpaid share capital	7,500	5,000
Advance payment to vendors	1,595,485	1,279,410
	11,010,786	**10,367,677**

* This relates to employee advances during the year. Amount has been stated net of impairment amounting to NGN 333.84 million (2018: NGN 179.76 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 1.21 billion to fully collateralize the letter of credit facility over the next 7 months.

Notes to the financial statements (continued)

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

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Changes in trade and other receivables	2,749,519	(28,732,011)
Impairment loss on trade and other receivables	(21,937,679)	(19,190,827)
Increase in unpaid share capital	5,000	-
Payment of letter of credit collateral	991,281	8,299,743
Others	3	-
Effect of IFRS 9	-	11,616,121
Effect of IFRS 15	-	6,908,067
Amount shown in the statement of cash flows	**(18,191,876)**	**(21,098,907)**

Information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Notes 32B(a) and (c).

19. Prepayments

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Rent	-	318,312
Insurance	433,695	369,101
	433,695	**687,413**
Non current	-	53,577
Current	433,695	633,836
	433,695	**687,413**

20. Cash and cash equivalents

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Bank balances (Note 20(a))	1,263,026	4,370,325
Cash on hand	4,125	25,297
	1,267,151	**4,395,622**

(a) Included in bank balances are fixed deposits with maturities below 3 months amounting to NGN 0.32 billion (2018: NGN 3.11 billion).

21. Share capital and reserves

(a) Share capital comprise:

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Authorized:		
10,000,000 ordinary shares at 50k each	-	5,000
10,000,000 ordinary shares at N1 each	10,000	-
5,000,000 ordinary shares at N1 each	5,000	5,000
	15,000	10,000
Issued and called-up:		
15,000,000 ordinary shares	15,000	10,000
Issued, called-up, and paid:		
10,000,000 ordinary shares at 50k each	-	5,000
7,500,000 ordinary shares at N1 each	7,500	-
Unpaid share capital:		
5,000,000 ordinary shares at N1 each	-	5,000
7,500,000 ordinary shares at N1 each	7,500	-

Notes to the financial statements (continued)

In thousands of shares	31 Dec 2019	31 Dec 2018
In issue at 1 January	15,000	15,000
Issued during the year	-	-
In issue at 31 December	**15,000**	**15,000**

During the year, 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.

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 14(d).

Revaluation reserve is made up as follows:

	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000
Land and buildings	4,198,693	4,198,693
Distribution network	39,758,849	39,758,849
	43,957,542	**43,957,542**

22. Deferred income

	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000
Government grant (Notes 22(a))	8,870,276	10,398,853
	8,870,276	**10,398,853**

	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000
Non current	7,341,699	9,315,996
Current	1,528,577	1,082,857
	8,870,276	**10,398,853**

(a) Government grants

Government grants is made up of:

	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000
Government granted assets*	2,966,227	3,092,499
Day one gain on loans**	5,904,049	7,306,354
	8,870,276	**10,398,853**

Notes to the financial statements (continued)

* 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. In 2018, 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.

** In 2018, 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 1.53 billion (2018: NGN 1.08 billion). See Note 9.

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

	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000
Balance at 1 January	10,398,853	3,176,687
Additions	-	8,305,023
Amortization to profit or loss	(1,528,577)	(1,082,857)
	8,870,276	**10,398,853**
Non-current	7,341,699	9,315,996
Current	1,528,577	1,082,857
	8,870,276	**10,398,853**

23. Trade and other payables

Trade and other payables comprises:	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000
Trade payables (Note 23(a))	102,955,137	235,103,570
Payables to other vendors	7,335,121	6,193,688
Due to related parties (Note 27(d))	1,224,282	25,590
Payable to NELMCO	823,840	1,562,567
Accruals	5,709,834	6,885,433
	118,048,214	249,770,848
Statutory deductions	18,200,935	13,236,970
	136,249,149	**263,007,818**

Notes to the financial statements (continued)

(a) Trade payables comprise amount due to the Nigerian Bulk Electricity Trading Plc (NBET) and the Operator of the Nigerian Electricity Market (ONEM). NBET is the supplier of power to the Company and bills for the cost of energy while other administrative charges incidental to the cost of energy are billed by ONEM.

The movement in the account is as follows:

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Opening balance	235,103,570	178,981,004
Cost of energy (Note 8)	98,053,024	89,595,699
Interest on shortfall (Note10)	33,425,342	(20,278,074)
Net-off of 2015-2018 tariff shortfall (Note 7A(a))	(102,219,064)	-
Net-off of 2019 tariff shortfall (Note 7A(a))	(62,690,000)	-
Net-off of interest on tariff shortfall (Note10)	(56,982,523)	-
Discount granted by NBET	(4,911,416)	-
Payments	(36,823,796)	(13,195,059)
	102,955,137	**235,103,570**

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

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Changes in trade and other payables	(126,758,669)	66,836,366
Unrealized foreign exchange gain	1,660	64,832
Tariff shortfall awarded by NERC and related interest	221,891,587	-
NIPP Assets	-	(1,641,984)
Payable to NELMCO	-	(1,847,297)
Interest on market operator bill	(33,425,342)	(20,278,074)
Amount shown in the statement of cash flows	**61,709,236**	**43,133,843**

The Company's exposure to liquidity and market risks for trade and other payables is included in Note 32 B (b) and (c).

24. Provisions

During the year, the Company was subjected to a regulatory fine which it is currently contesting in the court of law. In addition, the Company did not comply with some filing requirements required of it. The estimates of the expected cash outflow that the Company might be required to make as a result of the regulatory fine and non-compliance with filing requirements amounted to NGN 250 million (2018: Nil) and NGN 111.04 million (2018: Nil) respectively and these have been provided for in these financial statements. The directors expect these matters to be resolved within the next 12 months.

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. In 2018, 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 23.

Movement in the account was as follows:

	2019	2018
	NGN'000	NGN'000
At 1 January	-	2,172,939
Transfer to trade and other payables (Note 23)	-	(1,562,567)
Write back of provision for NELMCO liabilities (Note 8)	-	(325,642)
Payment of NELMCO liabilities	-	(284,730)
Provisions made during the year	361,040	-
At 31 December	**361,040**	**-**

Notes to the financial statements (continued)

25. Loans and borrowings

Loans and borrowings comprise:

	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000
Vendor financed loan (Note 25(a))	510,265	1,163,869
CBN loan (Note 25(b))	15,366,103	15,916,574
CAPMI loan (Note 25(d))	1,115,520	998,892
NELMCO Loan (Note 25(c))	685,675	938,232
TCN Loan (Note 25(c))	3,742,272	4,956,483
Lease liabilities (Note 33)	861,992	-
Total loans and borrowings	**22,281,827**	**23,974,050**
Non current	17,303,510	19,636,124
Current	4,978,317	4,337,926
	22,281,827	**23,974,050**

(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.

The Company during the year made interest and principal repayments amounting to NGN158.50 million and NGN662.20 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 NGN 4.53 million (2018: NGN 830.28 million).

(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 for the whole sector, 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.

In 2018, the Company received two tranches of NGN20.23 billion and NGN3.49 billion from the NEMSF. During the year, the Company received a third tranche of NGN1.08 billion. These are to be repaid within 81 months from disbursement with a contractual interest rate of 10%.

(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 from disbursement with interest of 10%.

(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.

Notes to the financial statements (continued)

As at year end, all the outstanding balance on the loan was repayable on demand.

The installation fees of NGN 1.45 million earned in 2018 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.

26. Employee benefits obligation

	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000
Long service awards (Note 26(a))	554,393	479,143
Post employment defined benefit obligation (DBO) (Note 26(b))	508,925	327,696
	1,063,318	**806,839**
Non-current	733,211	451,993
Current	330,107	354,846
	1,063,318	**806,839**

(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 QED Actuaries Nigeria Limited (FRC/2018/00000012293) 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. This scheme is not funded.

The movement in the long service awards during the year was as follows:

	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000
Balance, beginning of year	479,143	296,433
Included in profit or loss (as part of administrative expenses)		
Current service cost	79,857	90,266
Interest cost	75,311	56,458
Actuarial loss due to change in assumptions	66,323	35,986
	221,491	**182,710**
Other		
Benefit paid	(146,241)	-
Balance at 31 December	**554,393**	**479,143**

(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 QED Actuaries Nigeria Limited 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 NGN 158.11 million (2018: NGN 130.20million).

The defined benefit schemes of the Company is unfunded.

Notes to the financial statements (continued)

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

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Balance, beginning of year	327,696	260,186
Included in profit or loss (as part of administrative expenses)		
Current service cost	109,783	101,357
Interest cost	48,325	28,843
	158,108	**130,200**
Included in other comprehensive income		
Actuarial loss/(gain) due to change in assumptions	98,534	(47,357)
Effect of movements in exchange rates	9,506	(401)
Other		
Benefit paid	(84,919)	(14,932)
Balance at 31 December	**508,925**	**327,696**

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)

	2019		
	DBO- Other staff	**LSA**	**DBO - EMT**
Discount rate (%)	12.50%	12.50%	1.99%
Salary increase rate (%)	5%	5%	1.99%
Pre retirement mortality rate	A67/70 Ultimate Table	A67/70 Ultimate Table	-

	2018		
	DBO- Other staff	**LSA**	**DBO - EMT**
Discount rate (%)	15.80%	15.50%	2.63%
Salary increase rate (%)	5%	5%	2.63%
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 withdrawal for the duration of the employment contract.

Notes to the financial statements (continued)

(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)	(24,318)	(19,682)	(1,094)
Discount rate (-1% movement)	27,285	21,608	1,094
Mortality rate (+1% year)	(2,637)	(1,066)	-
Mortality rate (-1% year)	2,408	961	-
Salary increase rate (+1% movement)	27,286	21,629	729
Salary increase rate (-1% movement)	(24,631)	(19,984)	(729)

27. Related party transactions

Identity of related parties

(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 related parties

	2019	2018
	NGN'000	NGN'000
Supply of electricity		
- KANN Utility Company Limited (KANN)	287	285
- Bureau of Public Enterprises (BPE)	23,780	22,620
- Ministry of Finance Incorporated (MoFI)	6,147	6,243

(c) 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:

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Salaries	752,900	514,386
Defined benefit obligation	60,987	39,384
Other short-term benefits	146,027	782,260
	959,914	**1,336,030**

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

Notes to the financial statements (continued)

(d) Other related party balances

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

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
Due from related parties:		
Advance to key management personnel	57,287	32,750
CEC Africa	-	234
KANN	-	579,689
Related party balance included in trade and other receivables	**57,287**	**612,673**
Due to related parties:		
Accruals for compensation to key management personnel	139,172	16,103
KANN	1,063,228	9,487
CEC Africa	21,882	-
Related party balance included in trade and other payables	**1,224,282**	**25,590**
Net related party balance	**(1,166,995)**	**587,083**

None of the balances due to related parties is secured.

(e) 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 amount charged to profit or loss with respect to the O&M services amounted to NGN 1.73 billion (2018: NGN 1.49 billion). See Note 8.

28. 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 final confirmation of amounts transferred will be determined based on a reconciliation between the company and NELMCO. As at date of issue of these financial statements, the reconciliations are yet to happen.

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. If in the process of a subsequent reconciliation with NELMCO, 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 NGN 9.01 billion (2018: NGN 6.16 billion).

The Directors based on a review of the circumstances of each claim and advice from external solicitors (where deemed necessary), believe the risk of material loss to the Company is remote and as such no provisions have been recorded.

Notes to the financial statements (continued)

29. Events after the reporting date

(a) COVID-19 Outbreak

On 11 March 2020, the World Health Organization declared the coronavirus (COVID – 19) outbreak a pandemic and most governments have taken restrictive measures to contain its further spread by introducing lockdowns, closures of borders and travel restrictions which has affected the free movement of people and goods. The Nigerian Centre for Disease Control (NCDC) has confirmed COVID -19 cases in Nigeria and this has resulted in lock down in certain states. The pandemic has caused a significant reduction in social interactions, disruption in economic activities while some public facilities have been shut down in a bid to reduce the spread of the virus. However, as part of the country's essential commercial service providers, electricity distribution companies have been exempted from the lockdown and the Company continues to operate with all mitigation measures in place. The Company has invoked a COVID-19 emergency response action plan and policies, and procedures have been implemented to ensure the health and safety of its personnel, mitigate infection risks and ensure distribution operational continuity. The outbreak is causing a protracted fall in demand for energy, a slowdown in collections and aggravating the liquidity shortfall. There has also been a the scaling down of operations by the impact of Government Orders on national economic activities. Heightened dialogue is ongoing with all stakeholders; NERC, NBET, MO, CBN, Banks, Lenders and relevant Ministries to closely evaluate the evolution of the situation. Government has voiced commitment to support the energy sector during this crisis as an essential service.

A business risk assessment has been undertaken specific to the pandemic's possible effects and no significant adjustments have been deemed applicable to these financial statements to date.

The Company considers this outbreak to be a non-adjusting subsequent event. As the situation is fluid and rapidly evolving, the Directors do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak and will continue to evaluate the impact of COVID-19 on the Company's operations, financial position and operating results.

As at the date these financial statements were authorised for issue, the Directors were not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak that have not been considered.

(b) Suspension of tariff increase to cost reflective tariffs

On 27 June 2020, the Company issued a notification of the commencement of service reflective tariff from 1 July, 2020. However, the implementation of this increase was suspended by NERC in consideration of the impact of COVID 19 on the Nigerian economy.

(c) Liquidation proceedings of KANN Utility Company Limited

On 29 January 2020, as a result of the inability of the Company's parent (KANN Utility Company Limited) to meet its loan obligation to its banker, a receiver and manager was appointed over all the assets and undertakings of the parent company. Further to this appointment, the Federal High Court, Lagos Judicial Division, granted orders on 19 February 2020 restraining the Directors of the parent company from dealing with the assets of the parent company or disrupting the receiver and manager from taking possession of the parent company.

In response to the appointment of a receiver and manager, an interlocutory injunction was filed by the parent company's shareholder, CEC Africa Investments Limited restraining the receiver and manager appointed from taking over the assets and undertakings of the parent company.

The directors of the parent company through external legal counsel are of the opinion that the Deed of All Asset Debenture which creates a 60% charge of the parent company's interest in AEDC is void as the maximum security amount ($18.27 million) stated in the Deed of All Asset Debenture has been fully paid. An interlocutory injunction was also filed to prevent up-stamping the Deed of All Assets debenture until the finalization of the case. The Directors are of the opinion that the liquidation proceedings have no impact on the Company.

Notes to the financial statements (continued)

30. Notice of cancellation of distribution licence

On 8 October 2019, NERC issued a notice of intention to cancel license to 8 distribution companies including AEDC on the basis of failure to meet the expected minimum remittance thresholds of 45% for July 2019 billing cycle. In the notice, NERC requested that the Company show cause, within 60 days, why the Company's license should not be cancelled. The Company responded on 4 November 2019 showing cause.
In NERC's "notice in the Matter of a Petition for the review of the 2016 - 2018 Minor Review of MYTO and Minimum Remittance Order for the Year 2019 dated 12 December 2019", NERC acknowledged that the Company had met the minimum remittance requirement and shown cause as to why its distribution license should not be cancelled. There have been no further NERC pronouncements on this matter and the directors have concluded that the matter is fully resolved.

31. Going concern

The Company reported a profit after tax of NGN124.29 billion for the year ended 31 December 2019 (2018: loss after tax of NGN 85.72 billion). However, as of that date, the Company's current liabilities exceeded its current assets by NGN 94.52 billion (2018: NGN221.57 billion) and its total liabilities exceeded its total assets by NGN 4.57 billion (2018: NGN128.77 billion). The Company has historically incurred losses due to the existing electricity pricing regime which has not allowed for full recovery of costs through price increases. The profit made in current year is significantly as a result of the tariff shortfall awarded by NERC to the Company and income from customer contributed assets amounting to NGN 164.91 billion and NGN 2.76 billion respectively. (See Note 7A) .

The Company's total liabilities include an amount of NGN 102.96 billion (2018: NGN 235.10 billion) due to the Nigerian Bulk Electricity Trading Plc (NBET) and the Operator of the Nigerian Electricity Market (ONEM), which forms part of trade payables as indicated in 23(a) of these financial statements. This amount is due for immediate payment in line with NERC order No. NERC/GL/184/2019 "December 2019 Minor Review Multi Year Tariff Order 2015 and Minimum Remittance Order for the year 2020". (See Note 32B(b) – liquidity risk).

The ability of the Company to continue as a going concern is largely dependent on the successful actualization of the budgeted results of the Company which is premised on assumptions that cost reflective tariffs would be implemented in the immediate future or the receipt of tariff shortfalls will continue until cost reflective tariffs are available, the amount due to ONEM and NBET for immediate payment will not be called, and/or the regime of settling only 42% of NBET bills in line with NERC order No. NERC/GL/184/2019 "December 2019 Minor Review Multi Year Tariff Order 2015 and Minimum Remittance Order for the year 2020" will continue in the foreseeable future. These matters are not wholly 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 Federal Government of Nigeria (FGN) has acknowledged in the Power Sector Recovery Program (PSRP), that the illiquidity of the electricity distribution companies (DISCOs) is mainly due to the absence of cost reflective tariffs and has instituted various mechanisms that will enable the Company to continue to operate on a going concern basis. These include:

- Continued disbursement of payments to NBET on behalf of DISCOs on liabilities incurred on the purchase of electricity. This mechanism allows the Company to only settle 42% of its NBET bills as required in NERC order No. NERC/GL/184/2019 "December 2019 Minor Review Multi Year Tariff Order 2015 and Minimum Remittance Order for the year 2020.
- Timely payments of monthly billings and offset of historical Government Ministries, Departments and Agencies (MDA) debts.
- Awarding of a projected tariff shortfall of NGN57.27 billion for 2020.

Notes to the financial statements (continued)

- NERC's issuance of a "Consultation Paper on the Proposed Extra-Ordinary Tariff Review of the MYTO-2015 Tariff Order for the Nigerian Electricity Supply Industry" on 25 February 2020. This culminated in the approval of "service reflective tariffs" to be implemented from 1 July 2020. This was however suspended by NERC in consideration of the impact of COVID 19 on the economy and the population. The directors remain optimistic that these service reflective tariffs would be implemented in the short term.

- Engagement with ONEM/NBET and NERC to negotiate restructuring plans with respect to past due invoices that are now payable on demand. Options being considered include converting these to long term loans payable over twenty (20) years. Though no approval has been obtained, the Directors on the basis that the restructuring is also envisaged under the PSRP, are optimistic that an agreement would be reached in the near term and amounts due would not be called to the extent that the Company continues to meet the minimum payment thresholds required by NERC from time to time.

- Engagement with NERC/NBET/ONEM to waive interest accumulated to date on the amounts due to ONEM and NBET on the basis that the MYTO does not allow the Company to charge customers interest on past due payments.

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 have been prepared on the basis of accounting policies applicable to a going concern.

Notes to the financial statements (continued)

32. Financial instruments - Fair values and risk management

The effect of initially applying IFRS 9 on the Company's financial instruments is described in Note 37. 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 2019	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**
Financial assets				
Trade and other receivables**	47,307,855	-	47,307,855	-
Cash and cash equivalents	1,267,151	-	1,267,151	-
	48,575,006	**-**	**48,575,006**	**-**
	Financial assets at amortised cost	**Other financial liabilities**	**Total**	**Fair value (level 2)**
	NGN'000	**NGN'000**	**NGN'000**	**NGN'000**
Financial liabilities				
Trade and other payables*	-	118,048,214	118,048,214	-
Loans and borrowings	-	22,281,827	22,281,827	948,612
	-	**140,330,041**	**140,330,041**	**948,612**
31 December 2018	**Financial assets at amortised cost**	**Other financial liabilities**	**Total carrying amount**	**Fair value (level 2)**
	NGN'000	**NGN'000**	**NGN'000**	**NGN'000**
Financial assets				
Trade and other receivables**	50,373,449	-	50,373,449	-
Cash and cash equivalents	4,395,622	-	4,395,622	-
	54,769,071	**-**	**54,769,071**	**-**
	Loans and receivables	**Other financial liabilities**	**Total**	**Fair value (level 2)**
	NGN'000	**NGN'000**	**NGN'000**	**NGN'000**
Financial liabilities				
Trade and other payables*	-	249,770,848	249,770,848	-
Loans and borrowings	-	23,974,050	23,974,050	22,776,514
	-	**273,744,898**	**273,744,898**	**22,776,514**

** Carrying amount of trade and other receivables does not include advance payment to vendors.

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

Notes to the financial statements (continued)

B 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:

	Notes	31 Dec 2019	31 Dec 2018
		NGN'000	NGN'000
Trade and other receivables*		47,307,855	50,373,449
Cash at bank	*20*	1,263,026	4,370,325
		48,570,881	**54,743,774**

* Carrying amount of trade and other receivables does not include advance payment to vendors.

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

	2019	2018
	NGN'000	NGN'000
Impairment loss on trade receivables and contract assets arising from contracts with customers	21,882,536	19,267,268
Impairment loss/ (write back of impairment loss) on employee receivables	55,143	(76,440)
	21,937,679	**19,190,828**

Notes to the financial statements (continued)

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.

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

2019	**Maximum Demand**	**Non-maximum Demand**	**Total**
	NGN'000	**NGN'000**	**NGN'000**
Private individuals/companies	3,933,591	29,782,735	33,716,326
Government institutions	4,874,550	903,640	5,778,190
Total	**8,808,141**	**30,686,375**	**39,494,516**

2018	**Maximum Demand**	**Non-maximum Demand**	**Total**
	NGN'000	**NGN'000**	**NGN'000**
Private individuals/companies	1,498,823	34,628,536	36,127,359
Government institutions	3,731,806	1,426,017	5,157,823
Total	**5,230,629**	**36,054,553**	**41,285,182**

Expected credit loss assessment for customers

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.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from customers as at 31 December 2019.

Notes to the financial statements (continued)

31 December 2019	**Weighted average loss rate**	**Gross carrying amount**	**Loss allowance**
		NGN'000	**NGN'000**
Prepaid customers (PPM)*	49%	2,793,140	(1,403,290)
Government Agencies	36%	8,914,583	(3,293,715)
Metered Maximum Demand customers	11%	4,159,730	(479,087)
Unmetered Maximum Demand customers	43%	328,559	(144,676)
Metered non-Maximum Demand customers (High tier)	0%	125,944	-
Metered non-Maximum Demand customers (Middle tier)	51%	21,855	(11,221)
Metered non-Maximum Demand customers (Low tier)	51%	1,201,057	(627,889)
Unmetered non-Maximum Demand customers (High tier)	55%	106,586	(59,337)
Unmetered non-Maximum Demand customers (Middle tier)	69%	595,831	(420,297)
Unmetered non-Maximum Demand customers (Low tier)	71%	93,209,522	(67,124,741)
		111,456,807	**(73,564,253)**

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

31 December 2018	**Weighted average loss rate**	**Gross carrying amount**	**Loss allowance**
		NGN'000	**NGN'000**
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%	76,827,672	(44,823,135)
		92,976,551	**(51,691,369)**

* 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 and contract assets during the year was as follows:

	2019	**2018**
	NGN'000	**NGN'000**
Balance at 1 January	51,691,369	32,424,101
Net remeasurement of loss allowance	21,872,884	19,267,268
Balance at 31 December	**73,564,253**	**51,691,369**

Notes to the financial statements (continued)

Cash at bank

The Company held cash and cash equivalents of NGN 1.26 billion at 31 December 2019 (2018:NGN 4.37 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.

Employee receivables

The Company advances funds to employees for operational activities. To mitigate credit risk, the Company monitors the progress of such activities which have been funded.

Receivables above three months are fully impaired. The impairment charge amounted to NGN 55.14 million (2018: NGN179.76 million).

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 9.29 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 31) - going concern.

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

		Contractual cash flows				
	Carrying amount	**Total**	**0 - 3 Months**	**4 - 12 Months**	**2-5 years**	**Above 5 years**
	NGN'000	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	
Non-derivative financial liabilities						
31 December 2019						
Trade and other payables	118,048,214	118,048,214	118,048,214	-	-	-
Loans and borrowings (Note25)	22,281,827	33,057,477	3,233,539	6,292,503	23,107,638	423,797
	140,330,041	**151,105,691**	**121,281,753**	**6,292,503**	**23,107,638**	**423,797**
Non-derivative financial liabilities						
31 December 2018						
Trade and other payables	249,770,848	249,770,848	249,770,848	-	-	-
Loans and borrowings (Note25)	23,974,050	39,255,584	2,142,596	6,653,645	5,281,942	25,177,401
	273,744,898	**289,026,432**	**251,913,444**	**6,653,645**	**5,281,942**	**25,177,401**

Notes to the financial statements (continued)

(c) Market risk

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

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

Currency risk

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

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

Exposure to currency risk

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

	31 Dec 2019	31 Dec 2018
	$	$
Cash and cash equivalents	82,758	139,936
Trade and other payables	(60,000)	(322,717)
Net statement of financial position exposure	**22,758**	**(182,781)**

The following significant exchange rates were applied during the year

	Average rate		Reporting date spot rate	
	2019	**2018**	**2019**	**2018**
US$	361.66	361.88	364.70	364.18

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

Sensitivity analysis

A 15% strengthening of the USD at 31 December would have increased/(decreased) loss for the year and equity by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period and has no impact on equity. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 Dec 2019	31 Dec 2018
	NGN'000	NGN'000
US$	(1,245)	9,985

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.

Notes to the financial statements (continued)

Interest rate risk

Interest rate risk management

The Company is exposed to interest rate risk arising from the interest bearing obligations from the MO/NBET payables, vehicle finance, and vendor financed loans.

Interest rate risk- Sensitivity analysis

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

	Rate	31 Dec 2019 NGN'000	Rate	31 Dec 2018 NGN'000
Fixed rate instruments				
Vendor financed loan	12%	510,265	12%	1,163,869
CBN loan	10%	15,366,103	10%	15,916,574
TCN loan	10%	3,742,272	10%	4,956,483
NELMCO loan	10%	685,675	10%	938,232
Letter of credit	7.5%	(9,291,024)	7.5%	8,299,743
Variable-rate instruments				
MO/NBET market debts	NIBOR+4%	102,955,137	NIBOR+10%	235,103,570

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
3,697,784	(3,697,784)	7,742,362	(7,742,362)

33. Leases

(a) Leases as lessee (IFRS 16)

The Company leases a number of buildings. The leases typically run for a period of 1 to 3 years, with an option to renew the lease after expiration. Lease payments are renegotiated when necessary to reflect market rentals. Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Company is a lessee is presented below.

(i) *Right-of-use assets*

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented on the statement of financial position in these financial statements.

	Buildings NGN'000	Total NGN'000
2019		
Balance at 1 January	1,203,802	1,203,802
Depreciation charge for the year	(383,401)	(383,401)
Additions to right-of-use assets	-	-
Balance at 31 December	**820,401**	**820,401**

Notes to the financial statements (continued)

(ii) ***Amounts recognized in profit or loss***

	2019 NGN'000
2019 – Leases under IFRS 16	
Interest on lease liabilities	(175,503)
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-
2018 – Operating leases under IAS 17	
Lease expense	432,219

(iii) Amounts recognised in statement of cash flows

	2019 NGN'000
Total cash outflow for leases	281,610

(iv) Extension options

Some property leases contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

34. 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

35. Capital Management

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

The Company monitors capital using a ratio of ‘adjusted net debt’ to ‘total equity’. For this purpose, adjusted net debt is defined as total liabilities, less cash and cash equivalents. Total equity comprises all components of equity.

The board of directors seeks to achieve a more favourable total equity to adjusted net debt by engaging in mass metering projects and strengthening the revenue assurance function. The Company is not subject to any externally imposed capital requirements.

The Company's adjusted net debt to equity ratio as at December 2019 was as follows:

	31 December 2019 NGN'000	31 December 2018 NGN'000
Total liabilities	170,761,977	298,712,127
Less: cash and cash equivalents	(1,267,151)	(4,395,622)
Adjusted net debt	169,494,826	294,316,505
Total equity	(4,570,597)	(128,769,598)
Total equity to adjusted net debt	(37.08)	(2.29)

Notes to the financial statements (continued)

36. 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	Lease liabilities NGN'000	Total NGN'000
31 December 2018						
Balance at 1 January 2018	1,335,151	-	-	1,901,538	-	3,236,689
Changes from financing cashflows						
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)
Total changes from financing cashflows	**-**	**20,396,223**	**6,409,515**	**(605,603)**	**-**	**26,200,135**
Other changes						
Liability-related						
Day 1 Loss -	-	-	(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)
Total liability-related other changes	**(336,259)**	**(4,479,649)**	**(514,800)**	**(132,066)**	**-**	**(5,462,774)**
Balance as at 31 December 2018	**998,892**	**15,916,574**	**5,894,715**	**1,163,869**	**-**	**23,974,050**

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

Notes to the financial statements (continued)

	CAPMI loan NGN'000	CBN loan NGN'000	NELMCO & TCN loans NGN'000	Vendor financed NGN'000	Lease liabilities NGN'000	Total NGN'000
31 December 2019						
Balance at 1 January 2019	998,892	15,916,574	5,894,715	1,163,869	-	23,974,050
Adjustment on initial application of IFRS 16	-	-	-	-	968,099	968,099
Adjusted balance at 1 January 2019	**998,892**	**15,916,574**	**5,894,715**	**1,163,869**	**968,099**	**24,942,149**
Changes from financing cashflows						
Proceeds from loans and borrowings	-	-	-	-	-	-
Interest paid	-	(2,120,299)	(564,813)	(152,378)	-	(2,837,490)
Principal repayment	-	(2,834,315)	(2,048,620)	(662,197)	-	(5,545,132)
Payment of lease liabilities	-	-	-	-	(281,610)	(281,610)
Total changes from financing cashflows	**-**	**(4,954,614)**	**(2,613,433)**	**(814,575)**	**(281,610)**	**(8,664,232)**
Other changes						
Liability-related						
Fair value loss	116,628	831,984	-	-	-	948,612
Interest expense	-	3,572,159	1,146,665	160,971	175,503	5,055,298
Principal repayment (non-cash)*	-	-	-	-	-	-
Total liability-related other changes	**116,628**	**4,404,143**	**1,146,665**	**160,971**	**175,503**	**6,003,910**
Balance as at 31 December 2019	**1,115,520**	**15,366,103**	**4,427,947**	**510,265**	**861,992**	**22,281,827**

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

Notes to the financial statements (continued)

37. Changes in significant accounting policies

The Company initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

The Company applied IFRS 16 using the modified retrospective approach, under which the right-of-use assets are recognised on the basis of the lease liabilities. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

A. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 5(k).

B. As a lessee

As a lessee, the Company leases many of the buildings used by the Company. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

(i). *Leases classified as operating leases under IAS 17*

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:
— did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
— excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
— used hindsight when determining the lease term.

C. Impact on financial statements

(i) Impact on transition*

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities with no impact to retained earnings. The impact on transition is summarised below.

	1 January 2019 NGN'000
Right-of-use assets – property, plant and equipment	1,203,802
Lease liabilities	986,099
Prepaid rent	(217,703)

For the impact of IFRS 16 on profit or loss for the period, see Note 33(a). For the details of accounting policies under IFRS 16 and IAS 17, see Note 5(k) .

Notes to the financial statements (continued)

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 19%.

	1 January 2019 **NGN'000**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements	142,687
Discounted using the incremental borrowing rate at 1 January 2019	456,540
– Extension options reasonably certain to be exercised	511,559
Lease liabilities recognised at 1 January 2019	**968,099**

38. New standards and interpretations not yet adopted

A number of new Standards, Amendments to Standards, and Interpretations are effective for annual periods beginning on or after 1 January 2019. The Company has not applied the following new or amended standards in preparing these financial statements.

Those which may be relevant to the Company are set out below. The Company does not plan to early adopt these standards. The standards will be adopted in the period that they become mandatory unless otherwise indicated:

New or amended standards		**Date issued by IASB**	**Effective date periods beginning on or after**	**Summary of the requirements and assessment of impact**
Amendments to IAS 1 and IAS 8	Definition of Material	October 2018	1 January 2020 Early adoption is permitted	The IASB refined its definition of material to make it easier to understand. It is now aligned across IFRS Standards and the Conceptual Framework. The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The Board has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are effective from 1 January 2020 but may be applied earlier. However, the Board does not expect significant change – the refinements are not intended to alter the concept of materiality.

Notes to the financial statements (continued)

New or amended standards		Date issued by IASB	Effective date periods beginning on or after	Summary of the requirements and assessment of impact
Conceptual Framework amendments	Amendments to references to conceptual framework in the IFRS Standards	March 2018	1 January 2020 Early adoption is permitted	The IASB decided to revise the Conceptual Framework because certain important issues were not covered and certain guidance was unclear or out of date. The revised Conceptual Framework, issued by the IASB in March 2018, includes: • A new chapter on measurement; • Guidance on reporting financial performance; • Improved definitions of an asset and a liability, and guidance supporting these definitions; and • Clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The IASB also updated references to the Conceptual Framework in IFRS Standards by issuing Amendments to References to the Conceptual Framework in IFRS Standards. This was done to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. Although we expect this to be rare, some companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs. The Company expects no significant impact on the application of this Standard.

Notes to the financial statements (continued)

New or amended standards		Date issued by IASB	Effective date periods beginning on or after	Summary of the requirements and assessment of impact
Amendments to IFRS 3	Definition of a Business	October 2018	1 January 2020 Early adoption is permitted	Defining a business is important because the financial reporting requirements for the acquisition of a business are different from the requirements for the purchase of a group of assets that does not constitute a business. The proposed amendments are intended to provide entities with clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3. In October 2018 the IASB issued this amendment to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. The amendments: • Confirm that a business must include inputs and a process, and clarified that: (i) the process must be substantive and (ii) the inputs and process must together significantly contribute to creating outputs. • Narrow the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and • Add a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The Company expects no significant impact on the application of this Standard.

Other national disclosures

Value Added Statement

For the year ended

	31 Dec 2019 NGN'000	%	31 Dec 2018 NGN'000	%
Revenue	255,987,711		82,220,731	
Bought in materials and services::				
- Local	(132,158,435)		(127,498,102)	
- Foreign	-		-	
	123,829,276		(45,277,371)	
Finance income	24,226,682		937,197	
Other income	2,630,985		1,414,139	
	150,686,943	**100**	**(42,926,035)**	**100**
To employees:				
- as salaries, wages and other staff costs	14,262,132	9	13,176,776	(31)
To providers of finance:				
- Finance cost and similar charges	6,041,373	5	24,412,107	(57)
To government as:				
- taxes	1,498,198	1	102,788	1
Retained in the Business:				
To maintain and replace:				
- property plant and equipment	4,473,085	3	5,028,374	(12)
- intangible assets	119,620	-	73,249	-
To augment/(deplete) reserves	124,292,535	82	(85,719,329)	199
	150,686,943	**100**	**(42,926,035)**	**100**

Five year financial summary

Statement of profit or loss and other comprehensive income

	2019	2018	2017	2016	2015
	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000
Revenue	255,987,711	82,220,731	65,715,312	61,147,917	62,534,676
Results from operating activities	107,605,424	(62,141,631)	(49,473,493)	(35,309,576)	(39,196,964)
Profit/(Loss) before taxation	125,790,733	(85,616,541)	(75,895,144)	(47,298,250)	(41,718,714)
Profit/(Loss) for the year	124,292,535	(85,719,329)	(75,977,300)	(47,447,920)	(41,972,588)
Total comprehensive income/(loss) for the year	124,194,001	(61,190,548)	(75,079,969)	(47,447,920)	(26,695,163)

Statement of financial position

	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015
	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000
Employment of funds					
Property, plant and equipment	113,589,891	111,649,532	91,952,036	84,088,819	83,079,696
Right-of-use assets	820,401	-	-	-	-
Intangible assets	920,334	1,039,954	79,574	32,816	32,485
Withholding tax receivables	-	114,448	-	-	-
Non-current trade and other receivables	-	9,345,410	32,550	-	-
Non-current prepayments	-	53,577	16,398	11,278	37,043
Net current liabilities	(94,522,803)	(221,568,406)	(173,191,651)	(93,625,528)	(45,000,349)
Non current liabilities	(25,378,420)	(29,404,113)	(4,983,511)	(1,527,020)	(1,720,590)
Net (liabilities)/assets	**(4,570,597)**	**(128,769,598)**	**(86,094,604)**	**(11,019,635)**	**36,428,285**
Funds Employed					
Share Capital	15,000	10,000	10,000	5,000	5,000
Retained earnings	(48,543,139)	(172,737,140)	(105,580,722)	(29,602,325)	17,845,595
Revaluation reserve	43,957,542	43,957,542	19,476,118	18,577,690	18,577,690
	(4,570,597)	**(128,769,598)**	**(86,094,604)**	**(11,019,635)**	**36,428,285**