

ABUJA ELECTRICITY DISTRIBUTION PLC
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

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Corporate Information

Registered No	638681	
Directors	<p>Name</p> <p>Victor Osadolor</p> <p>Alex Okoh</p> <p>Muyiwa Akinyemi</p> <p>Abubakar Tambuwal Atiku</p> <p>Razak Shittu</p> <p>Amaechi Aloke</p>	<p>Designation</p> <p>Chairman (Non-Executive)</p> <p>Non-Executive</p> <p>Non-Executive</p> <p>Non-Executive</p> <p>Non-Executive</p> <p>Non-Executive</p>
Registered Office	<p>1 Ziguinchor Street</p> <p>Off IBB Way</p> <p>Wuse Zone 4</p> <p>Abuja</p>	
Company Secretary	<p>Sam Adikamkwu</p> <p>1 Ziguinchor Street</p> <p>Off IBB Way</p> <p>Wuse Zone 4</p> <p>Abuja</p>	
Auditor	<p>Ernst & Young</p> <p>10th and 13th Floors, UBA House,</p> <p>57 Marina, Lagos.</p>	
Bankers	<p>United Bank for Africa Plc</p> <p>First Bank of Nigeria Limited</p> <p>Guaranty Trust Bank Limited</p> <p>Sterling Bank Plc</p> <p>Union Bank of Nigeria Plc</p> <p>Ecobank Nigeria Limited</p>	

Report of the Directors

For the year ended 31 December 2021

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 2021.

Principal activity and business review

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

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

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

Operating results

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

<i>Summary of profit or loss</i>	2021 ₦'000	2020 ₦'000
Revenue	165,325,621	139,131,455
Gross profit	37,369,953	24,141,394
Operating loss	(1,109,852)	(1,913,809)
Loss before tax	(11,208,028)	(11,122,518)
Minimum tax	(441,712)	(349,100)
Income tax	(295,611)	-
Loss for the year	(11,945,351)	(11,471,618)

Summary of financial position

Total assets	271,901,480	195,064,216
Total liabilities	231,615,973	197,141,707
Equity	40,285,507	(2,077,491)

The increase in revenue in the current year is driven by a full year implementation of the Service reflective tariff which was introduced by NERC towards the end of 2020.

No dividend has been recommended by the directors during the year (2020: Nil).

Report of the Directors - continued

Operating results - continued

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) and National Mass Meters Programme (NMMP). In 2018, the Company accessed the CBN fund and drewdown an amount of ₦23.72 billion which was used to settle a portion of its market debt in 2018. A further drawdown of ₦1.08 billion in 2019 from the fund was utilised in settling legacy gas debts.

During the year, a total amount of ₦23.9 billion was drawdown from this loan out of which, ₦9.8 billion was used to settle part of outstanding market debts, ₦6 billion was also used to settle the Meter Asset Providers that sold meters to the Company's customers under the National Mass Metering Programme (NMMP) introduced by NERC while an amount of ₦8.1 billion was disbursed directly to the Company (2020: Nil).

-Subsidies for tariff shortfalls: In 2019, NERC awarded the Company an accumulated tariff shortfall for 2015 to 2018 of ₦102.22 billion and a tariff shortfall for 2019 of ₦62.69 billion. In 2020, the Company recognised an amount of ₦51.5 billion shortfall for 2020 based on the approved parameters by NERC. During the year, a shortfall of ₦29.8 billion was also recognised as tariff shortfall. The shortfall have been settled via a net off of NBET payables.

Directors and their interests

The Directors who served during the year were as follows:

<u>Name</u>	<u>Nationality</u>	<u>Designation</u>	<u>Date Appointed /Resigned/ Removed</u>
Mallam Ibrahim Aliyu	Nigerian	Chairman	Exited 12 December 2021
Olubunmi Peters	Nigerian	Executive Vice - CEO	Exited 12 December 2021
Ernest Mupwaya	Zambian	Managing Director/CCE	Exited 12 December 2021
Faruk Aliyu	Nigerian	Member	Exited 12 December 2021
Engr. Joseph Makoju	Nigerian	Independent Director	Exited 12 December 2021
George Nwangwu	Nigerian	Member	Exited 12 December 2021
Victor Osadolor	Nigerian	Chairman	Appointed 12 December 2021
Alex Okoh	Nigerian	Member	
Amaechi Alope*	Nigerian	Alternate Director	
Muyiwa Akinyemi	Nigerian	Member	Appointed 12 December 2021
Abubakar Tambuwal Atiku	Nigerian	Member	Appointed 12 December 2021
Razak Shittu	Nigerian	Member	Appointed 12 December 2021
Sam Adikamkwu	Nigerian	Member	Appointed 12 December 2021/ Resigned 22 December 2021

* Amaechi Alope is alternate director to Alex Okoh-DG,BPE. Presently, Mr. Amaechi Alope represents Mr. Alex Okoh at all the Company's board meetings in the absence of the latter.

Directors interest in shares

The directors indicate that they do not have any interests required to be disclosed under Section 301 of the Companies and Allied Matters Act 2020.

Directors interest in contracts

In accordance with Section 303 of the Companies and Allied Matters Act 2020, none of the directors has notified the Company of any declarable interests in contracts with the Company.

Report of the Directors - continued

Shareholding structure

The shareholding structure of the Company is as follows:

	15 million shares at ₦ 1 each			
	31 December 2021		31 December 2020	
	%	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

NGN7.5 million of the Company's issued share capital remained unpaid at year end, and has been included as unpaid share capital in trade and other receivables. See Notes 20.1 and 17.1.

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 require that the Company have at least five directors of which at least one must be an independent director. The Company currently has five (5) directors and out of which one (1) of them is an independent director.

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

The board met 7 times (2020: 7 times). The old board met 4 times while the new board met 3 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:

OLD DIRECTORS	DESIGNATION	18 Jan	5 May	9 Aug	8 Nov
Mallam Ibrahim Aliyu	Chairman (Non-Executive)	X	O	O	O
Olubunmi O. Peters	Executive Vice Chairman/CEO	X	X	X	X
Ernest Mupwaya	Managing Director/CCE	X	X	X	X
Faruk Aliyu	Executive	X	X	X	X
Joseph Makoju	Non-Executive	X	X	X	X
George Nwangwu	Non-Executive	X	X	X	X
Alex Okoh	Non-Executive	X	X	X	X

Report of the Directors - continued

Corporate governance - continued

NEW DIRECTORS	DESIGNATION	12 Dec	20 Dec	22 Dec
Victor Osadolor	Chairman	X	X	X
Alex Okoh	Member (BPE)	X	X	X
Muyiwa Akinyemi	Member	X	X	X
Dr. Abubakar Tambuwal	Member	X	X	X
Atiku	Member	X	X	RE
Sam Adikamkwu	Member	X	X	O
Razak Shittu	Member	N/P	N/P	O

X = Attended; O = Absent N/P= Not yet appointed RE= Resigned

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 four (4) committees that have been approved.

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

The following committees were in place during the year:

1 The Audit and Risk Committee

The composition of the Audit Committee was as follows

Members	Designation
Alex Okoh	Chairman
Dr George Nwangwu	Member
Engr Joseph Nwangwu	Member
Mr. Faruk Aliyu	Member

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 auditors. The Audit Committee make 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 2020. The Audit Committee had 5 meetings (2020: 4 meetings) during the year under review.

2 Finance and General Purpose Committee

The composition of the Finance and General Purpose Committee was as follows:

Members	Designation
Dr George Nwangwu	Chairman
Alex Okoh	Chairman
Engr(Dr) Olubunmi Peters	Member
Engr. Joseph Makoju	Member
Dr Ernest Mupwaya	Member

Report of the Directors - continued

2 Finance and General Purpose Committee - continued

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 (2020: 4 meetings) during the year under review.

3 Technical and Commercial Committee

The members of the Technical and Commercial Committee were as follows:

Members	Designation
Engr Joseph Makoju	Chairman
Engr Dr. Olubunmi Peters	Member
Mr. Alex Okoh	Member
Dr Ernest Mupwaya	Member
Mr. Faruk Aliyu	Member

The primary role of the Technical and Commercial Committee is to assist the Board in fulfilling its oversight responsibilities with respect to technical, commercial & operational matters as well as reviewing and recommending policies, standards, guidelines and programs necessary to meet the Company's mission of ensuring the stable and secure operation of the Company in compliance with relevant regulatory requirements. The Technical and Commercial Committee had 4 meetings during the year under review.

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
Dr Ernest Mupwaya	Member

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 (2020: 4 meetings) during the year.

5 Governance, remuneration, and nominations committee

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

Members	Designation
Dr George Nwangwu	Chairman
Engr Dr Olubunmi Peters	Member
Engr Joseph Makoju	Member
Mr. Faruk Aliyu	Member

Report of the Directors - continued

5 Governance, remuneration, and nominations committee - continued

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

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 4 meetings during the year.

Subsequent to the appointment of the new directors on 12 December 2021, the following board members have been functioning as members of all committees and sub committees of the board:

Name

Victor Osadolor	Chairman
Alex Okoh	Member
Muyiwa Akinyemi	Member
Abubakar Tambuwal Atiku	Member
Razak Shittu	Member

Leadership team

The Board delegated the day to day running of the Company to the leadership team of the Company headed by the Managing Director. The leadership team comprises:

Name

Ernest Mupwaya	Dr George Nguni
Faruk Aliyu	Owen Aramsomwan
Olajumoke Delano	Mobolanle Adesanya
Clara Musama	Solomon Odep
Saidu Abdullahi Gorebe	Oladeinde Samuel
Collins Chabuka	

Subsequent to the appointment of the new directors on 12 December 2021, the Board has delegated the day to day running of the Company to the following Interim Management team headed by the Managing Director:

Name

Bada Akinwunmi*	Managing Director
Babajide Ibrinke	Chief Finance Officer
Oluwafemi Zaccheaus*	Chief Technical Officer
Donald Etim	Chief Marketing Officer
Sani Usman	Chief Business Officer

* Subsequent to the year end in April 2022, Bada Akinwunmi and Oluwafemi Zaccheaus resigned from their positions in the Company and were subsequently replaced by Adeoye Fadeyibi and Kassim Abdullahi Burkullu respectively.

Report of the Directors - continued

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). During the year, a total amount of ₦23.98 billion was drawn down from this facility, out of which ₦9.8 billion was used to settle part of outstanding market debts in 2021 and 2020, ₦6 billion was also used to settle the Meter Asset Providers that sold meters to the Company's customers under the National Mass Metering Programme (NMMP) introduced by NERC while an amount of ₦8.1 billion was disbursed directly to the Company (2020: Nil). See Note 24.2

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

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 30.5 to these financial statements.

5 Deed of assignment of pre-completion receivables and liabilities

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

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

Report of the Directors - continued

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 operates 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

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 the financial statements.

In the opinion of the directors, market value of the Company's property, plant and equipment is not less than the value shown in the financial statements.

Charitable contributions

During the year, the Company made charitable contributions to various organizations and persons amounting to NGN9 million (2020: NGN16.3 million).

In accordance with Section 43 of the Companies and Allied Matters Act 2020, 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 (2020 : Nil).

Events after the reporting date

There were no events after reporting date which could have material effect on the Company's financial statements.

Employment and employees

a Employment consultation and training:

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

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

b Dissemination of information:

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

Report of the Directors - continued

c Employment of physically challenged persons:

The Company has four (4) physically challenged persons in its employment (2020: 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.

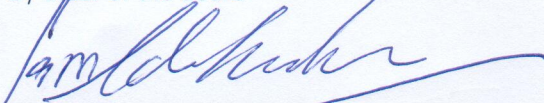
d Employee health, safety and welfare

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.

Independent Auditor

Ernst & Young has expressed its willingness to continue in office as the Company's independent auditor in accordance with Section 401(2) of the Companies and Allied Matters Act, 2020. A resolution will be proposed at the Annual General Meeting to authorize the Directors to fix their remuneration.

By order of the Board



Sam Adikamkwu
Company Secretary
FRC/2022/PRO/NBA/004/319294

19 July 2022

Statement of Directors' Responsibilities

For the year ended 31 December 2021

The Companies and Allied Matters Act, (CAMA) 2020, require the Directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Company at the end of the year and of its profit or loss. The responsibilities include ensuring that the Company:

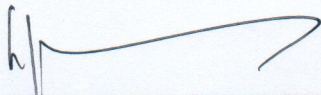
1. Keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and comply with the requirements of the Companies and Allied Matters Act, (CAMA) 2020, and in compliance with the Financial Reporting Council of Nigeria Act, No 6, 2011;
2. Establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
3. Prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates and are consistently applied.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates in conformity with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act 2020, in compliance with the Financial Reporting Council of Nigeria Act, No 6, 2011.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its loss for the year ended 31 December 2020. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

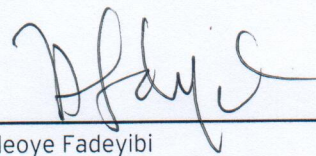
The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not remain a going concern in the year ahead. See Note 35 to the financial statements for more details.

Signed on behalf of the Board of Directors by:



Victor Osadolor
Chairman
FRC/2016/ICAN/00000013923

19 July 2022



Adeoye Fadeyibi
Managing Director/CEO
FRC/2014/IODN/00000018818

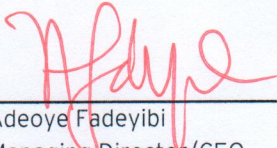
19 July 2022

Statement of Corporate Responsibility for the Financial Statements
For the year ended 31 December 2021

In line with the provision of Section 405 of CAMA 2020, we have reviewed the audited financial statements of the Company for the year ended 31 December 2021 and based on our knowledge confirm as follows:


1. The audited financial statements do not contain any untrue statement of material fact or omit to state a material fact, which would make the statements misleading.
2. The audited financial statements and all other financial information included in the statements fairly present, in all material respects, the financial condition and results of operation of the Company as of and for, the period ended 31 December 2021.
3. The Company's internal controls has been designed to ensure that all material information included relating to the Company is received and provided to the Auditors in the course of the Audit.
4. The Company's internal controls were evaluated within ninety days of the financial reporting date and are effective as of 31 December 2021.
5. That we have disclosed to the Company's Auditor and the Audit Committee the following information:
 - a. There are no significant deficiencies in the design or operation of the Company's internal control which could adversely affect the Company's ability to record, process, summarise and report financial data, and have discussed with the auditors any weaknesses in internal controls observed in the course of the Audit.
 - b. There is no fraud involving management or other employees which could have any significant role in the Company's internal control.
6. There are no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of this audit, including any corrective actions with regard to any observed deficiencies and material weaknesses.

Signed on behalf of:



Adeoye Fadeyibi
Managing Director/CEO
FRC/2014/IODN/00000018818

19 July 2022



Babajide Ibironke
Chief Financial Officer
FRC/2013/MULTI/00000001598

19 July 2022

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ABUJA ELECTRICITY DISTRIBUTION PLC
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Abuja Electricity Distribution Plc ('the Company') which comprise the Statement of financial position as at 31 December 2021, Statement of profit or loss and other comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Abuja Electricity Distribution Plc as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards, the relevant provisions of the Companies and Allied Matters Act, 2020 and in compliance with the financial Reporting Council of Nigeria Act, No 6, 2011.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). 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 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 35 of the financial statements which indicates that the Company reported a net loss of ₦11.95 billion for year ended 31 December 2021 (2020: ₦11.47 billion). As at that date, the Company had net current liabilities of ₦112.43 billion (2020: ₦116.86 billion).

The ability of the Company to fully execute plans to resolve these matters and service debt is dependent on the Company's actualization of its budgeted results and receiving additional funding and or support from the Federal Government of Nigeria. These conditions along with other matters discussed in Note 35 indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore may be unable to realise its assets and settle its liabilities in the ordinary course of business. 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 the audit of the financial statements of the current period. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of the 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. For the matters below, our description of how our audit addressed the matters are provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABUJA ELECTRICITY DISTRIBUTION PLC- Continued

Key Audit Matter	How the matter was addressed in the Audit
<p>Recognition of customer-contributed assets relating to prior periods</p> <p>During the year, certain assets contributed by customers in prior years which were previously omitted from the Company's fixed assets register were recognized in its books.</p> <p>Non-recognition of customer contributed assets in the appropriate period is an error which has been corrected in line with IAS 8. The affected line items in the comparative financial statements for the year ended 31 December 2020 have been restated for errors pertaining to 2020 while the opening balance as at 1 January 2020 has also been restated to correct the errors relating to 2019 and periods prior to it.</p> <p>We considered this a key audit matter due to the materiality of the amounts and the estimation involved in determining the fair values of the customer-contributed assets on initial recognition.</p> <p>Refer to Note 6 to the financial statements for the impact of the restatement on the financial statements.</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> • We obtained the detailed listing of the customer contributed assets to be recognised and cross-checked to the entity's fixed asset register to confirm the omission; • We inspected documents provided by the entity to validate the period the assets were acquired and put to use; • Using sampling techniques, we carried out physical verification of the assets to validate its existence and operating condition; • We reviewed management's determination of the fair value of the assets for reasonableness; • We reviewed the accounting entries for the assets recognition to ensure it aligns with the entity's accounting policy on customer contributed assets and the applicable IFRS standards; • We reviewed the appropriateness of the disclosures in the financial statements in line with IAS 8- <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>.
<p>Impairment of Trade Receivables</p> <p>The Company's customers are classified based on their payment pattern as pre-paid or post-paid customers. Recovery of amounts billed to post-paid customers remains a challenge hence the high impairment allowance reported by the Company.</p> <p>As at 31 December 2021, an impairment allowance of ₦88.72 billion (2020: ₦78.96 billion) was made against the gross trade receivables balance of ₦139.49 billion (2020: ₦117.17billion). The allowance for expected credit loss represents 63.6% (2020: 67.4%) of the gross trade receivable balance.</p> <p>We considered this a key audit matter due to the materiality of the amounts involved and the high level of judgment required in determining the key inputs for the expected credit loss model used in calculating the impairment allowance.</p> <p>Refer to Note 17 (Trade and Other receivables) and Note 32.2.1 (Credit risk) to the financial statements.</p>	<ul style="list-style-type: none"> • We obtained an understanding of the Company's process for estimating the expected credit loss (ECL) on trade receivables in line with the provisions of IFRS 9; • We determined the appropriateness of the categorization of the trade receivables portfolio based on shared credit risk characteristics; • We assessed the appropriateness of the historical loss rates used per grouping and considered for reasonableness the forward-looking information; assessing these assumptions using available information; • we recalculated the allowance for expected credit loss on trade receivables and compared with management's estimate; • We reviewed the disclosures made in the financial statements based on the requirements of IFRS 9.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABUJA ELECTRICITY DISTRIBUTION PLC- Continued

Other Information

The directors are responsible for the other information. The other information comprises the Report of the Directors, Statement of Directors' Responsibilities, Statement of Corporate Responsibility for the Financial Statements and Other National Disclosures (Value Added Statement and Five-year Financial Summary) as required by the Companies and Allied Matters Act, 2020, which we obtained prior to the date of this report. The other information 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 an audit opinion or 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 and fair presentation of the financial statements in accordance with the International Financial Reporting Standards, the relevant provisions of the Companies and Allied Matters Act, 2020 and in compliance with the Financial Reporting Council of Nigeria Act, No 6, 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 the 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 the ISAs, we exercise professional judgement and maintain professional scepticism 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABUJA ELECTRICITY DISTRIBUTION PLC- Continued

- 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 the 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 auditors' 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 auditors' 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 directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

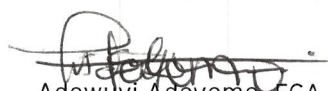
We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Directors, 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

In accordance with the requirement of the Fifth Schedule of the Companies and Allied Matters Act, 2020, we confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and
- iii) 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.


Adewuyi Adeyemo, FCA
FRC/2012/ICAN/00000000148
For: Ernst & Young
Lagos, Nigeria

29 August 2022



Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December

	Note	2021 ₦'000	2020 *Restated ₦'000
Revenue	7	165,325,621	139,131,455
Cost of sales	8.5	(127,955,668)	(114,990,061)
Gross profit		37,369,953	24,141,394
Other income	9	2,165,572	2,088,653
Impairment loss	17.2 & 17.3	(9,430,391)	(5,393,588)
Administrative expenses	8.5	(31,214,986)	(22,750,268)
Operating loss		(1,109,852)	(1,913,809)
Finance income	10.1	185,081	256,734
Finance costs	10.2	(10,283,257)	(9,465,443)
Net finance costs		(10,098,176)	(9,208,709)
Loss before minimum tax and income tax expense		(11,208,028)	(11,122,518)
Minimum tax	13.1	(441,712)	(349,100)
Income tax	13.2	(295,611)	-
Loss for the year		(11,945,351)	(11,471,618)
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss</i>			
Remeasurement gain/(loss) on defined benefit obligations	28.2	202,079	(128,554)
Revaluation surplus on land and building	14.4	-	1,087,669
Revaluation surplus on distribution network assets	14.4	54,106,270	-
Other comprehensive income		54,308,349	959,115
Total comprehensive income/(loss)		42,362,998	(10,512,503)

The notes on pages 23-76 are an integral part of these financial statements.

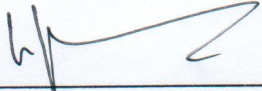
*Please see note 6 for summary of impact of restatement.

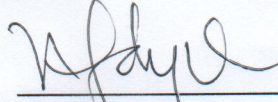
Statement of Financial Position


As at

	Note	31 December 2021 N'000	31 December 2020 *Restated N'000	1 January 2020 *Restated N'000
ASSETS				
Non-current assets				
Property, plant and equipment	14	185,781,081	134,662,508	126,906,631
Right-of-use assets	26	349,640	726,601	820,401
Intangible assets	15	741,196	848,888	920,334
		<u>186,871,917</u>	<u>136,237,997</u>	<u>128,647,366</u>
Current assets				
Inventories	16	159,927	183,544	256,568
Trade and other receivables	17	71,545,412	50,784,684	39,612,316
Prepayments	18	30,527	47,274	433,695
Cash and cash equivalents	19	13,293,696	7,810,717	10,558,175
		<u>85,029,563</u>	<u>58,826,219</u>	<u>50,860,754</u>
Total assets		<u>271,901,480</u>	<u>195,064,216</u>	<u>179,508,120</u>
EQUITY				
Share capital	20	15,000	15,000	15,000
Revaluation reserve	20.2	99,151,481	45,045,211	43,957,542
Retained losses		(58,880,974)	(47,137,702)	(35,537,529)
		<u>40,285,507</u>	<u>(2,077,491)</u>	<u>8,435,013</u>
LIABILITIES				
Non-current liabilities				
Loans and borrowings	24	21,716,071	13,983,018	16,441,518
Lease liabilities	25	107,360	499,027	658,586
Employee benefit obligations	28	1,091,609	1,145,530	733,211
Deferred income	21	11,239,304	5,829,261	7,341,699
		<u>34,154,344</u>	<u>21,456,836</u>	<u>25,175,014</u>
Current liabilities				
Loans and borrowings	24	13,170,958	5,503,028	4,978,317
Lease liabilities	25	477,086	346,879	203,406
Employee benefit obligations	28	190,343	209,215	330,107
Trade and other payables	22	177,519,243	164,859,607	136,249,149
Contract liabilities	27	1,137,850	1,021,081	635,894
Deferred income	21	2,006,960	1,523,196	1,528,577
Provisions	23	361,040	361,040	361,040
Current tax liabilities	13.3	2,598,149	1,860,825	1,611,603
		<u>197,461,628</u>	<u>175,684,871</u>	<u>145,898,093</u>
Total liabilities		<u>231,615,973</u>	<u>197,141,707</u>	<u>171,073,107</u>
Total equity and liabilities		<u>271,901,480</u>	<u>195,064,216</u>	<u>179,508,120</u>

These financial statements were approved by the Board of Directors on 19 July 2022 and signed on its behalf by:


 Victor Osadolor
 Chairman
 FRC/2016/ICAN/00000013923


 Adeoye Adeyibi
 Managing Director/CEO
 FRC/2014/IODN/00000018818


 Babajide Ibironke
 Chief Financial Officer
 FRC/2013/MULTI/00000001598

The notes on pages 23-76 are an integral part of these financial statements.

*Please see note 6 for summary of impact of restatement.

Statement of Changes in Equity
For the year ended 31 December

	Share capital ₦'000	Retained losses ₦'000	Revaluation reserve ₦'000	Total ₦'000
As at 1 January 2020	15,000	(48,543,139)	43,957,542	(4,570,597)
Adjustment on correction of error (net of tax)*	-	13,005,610	-	13,005,610
As at 1 January 2020 (restated)	15,000	(35,537,529)	43,957,542	8,435,013
Loss for the year	-	(11,471,618)	-	(11,471,618)
Other comprehensive (loss)/ income	-	(128,554)	1,087,669	959,115
Total comprehensive income	-	(11,600,172)	1,087,669	(10,512,503)
As at 31 December 2020 (restated)	15,000	(47,137,702)	45,045,211	(2,077,491)
At 1 January 2021	15,000	(47,137,702)	45,045,211	(2,077,491)
Profit for the year	-	(11,945,351)	-	(11,945,351)
Other comprehensive income	-	202,079	54,106,270	54,308,349
Total comprehensive income	-	(11,743,272)	54,106,270	42,362,998
As at 31 December 2021	15,000	(58,880,974)	99,151,481	40,285,507

The notes on pages 23-76 are an integral part of these financial statements.

*Please see note 6 for summary of impact of restatement.

Statement of Cash Flows

For the year ended 31 December

	Note	2021 ₦'000	2020 ₦'000
Operating activities			
Cash (used in)/ generated from operating activities	29	(7,822,627)	13,311,900
Tax paid	13.3	-	(98,064)
Defined benefit obligation paid	28.2	(56,863)	(120,279)
Long service award paid	28.1	(38,726)	(188,182)
Net cash flows (used in)/from operating activities		(7,918,216)	12,905,375
Investing activities			
Acquisition of property, plant & equipment	14	(6,071,074)	(677,274)
Proceeds from disposal of property, plant and equipment	14	17,500	1,313
Acquisition of intangible assets	15	(3,763)	(37,597)
Interest received	10	113,061	235,400
Receipt of government grant	21.1	7,446,303	-
Net cash outflows from/(used in) investing activities		1,502,027	(478,158)
Financing activities			
Payment of lease liabilities	25	(218,990)	(346,879)
Repayment of loans and borrowings	24.5	(3,549,964)	(1,933,789)
Proceeds from loans and borrowings	24.5	16,531,118	-
Interest paid	24.5	(857,401)	(3,586,144)
Net cash flows from/(used in) financing activities		11,904,763	(5,866,812)
Net increase in cash and cash equivalents		5,488,574	6,560,405
Cash and cash equivalents at the beginning of the year		7,810,717	1,267,151
Effects of exchange rate changes		(5,595)	(16,839)
Cash and cash equivalents at the end of the year	19	13,293,696	7,810,717

The notes on pages 23-76 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). 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 preparation

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 2020 and the Financial Reporting Council of Nigeria Act, No 6, 2011. The financial statements were authorised for issue by the Board of Directors on 19 July 2022.

Details of the Company's significant accounting policies are included in Note 4.

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 35 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 (₦'000), unless otherwise indicated.

4 Summary of 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.

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.

Notes to the financial statements - continued

a) Revenue from contract with customers - continued

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.

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

Category of revenue	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Post-paid revenue	<p>The performance obligation of the Company is satisfied overtime as electricity is supplied to the customers.</p> <p>Billing is done on a monthly basis and payment is contractually within 30 days of billing.</p>	<p>Revenue is recognised over time as electricity is provided. The amount of revenue to recognize 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.</p> <p>The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers. The post-paid are majorly unmetered customers.</p>
Prepaid revenue	<p>Satisfaction of performance obligation is same as post-paid revenue. Payment is received in advance of consumption of electricity.</p>	<p>Revenue is recognised over time as electricity is provided.</p> <p>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.</p> <p>The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers.</p>

Notes to the financial statements - continued

a) Revenue from contract with customers - continued

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.

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. The entity performs its revaluation exercise every three years.

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.

Notes to the financial statements - continued

i) Recognition and measurement - continued

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 labour and any costs incurred in bringing it to its present location and condition.

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

ii) Subsequent expenditure

Subsequent expenditure is included in the asset's carrying amount or recognized as a separate asset as appropriate, only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. The carrying amount of the replaced part is 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
Equipment, fixtures & fittings	5

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

Land is not depreciated as it is a leasehold asset with an indefinite 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.

Notes to the financial statements - continued

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 expenditures are recognised in profit or loss as incurred.

Amortization

Amortisation 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 recognised in profit or loss.

The estimated useful life of items of intangible assets are as follows:

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

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

Derecognition of Intangible Assets

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

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

f) Financial instruments

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.

Notes to the financial statements - continued

i) *Recognition and initial measurement - continued*

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 (Fair value through other comprehensive income)- debt investment; FVOCI - equity investment; or FVTPL (Fair value through profit or loss).

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;

Notes to the financial statements - continued

Financial assets-Business model assessment - continued

- 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;
- 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 sole 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 paramount, 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 loss are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Notes to the financial statements - continued

Financial liabilities – Classification, subsequent measurement and gains and losses

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

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

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

iii) Derecognition

Financial assets

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

Financial liabilities

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

iv) Offsetting

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

g) Cash and cash equivalents

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

h) Share capital

Ordinary shares

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

i) Government grants

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

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

Notes to the financial statements - continued

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

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.

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.

Notes to the financial statements - continued

i) As a lessee - continued

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.

l) Impairment of financial assets

i) Non-derivative financial assets

Financial instruments and contracts 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

D) Impairment of financial assets - 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 ECL

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.

Notes to the financial statements - continued

ii) Non-financial assets - continued

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell.

Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

m) Employee benefits

i) Short term employee benefits

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

ii) Defined contribution plan

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

In line with the provisions of the Pension Reform Act 2014, the Company has instituted a defined contribution pension scheme for all staff effective from 1 November 2013. Staff contributions to the scheme are funded through payroll deductions while the Company's contribution is recognized in profit or loss as employee benefit expense in the periods during which services are rendered by employees. Employees contribute 8% each of their basic salary, transport and housing allowances to the Fund on a monthly basis.

The Company's contribution is 10% of each employee's basic salary, transport and housing allowances.

iii) Defined benefits plan

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

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

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

Notes to the financial statements - continued

iii) Defined benefits plan - continued

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 gain loss are recognized in profit or loss in the period in which they arise.

v) Termination benefits

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

n) Provisions and contingent liabilities

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

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

Contingent liabilities

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

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

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

o) Fair value measurement

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

Notes to the financial statements - continued**o) Fair value measurement - continued**

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*.

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.

Notes to the financial statements - continued

i) Current tax - continued

ii) Offset of current tax assets against current tax liabilities

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.

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.

The Financial Act 2021 introduces a reduced minimum tax rate of 0.25% (previously 0.5%) of gross turnover less franked investment income for tax returns prepared and filed for any two accounting periods ending on any date between 1 January 2019 and 31 December 2021.

Notes to the financial statements - continued

q) Minimum tax - continued

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.

s) 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)

5 Significant accounting judgements, estimates and assumptions

The preparation of the Company's historical financial information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

i Defined benefit obligations

The cost of the defined benefit obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates.

Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers market yield on federal government bonds and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligations.

ii Useful lives of property, plant and equipment

The Company recognises depreciation on property, plant and equipment on a straight-line basis in order to write-off the cost of the asset over its expected useful life. The economic life of an asset is determined based on existing wear and tear, economic and technical ageing, legal and other limits on the use of the asset, and obsolescence. If some of these factors were to deteriorate materially, impairing the ability of the asset to generate future cash flow, the Company may accelerate depreciation charges to reflect the remaining useful life of the asset or record an impairment loss.

iii Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default, expected loss rates and maximum contractual period. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 32.2.1.

iv Revaluation of properties, plant and equipment

The company measures Land, building and distribution network assets using the revaluation model. The valuation is carried out by an independent valuer using the exchange worth in the open market for the Land and building and depreciated replacement approach for distribution network assets. The key assumptions used to determine the fair value and sensitivity analysis are disclosed in Note 14.4.

5.1 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Notes to the financial statements (continued)

a) IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- ▶ A specific adaptation for contracts with direct participation features (the variable fee approach)
- ▶ A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

b) Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- ▶ What is meant by a right to defer settlement
- ▶ That a right to defer must exist at the end of the reporting period
- ▶ That classification is unaffected by the likelihood that an entity will exercise its deferral right
- ▶ That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

c) Reference to the Conceptual Framework - Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

Notes to the financial statements (continued)

c) Reference to the Conceptual Framework - Amendments to IFRS 3 - continued

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

d) Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

e) Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

f) IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Company.

g) IFRS 9 Financial Instruments - Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

Notes to the financial statements (continued)

g) IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities - continued

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

h) IAS 41 Agriculture - Taxation in fair value measurements

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after 1 January 2022 with earlier adoption permitted.

The amendments are not expected to have a material impact on the Company.

i) Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company.

j) Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.

The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted.

Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

Notes to the financial statements (continued)

j) Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 - continued

The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

5.2 New and amended standards adopted by the Company

The following amendments became effective during the year, but had no material impact on the Company

- i Interest Rate Benchmark Reform - Phrase 2: Amendments to IFRS 9, IFRS 7, IFRS 4 and IFRS 16.
- ii Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16.

Notes to the financial statements (continued)

6 IAS 8 - Accounting policies, changes in accounting estimates and errors

Certain comparative amounts in the statement of profit and loss and other comprehensive income, statement of financial position have been restated as a result of the correction of prior periods errors; 2019 and 2020.

6.1 Corrections of errors

During the year, the company carried out an assessment(revaluation) on its distribution network assets in accordance with IAS 16. During the revaluation exercise it became evident that some transformers that were contributed (donated to the company by its customers) were omitted from the financial statements. These errors have been corrected by restating each of the affected financial statement line items for prior periods (2019 and 2020). The following tables summarise the impacts of the financial statements:

Impact on equity (increase in equity)

	31 December 2020 N'000	1 January 2020 N'000
Property plant and equipment	18,364,524	13,316,740
Total assets	18,364,524	13,316,740
Current tax liabilities	325,344	311,130
Total liabilities	325,344	311,130
Net impact on equity	18,039,180	13,005,610

Impact on statement of profit or loss (increase in profit)

	31 December 2020 N'000
Revenue	5,685,666
Depreciation	(637,881)
Minimum tax	(14,214)
Net impact on the profit for the year	5,033,571

Notes to the financial statements - continued

7 Revenue

7.1 Revenue streams

The Company generates revenue primarily from delivering 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 customers.

	2021 ₦'000	2020 ₦'000
Revenue from contracts with customers	129,861,724	75,977,525
Other revenue		
Tariff shortfall awarded by NERC	29,802,243	51,514,693
Customer contributed assets	5,661,654	11,639,237
Total revenue	165,325,621	139,131,455

7.1.1 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 62.69 billion as the tariff shortfall for 2019 and projected a sum of N57.27 million for 2020. However, based on the approved parameters for computing the tariff shortfall, the Company recognized a total sum of N29.8 billion (2020: N51.5 billion) tariff shortfall for the year. In line with the Orders, the awarded tariff shortfalls are netted off the Company's payables to NBET.

7.1.2 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. In 2019, 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 fulfill its contract with the customers. Meters amounting to NGN 0.81 billion (2020: NGN 5.95 billion) were contributed by the customers during the year and have been recorded at their fair value. Also, as discussed in note 6, included in customer contributed assets are various assets (transformers, substations) contributed by customers over the years which were omitted from the books by the Company. These assets have now been brought into the books and the accounts restated (opening balance as at 1 January 2020 and 31 December 2020) to reflect the impact.

7.2 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.

Notes to the financial statements - continued

7.2 Disaggregation of revenue from contracts with customers -continued

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 2021). Unbilled receivables (i.e. included in current year revenues) amounted to NGN 7.57 billion (2020: NGN 6.38 billion) and has been included as part of trade receivables.

	2021 ₦'000	2020 ₦'000
7.3 Classification by customer payment mode		
Postpaid	84,674,063	51,986,874
Prepaid	45,187,661	23,990,651
	129,861,724	75,977,525
7.4 Timing of revenue recognition		
Over time	129,861,724	75,977,525
	129,861,724	75,977,525

8 Expenses by nature		2021 ₦'000	2020 ₦'000
	Notes		
Auditor remuneration		62,000	60,453
Amortisation of intangible assets		111,455	109,043
Bank charges		21,195	126,109
Board expenses		-	782
Commission to super vendors		1,682,573	675,744
Consumables and other direct costs		745,111	649,794
Consultancy fees		282,247	383,938
Cost of energy		120,820,811	108,828,445
Depreciation (restated)	8.1	5,733,001	5,397,139
Depreciation- right-of-use- assets		375,025	350,450
Directors remuneration		523,774	554,189
Insurance		387,702	392,425
Litigation expenses		-	3,000
Maintenance expenses		560,525	1,239,857
Office repairs and maintenance		440,387	427,096
Office stationery and utilities		498,171	622,288
Operations and maintenance service fees		2,638,921	1,775,183
Other expenses	8.2	244,541	70,907
Professional services	8.3	200,071	525,188
Rent and accommodation expense		32,587	201,864
Revaluation deficit on distribution network assets, land and building	8.4	8,971,223	247,416
Security and safety		192,666	613,407
Staff and related costs	12.1	13,924,954	13,826,666
Subscription and registration		19,519	266,209
Transport		696,168	389,990
Write off of property, plant and equipment		6,027	2,747
Total cost of sales and administrative expenses		159,170,654	137,740,329

8.1 Depreciation was restated in 2020 due to the correction of error. (Refer to Note 6)

8.2 Other expenses comprises of marketing expenses, advertising and publicity, business development expenses, haulage, CSR expenses and stock taking expenses.

Notes to the financial statements - continued

8 Expenses by nature -continued

8.3 Professional services comprises of legal fees, consultancy fee and vending infrastructure

8.4 The disclosure on the revaluation deficit on distribution network assets, land and building is consistent with the International Financial Reporting Standards.

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

	2021 ₦'000	2020 ₦'000
8.5 Cost of sales	127,955,668	114,990,061
Administrative expense	31,214,986	22,750,268
	159,170,654	137,740,329

8.6 Non audit services paid to the statutory auditors	2021 ₦'000	2020 ₦'000
Non audit services paid to the statutory auditors comprise:		
Non-audit services	-	-

9 Other income	2021 ₦'000	2020 ₦'000
Service reconnection fees	16,965	69,890
Administrative charge on meter tampering	321,964	311,014
Amortisation of government grant	1,552,496	1,517,819
Insurance claims	30,864	45,933
Miscellaneous income *	55,629	28,960
Gain on disposal of PPE	7,328	313
Gain on lease derecognition	180,326	114,724
	2,165,572	2,088,653

*Miscellaneous income comprises of penalty charge for by-passing the AEDC metering network.

10 Finance income and finance costs

10.1 Finance income

Interest income on letter of fixed deposits	185,081	256,734
	185,081	256,734

10.2 Finance costs

Interest on loans	3,277,230	3,586,144
Foreign exchange loss (net)	47,812	207,680
Net interest on NBET and ONEM bills	6,818,424	5,482,752
Interest on lease liabilities	139,791	188,867
	10,283,257	9,465,443
Net finance costs	(10,098,176)	(9,208,709)

10.3 Net interest on NBET and ONEM bills

	2021 ₦'000	2020 ₦'000
Writeback of interest attributable to the tariff shortfalls	26,641,970	19,148,539
Interest on NBET and ONEM bills	(33,460,394)	(24,631,291)
	(6,818,424)	(5,482,752)

Notes to the financial statements - continued

10.3.1 Net 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, Minimum Remittance Order for the year 2019, 2020 and 2021" issued in 2019, the Company was required to remit 45% (later increased to 89.35% in 2021) and 100% of the NBET and ONEM bills respectively. The shortfall on remittance attracts interest at NIBOR plus 4%.

10.3.2 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 in 2019, the Company has written back interest payable on unpaid NBET and ONEM invoices attributable to the tariff shortfall (See Note 24).

11 Loss before minimum tax and income tax

	Notes	2021 ₦'000	2020 ₦'000
Profit/(loss) before income tax is stated after charging/(crediting)			
Auditor remuneration		62,000	60,453
Depreciation	14	5,733,001	5,397,139
Depreciation- right-of-use- assets	26	375,025	350,450
Amortisation of intangible assets	15	111,455	109,043
Staff and related costs	12.1	13,924,954	13,826,666
Directors remuneration	12.4	523,774	554,189
Foreign exchange loss (net)	10.2	47,812	207,680
Write off of property, plant and equipment		6,027	2,747

12 Employee benefit expense/(gain) and director remuneration

12.1 Employee benefit expense during the year amounted to:

		2021 ₦'000	2020 ₦'000
Salaries and wages		12,951,730	12,369,192
Pension cost		1,026,070	997,244
Termination benefits*		(54)	1,605
Gratuity	28	171,570	206,819
Past service cost	28	63,718	-
Long service award**	28.1	(288,080)	251,806
		<u>13,924,954</u>	<u>13,826,666</u>

*In 2021, termination benefits is related to compensation in lieu of notice period received from the staff during the period. i.e. an income to the Company.

** Long service award comprises of current service award, interest cost, remeasurement (gain)/loss due to change in assumption and past service cost.

Notes to the financial statements - continued

- 12.2** 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:

Amount (₦)	Number	Number
200,001 - 2,200,000	1,656	1,704
2,200,001 - 4,200,000	1,205	1,254
4,200,001 - 6,200,000	304	268
6,200,001 - 8,200,000	81	80
8,200,001 - 10,200,000	53	50
10,200,001 - 12,200,000	31	38
12,200,001 - 14,200,000	39	33
14,200,001 - 16,200,000	9	5
16,200,001 - 18,200,000	4	6
18,200,001 - 20,200,000	6	7
20,200,001 - 22,200,000	5	12
22,200,001 - 24,200,000	18	8
24,200,001 - 26,200,000	1	2
30,200,001 - 32,200,000	-	-
32,200,001 - 34,200,000	-	-
38,200,001 - 40,200,000	3	-
51,200,001 - 58,200,000	2	2
68,200,001 - 75,900,000	3	-
80,200,001 - 102,500,000	-	-
102,500,001 - 124,800,000	3	1
124,800,001 - 147,100,000	-	2
147,100,001 - 169,400,000	-	1
169,400,001 - 191,700,000	1	-
191,700,001 - 214,000,000	-	1
	3,424	3,474

- 12.3** The average number of full time personnel employed by the company during the year are as follows:

	2021 Number	2020 Number
Administration	394	346
Finance	199	217
Marketing	1,555	1,605
Technical	1,276	1,306
	3,424	3,474

12.4 Director remuneration	2021 ₦'000	2020 ₦'000
Directors' remuneration paid during the year comprises:		
Director fees	218,400	335,481
Salaries	279,823	190,208
Other emolument*	25,551	28,500
	523,774	554,189

*Other emolument comprises mainly of sitting allowance and housing allowance.

The directors' remuneration shown above includes:

Chairman	47,971	73,077
Highest paid director	198,783	176,368

Notes to the financial statements - continued

12.4 Director remuneration - 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:

	2021	2020
	Number	Number
20,000,000 - 52,000,000	<u>9</u>	<u>5</u>

13 Income Tax

	2021	2020
	₦'000	(restated) ₦'000
13.1 Minimum tax expense		
Minimum tax expense	828,961	349,100
Prior years over provision of minimum tax	<u>(387,249)</u>	<u>-</u>
	<u>441,712</u>	<u>349,100</u>
	2021	2020
	₦'000	₦'000
13.2 Income tax expense		
Teritary education tax	<u>295,611</u>	<u>-</u>
	<u>295,611</u>	<u>-</u>

The Company applied the provisions of the Company Income Tax Act and the Finance Act 2020 that mandates a minimum tax assessment, where a tax payer's tax liability based on taxable profit is less than the minimum tax liability.

13.3 Current tax liabilities

	2021	2020
	₦'000	(restated) ₦'000
Balance as at 1 January	1,860,825	1,611,603
Minimum tax charge	828,961	349,100
Teritary education tax	295,611	-
Prior years over provision of minimum tax	<u>(387,249)</u>	<u>-</u>
Tax paid	<u>-</u>	<u>(98,064)</u>
	<u>2,598,149</u>	<u>1,862,639</u>
WHT Tax assets offset against tax payable	<u>-</u>	<u>(1,814)</u>
Balance as at 31 December	<u>2,598,149</u>	<u>1,860,825</u>

Notes to the financial statements - continued

13.4 Reconciliation of effective tax rates

	2021 ₦'000	2020 ₦'000
Loss before minimum tax and income tax	(11,208,028)	(11,122,518)
Income tax using the statutory tax rate	(3,586,569)	(4,851,091)
Current year losses for which no deferred tax is recognised	(5,254,858)	5,951,758
Tax exempt income	(455,930)	(445,048)
Tax incentives	-	(193,592)
Difference in CIT and TET rates	(114,660)	-
Non-deductible expenses	26,907,855	42,689,285
Utilisation of previously unrecognised tax losses		(43,151,312)
Tax incentives - investment allowance	(302,752)	-
Current temporary differences for which no DT is recognised in profit or loss less OCI component	(16,897,475)	-
	<u>295,611</u>	<u>-</u>

The effective income tax rate for 2021 is 2.6% (2020: nil)

13.5 Unrecognised deferred tax assets

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

	2021 ₦'000	2020 ₦'000
Tax losses (will never expire)	18,450,816	23,705,673
PPE (unutilised capital allowance)	(1,811,332)	17,913,846
Deductible temporary differences	29,178,066	26,350,363
	<u>45,817,550</u>	<u>67,969,882</u>

Notes to the financial statements - continued

14	Property, plant and equipment	Land ₦'000	Buildings ₦'000	Distribution network assets ₦'000	Equipment, fixtures and fittings ₦'000	Motor vehicles ₦'000	Capital work in progress ₦'000	Total ₦'000
	Balance as at 1 January 2020	13,094,046	4,687,906	95,465,630	3,556,371	2,041,328	1,121,822	119,967,103
	Restatement of closing balance*	-	-	13,828,000	-	-	-	13,828,000
	Balance as at 1 January 2020 (restated)	13,094,046	4,687,906	109,293,630	3,556,371	2,041,328	1,121,822	133,795,103
	Additions	-	111,527	11,777,466	110,449	-	317,069	12,316,511
	Revaluation adjustment	20,156	820,097	-	-	-	-	840,253
	Reclassification	-	-	361,266	36,687	-	(397,953)	-
	Disposal	-	-	-	(2,028)	(26,893)	-	(28,921)
	Write off	-	-	-	-	-	(2,747)	(2,747)
	Balance as at 31 December 2020 (restated)	13,114,202	5,619,530	121,432,362	3,701,479	2,014,435	1,038,191	146,920,199
	Balance as at 1 January 2021	13,114,202	5,619,530	121,432,362	3,701,479	2,014,435	1,038,191	146,920,199
	Additions	-	553,045	4,847,627	-	-	6,332,056	11,732,728
	Revaluation adjustment	-	-	45,135,047	-	-	-	45,135,047
	Disposal	-	-	-	(723)	(15,624)	-	(16,347)
	Write off	-	(1,260)	(4,449)	(953)	-	-	(6,662)
	Reclassification	-	3,250	5,244,116	124,166	-	(5,371,532)	-
	Transfers**	-	-	(12,925,247)	-	-	-	(12,925,247)
	Balance as at 31 December 2021	13,114,202	6,174,565	163,729,456	3,823,969	1,998,811	1,998,715	190,839,718
	Depreciation							
	Balance as at 1 January 2020	-	277,917	3,352,011	1,738,071	1,009,213	-	6,377,212
	Restatement of closing balance	-	-	511,261	-	-	-	511,261
	Balance as at 1 January 2020 (restated)	-	277,917	3,863,272	1,738,071	1,009,213	-	6,888,473
	Charge for the year	-	94,953	4,234,102	696,954	371,130	-	5,397,139
	Disposal	-	-	-	(1,267)	(26,654)	-	(27,921)
	Balance as at 31 December 2020 (restated)	-	372,870	8,097,374	2,433,758	1,353,689	-	12,257,691
	Balance as at 1 January 2021	-	372,870	8,097,374	2,433,758	1,353,689	-	12,257,691
	Charge for the year	-	118,356	4,828,096	518,238	268,311	-	5,733,001
	Disposal	-	-	-	(446)	(5,729)	-	(6,175)
	Write off	-	(55)	(223)	(357)	-	-	(635)
	Transfers**	-	-	(12,925,247)	-	-	-	(12,925,247)
	Balance as at 31 December 2021	-	491,171	(0)	2,951,193	1,616,271	-	5,058,635
	Carrying amount							
	As at 31 December 2021	13,114,202	5,683,394	163,729,456	872,776	382,540	1,998,715	185,781,081
	As at 31 December 2020 (restated)	13,114,202	5,246,660	113,334,988	1,267,721	660,746	1,038,191	134,662,508
	As at 1 January 2020 (restated)	13,094,046	4,409,989	105,430,359	1,818,300	1,032,115	1,121,822	126,906,631

* This is as a result of the correction of errors in 2019, refer to Note 6.1

** This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.

Notes to the financial statements - continued

	Notes	2021 ₦'000	2020 (restated) ₦'000
14.1 The depreciation charge for the year is allocated as follows:			
Cost of sales		4,891,758	4,234,102
General and administrative expenses		841,243	1,163,037
Depreciation charge for the year	8	5,733,001	5,397,139

14.2 Reconciliation of additions to property, plant and equipment to statement of cash flow

		2021 ₦'000	2020 ₦'000
Total additions		(11,732,728)	(12,316,511)
Customer contributed assets	7.1.2	5,661,654	11,639,237
Acquisition of property, plant & equipment		(6,071,074)	(677,274)

14.3 The Company had capital commitments amounting to ₦200.9 million (2020: 115.9 million)

14.4 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 their fair values.

On 31 December 2021, the Company revalued its distribution network assets. The valuation was carried out by Tunji Adeniyi & Co.(FRC/2014/NIESV/0000007788), an external valuer.

The fair value of the distribution network asset was determined to be ₦163.73 billion resulting in a net surplus of ₦45.13 billion representing an amount of ₦54.11 billion as revaluation surplus in other comprehensive income and ₦8.7 billion as revaluation deficit in profit or loss.

The distribution network assets are revalued every three years in line with the Company accounting policy. 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 attributable such as age, conditions of assets and cost of installations.

Significant increase (decrease) in estimated depreciated replacement cost would result in a significantly higher or lower fair value.

Fair value hierarchy	Level 3 ₦'000
Land	13,114,202
Building	4,924,860
Distribution network assets	95,465,630

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

Notes to the financial statements - continued

14.4 Fair values of Land, building and distribution network assets - continued

Revaluation surplus recognised in other comprehensive income

	2021	2020
	₦'000	₦'000
Land & building	-	1,087,669
Distribution network assets	54,106,270	-
	<u>54,106,270</u>	<u>1,087,669</u>

Revaluation deficit in profit or loss

	2021	2020
	₦'000	₦'000
Land & building	-	247,416
Distribution network assets	8,971,223	-
	<u>8,971,223</u>	<u>247,416</u>

14.5 Capital work in progress (CWIP)

	2021	2020
	₦'000	₦'000
Capital work in progress (CWIP) comprises:		
PPE items in store*	1,134,822	202,707
Ongoing works with respect to substations	863,893	835,484
	<u>1,998,715</u>	<u>1,038,191</u>

* Included in PPE items in store are transformers of ₦ 122.6 million (2020: ₦21.619 million), meters and accessories of ₦1.01 billion (2020: ₦162.2 million).

Notes to the financial statements - continued

14.6 Land, building and distribution network assets: historical assets

If Land, building and distribution network assets were stated on historical cost basis, the carrying amounts would be as follows:

	Land ₦'000	Building ₦'000	Distribution network assets ₦'000
31 December, 2021			
Cost	11,702,055	5,384,339	24,866,488
Accumulated depreciation	-	(1,439,343)	1,757,060
Carrying amount	11,702,055	3,944,996	26,623,549
31 December, 2020			
Cost	11,702,055	4,831,294	21,278,592
Accumulated depreciation	-	(1,331,656)	(1,259,731)
Carrying amount	11,702,055	3,499,638	20,018,861

15 Intangible assets

	Computer software licenses ₦'000	Customer management system ₦'000	Total ₦'000
Cost			
Balance as at 1 January 2020	215,235	1,013,315	1,228,550
Additions	37,597	-	37,597
Balance as at 31 December 2020	252,832	1,013,315	1,266,147
Balance as at 1 January 2021	252,832	1,013,315	1,266,147
Additions	3,763	-	3,763
Balance as at 31 December 2021	256,595	1,013,315	1,269,910
Accumulated amortisation			
Balance as at 1 January 2020	206,884	101,332	308,216
Charge for the year	7,711	101,332	109,043
Balance as at 31 December 2020	214,595	202,664	417,259
Balance as at 1 January 2021	214,595	202,664	417,259
Charge for the year	10,123	101,332	111,455
Balance as at 31 December 2021	224,718	303,996	528,714
Carrying amount			
As at 31 December 2021	31,877	709,319	741,196
As at 31 December 2020	38,237	810,651	848,888

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

Notes to the financial statements - continued

16 Inventories

	2021 ₦'000	2020 ₦'000
Consumable spare parts	131,352	151,820
Other consumables*	28,575	31,724
	<u>159,927</u>	<u>183,544</u>

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 ₦108 million (2020: ₦403 million).

In addition, consumable spare parts have been reduced by ₦13 million (2020: nil) as a result of the write-down to net realisable value. These include fuse, tapes, control cables, safety boots, safety helmets and angle iron.

* Other consumables consists of stationery and lubricants.

17 Trade and other receivables

	2021 ₦'000	2020 ₦'000
Trade receivables	50,771,138	38,213,724
Other receivables	20,774,274	12,570,960
	<u>71,545,412</u>	<u>50,784,684</u>
Trade receivable- Gross	139,493,208	117,171,565
Impairment loss	(88,722,069)	(78,957,841)
	<u>50,771,138</u>	<u>38,213,724</u>
Other receivables- Gross	20,774,274	12,904,797
Impairment loss	-	(333,837)
	<u>20,774,274</u>	<u>12,570,960</u>

17.1 Other receivables comprises:

Employee receivables*	91,025	16,047
Interest receivables	72,020	21,334
Amount due from a related party (Note 30)	-	104,897
Unpaid share capital	7,500	7,500
Advance payment to vendors	295,083	933,010
Receivables from super vendor	786,322	-
Withholding tax receivables	13,135	-
Restricted cash**	19,509,189	11,488,172
	<u>20,774,274</u>	<u>12,570,960</u>

* This relates to employee advances during the year.

** Included in restricted cash balance is a cash collateral on letter of credit facility of ₦10.188 billion obtained from United Bank for Africa as a requirement for participation in the Transitional Electricity Market (TEM). Also included in restricted cash balance is ₦9.320 billion set aside with United Bank for Africa in order to comply with the Central Bank of Nigeria policy on VAT remittance.

17.2 Reconciliation of impairment allowance trade receivables

	2021 ₦'000	2020 ₦'000
As at 1 January	78,957,841	73,564,253
Charge for the year	9,764,228	5,393,588
As at 31 December	<u>88,722,069</u>	<u>78,957,841</u>

17.3 Reconciliation of impairment allowance other receivables

As at 1 January	333,837	333,837
Charge for the year	-	-
Write back	(333,837)	-
As at 31 December	-	333,837

18 Prepayment

	2021 ₦'000	2020 ₦'000
Insurance	27,551	47,274
Rent	2,976	-
	30,527	47,274

19 Cash and cash equivalents

	2021 ₦'000	2020 ₦'000
Bank balances	13,290,705	7,807,304
Cash on hand	2,991	3,413
Cash and cash equivalents per statement of cash flow	13,293,696	7,810,717

20 Share capital and reserves

2021 ₦'000	2020 ₦'000
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20.1 Share capital comprises:**Issued and called-up:**

15,000,000 ordinary shares at N1 each	15,000	15,000
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Issued, called-up and paid:

7,500,000 ordinary shares at N1 each	7,500	7,500
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Unpaid share capital:

7,500,000 ordinary shares at N1 each	7,500	7,500
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20.2 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 as an item that will not be reclassified to profit or loss. See Note 14.4.

Revaluation reserves arising during the year is made up as follows:

	2021 ₦'000	2020 ₦'000
Land and building	-	1,087,669
Distribution network	54,106,270	-
	54,106,270	1,087,669
Movement in revaluation reserve:		
As at 1 January	45,045,211	43,957,542
Land and building	-	1,087,669
Distribution network	54,106,270	-
As at 31 December	99,151,481	45,045,211

Notes to the financial statements - continued

21 Deferred income

	2021 N'000	2020 N'000
Government grant (a)	<u>13,246,264</u>	<u>7,352,457</u>
Non-current portion	11,239,304	5,829,261
Current portion	<u>2,006,960</u>	<u>1,523,196</u>
	<u>13,246,264</u>	<u>7,352,457</u>

(a) Government grant is made up of:

	2021 N'000	2020 N'000
Government granted assets*	2,710,797	2,838,512
Day one gain on loans**	<u>10,535,467</u>	<u>4,513,945</u>
	<u>13,246,264</u>	<u>7,352,457</u>

*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. 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. There were no government granted assets in the years 2020 and 2021.

**During the year, CBN disbursed three (3) tranches of Loan to the Company through NESI for NEMSF and NMMP. The amount disbursed was N4.61 billion, N1.39 billion and N17.98 billion for the three (3) tranches respectively. The loan was granted at below market interest rates. The management has recognized the loan at fair value as required by the applicable financial reporting framework at initial recognition. As a result, the difference between the fair values at initial recognition and the proceed from loan received was recognized as deferred income (day one gain). This initial gain is then spread/amortised over the period of the loan.

21.1 Reconciliation of deferred income

	2021 N'000	2020 N'000
Balance as at 1 January	7,352,457	8,870,276
Additions (day one gain on loans)	7,446,303	-
Amortisation to profit or loss	<u>(1,552,496)</u>	<u>(1,517,819)</u>
Balance as at 31 December	<u>13,246,264</u>	<u>7,352,457</u>

22 Trade and other payables

	2021 N'000	2020 N'000
Trade payables (Note 22.1)	123,965,001	123,845,189
Payables to other vendors	6,466,064	5,922,752
Due to related parties (Note 30)	4,853,713	2,589,470
Payables to NELMCO	745,711	745,711
Accruals (Note 22.2)	<u>5,744,153</u>	<u>5,605,821</u>
	<u>141,774,642</u>	<u>138,708,943</u>
Statutory deductions (Note 22.3)	<u>35,744,601</u>	<u>26,150,664</u>
	<u>177,519,243</u>	<u>164,859,607</u>

22.1 Trade payables

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:

	2021 N'000	2020 N'000
As at 1 January	123,845,189	102,955,137
Cost of energy	120,820,811	108,828,445
Interest on shortfall	33,460,394	24,631,291
Net-off of 2020 tariff shortfall	-	(51,514,693)
Net-off of 2021 tariff shortfall	(29,802,243)	-
Net-off of interest on tariff shortfall	(26,641,970)	(19,148,539)
Payments	<u>(97,717,180)</u>	<u>(41,906,452)</u>
As at 31 December	<u>123,965,001</u>	<u>123,845,189</u>

Notes to the financial statements - continued

22.2 Accruals

Accruals comprises of staff expense, other accruals, accrued audit fees, accrued liabilities, accrual for NIPP substations and fines and penalties.

22.3 Statutory deductions

Statutory deductions comprises of pension contribution, VAT, withholding tax, EMT payables and NHF.

23 Provisions	2021	2020
	₦'000	₦'000
At 1 January	361,040	361,040
Provision made during the year	-	-
At 31 December	<u>361,040</u>	<u>361,040</u>

In 2019, 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 (2019: N250 million) and NGN 111.04 million (2019: N 111.04 million) respectively and these have been provided for in these financial statements. The directors expect these matters to be resolved within the next 12 months.

24 Interest bearing loans and borrowings	2021	2020
	₦'000	₦'000
Vendor financed loan (Note 24.1)	-	4,535
CBN loan (Note 24.2)	28,708,154	14,026,544
CAPMI loan (Note 24.4)	1,115,520	1,115,520
NELMCO loan (Note 24.3)	764,198	704,489
TCN loan (Note 24.3)	4,299,157	3,634,958
	<u>34,887,029</u>	<u>19,486,046</u>
Current	13,170,958	5,503,028
Non-current	<u>21,716,071</u>	<u>13,983,018</u>
	<u>34,887,029</u>	<u>19,486,046</u>

24.1 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 in 2019.

Both contracts are priced at an interest of 12%, and have tenors of 12 months and 32 months respectively. The first contract matured in 2020 while the second contract was fully paid during the year.

24.2 CBN loan

During the year 2021, CBN disbursed three (3) tranches of Loan to the Company through NESI for NEMSF and NMMP. The amount disbursed was N4.61 billion, N1.39 billion and N17.98 billion for the three (3) tranches respectively. The Loans was granted at contractual interest rate of 9% with a COVID relief interest rate of 5% up to March 2023. The purpose of the Loan was to part-finance solely the company's obligations to NBET & MO and its operations arising from the under collection under the service based tariff scheme in line with ramp up programme and also to finance the procurement and installation of meters under the Phase 0 of the National Mass Metering Programme (NMMP). The Loans are repayable up to 120 months subject to maximum of December 2030.

In 2018, the Company received two tranches of ₦20.23 billion and ₦3.49 billion from the NEMSF. In 2019, the Company received a third tranche of ₦1.08 billion. These are to be repaid within 81 months from disbursement with a contractual interest rate of 10%.

24.3 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)

Notes to the financial statements - continued

24.3 TCN and NELMCO loans - continued

The drawdowns amounting to ₦6.50 billion and ₦1.21 billion from TCN and NELMCO respectively were utilized by the Company to establish the letter of credit required for participation in the Transitional Electricity Market (TEM). The contracts have a tenor of 48 months from disbursement with interest of 10%.

24.4 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.

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

24.5 Reconciliation of loans and borrowings

	2021 ₦'000	2020 ₦'000
Balance as at 1 January	19,486,046	21,419,835
Interest accrued	3,277,230	3,586,144
Principal repayment	(3,549,964)	(1,933,789)
Addition	16,531,118	-
Interest paid	(857,401)	(3,586,144)
Balance as at 31 December	34,887,029	19,486,046

25 Lease liabilities

	2021 ₦'000	2020 ₦'000
As at 1 January	845,906	861,992
Additions during the year	154,509	530,917
Interest expense	139,791	188,867
Payment during the year	(218,990)	(346,879)
Derecognition*	(336,770)	(388,991)
As at 31 December	584,446	845,906
Current portion	477,086	346,879
Non-current portion	107,360	499,027
	584,446	845,906

*Derecognition relates to buildings vacated during the year.

The Company has lease contracts for various office and residential buildings located in the Federal Capital Territory (Abuja), Niger, Kogi and Nasarawa states. The lease terms are between 2 - 5 years.

The following are the amount recognised in profit or loss

	2021 ₦'000	2020 ₦'000
Depreciation expense of right-of-use-assets	375,025	350,450
Expense relating to short term leases (included in admin expense)	28,686	194,762
Interest expense on lease liabilities	139,791	188,867
Total amount recognised in profit or loss	543,502	734,079

The following are the impact of the lease on cash flow

	2021 ₦'000	2020 ₦'000
Depreciation expense of right-of-use-assets	375,025	350,450
Interest expense on lease liabilities	139,791	188,867
Net cash flow from operating activities	514,816	539,317
Rent prepaid	-	-
Net cash flow from investing activities	-	-
Lease payment	(218,990)	(346,879)
Net cash flow from financing activities	(218,990)	(346,879)

Notes to the financial statements - continued

26 Right of use asset-Buildings

	2021 ₦'000	2020 ₦'000
Cost		
At 1 January	1,246,196	1,203,802
Additions	154,509	530,917
Derecognition*	(405,177)	(488,523)
At 31 December	995,528	1,246,196
Accumulated depreciation		
At 1 January	519,595	383,401
Charge for the year	375,025	350,450
Derecognition*	(248,732)	(214,256)
At 31 December	645,888	519,595
Carrying amount	349,640	726,601

*Derecognition relates to buildings vacated during the year.

27 Contract liabilities

	2021 ₦'000	2020 ₦'000
	1,137,850	1,021,081

27.1 Reconciliation of contract liabilities

	2021 ₦'000	2020 ₦'000
As at 1 January	1,021,081	-
Additions during the year	1,137,850	1,021,081
Amount recognised as revenue during the year	(1,021,081)	-
	1,137,850	1,021,081

The contract liabilities primarily relates to the advance consideration received from customers for the supply of electricity.

28 Employee benefit obligation

	2021 ₦'000	2020 ₦'000
Long service award	291,211	618,017
Defined benefit obligation	990,741	736,728
	1,281,952	1,354,745
Non-current	1,091,609	1,145,530
Current	190,343	209,215
	1,281,952	1,354,745

Notes to the financial statements - continued**28.1 Long service award**

This scheme entitles employees who have worked for 5 years and above to a monetary reward amounting to a certain percentage of their total annual emolument. The independent actuarial valuation was performed by Alexander Forbes (FRC/2012/0000000000504) 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.

	2021 ₦'000	2020 ₦'000
The movement in the long service awards during the year is as follows:		
At 1 January	618,017	554,393
Current service cost	109,110	85,362
Interest cost	56,081	68,208
Remeasurement (gain)/loss due to change in assumptions	(183,413)	98,236
Past service cost	(269,858)	-
Benefit paid	(38,726)	(188,182)
At 31 December	291,211	618,017

Current service cost, interest cost, past service cost and remeasurement (gain)/loss have been included in administrative expenses in profit or loss.

28.2 Defined benefit obligations

This entitles employees and members of the Executive Management Team (EMT) who have worked for at least three years to a certain percentage of their total annual emolument upon retirement or end of contract. The measurement is based upon an independent actuarial valuation performed by Alexander Forbes (FRC/2012/0000000000504) using the project unit credit basis. The defined benefit schemes of the company is unfunded.

	2021 ₦'000	2020 ₦'000
The movement in the defined benefit obligations during the year is as follows:		
At 1 January	736,728	508,925
Current service cost	154,131	147,400
Interest cost	69,276	59,419
Remeasurement (loss)/gain due to change in financial and demographic assumptions	(202,079)	128,554
Effect of movement in exchange rates	9,440	12,709
Past service cost	333,576	-
Curtailment*	(62,948)	-
Benefit paid	(56,863)	(120,279)
At 31 December	981,261	736,728

*The Company terminated the contracts of executive management staff and thus discontinued the defined benefit scheme related to the Executive Management. The curtailment was yet to be settled as at the reporting date 31 December 2021 but planned to be settled in the year 2022. The impact of the settlement has been recognised in profit or loss. While the End of Service scheme planned was amended to consider the terminated contract of Executive Management existing in the scheme.

Notes to the financial statements - continued

Amount recognised in profit or loss

	2021 ₦'000	2020 ₦'000
Current service cost	154,131	147,400
Interest cost	69,276	59,419
Effect of movement in exchange rates	9,440	12,709
Past service cost*	270,628	-
	<u>503,475</u>	<u>219,528</u>

*The past service cost includes curtailment.

Amount recognised in other comprehensive income

Remeasurement loss due to change in financial and demographic assumptions

	<u>(202,079)</u>	<u>128,554</u>
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28.2.1 The principal assumptions used in determining the defined benefit obligations are shown below:

	2021	2020
Discount rate	12.90%	8.30%
Salary increase rate	5.00%	5.00%

Mortality

Pre-retirement: A1967/70 Ultimate Table

Number of deaths per 10,000 lives

Sample age	2021	2020
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26
50	48	48
55	84	84
60	144	144

28.2.2 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:

	2021 ₦'000	2020 ₦'000
Discount rate (1% increase)	51,509	(47,105)
Discount rate (1% decrease)	(57,045)	53,642
Salary increase rate (1% increase)	59,957	55,110
Salary increase rate (1% decrease)	(54,771)	(49,104)
Mortality (1% increase)	4,083	(4,834)
Mortality (1% decrease)	(3,678)	4,409

28.2.3 The expected maturity analysis of the undiscounted defined benefit obligations is as follows:

	2021 ₦'000	2020 ₦'000
Within the next 12 months	88,998	20,819
Between 2 and 5 years	772,397	412,295
Beyond 5 years	2,030,319	995,589
	<u>2,891,714</u>	<u>1,428,703</u>

The weighted average duration for the plan is 8years (2020: 8 years). The discount rate is based on the yield on Nigerian Government Bond as compiled by the Financial Market Dealers Quotations (FMDQ).

Notes to the financial statements - continued

		2021 ₦'000	2020 ₦'000
29 Computation of cash generated from operating activities			
	Notes		
Loss before tax		(11,208,028)	(11,122,518)
Adjustment for non cash items:			
Depreciation of property, plant and equipment	14	5,733,001	5,397,139
Depreciation- right-of-use- assets	26	375,025	350,450
Amortisation of intangible assets	15	111,455	109,043
Amortisation of government grant	9	(1,552,496)	(1,517,819)
Write off of property, plant and equipment	8	6,027	2,747
Withholding tax receivables	17.1	13,135	-
Impairment loss on receivables	17.2	9,764,228	5,393,588
Revaluation deficit	8	8,971,223	247,416
Long service award benefit (gain)/expense	28.1	(288,080)	251,806
Defined benefit expense	28.2	494,035	206,819
Interest expense on loan	10.2	3,277,230	3,586,144
Unrealised foreign exchange loss		11,384	29,548
Interest on lease liabilities	10.2	139,791	188,867
Finance income	10.1	(185,081)	(256,734)
Tarriff shortfall awarded by NERC	7.1	(29,802,243)	(51,514,693)
Income from contributed assets	7.1	(5,661,654)	(11,639,237)
Gain on disposal of property, plant and equipment	9	(7,328)	(313)
Gain on lease derecognition	9	(180,326)	(114,724)
Working capital changes			
Inventories		23,617	73,024
Trade and other receivables		(30,452,937)	(7,255,412)
Prepayments		16,747	386,421
Trade and other payables		42,461,879	80,125,151
Contract liabilities		116,769	385,187
Cash (used)/ generated from operating activities		(7,822,627)	13,311,900

Notes to the financial statements - continued

30 Related party transaction

Identity of related parties

30.1 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 was jointly owned by CEC Africa Investments Ltd and Xerxes Global Investment Ltd. During 2020, CEC Africa Investments Limited acquired the majority of the KANN's shares. As a result, the new ultimate controlling party of the Company is CEC Africa.

30.2 Transactions with related parties

	2021 ₦'000	2020 ₦'000
<i>Supply of electricity</i>		
-KANN Utility Company Limited (KANN)	430	430
-Bureau of Public Enterprises (BPE)	21,106	21,106
-Ministry of Finance Incorporated (MoFI)	71,447	71,447
<i>Secondment of staff and directors</i>		
-CEC Africa Investments Ltd (CEC Africa)	-	203,832

30.3 Transaction 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:

	2021 ₦'000	2020 ₦'000
Salaries	910,241	908,375
Defined benefit obligation	10,491	81,070
Other short-term benefits	68,923	99,704
	989,655	1,089,149

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.

30.4 Other related party balances

	2021 ₦'000	2020 ₦'000
Other related party balances at the year end were as follows:		
Due from related parties:		
Advance to key management personnel	-	104,897
Related party balance included in trade and other receivables	-	104,897
Due to related parties:		
Accruals for compensation to key management personnel	14,199	133,773
KANN	4,828,402	2,444,584
CEC Africa	11,113	11,113
Related party balance included in trade and other payables	4,853,714	2,589,470
Net related party balance	(4,853,714)	(2,484,573)

None of the balances due to related parties is secured.

Notes to the financial statements - continued

30.5 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 2.64 billion (2020: NGN 1.78 billion) see note 8.

31 Contingent liabilities/Assets

31.1 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.

31.2 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 ₦ 9.41 billion (2020: ₦9.01 billion)

Notes to the financial statements - continued

32 Financial instruments-Fair values and risk management

32.1 Accounting classifications and fair values

Set out below is a comparison by category of carrying amount and fair value of all financial instruments

	Carrying amount		Fair value	
	2021	2020	2021	2020
	₦'000	₦'000	₦'000	₦'000
Financial assets				
Trade and other receivables*	71,250,329	49,851,674	71,250,329	49,851,674
Cash and equivalents	13,293,696	7,810,717	13,293,696	7,810,717
	<u>84,544,025</u>	<u>57,662,391</u>	<u>84,544,025</u>	<u>57,662,391</u>
Financial liabilities				
Trade and other payables**	141,774,642	138,708,943	141,774,642	138,708,943
Loans and borrowings	34,887,029	19,486,046	22,068,288	22,776,514
	<u>176,661,671</u>	<u>158,194,989</u>	<u>163,842,930</u>	<u>161,485,457</u>

*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.

In determining the fair value of interest bearing loans and borrowings, non-performance risks of the Company as at year end were assessed to be insignificant.

32.1.1 Fair Value Hierarchy

As at the reporting date, the Company had classified its financial instruments into the three levels prescribed under the accounting standards. There were no transfers of financial instruments between fair value hierarchy levels during the year.

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

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

	Level 1	Level 2	Level 3
	₦'000	₦'000	₦'000
31 December, 2021			
Loans and borrowings	<u>-</u>	<u>22,068,288</u>	<u>-</u>
31 December, 2020			
Loans and borrowings	<u>-</u>	<u>22,776,514</u>	<u>-</u>

The fair value of the Company's interest bearing loans and borrowings is determined by using discounted cash flow models that use market interest rates as at the reporting date.

Notes to the financial statements - continued**32.2 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.

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.

32.2.1 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 as well as cash and bank balances.

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

	Notes	2021 N'000	2020 N'000
Trade and other receivables*	17	159,972,399	129,143,352
Cash and cash equivalents	19	13,290,705	7,807,304
		<u>173,263,104</u>	<u>136,950,656</u>

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

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

	2021 N'000	2020 N'000
Impairment loss on trade receivables	9,764,228	5,393,588
Impairment write back on other receivables	(333,837)	-
	<u>9,430,391</u>	<u>5,393,588</u>

Notes to the financial statements - continued**32.2.1 Credit risk - 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.

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 as at 31 December 2021.

	Weighted average loss rate	Gross carrying amount	Loss allowance
		₦'000	₦'000
Prepaid customers (PPM)*	85%	1,012,563	858,834
Government Agencies	44%	12,793,320	5,673,636
Metered Maximum Demand customers	32%	8,862,508	2,799,516
Unmetered Maximum Demand customers	26%	522,011	136,480
Metered non-Maximum Demand customers (High tier)	54%	2,024,311	1,086,620
Metered non-Maximum Demand customers (Middle tier)	65%	154,756	100,812
Metered non-Maximum Demand customers (Low tier)	64%	1,839,536	1,180,756
Unmetered non-Maximum Demand customers (High tier)	59%	48,615	28,804
Unmetered non-Maximum Demand customers (Middle tier)	54%	228,874	123,628
Unmetered non-Maximum Demand customers (Low tier)	69%	112,006,714	76,732,983
		139,493,208	88,722,069

Notes to the financial statements - continued

32.2.1 Credit risk - continued

Expected credit loss assessment for customers - continued

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

The following table provides information about the exposure to credit risk and ECLs for trade receivables as at 31 December 2020.

	Weighted average loss rate	Gross carrying amount	Loss allowance
		₦'000	₦'000
Prepaid customers(PPM)*	67%	57	38
Government Agencies	40%	9,822,685	3,945,463
Metered Maximum Demand customers	29%	4,906,585	1,444,589
Unmetered Maximum Demand customers	27%	215,455	59,070
Metered non-Maximum Demand customers (High tier)	46%	495,230	229,047
Metered non-Maximum Demand customers (Middle tier)	64%	275,236	175,304
Metered non-Maximum Demand customers (Low tier)	62%	787,028	486,377
Unmetered non-Maximum Demand customers (High tier)	61%	22,325	13,560
Unmetered non-Maximum Demand customers (Middle tier)	64%	90,629	58,211
Unmetered non-Maximum Demand customers (Low tier)	72%	100,556,335	72,546,182
		117,171,565	78,957,841

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

	2021	2020
	₦'000	₦'000
Balance at 1 January	78,957,841	73,564,253
Charge for the year	9,764,228	5,393,588
Balance at 31 December	88,722,069	78,957,841

Cash at bank

The Company held cash and cash equivalents of ₦13.2 billion at 31 December 2021 (2020: ₦7.8 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.

Letter of credit

The Company has letter of credit facility of ₦10.5 billion obtained from United Bank of Africa. A cash collateral of ₦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.

Notes to the financial statements - continued

32 Financial instruments-Fair values and risk management - continued

32.2.2 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 cash 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 35) - 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					Total
	Less than 1 year	1 - 2 years	2- 3 years	3-5 Years	Above 5 years	
Non-derivative financial liabilities	N'000	N'000	N'000	N'000	N'000	N'000
31 December 2021						
Trade and other payables	123,845,189	-	-	-	-	123,845,189
Loans and borrowings	24,019,643	18,704,360	13,939,992	12,568,940	8,382,253	77,615,188
Lease liabilities	5,556	186,385	331,967	3,661	-	527,569
	147,870,388	18,890,745	14,271,959	12,572,601	8,382,253	201,987,946
31 December 2020						
Trade and other payables	138,708,943	-	-	-	-	138,708,943
Loans and borrowings	8,854,317	6,774,905	5,084,507	5,509,493	-	26,223,222
Lease liabilities	67,926	173,956	381,216	36,269	2,883	662,250
	147,631,186	6,948,861	5,465,723	5,545,762	2,883	165,594,415

Notes to the financial statements - continued

32.2.3 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:

	2021	2020
	N'000	N'000
Cash and cash equivalents	30,471	28,903
Trade and other payables	(78,573)	-
Net statement of financial position exposure	(48,102)	28,903

The following significant exchange rates were applied during the year

	Average rate		Reporting date spot rate	
	2021	2020	2021	2020
US \$	437.14	384.22	424.11	398.6

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

Notes to the financial statements - continued

Sensitivity analysis

A 15% strengthening of the USD at 31 December would have increased/(decreased) loss for the year 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. The analysis assumes that all other variables, in particular interest rates, remain constant.

	<u>2021</u>	<u>2020</u>
	₦'000	₦'000
Impact on loss for the year		
15% increase	(2,645)	(4,336)
15% decrease	2,645	4,336

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	<u>2021</u>	Rate	<u>2020</u>
		₦'000		₦'000
Fixed rate instruments				
Vendor financed loan	12%	-	12%	4,535
CBN loan	10%	28,708,154	10%	14,026,544
TCN loan	10%	4,299,157	10%	3,634,958
NELMCO loan	10%	764,198	10%	704,489
Letter of credit	7.50%	-	7.50%	-
Variable-rate instruments				
MO/NBET market debts	NIBOR+4%	123,965,001	NIBOR+4%	123,845,189

Notes to the financial statements - continued

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.

	2021	2020
	₦'000	₦'000
300 basis point increase	5,019,059	3,694,694
300 basis point decrease	(5,019,059)	(3,694,694)

Notes to the financial statements - continued

33 Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company monitors capital using a ratio of 'adjusted net debt' to 'total equity'. For this purpose, adjusted net debt is defined as total liabilities, less cash and cash equivalents. Total equity comprises all components of equity.

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

The Company's adjusted net debt to equity ratio as at December 2021 was as follows:

	2021 ₦'000	2020 ₦'000
Total liabilities	231,615,973	197,141,707
Less: cash and cash equivalents	(13,293,696)	(7,810,717)
Adjusted net debts	218,322,277	189,330,990
Total equity	40,285,507	(2,077,491)
Total equity to adjusted net debts	5.42	(91.13)

Equity includes share capital, revaluation reserves and retained losses.

34 Events after reporting date

There were no events after reporting date which could have material effect on the Company's financial statements.

35 Going concern

The Company recorded a net loss of ₦11.95 billion for year ended 31 December 2021 (2020: Loss of ₦11.47 billion). As at that date, the Company had net current liabilities of N112.43 billion (2020: N116.86 billion). The Company's reported losses (both historical and current) resulted from a lack of cost reflective tariff being charged by the Company due to the existing pricing regime, high aggregate technical, commercial and collection losses as well as significant interest expense on loans and borrowings.

The Company's current liabilities include an amount of ₦123.97 billion (2020: ₦123.85 billion) due to the Nigerian Bulk Electricity Trading Plc (NBET) and the Operator of the Nigerian Electricity Market (ONEM), which forms part of trade and other payables as indicated in Note 22 of these financial statements. This amount is due for immediate payment in line with the applicable NERC orders.

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 full cost reflective tariffs would be implemented in the immediate future and the amount due to ONEM and NBET for immediate payment will not be called. These matters are not wholly within the control of the Company.

Notes to the financial statements - continued

35 Going concern - continued

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.
- ▶ Timely payments of monthly billings and offset of historical Government Ministries, Departments and Agencies (MDA) debts.
- ▶ The implementation of full cost reflective tariff by the Company via Order issued by NERC- MYTO 2022 (NERC/295/2021).
- ▶ Continuous support by the Federal Government of Nigeria recently through the CBN-Nigerian Electricity Market Stabilisation Facility (CBN-NEMSF) and other such funding initiatives.
- ▶ 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.

The financial statements are prepared on the basis that the Company will continue to be a going concern. This basis of preparation presumes that the Company will achieve its plans and realize its assets and discharge its liabilities in the ordinary course of business.

Other national disclosures

Value added statement

For the year ended 31 December 2021

	<u>2021</u>	%	<u>2020</u>	%
	N'000		N'000	
Revenue (restated)	165,325,621		139,131,455	
Bought in materials and services:				
-Local	(148,831,635)		(123,801,069)	
-Foreign				
	<u>16,493,986</u>		<u>15,330,386</u>	
Finance Income	185,081		256,734	
Other income	2,165,572		2,088,653	
Value added	<u><u>18,844,639</u></u>	<u><u>100</u></u>	<u><u>17,675,773</u></u>	<u><u>100</u></u>

Applied as follows:

To Employees:

- as salaries, wages and other staff costs	13,924,954	74%	13,826,666	78%
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To Providers of finance:

- Finance cost and similar charges	10,283,257	55%	9,465,443	54%
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To Government as:

- Taxes	737,323	4%	349,100	2%
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Retained in the business:

To maintain and replace

- property, plant and equipment (restated)	5,733,001	30%	5,397,139	31%
- intangible assets	111,455	0%	109,043	0%
- To augment reserves	(11,945,351)	-63%	(11,471,618)	-65%

Value added	<u><u>18,844,639</u></u>	<u><u>100%</u></u>	<u><u>17,675,773</u></u>	<u><u>100%</u></u>
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The value added represents the additional wealth which the Company has been able to create by its own and employees' effort. This statement shows the allocation of that wealth to employees, providers of finance, shareholders, government and that retained for creation of future wealth.

Five-year financial summary

Statement of profit or loss and other comprehensive income

	2021	2020	2019	2018	2017
	N'000	N'000	N'000	N'000	N'000
Revenue (restated)	165,325,621	139,131,455	255,987,711	82,220,731	65,715,312
Results from operating activities	(1,109,852)	(1,913,809)	107,605,424	(62,141,631)	(49,473,493)
(Loss)/Profit before taxation	(11,208,028)	(11,122,518)	125,790,733	(85,616,541)	(75,895,144)
(Loss)/Profit for the year	(11,945,351)	(11,471,618)	124,292,535	(85,719,329)	(75,977,300)
Total comprehensive income/(Loss) for the year	42,362,998	(10,512,503)	124,194,001	(61,190,548)	(75,079,969)

Statement of financial position

	2021	2020	2019	2018	2017
	N'000	N'000	N'000	N'000	N'000
Employment of funds					
Property, plant and equipment	185,781,081	134,662,508	126,906,631	111,649,532	91,952,036
Right of Use asset	349,640	726,601	820,401	-	-
Intangible assets	741,196	848,888	920,334	1,039,954	79,574
Withholding tax receivables	-	-	-	114,448	-
Non-current trade and other receivables	-	-	-	9,345,410	32,550
Non-current prepayments	-	-	-	53,577	16,398
Net current liabilities	(112,432,066)	(116,858,652)	(95,037,339)	(221,568,406)	(173,191,651)
Non-current liabilities	(34,154,344)	(21,456,836)	(25,175,014)	(29,404,113)	(4,983,511)
Net Assets/(liabilities)	40,285,507	(2,077,491)	8,435,013	(128,769,598)	(86,094,604)
Funds Employed					
Share capital	15,000	15,000	15,000	10,000	10,000
Retained losses (restated)	(58,880,974)	(47,137,702)	(35,537,529)	(172,737,140)	(105,580,722)
Revaluation reserve	99,151,481	45,045,211	43,957,542	43,957,542	19,476,118
	40,285,507	(2,077,491)	8,435,013	(128,769,598)	(86,094,604)