ABUJA ELECTRICITY DISTRIBUTION PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

Contents

Contents	Page
Corporate Information	3
Report of the Directors	4
Statement of Directors' Responsibilities in relation to the Preparation of the Financial Statements	11
Statement of Corporate Responsibility for the Financial Statements	12
Independent Auditor's Report	13
Statement of Profit or Loss and Other Comprehensive Income	17
Statement of Financial Position	18
Statement of Changes in Equity	19
Statement of Cash Flows	20
Notes to the financial statements	21
Other National Disclosures	
Value Added Statement	74
Five-Year Financial Summary	75

Corporate Information

Registered No	638681	
Tax Identification Number	01783033-0001	
Directors	Name	Designation
	Stanley Lawson	Chairman (Non-Executive)
	Christopher Ezeafulukwe	Managing Director/CEO
	Victor Osadolor	Non-Executive
	Alex Okoh	Non-Executive
	Dr. Abubakar Tambuwal Atiku	Non-Executive
	Razak Shittu	Non-Executive
	Amaechi Aloke	Non-Executive
	Uche Uke	Non-Executive
	Chiugo Ndubisi	Non-Executive
	Owen Omogiafo	Non-Executive
Registered Office	1 Ziguinchor Street Off IBB Way Wuse Zone 4 Abuja	
Company Secretary	Sam Adikamkwu 1 Ziguinchor Street Off IBB Way Wuse Zone 4 Abuja	
Auditor	Ernst & Young 10th and 13th Floors, UBA House, 57 Marina, Lagos.	
Bankers	United Bank for Africa Plc First Bank of Nigeria Limited Guaranty Trust Bank Limited Sterling Bank Plc Union Bank of Nigeria Plc Ecobank Nigeria Limited	

Report of the Directors

For the year ended 31 December 2022

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 2022.

Principal activity, legal form 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"). In 2020, CEC Africa Investments Limited acquired the majority of the KANN's shares. As a result, the ultimate controlling party of the Company was CEC Africa. Further more, on 31 December 2021, the controlling shares of the Company (60%) was allotted to United Capital Trustees Limited (UCTL) and that made UCTL the new controlling party of the Company. Subsequent to the year end on 18 May 2023, a consortium of new investors- Jeolan International Limited led by Transcorp Group acquired a sixty percent (60%) investment of the Company with commitment to commence immediate turnaround of the Company.

Operating results

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

Summary of profit or loss	2022 ₦'000	2021 ₦'000
Revenue	148,882,467	165,325,621
Gross profit	5,769,177	37,369,953
Operating profit/(loss)	8,132,602	(1,109,852)
Operating loss before tax	**(6,590,187)**	**(11,208,028)**
Minimum tax	(746,615)	(441,712)
Income tax	-	(295,611)
Loss for the year	**(7,336,802)**	**(11,945,351)**
Summary of financial position		
Total assets	284,125,939	271,901,479
Total liabilities	251,069,489	231,615,972
Equity	33,056,450	40,285,507

Report of the Directors - continued

Operating results - continued

Revenue from sale of electricity increased to ₦134.2b in 2022 compared to ₦129.8b in 2021. The Company grew its core revenue from electricity sales by 3% compared to 2021 despite a reduction in the national grid supplies. Energy delivered to AEDC from January to December 2022 was only 3,885gW compared to same period last year (SPLY) of 4,061gW. Despite the 4% year-on-year drop in supply, the Company was able to generate N134.2 billion as a result of better efficiency in the tariff mix. The increase is also attributable to increase in weighted average tariff of ₦56.94/kWh compared to ₦51.66/kWh in 2021. However, there was a significant reduction in the tariff shortfall awarded to the Company in 2022 and that contributed to the overall reduction in revenue to ₦148.9b from ₦165b. See note 6.1 to the financial statements.

No dividend has been recommended by the directors for the year ended December 2022 (2021: Nil).

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 utilized a drawdown of ₦23.72 billion to settle a portion of its market debt. Subsequently, in 2019, an additional drawdown of ₦1.08 billion from the fund was used to settle legacy gas debts.

In 2021, the Company drew down a total amount of ₦23.17 billion from this loan. Out of this amount, ₦9.8 billion was allocated to settle outstanding market debts, ₦6 billion was utilized to settle payments to Meter Asset Providers involved in the National Mass Metering Programme (NMMP) initiated by NERC. The remaining ₦8.1 billion was disbursed directly to the Company.

Furthermore, in 2022, the Company drew down ₦17.7 billion. From this amount, ₦7.5 billion was allocated to pay TCN contractors through AEDC, with the aim of enhancing the transmission infrastructure within the AEDC Franchise.

-**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. The Company recognised an amount of ₦51.5 billion and ₦29.8 billion shortfall for 2020 and 2021 based on the approved parameters by NERC. During the year, an amount of N8.05 billion was also recognised as tariff shortfall. The tariff shortfalls have been settled via a net off of NBET payables.

Directors and their interests

The Directors who served during the year were as follows:

Name	Nationality	Designation	Date Appointed /Resigned
Mr Victor Osadolor	Nigerian	Chairman	
Mr Alex Okoh	Nigerian	Member (BPE)	
Mr Amaechi Aloke*	Nigerian	Alternate Director (BPE)	
Mr Muyiwa Akinyemi	Nigerian	Member	Resigned 1st September 2022
Dr. Abubakar Tambuwal Atiku	Nigerian	Member	
Mr Razak Shittu	Nigerian	Member	
Mr Uche Ike	Nigerian	Member (BPE)	Appointed 4th September 2022

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

Subsequent to the year end, on the 18th of May 2023, Mr. Chiugo Ndubisi, Dr. Owen Omogiafo (OON) and Dr. Stanley Lawson were appointed as board members, followed by the appointment of Dr. Stanley Lawson as the Chairman of the Board. In addition, Mr Christopher Ezeafulukwe was appointed as Managing Director/CEO of the Company on 1st September 2023. On the 14th August 2023, Mr Razak Shittu resigned his appointment as a Director to the Company.

Report of the Directors - continued

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.

Shareholding structure

The shareholding structure of the Company is as follows:

	15 million shares at ₦ 1 each			
	31 December 2022		31 December 2021	
	%	Number	%	Number
United Capital Trustees 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 19.1 and 16.1 to the financial statements.

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 has at least five directors of which at least one must be an independent director. The Company currently has nine (9) directors and none 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 27 times during the year. The Board meetings were held to set and monitor strategy as well as approve key policies pertinent to the operations of the Company.

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

DIRECTORS	DESIGNATION	Q1	Q2	Q3	Q4
Mr Victor Osadolor	Chairman	9	9	5	4
Mr Alex Okoh	Member (BPE)	6	8	3	4
Mr Muyiwa Akinyemi	Member	9	8	5	RE
Dr. Abubakar Tambuwal	Member	9	9	5	4
Mr Razak Shittu	Member	8	8	5	3
Mr Uche Ike	Member (BPE)	N/P	N/P	N/P	4

N/P= Not yet appointed RE= Resigned

Report of the Directors - continued

Corporate governance - continued

Committees and sub-committees of the board

There were no constituted Board Committees within the period under review. However, One Board Sub-committee was constituted on 8th November 2022 and it had three (3) meetings in 2022.

The terms of reference of the Board sub-committee were as follows;

1. To review the regulatory requirement on Capped Estimated Billing and its impact on the performance of the Company and advise the Board on the way forward.
2. To proffer solutions to the Board on bridging the metering gap in the company and provide strategic metering methodologies that would expedite the company's metering exercise.
3. To advise the Board on any other issues relating to the subject matter.

Members	Designation
Mr. Uche Ike	Chairman
Dr. Abubakar Tambuwal	Member
Engr Adeoye Fadebiyi	Member
Mr. Sani Usman	Member
Mr. Kassim Burkullu	Member

Leadership team

The Board delegated the day to day running of the Company to the leadership team of the Company headed by the Chief Executive Officer. The leadership team comprises:

Members	Designation
Mr. Adeoye Fadeyibi *	Managing Director/CEO
Mr. Babajide Ibironke	Chief Finance Officer
Engr. Kassim Abdullahi Burkullu	Chief Technical Officer
Mr. Donald Etim	Chief Marketing Officer
Mr. Sani Usman	Chief Business Officer

Subsequent to the year end, on 31st August 2023, Mr. Adeoye Fadeyibi resigned his appointment as the Managing Director/Chief Executive Officer of the Company while Mr. Christopher Ezeafulukwe was appointed as Managing Director/CEO on 1st September 2023.

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 Nigerian 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.

Report of the Directors - continued

Corporate governance - continued

2 Nigerian Electricity Stabilization Facility Disbursement agreement with CBN and NERC - continued

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 ₦17.7 billion was drawn down from this facility, out of which ₦10.2 billion was used to settle part of outstanding market debts in 2022, ₦7.5 billion was paid to TCN contractors through AEDC towards improving the transmission infrastructure within AEDC franchise see Note 23.

3 Collection Channel Partners' Agreement

As part of the measures to make vending platforms more readily available to prepaid customers, the Company entered into separate agreements with Collection Channel Partners. Under the agreements, the Partners are to provide electronic platforms and web based applications to enable customers vend electricity online paying with credit or debit cards. These Partners earn a commission of between 0.5% and 4.25% of sales depending on the mode of transaction.

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

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

The Company has Operations and Management (O & M) agreement with the parent company, KANN Utility Company Limited for the provision of management services which include corporate services (strategy sitting and change management), risk and compliance services, network planning and operations and capacity building. See Note 29.5 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 sector.

a) Pre-completion receivables

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

b) Pre-completion liabilities

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

On the basis of this agreement, management derecognized qualifying assets and liabilities as at 31 October 2013 from the 2013 financial statements.

Geographical presence

To enable the Company operate in the Federal Capital territory (FCT), Kogi, Nasarawa and Niger States where it distributes electricity, it has thirty-three (33) business districts excluding the head office in the FCT and 15 area offices and 3 regional offices in the outer regions(Kogi, Nasarawa and Niger States). The business districts in the FCT are headed by Business District Heads who report to the leadership team based at the head office.

The regional offices in outer regions 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.

Report of the Directors - continued

Geographical presence - continued

The regional offices are headed by Regional Managers and the area offices are headed by Area Managers who report to the Regional Managers.

The regional managers subsequently report to the leadership team based at the head office. Financial reporting is done centrally.

Property, plant and equipment (PPE)

Information relating to changes in property, plant and equipment is given in Note 13 to 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 NGN5.5 million (2021: NGN9 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 (2021 : Nil).

Events after the reporting date

Apart from events stated in Note 33, there are no other 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.

c Employment of physically challenged persons:

The Company has seventeen (17) physically challenged persons in its employment (2021: seventeen (17)). 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.

Report of the Directors - continued

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

14 December 2023

Statement of Directors' Responsibilities in relation to the Preparation of the Financial Statements
For the year ended 31 December 2022

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 2022. 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:

Stanley Lawson
Chairman
FRC/2015/CIBN/00000012416

14 December 2023

Christopher Ezeafulukwe
Managing Director/CEO
FRC/2015/NBA/00000013304

14 December 2023

Statement of Corporate Responsibility for the Financial Statements
For the year ended 31 December 2022

Further to the provisions of section 405 of the Companies and Allied Matters Act (CAMA), 2020, we, the Chief Executive Officer and Chief Financial Officer, hereby certify the financial statements of Abuja Electricity Distribution Company Plc for the year ended 31 December 2022 as follows:

a) That we have reviewed the audited financial statements of the Company for the year ended 31 December 2022.

b) That 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, in the light of the circumstances under which such statement was made.

c) That 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 year ended 31 December 2022.

d) That we are responsible for establishing and maintaining internal controls relating to the Company during the year ended 31 December 2022.

Signed on behalf of:

Christopher Ezeafulukwe
Managing Director/CEO
FRC/2015/NBA/00000013304

14 December 2023

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

14 December 2023

EY
Building a better working world

Ernst & Young
10th Floor
UBA House
57, Marina
P. O. Box 2442, Marina
Lagos.

Tel: +234 (01) 631 4500
Fax: +234 (01) 463 0481
Email: Services@ng.ey.com
www.ey.com

INDEPENDENT AUDITOR'S OPINION

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 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Abuja Electricity Distribution Plc as at 31 December 2022, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards, the 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 Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 34 to the financial statements which indicates that the Company reported a net loss of ₦7.34 billion for year ended 31 December 2022 (2021: ₦11.95 billion) and as at that date, the Company had net current liabilities of ₦110.89 billion (2021: ₦112.43 billion).

These conditions along with other matters set forth in Note 34 to the financial statements 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 matter 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.

Key Audit Matter	How the matter was addressed in the Audit
Impairment of Trade Receivables	
As at 31 December 2022, the Company reported an impairment allowance of ₦89.85 billion (2021: ₦88.72 billion) against the gross trade receivables balance of ₦148.57 billion (2021: ₦139.49 billion). The allowance for expected credit loss represents 60.5% (2021: 63.6%) of the gross trade receivable balance. The impairment allowance on trade receivables has remained significant as recovery of amounts billed to post-paid customers continues to be a challenge. 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. Refer to Note 16 (Trade and Other receivables) and Note 31.2.1 (Credit risk) to the financial statements.	▸ 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.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the document titled "Abuja Electricity Distribution Plc Annual Report for the year ended 31 December 2022", which includes the Report of the Directors, Statement of Directors' Responsibilities in relation to the Preparation of the Financial Statements, Statement of Corporate Responsibility for the Financial Statements and Other National Disclosures, 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 International Financial Reporting Standards, the 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

EY
Building a better
working world

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, in 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

14 December 2023

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

	Note	2022	2021
		₦'000	₦'000
Revenue	6	148,882,467	165,325,621
Cost of sales	7.4	(143,113,290)	(127,955,668)
Gross profit		5,769,177	37,369,953
Other income	8	25,969,770	2,165,572
Credit loss expense	16.2 & 16.3	(1,130,748)	(9,430,391)
Administrative expenses	7.4	(22,475,597)	(31,214,986)
Operating profit/(loss)		8,132,602	(1,109,852)
Finance income	9.1	372,683	185,081
Finance costs	9.2	(15,095,472)	(10,283,257)
Net finance costs		(14,722,789)	(10,098,176)
Loss before minimum tax and income tax expense		(6,590,187)	(11,208,028)
Minimum tax	12.1	(746,615)	(441,712)
Income tax	12.2	-	(295,611)
Loss for the year		(7,336,802)	(11,945,351)
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurement gain on defined benefit obligations	27.2	107,745	202,079
Revaluation surplus on distribution network assets	13.4	-	54,106,270
Other comprehensive income, net of taxes		107,745	54,308,349
Total comprehensive (loss)/income		(7,229,057)	42,362,998

The accompanying notes to the financial statements form an integral part of these financial statements.

Statement of Financial Position
As at 31 December

	Note	31 December 2022 ₦'000	31 December 2021 ₦'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	186,384,954	185,781,081
Right-of-use assets	25	197,512	349,640
Intangible assets	14	697,724	741,196
		187,280,190	186,871,917
Current assets			
Inventories	15	334,576	159,927
Trade and other receivables	16	88,509,051	71,545,412
Prepayments	17	197,969	30,527
Cash and cash equivalents	18	7,804,153	13,293,696
		96,845,749	85,029,562
Total assets		284,125,939	271,901,479
EQUITY			
Share capital	19	15,000	15,000
Revaluation reserve	19.2	99,151,481	99,151,481
Accumulated losses		(66,110,031)	(58,880,974)
		33,056,450	40,285,507
LIABILITIES			
Non-current liabilities			
Loans and borrowings	23	27,844,854	21,716,071
Lease liabilities	24	493,911	107,360
Employee benefit obligations	27	831,443	1,091,609
Deferred income	20	14,164,365	11,239,304
		43,334,573	34,154,344
Current liabilities			
Loans and borrowings	23	17,836,791	13,170,958
Lease liabilities	24	118,639	477,086
Employee benefit obligations	27	115,184	190,343
Trade and other payables	21	181,702,880	177,519,243
Contract liabilities	26	1,685,660	1,137,850
Deferred income	20	2,579,959	2,006,960
Provisions	22	361,040	361,040
Current tax liabilities	12.3	3,334,763	2,598,148
		207,734,916	197,461,628
Total liabilities		251,069,489	231,615,972
Total equity and liabilities		284,125,939	271,901,479

These financial statements were approved by the Board of Directors on 14 December 2023 and signed on its behalf by:

Stanley Lawson	Christopher Ezeafulukwe	Babajide Ibironke
Chairman	Managing Director/CEO	Chief Financial Officer
FRC/2015/CIBN/00000012416	FRC/2015/NBA/00000013304	FRC/2013/MULTI/00000001598

The accompanying notes to the financial statements form an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December

	NOTES	Share capital ₦'000	Accumulated losses ₦'000	Revaluation reserve ₦'000	Total ₦'000
As at 1 January 2021		**15,000**	**(47,137,702)**	**45,045,211**	**(2,077,491)**
Loss for the year		-	(11,945,351)	-	(11,945,351)
Other comprehensive income					
Remeasurement loss on define benefit obligations	27.2	-	202,079	-	202,079
Revaluation reserve on distribution network	19.2	-	-	54,106,270	54,106,270
Total comprehensive income, net of tax		-	(11,743,272)	54,106,270	42,362,998
As at 31 December 2021		15,000	(58,880,974)	99,151,481	40,285,508
At 1 January 2022		15,000	(58,880,974)	99,151,481	40,285,508
Loss for the year		-	(7,336,802)	-	(7,336,802)
Other comprehensive income					
Remeasurement loss on define benefit obligations	27.2	-	107,745	-	107,745
Total comprehensive loss, net of tax		-	(7,229,057)	-	(7,229,057)
As at 31 December 2022		15,000	(66,110,031)	99,151,481	33,056,450

The accompanying notes to the financial statements form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December

	Note	2022 ₦'000	2021 ₦'000
Operating activities			
Cash used in operating activities	28	(12,464,957)	(7,822,627)
Tax paid	12.3	(10,000)	-
Defined benefit obligation paid	27.2	(128,887)	(56,863)
Long service award paid	27.1	(13,585)	(38,726)
Net cash flows used in operating activities		**(12,617,429)**	**(7,918,216)**
Investing activities			
Acquisition of property, plant & equipment	13.2	(3,717,468)	(6,071,074)
Proceeds from disposal of property, plant and equipment		-	17,500
Acquisition of intangible assets	14	(375,408)	(3,763)
Interest received	9	321,599	113,061
Net cash flows used in investing activities		**(3,771,276)**	**(5,944,276)**
Financing activities			
Payment of principal portion of lease liabilities	24	(118,639)	(218,990)
Principal repayment loans and borrowings	23.4	(1,161,020)	(3,549,964)
Proceeds from loans and borrowings	23.4 & 20.1	17,748,168	23,977,421
Interest paid	23.4	(5,568,928)	(857,401)
Net cash flows from financing activities		**10,899,581**	**19,351,066**
Net (decrease)/increase in cash and cash equivalents		(5,489,124)	5,488,574
Cash and cash equivalents at the beginning of the year		13,293,696	7,810,717
Effects of exchange rate changes		(419)	(5,595)
Cash and cash equivalents at the end of the year	18	**7,804,153**	**13,293,696**

The accompanying notes to the financial statements form 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, KANN Utility Company Limited, a Nigerian company, successfully acquired a 60% stake in the Company, thereby gaining control of it. This acquisition was made possible through the privatization initiative of the power sector undertaken by the Federal Government of Nigeria. The remaining 40% of the company's shareholding is held by the Bureau of Public Enterprises (32%) and Ministry of Finance Incorporated (8%). On 31 December 2021, controlling shares of the Company (60%) owned by KANN Utility Company Limited was allotted to United Capital Trustees Limited (UCTL) and that made UCTL the new ultimate controlling party of the Company.

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 have been prepared on the historical cost basis except for interest bearing loans and borrowings which are initially measured at fair value and subsequently at amortised cost. Also, land and buildings and distribution network assets are measured at revalued amounts.

The financial statements were authorised for issue by the Board of Directors on 14 Dec 2023.

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 34.

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	The performance obligation of the Company is satisfied overtime as electricity is supplied to the customers. Billing is done on a monthly basis and payment is contractually within 30 days of billing.	Revenue is recognised over time as electricity is provided. The amount of revenue to 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. 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.
Prepaid revenue	Satisfaction of performance obligation is same as post-paid revenue. Payment is received in advance of consumption of electricity.	Revenue is recognised over time as electricity is provided. In case of prepaid customers, an estimate is made for unearned revenue as at year-end and this is included in the statement of financial position as contract liability. The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers.

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 (PPE)

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 of the consideration paid by the customer when the company has control. 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.

Amortisation

Amortisation of the asset begins when the asset is available for use. 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 minus, 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 par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets- Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment 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 recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

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

I) 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) Impairment of 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) Impairment of 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 fron 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

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 31.2.1.

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, 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 13.4.

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) 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's financial statements.

Notes to the financial statements (continued)

d) 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.

The Company is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

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

e) Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations. The effective date of these amendments is for annual periods beginning on or after January 1, 2023. Early adoption of the amendments is permitted.

The Company is currently assessing the impact of the amendments.

f) Supplier Finance Arrangements - Amendments to IAS7 and IFRS 7

The Board amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to add disclosure requirements, and 'signposts' within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements. the amendments describe the characteristics of an arrangement for which an entity is required to provide the information. The amendments note that arrangements that are solely credit enhancements for the entity or instruments used by the entity to settle directly with a supplier the amounts owed are not supplier finance arrangements. An entity applies the amendments to IAS 7 for annual reporting periods beginning on or after 1 January 2024 (with earlier application permitted) and the amendments to IFRS 7 when it applies the amendments to IAS 7. The Company is currently assessing the impact of the amendments.

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 Onerous Contracts - costs of fulfilling a contract - Amendments to IAS 37
ii Property, plant and equipment: proceeds before intended use - Amendents to IAS 16 Leases
iii IFRS 1 first-time adoption of international financial reporting standards - Subsidiary as a first- time adopter
iv IFRS 9 Financial instruments - Fees in the '10 per cent' test for derecognition of financial liabilities
v IAS 41 Agriculture - Taxation in fair value measurements

Notes to the financial statements - continued

6 Revenue

6.1 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.

	2022	2021
	₦'000	₦'000
Revenue from contracts with customers	**134,225,334**	**129,861,724**
Other revenue		
Tariff shortfall awarded by NERC	8,048,000	29,802,243
Customer contributed assets	6,609,133	5,661,654
Total revenue	**148,882,467**	**165,325,621**

6.1.1 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 an accumulated tarriff shortfall of N102.22 billion from 2015 to 2018 and N62.69 billion in 2019. A sum of NGN 8.05 billion was awarded and recognised as the tarriff shortfall for the year (2021: N 29.8 billion). In line with the Orders, the awarded tariff shortfalls are netted off the Company's payables to NBET.

6.1.2 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 6.2 billion (2021: NGN 0.81 billion) were contributed by the customers during the year and have been recorded at the fair value of the consideration.

Included in customer contributed assets are various assets (transformers, substations) contributed by customers during the year amounting to N421 million.

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 2023). Unbilled receivables (i.e. included in current year revenues) amounted to NGN 8.75 billion (2021: NGN 7.57billion) and has been included as part of trade receivables.

6.2 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

		2022 ₦'000	2021 ₦'000
6.3	**Classification by customer payment mode**		
	Postpaid	87,183,878	84,674,063
	Prepaid	47,041,456	45,187,661
		134,225,334	**129,861,724**
6.4	**Timing of revenue recognition**		
	Over time	134,225,334	129,861,724
		134,225,334	**129,861,724**

7 Expenses by nature

	Notes	2022 ₦'000	2021 ₦'000
Auditor remuneration		62,230	62,000
Amortisation of intangible assets	14	418,880	111,455
Bank charges		35,942	21,195
Commission to super vendors		2,405,682	1,682,573
Consumables and other direct costs		759,508	745,111
Consultancy fees		210,820	282,247
Cost of energy	21	129,811,611	120,820,811
Depreciation- property,plant and equipment	13	9,722,727	5,733,001
Depreciation- right-of-use- assets	25	201,343	375,025
Directors remuneration		165,561	523,774
Insurance		304,985	387,702
Litigation expenses		5,550	-
Maintenance expenses		1,895,801	560,525
Office repairs and maintenance		517,552	440,387
Office stationery and utilities		412,938	498,171
Operations and maintenance service fees		2,797,727	2,638,921
Other expenses	7.1	129,174	244,541
Professional services	7.2	816,826	200,071
Rent and accommodation expense		274,005	32,587
Revaluation deficit on distribution network assets, land and building	7.3	-	8,971,223
Security and safety		771,379	192,666
Staff and related costs	11.1	12,944,441	13,924,954
Subscription and registration		79,529	19,519
Transport		844,676	696,168
Write off of property, plant and equipment		-	6,027
Total cost of sales and administrative expenses		**165,588,887**	**159,170,654**

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

7.2 Professional services comprises of legal fees, consultancy fee and vending infrastructure support.

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

Notes to the financial statements - continued

7 Expenses by nature -continued

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

			2022	2021
			₦'000	₦'000
7.4	Cost of sales		143,113,290	127,955,668
	Administrative expense		22,475,597	31,214,986
			165,588,887	**159,170,654**

7.5 Non audit services paid to the statutory auditors

Non audit services paid to the statutory auditors comprise:

Non-audit services	-	-

8 Other income

		2022	2021
Service reconnection fees		75,639	16,965
Administrative charge on meter tampering		237,230	321,964
Amortisation of government grant	20.1	2,322,132	1,552,496
Insurance claims		27,185	30,864
Miscellaneous income *		9,412,292	55,629
Bad debt recovered **		13,882,534	-
Gain on disposal of PPE		-	7,328
Gain on lease derecognition		12,758	180,326
		25,969,770	**2,165,572**

*Miscellaneous income majorly comprises of income from energy exported to other discos.

** Bad debt recovered relates to payments received from previously written off receivable from Government Ministries Department and Agencies from 2015 to 2020. The payment was made during the year.

9 Finance income and finance costs

			2022	2021
9.1	**Finance income**			
	Interest income on fixed deposits		367,241	185,081
	Foreign exchange gain	10	5,442	-
			372,683	**185,081**
9.2	**Finance costs**			
	Interest on loans		6,362,049	3,277,230
	Foreign exchange loss	10	-	47,812
	Net interest on NBET and ONEM bills	9.3	8,623,137	6,818,424
	Interest on lease liabilities	24	110,286	139,791
			15,095,472	**10,283,257**
	Net finance costs		**(14,722,789)**	**(10,098,176)**
9.3	**Net interest on NBET and ONEM bills**			
	Writeback of interest attributable to the tariff shortfalls		35,305,899	26,641,970
	Interest on NBET and ONEM bills		(43,929,036)	(33,460,394)
			(8,623,137)	(6,818,424)

Notes to the financial statements - continued

9.3.1 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 Nigeria 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 92.25% of the NBET and ONEM bills respectively in 2022. The shortfall on remittance attracts interest at NIBOR plus 4%.

9.3.2 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 21).

10 Loss before minimum tax and income tax

	Notes	2022 ₦'000	2021 ₦'000
Loss before income tax is stated after charging/(crediting)			
Auditor remuneration		62,230	62,000
Depreciation- property,plant and equipment	13	9,722,727	5,733,001
Depreciation- right-of-use- assets	25	201,343	375,025
Amortisation of intangible assets	14	418,880	111,455
Staff and related costs	11.1	12,944,441	13,924,954
Directors remuneration	11.4	165,561	523,774
Foreign exchange (gain)/loss	9.2	(5,442)	47,812
Write off of property, plant and equipment		-	6,027

11 Employee benefit expense/(gain) and director remuneration

11.1 Employee benefit expense during the year amounted to:

	Notes	2022	2021
Salaries and wages		11,582,035	12,674,063
Pension cost		950,382	1,026,070
Termination benefits		133,317	(54)
Gratuity	27	545,051	179,379
Past service cost	27	(223,867)	333,576
Long service award*	27.1	(42,477)	(288,080)
		12,944,441	**13,924,954**

* 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

11.2 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 (₦)	2022 Number	2021 Number
200,001 - 2,200,000	1,572	1,656
2,200,001 - 4,200,000	994	1,205
4,200,001 - 6,200,000	591	304
6,200,001 - 8,200,000	91	81
8,200,001 - 10,200,000	63	53
10,200,001 - 12,200,000	35	31
12,200,001 - 14,200,000	55	39
14,200,001 - 16,200,000	7	9
16,200,001 - 18,200,000	5	4
18,200,001 - 20,200,000	4	6
20,200,001 - 22,200,000	4	5
22,200,001 - 24,200,000	1	18
24,200,001 - 26,200,000	-	1
30,200,001 - 32,200,000	-	-
32,200,001 - 34,200,000	-	-
34,200,001 - 38,200,000	1	-
38,200,001 - 40,200,000	-	3
40,200,001 - 51,200,000	4	-
51,200,001 - 58,200,000	-	2
68,200,001 - 75,900,000	-	3
80,200,001 - 102,500,000	1	-
102,500,001 - 124,800,000	-	3
124,800,001 - 147,100,000	-	-
147,100,001 - 169,400,000	-	-
169,400,001 - 191,700,000	-	1
191,700,001 - 214,000,000	-	-
	3,428	3,424

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

	2022 Number	2021 Number
Administration	466	394
Finance	228	199
Marketing	1,438	1,555
Technical	1,296	1,276
	3,428	3,424

11.4 **Director remuneration**

	2022 ₦'000	2021 ₦'000
Directors' remuneration paid during the year comprises:		
Director fees	51,078	218,400
Salaries	-	279,823
Other emolument*	114,483	25,551
	165,561	523,774

*Other emolument comprises mainly of sitting and travelling allowance.

Notes to the financial statements - continued

11.4 Director remuneration - continued

	2022	2021
	₦'000	₦'000
The directors' remuneration shown above includes:		
Chairman	33,000	47,971
Highest paid director	23,600	198,783

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:

	2022	2021
	Number	Number
20,000,000 - 52,000,000	4	9

12 Income Tax

12.1 Minimum tax expense

	2022	2021
Minimum tax expense	746,615	828,961
Prior years over provision of minimum tax	-	(387,249)
	746,615	**441,712**

12.2 Income tax expense

	2022	2021
Tertiary education tax	-	295,611
	-	**295,611**

The Company applied the provisions of the Company Income Tax Act 2004 as amended by the Finance Act 2019 that mandates a minimum tax assessment computed based on 0.5% of gross turnover. The tax payer's final liability is based on the higher of tax based on taxable profit and minimum tax.

12.3 Current tax liabilities

	2022	2021
Balance as at 1 January	2,598,148	1,860,825
Minimum tax charge	746,615	828,961
Tertiary education tax	-	295,611
Prior years over provision of minimum tax	-	(387,249)
Tax paid	(10,000)	-
Balance as at 31 December	**3,334,763**	**2,598,148**

Notes to the financial statements - continued

12.4 Reconciliation of effective tax rates

	2022	2021
	₦'000	₦'000
Loss before minimum tax and income tax	(6,590,187)	(11,208,028)
Income tax using the statutory tax rate	(2,141,811)	(3,586,569)
Current year losses for which deferred tax is not recognised	3,406,538	(5,254,858)
Tax exempt income	(717,409)	(455,930)
Difference in CIT and TET rates	(2,573,129)	(114,660)
Non-deductible expenses	(4,509,704)	26,612,244
Tertiary Education Tax	-	295,611
Tax incentives - investment allowance	(235,478)	(302,752)
Current temporary differences for which deffered tax is not recognised	6,770,992	(16,897,475)
	-	**295,611**

The effective income tax rate for 2022 is 0% (2021: 2.6%)

12.5 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.

Tax losses (will never expire)	21,857,355	18,450,816
PPE (unutilised capital allowance)	4,074,021	(1,811,332)
Deductible temporary differences	30,063,704	29,178,066
	55,995,081	**45,817,550**

Notes to the financial statements - continued

13 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 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**
Balance as at 1 January 2022	13,114,202	6,174,565	163,729,456	3,823,969	1,998,811	1,998,715	190,839,718
Additions	-	501,491	7,849,258	386,056	49,987	1,539,809	10,326,601
Balance as at 31 December 2022	**13,114,202**	**6,676,056**	**171,578,714**	**4,210,025**	**2,048,798**	**3,538,524**	**201,166,319**
Depreciation							
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**
Balance as at 1 January 2022	-	491,171	(0)	2,951,193	1,616,271	-	5,058,635
Charge for the year	-	140,103	9,000,196	388,517	193,911	-	9,722,727
Balance as at 31 December 2022	**-**	**631,274**	**9,000,196**	**3,339,710**	**1,810,182**	**-**	**14,781,362**
Carrying amount							
As at 31 December 2022	**13,114,202**	**6,044,782**	**162,578,518**	**870,315**	**238,616**	**3,538,524**	**186,384,954**
As at 31 December 2021	**13,114,202**	**5,683,394**	**163,729,456**	**872,776**	**382,540**	**1,998,715**	**185,781,081**

* This transfer relates to the accumulated depreciation as at the revaluation date that was eliminated against the gross carrying amount of the revalued asset.
** This relates to the write-off of assets that are not anticipated to provide future economic benefits to the company.

Notes to the financial statements - continued

	Notes	2022	2021
		₦'000	₦'000
13.1 The depreciation charge for the year is allocated as follows:			
Cost of sales		9,000,196	4,891,758
General and administrative expenses		722,531	841,243
Depreciation charge for the year	7	**9,722,727**	**5,733,001**
13.2 Reconciliation of additions to property, plant and equipment to statement of cash flow			
Total additions		(10,326,601)	(11,732,728)
Customer contributed assets	6.1.2	6,609,133	5,661,654
Acquisition of property, plant & equipment		**(3,717,468)**	**(6,071,074)**

13.3 The Company had capital commitments amounting to ₦2.8 billion (2021: ₦200.9 million)

13.4 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 and signed by the partner Tunji Adeniyi (FRC/2014/NIESV/0000007788).
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 observable inputs by collating cost of or cost to replace similar items from six independent vendors and adjusting for differences in key attributable such as age, conditions of assets and cost of installations which are other unobservable inputs and any change in these variables could significantly impact fair value. Also, the significant unobservable valuation input used by the valuer includes range price per asset N2.3 million to N2.5 million and significant increases (decreases) in average price per asset in isolation which would result in a significantly higher (lower) fair value on a linear basis.

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	6,174,565
Distribution network assets	163,729,456

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

Notes to the financial statements - continued

13.4 Fair values of land, building and distribution network assets - continued

Revaluation surplus recognised in other comprehensive income

	2022	2021
	₦'000	₦'000
Land & building	-	-
Distribution network assets	-	54,106,270
	-	**54,106,270**

Revaluation deficit in profit or loss

Land & building	-	-
Distribution network assets	-	8,971,223
	-	**8,971,223**

13.5 Capital work in progress (CWIP)

Capital work in progress (CWIP) comprises:

PPE items in store*	1,560,814	1,134,822
On-going works with respect to substations	1,977,710	863,893
	3,538,524	**1,998,715**

* Included in PPE items in store are transformers of ₦ 992.9 million (2021: ₦122.6 million), meters and accessories of ₦567.9 million (2021: ₦1.01 billion).

Notes to the financial statements - continued

13.6 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, 2022			
Cost	11,702,055	5,887,820	27,886,193
Accumulated depreciation	-	(1,557,139)	(2,650,990)
Carrying amount	**11,702,055**	**4,330,681**	**25,235,203**
31 December, 2021			
Cost	11,702,055	5,386,329	20,036,935
Accumulated depreciation	-	(1,439,383)	(2,093,266)
Carrying amount	**11,702,055**	**3,946,946**	**17,943,669**

14 Intangible assets

	Computer software licences ₦'000	Customer management system ₦'000	Total ₦'000
Cost			
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**
Balance as at 1 January 2022	256,595	1,013,315	1,269,910
Additions	375,408	-	375,408
Balance as at 31 December 2022	**632,003**	**1,013,315**	**1,645,318**
Accumulated amortisation			
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**
Balance as at 1 January 2022	224,718	303,996	528,714
Charge for the year	317,549	101,331	418,880
Balance as at 31 December 2022	**542,267**	**405,327**	**947,594**
Carrying amount			
As at 31 December 2022	**89,736**	**607,988**	**697,724**
As at 31 December 2021	**31,877**	**709,319**	**741,196**

Amortisation of intangible assets is included as part of administrative expenses (Note 7).

Notes to the financial statements - continued

15 Inventories

	2022 ₦'000	2021 ₦'000
Consumable spare parts	260,852	131,352
Other consumables*	73,724	28,575
	334,576	**159,927**

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 ₦860 million (2021: ₦108 million).

In addition, consumable spare parts have been reduced by ₦136 million (2021: ₦13 million) as a result of the write- down to net realisable value. These include fuse, tapes, control cabels, safety boots, safety helmets and angle iron.

* Other consumables consists of stationery and lubricants.

16 Trade and other receivables

Trade receivables	58,715,046	50,771,138
Other receivables	29,794,005	20,774,274
	88,509,051	**71,545,412**
Trade receivable- Gross	148,567,863	139,493,208
Expected credit loss allowance	(89,852,817)	(88,722,069)
	58,715,046	**50,771,139**
Other receivables- Gross	29,794,005	20,774,274
Expected credit loss allowance ***	-	-
	29,794,005	**20,774,274**

16.1 Other receivables comprises:

Employee receivables*	81,027	91,025
Interest receivables	51,084	72,020
Unpaid share capital	7,500	7,500
Advance payment to vendors	900,927	295,083
Receivables from super vendor	726,800	786,322
Withholding tax receivables	25,660	13,135
Restricted cash**	28,001,007	19,509,189
	29,794,005	**20,774,274**

* This relates to employee advances during the year.

** Included in restricted cash balance is a cash collateral of ₦10.188 billion on letter of credit facility obtained from United Bank for Africa as a requirement for particpiation in the Transitional Electricity Market (TEM). Also included in restricted cash balance is ₦17.8 billion set aside with United Bank for Africa in order to comply with the Central Bank of Nigeria policy on VAT remittance.

***The expected credit loss on other receivables as at 31 December 2022, was assessed as immaterial.

16.2 Reconciliation of impairment allowance trade receivables

As at 1 January	88,722,069	78,957,841
Charge for the year	1,130,748	9,764,228
As at 31 December	**89,852,817**	**88,722,069**

		2022	2021
16.3	**Reconciliation of impairment allowance other receivables**	**₦'000**	**₦'000**
	As at 1 January	-	333,837
	Charge for the year		-
	Write back	-	(333,837)
	As at 31 December	**-**	**-**

17 Prepayments

	2022	2021
Insurance	138,177	27,551
Rent	59,792	2,976
	197,969	**30,527**

18 Cash and cash equivalents

	2022	2021
Bank balances	7,800,612	13,290,705
Cash on hand	3,541	2,991
Cash and cash equivalents per statement of cash flow	**7,804,153**	**13,293,696**

19 Share capital and reserves

19.1 Share capital comprises:

	2022	2021
Issued and called-up:		
15,000,000 ordinary shares at N1 each	15,000	15,000
Issued, called-up and paid:		
7,500,000 ordinary shares at N1 each	7,500	7,500
Unpaid share capital:		
7,500,000 ordinary shares at N1 each	7,500	7,500

19.2 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 13.4.

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

	2022	2021
Distribution network	-	54,106,270
	-	**54,106,270**
Movement in revaluation reserve:		
As at 1 January	99,151,481	45,045,211
Distribution network	-	54,106,270
As at 31 December	**99,151,481**	**99,151,481**

Notes to the financial statements - continued

20 Deferred income

	2022	2021
	₦'000	₦'000
Government grant (a)	**16,744,324**	**13,246,264**
Non-current portion	14,164,365	11,239,304
Current portion	2,579,959	2,006,960
	16,744,324	**13,246,264**

(a) **Government grant is made up of:**

	2022	2021
Government granted assets*	2,583,084	2,710,797
Day one gain on loans**	14,161,240	10,535,467
	16,744,324	13,246,264

*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 additions to government granted assets in the years 2021 and 2022.

**During the year, CBN disbursed two (2) tranches of Loan to the Company through NESI for NEMSF. The amount disbursed was N10.22 billion and N7.53 billion for the two (2) 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 term.

20.1 Reconciliation of deferred income

	2022	2021
Balance as at 1 January	13,246,264	7,352,457
Additions (day one gain on loans)	5,820,192	7,446,303
Amortisation to profit or loss (Note 8)	(2,322,132)	(1,552,496)
Balance as at 31 December	**16,744,324**	**13,246,264**

21 Trade and other payables

	2022	2021
Trade payables (Note 21.1)	112,399,214	123,965,001
Payables to other vendors	7,115,015	6,466,064
Due to related parties (Note 29)	7,637,242	4,853,713
Payables to NELMCO	745,711	745,711
Accruals (Note 21.2)	7,552,782	5,744,153
	135,449,964	**141,774,642**
Statutory deductions (Note 21.3)	46,252,916	35,744,601
	181,702,880	**177,519,243**

Notes to the financial statements - continued

21 Trade and other payables - continued

21.1 Trade payables

Trade payables comprise amount due to the Nigerian Bulk Electricity Trading Plc (NBET) and the Operator of the Nigeria 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:	2022	2021
	₦'000	₦'000
As at 1 January	123,965,001	123,845,189
Cost of energy	129,878,750	120,820,811
Interest on shortfall	43,929,036	33,460,394
Net-off of tariff shortfall	(8,048,000)	(29,802,243)
Net-off of interest on tariff shortfall	(35,305,899)	(26,641,970)
Accrued energy cost	(4,942)	
Regulatory net off*	(23,705,219)	-
Merit order receivable**	(1,371,000)	-
Outstanding inter-disco traded energy	(7,459,276)	-
Receivable from TCN (Note 23.1)	(7,530,046)	-
Interest paid on TCN loan	(29,708)	-
Payments	(101,919,482)	(97,717,180)
As at 31 December	**112,399,215**	**123,965,001**

* During the year, NERC awarded the sum of ₦23.7bn to the Company as settlement of historical FGN Ministries, Departments and Agencies (MDA) debts on electricity bills from 2015 to 2020. The Commission directed the payment as a 12-month settlement of ₦1.98b against the monthly market bills from Jul 2022 – Jun 2023, which commenced in July 2022. As at the reporting date, the unsettled amount was ₦13.8 billion. In line with the orders, the awarded amount is netted off the Company's trade payables.

** During the year, NERC awarded the sum of ₦1.3bn as compensation to the Company for TCN's non-adherence to economic merit order dispatch that led to the higher weighted average cost of energy in TCN's historical bills. TCN was mandated to prioritize and wheel energy from cheaper generation companies, but this wasn't adhered to. Hence, the commission penalized TCN to pay ₦1.3bn as compensation to the Company. The Commission directed the payment as a 12-month settlement of ₦114.2m against the monthly invoice of TCN from July 2022 – June 2023, which commenced in July 2022. As at the reporting date, the unsettled amount was ₦800 million. In line with the orders, the awarded amount is netted off the Company's trade payables.

21.2 Accruals

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

21.3 Statutory deductions

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

22 Provisions

At 1 January	361,040	361,040
Provision made during the year	-	-
At 31 December	**361,040**	**361,040**

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 ₦250 million (2019: ₦250 million) and ₦111.04 million (2019: ₦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.

Notes to the financial statements - continued

23	Interest bearing loans and borrowings	2022	2021
		₦'000	₦'000
	CBN loan (Note 23.1)	39,618,568	28,708,154
	CAPMI loan (Note 23.3)	1,115,520	1,115,520
	NELMCO loan (Note 23.2)	807,449	764,198
	TCN loan (Note 23.2)	4,140,108	4,299,157
		45,681,645	34,887,029
	Current	17,836,791	13,170,958
	Non-current	27,844,854	21,716,071
		45,681,645	34,887,029

23.1 CBN loan

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%. In 2021, the Company drew down a total amount of ₦23.17 billion from this loan. Out of this amount, ₦9.8 billion was allocated to settle outstanding market debts, ₦6 billion was utilized to settle payments to Meter Asset Providers involved in the National Mass Metering Programme (NMMP) initiated by NERC. The remaining ₦8.1 billion was disbursed directly to the Company.

During the year 2022, CBN disbursed two (2) tranches of Loan to the Company through NESI for NEMSF. The amount disbursed was ₦10.22 billion and ₦7.53 billion for the two (2) tranches respectively. The purpose of the Loan was to part-finance solely the company's obligations to Nigerian Bulk Electricity Trading Plc (NBET) & Market Operator (MO) and its operations arising from the under collection under the service based tariff scheme in line with ramp up programme and ₦7.5 billion was paid to TCN contractors through AEDC towards improving the transmission infrastructure within the AEDC Franchise. The Loans are repayable up to 120 months subject to maximum of July 2032.

For the purpose of Electricity Transmission/Distribution Network investment, NERC approved the CBN – Nigeria Electricity Market Stabilization Facility 3 (CBN-NEMSF 3). During the year, the sum of ₦ 7.53 billion was disbursed to contractors of the Transmission Company of Nigeria through Abuja Electricity Distribution Company (AEDC) towards improving the transmission infrastructure within AEDC franchise. In line with the agreements between the Company, TCN and CBN, the amount was loaned to the Company and is to be repaid within 117 months with a moratorium of 21 months on the principal amount. The amount has been agreed by the Company and TCN to be recovered from the outstanding amount owed to TCN by the Company. See Note 21.1

23.2 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 Nigerian Electricity Liability Management Company (NELMCO) and the Transmission Company of Nigeria (TCN)

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% effective from 2018.

23.3 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.

Notes to the financial statements - continued

23.4 Reconciliation of loans and borrowings

	2022	2021
	₦'000	₦'000
Balance as at 1 January	34,887,029	19,486,046
Interest accrued	5,967,454	3,277,230
Principal repayment	(1,161,020)	(3,549,964)
Addition	11,927,976	16,531,118
Default on loan repayment on TCN & NELMCO* reclassified	(370,866)	-
Interest paid	(5,568,928)	(857,401)
Balance as at 31 December	**45,681,645**	**34,887,029**

* Based on the agreement with TCN and NELMCO, a 19% default is applied to any loan that falls due and is yet to be paid as at the payment date. The default is recognised as part of loan balance in 2021 which has been reclassified into fines and penalties payable in 2022.

24 Lease liabilities

	2022	2021
As at 1 January	584,446	845,906
Additions during the year	99,041	154,509
Interest expense	110,286	139,791
Payment during the year	(118,639)	(218,990)
Derecognition*	(62,584)	(336,770)
As at 31 December	**612,550**	**584,446**
Current portion	118,639	477,086
Non-current portion	493,911	107,360
	612,550	**584,446**

*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

	2022	2021
Depreciation expense of right-of-use-assets	201,343	375,025
Expense relating to short term leases (included in admin expense)	269,943	28,686
Interest expense on lease liabilities	110,286	139,791
Total amount recognised in profit or loss	**581,572**	**543,502**

The following are the impact of the lease on cash flow

	2022	2021
Depreciation expense of right-of-use-assets	201,343	375,025
Interest expense on lease liabilities	110,286	139,791
Net cash flow from operating activities	**311,629**	**514,816**
Rent prepaid	-	-
Net cash flow from investing activities	-	-
Lease payment	(118,639)	(218,990)
Net cash flow from financing activities	**(118,639)**	**(218,990)**

Notes to the financial statements - continued

25 Right of use asset-Buildings

	2022 ₦'000	2021 ₦'000
Cost		
At 1 January	995,528	1,246,196
Additions	99,041	154,509
Derecognition*	(200,043)	(405,177)
At 31 December	**894,526**	**995,528**
Accumulated depreciation		
At 1 January	645,888	519,595
Charge for the year	201,343	375,025
Derecognition*	(150,217)	(248,732)
At 31 December	**697,014**	**645,888**
Carrying amount	**197,512**	**349,640**

**Derecognition relates to buildings vacated during the year.

26 Contract liabilities

	1,685,660	**1,137,850**

26.1 Reconciliation of contract liabilities

As at 1 January	1,137,850	1,021,081
Additions during the year	1,685,660	1,137,850
Amount recognised as revenue during the year	(1,137,850)	(1,021,081)
	1,685,660	**1,137,850**

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

27 Employee benefit obligation

Long service award	235,148	291,211
Defined benefit obligation	711,479	990,741
	946,627	**1,281,952**
Non-current	831,443	1,091,609
Current	115,184	190,343
	946,627	**1,281,952**

Notes to the financial statements - continued

27.1 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) as signed by the Partner- Wayne van Jaarsveld (FRC/2021/002/00000024507) 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.

	2022 ₦'000	2021 ₦'000
The movement in the long service awards during the year is as follows:		
At 1 January	291,211	618,017
Current service cost	32,975	109,110
Interest cost	28,386	56,081
Remeasurement (gain)/loss due to change in assumptions	(6,488)	(183,413)
Past service cost	(97,350)	(269,858)
Benefit paid	(13,585)	(38,726)
At 31 December	**235,149**	**291,211**

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

27.2 Defined benefit obligations

This entitles employees 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) as signed by the Partner- Wayne van Jaarsveld (FRC/2021/002/00000024507) using the project unit credit basis. The defined benefit schemes of the company is unfunded.

The movement in the defined benefit obligations during the year is as follows:

At 1 January	990,741	736,728
Current service cost	93,696	154,131
Interest cost	97,021	69,276
Remeasurement loss due to change in financial and demographic assumptions	(107,745)	(202,079)
Effect of movement in exchange rates	(9,480)	18,920
Past service cost	(223,867)	333,576
Curtailment**	-	(62,948)
Benefit paid	(128,887)	(56,863)
At 31 December	**711,479**	**990,741**

**A curtailment occurs when the entity either is demonstrably committed to make a material reduction in the number of employees covered by a plan; or the full impact of any plan amendment which reduces benefits for future (and past) service is accounted for as a curtailment. Curtailments are excluded from the definition of past service cost.

Notes to the financial statements - continued

Amount recognised in profit or loss

	2022 ₦'000	2021 ₦'000
Current service cost	126,671	263,241
Interest cost	125,407	125,357
Remeasurement (gain)/loss due to change in assumptions	(6,488)	(183,413)
Effect of movement in exchange rates	-	18,920
Past service cost*	33,117	63,718
Curtailment**	-	(62,948)
	278,707	**224,875**

* The past service cost includes termination cost of ₦354,334

Amount recognised in other comprehensive income

	2022	2021
Remeasurement loss due to change in financial and demographic assumptions	(107,745)	(202,079)

27.2.1 The principal assumptions used in determining the defined benefit obligations are shown below:

	2022	2021
Discount rate	14.00%	12.90%
Salary increase rate	5.00%	5.00%

Mortality
Pre-retirement: A1967/70 Ultimate Table

	Number of deaths per 1,000 lives	
Sample age	2022	2021
25	7	7
30	7	7
35	9	9
40	14	14
45	26	26
50	48	48
55	84	84
60	144	144

27.2.2 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:

Discount rate (1% increase)	446,151	51,509
Discount rate (1% decrease)	(509,734)	(57,045)
Salary increase rate (1% increase)	514,922	59,957
Salary increase rate (1% decrease)	(441,013)	(54,771)
Mortality (1% increase)	479,814	4,083
Mortality (1% decrease)	(473,193)	(3,678)

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

Within the next 12 months	-	88,998
Between 2 and 5 years	-	772,397
Beyond 5 years	-	2,030,319
	-	**2,891,714**

The weighted average duration for the plan is 8 years (2021: 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

28 Computation of cash generated from operating activities

	Notes	2022 ₦'000	2021 ₦'000
Loss before tax		(6,590,187)	(11,208,028)
Adjustment for non cash items:			
Depreciation of property, plant and equipment	13	9,722,727	5,733,001
Depreciation- right-of-use- assets	25	201,343	375,025
Amortisation of intangible assets	14	418,880	111,455
Inventory write down	15	136,000	13,000
Amortisation of government grant	8	(2,322,132)	(1,552,496)
Write off of property, plant and equipment	7	-	6,027
Withholding tax receivables	16.1	25,660	13,135
Credit loss expense on receivables	16.2	1,130,748	9,764,228
Revaluation deficit	7	-	8,971,223
Long service award benefit (gain)/expense	27.1	(42,477)	(288,080)
Defined benefit expense	27.2	(33,150)	494,035
Interest expense on loan	9.2	6,362,049	3,277,230
Net interest on NBET and ONEM bills	9.2	8,623,137	6,818,425
Unrealised foreign exchange loss		-	11,384
Interest on lease liabilities	9.2	110,286	139,791
Finance income	9.1	(372,683)	(185,081)
Tarriff shortfall awarded by NERC	6.1	(8,048,000)	(29,802,243)
Income from contributed assets	6.1	(6,609,133)	(5,661,654)
Gain on disposal of property, plant and equipment	8	-	(7,328)
Gain on lease derecognition	8	(12,758)	(180,326)
Working capital changes			
Inventories		(174,649)	10,617
Trade and other receivables		(18,789,161)	(30,452,937)
Prepayments		(167,442)	16,747
Trade and other payables		3,418,175	35,643,454
Contract liabilities		547,810	116,769
Cash used in operations activities		**(12,464,957)**	**(7,822,627)**

Notes to the financial statements - continued

29 Related party transaction

Identity of related parties

29.1 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. 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 ultimate controlling party of the Company was CEC Africa.
On 31 December 2021, the controlling shares of the Company (60%) was allotted to United Capital Trustees Limited (UCTL) which made UCTL the new parent Company. UCTL is owned by United Capital Plc. As a result, the ultimate holding company of Abuja Electricity Distribution Company is United Capital Plc.

29.2 Transactions with related parties

	2022 ₦'000	2021 ₦'000
Supply of electricity		
-KANN Utillity Company Limited (KANN)	-	430
-Bureau of Public Enterprises (BPE)	22,789	21,106
-Ministry of Finance Incorporated (MoFI)	72,589	71,447

29.3 Transactions with key management personnel

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

Key management personnel compensation comprised:

Salaries	525,662	910,241
Defined benefit obligation	-	10,491
Other short-term benefits	68,691	68,923
	594,353	**989,655**

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.

29.4 Other related party balances

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

Due from related parties:		
Advance to key management personnel	-	-
Related party balance included in trade and other receivables	-	-
Due to related parties:		
Accruals for compensation to key management personnel	-	14,199
KANN	7,626,129	4,828,402
CEC Africa	11,113	11,113
Related party balance included in trade and other payables	**7,637,242**	**4,853,714**
Net related party balance	**(7,637,242)**	**(4,853,714)**

None of the balances due to related parties is secured.

Notes to the financial statements - continued

29.5 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 2.78 billion (2021: NGN 2.64 billion) see note 7.

30 Contingent liabilities/assets

30.1 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.

30.2 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 ₦ 8.5 billion (2021: ₦9.41 billion). The Directors based on a review of the circumstances of each claim and advice from external solicitors (where deemed necessary), believe the risk of material loss to the Company is remote and as such no provisions have been recorded.

Notes to the financial statements - continued

31 Financial instruments-Fair values and risk management

31.1 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	
	2022	2021	2022	2021
	₦'000	₦'000	₦'000	₦'000
Financial liabilities				
Loans and borrowngs	45,681,645	34,887,029	45,681,645	22,068,288
	45,681,645	**34,887,029**	**45,681,645**	**22,068,288**

The carrying amount of the following; cash and cash equivalents, trade and other receivables and trade and other payables, approximates their fair values

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.

31.1.1 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
31 December, 2022	₦'000	₦'000	₦'000
Loans and borrowings	-	45,681,645	-
31 December, 2021			
Loans and borrowings	-	22,068,288	-

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.

EFFECTIVE INTEREST RATE	2022	2021
CBN loan:		
1st drawdown	15%	17%
2nd drawdown	17%	19%
3rd drawdown	14%	16%
4th drawdown	17%	18%
5th drawdown	17%	18%
6th drawdown	17%	18%
7th drawdown	18%	-
8th drawdown	20%	-
CAPMI loan	-	-
TCN loan	8%	8%
NELMCO loan	8%	8%

Notes to the financial statements - continued

31.2 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.

31.2.1 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	2022	2021
		₦'000	₦'000
Trade and other receivables*	16	177,460,941	159,972,399
Cash and cash equivalents	18	7,800,612	13,290,705
		185,261,553	**173,263,104**

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

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

	2022	2021
	₦'000	₦'000
Expected credit loss allowance on trade receivables	1,130,748	9,764,228
Expected credit loss reversal on other receivables.	-	(333,837)
	1,130,748	**9,430,391**

Notes to the financial statements - continued

31.2.1 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 2022.

	Weighted average loss rate	Gross carrying amount	Loss allowance
		₦'000	₦'000
Prepaid customers (PPM)*	96%	1,665,997	1,594,736
Government Agencies	75%	7,111,863	5,331,901
Metered Maximum Demand customers	30%	6,057,410	1,827,873
Unmetered Maximum Demand customers	37%	577,582	211,318
Metered non-Maximum Demand customers (High tier)	51%	1,871,687	951,519
Metered non-Maximum Demand customers (Middle tier)	52%	114,084	59,795
Metered non-Maximum Demand customers (Low tier)	49%	2,533,578	1,247,361
Unmetered non-Maximum Demand customers (High tier)	56%	25,451	14,140
Unmetered non-Maximum Demand customers (Middle tier)	68%	112,658	76,834
Unmetered non-Maximum Demand customers (Low tier)	61%	128,497,554	78,537,341
		148,567,864	**89,852,818**

Notes to the financial statements - continued

31.2.1 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 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

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

	2022	2021
	₦'000	₦'000
Balance at 1 January	88,722,069	78,957,841
Charge for the year	1,130,748	9,764,228
Balance at 31 December	**89,852,817**	**88,722,069**

Cash at bank

The Company held cash and cash equivalents of ₦7.8 billion at 31 December 2022 (2021: ₦13.2 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 ₦ 10.188 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

31 Financial instruments-Fair values and risk management - continued

31.2.2 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 34) - 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					
	Less than 1 year	**1 - 2 years**	**2- 3 years**	**3-5 Years**	**Above 5 years**	**Total**
Non-derivative financial liabilities	**₦'000**	**₦'000**	**₦'000**	**₦'000**	**₦'000**	**₦'000**
31 December 2022						
Trade and other payables	135,449,964	-	-	-	-	135,449,964
Loans and borrowings	7,289,974	11,773,714	12,042,373	7,759,020	38,684,308	77,549,389
Lease liabilities	181,323	227,191	164,165	39,871	-	612,550
	142,921,262	**12,000,904**	**12,206,539**	**7,798,891**	**38,684,308**	**213,611,903**
31 December 2021						
Trade and other payables	141,774,642	-	-	-	-	141,774,642
Loans and borrowings	24,019,643	18,704,360	13,939,992	12,568,940	8,382,253	77,615,187
Lease liabilities	5,556	186,385	331,967	3,661	-	527,569
	165,799,841	**18,890,745**	**14,271,959**	**12,572,601**	**8,382,253**	**219,917,398**

Notes to the financial statements - continued

31.2.3 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:

	2022	2021
	₦'000	₦'000
Cash and cash equivalents	53,597	30,471
Trade and other payables	405,733	(78,573)
Net statement of financial position exposure	**459,330**	**(48,102)**

The following significant exchange rates were applied during the year

	Average rate		Reporting date spot rate	
	2022	2021	2022	2021
US $	673.13	437.14	461.1	424.11

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.

	2022	2021
Impact on loss for the year	₦'000	₦'000
15% increase	(7,414)	(2,645)
15% decrease	7,414	2,645

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	2022	Rate	2021
Fixed rate instruments		₦'000		₦'000
CBN loan	10%	39,618,568	10%	28,708,154
TCN loan	10%	4,140,108	10%	4,299,157
NELMCO loan	10%	807,449	10%	764,198
Letter of credit	7.50%	-	7.50%	-
Variable-rate instruments				
MO/NBET market debts	NIBOR+4%	112,399,215	NIBOR+4%	123,965,001

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.

	2022	2021
	₦'000	₦'000
300 basis point increase	6,589,355	5,019,059
300 basis point decrease	(6,589,355)	(5,019,059)

Notes to the financial statements - continued

32 Capital management

The Company's policy is to maintain a strong capital base so as to gain 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 2022 was as follows:

	2022 ₦'000	2021 ₦'000
Total liabilities	251,069,489	231,615,972
Less: cash and cash equivalents	(7,804,153)	(13,293,696)
Adjusted net debts	243,265,336	218,322,276
Total equity	33,056,450	40,285,507
Total equity to adjusted net debts	7.36	5.42

Equity includes share capital, revaluation reserves and retained losses.

33 Events after reporting date

Subsequent to the year end on 18 May 2023, a consortium of new investors- Jeolan International Limited led by Transcorp Group acquired a sixty percent (60%) investment of the Company with commitment to commence immediate turnaround of the Company.

Furthermore, on the 18th of May 2023, Mr. Chiugo Ndubisi, Dr. Owen Omogiafo (OON) and Dr. Stanley Lawson were appointed as board members, followed by the appointment of Dr. Stanley Lawson as the Chairman of the Board. In addition, Mr Christopher Ezeafulukwe was appointed as Managing Director/CEO of the Company on 1st September 2023. On the 14th August 2023, Mr Razak Shittu resigned his appointment as a Director to the Company.

34 Going concern

The Company recorded a net loss of ₦7.34 billion for the year ended 31 December 2022 (2021: Loss of ₦11.95 billion). As at that date, the Company had net current liabilities of ₦110.89 billion (2021: ₦112.43 billion). The Company's reported losses (both historical and current) resulted from inability of the Company to charge a cost-reflective tariff under the current regulated MYTO regime, high aggregate technical, commercial and collection losses (ATC&C losses) as well as significant interest expense on loans, borrowings and market invoices.

The Company's current liabilities include an amount of ₦113.40 billion (2021: ₦123.97 billion) due to the Nigerian Bulk Electricity Trading Plc (NBET) and the Operator of the Nigeria Electricity Market (ONEM), which forms part of trade and other payables as indicated in Note 21 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, the Company's investment in distribution network assets will bring about a reduction in ATC&C losses which will improve both billing and collection efficiencies. The improvement in billing and collection efficiencies will significantly reduce the Company's outstanding market obligations and related interest expense which will lead to an improvement in liquidity. Also, the amount due to ONEM and NBET for immediate payment will not be called.

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.

Notes to the financial statements - continued

34 Going concern - continued

However, subsequent to the year end on 18 May 2023, a consortium of new investors- Jeolan International Limited led by Transcorp Group acquired a sixty percent (60%) investment of the Company with commitment to commence immediate turnaround of the Company. To this end, management has a comprehensive plan to reduce technical losses by creating more sub-feeders for improved efficiencies and more supply of electricity to customers. Other plans include the upgrade of substations and the construction of new injection substations. Management has upgraded some substations during the year 2022, and this is expected to be a continuous exercise. Other specific plans include:

- Purchase of vehicles, fast-moving materials, and repair of bad equipment for prompt fault clearing on the lines, stable network, and efficient power delivery.
- Deployment of auto-reclosures to minimize the duration of power outages and improve the reliability of the network.
- Purchase of 11KV Panel breakers
- Meter 11,996 unmetered Distribution substations (DTs).
- Reconfiguration and construction of 26 33KV feeders in FCT for energy off-take from TS. This will enable the business to meet up with customers' needs as a result of growth and network expansion while unlocking additional revenue for the business.
- Deployment of SCADA system for accurate data collection on network parameters and real-time monitoring of the network component.
- Onboard successful vendors to optimize identified feeders for network improvement and overall business performance.

The Company in conjunction with several Meter Asset Providers has embarked on massive provision of prepaid meters to existing customers who are unmetered in order to address the commercial losses. Between January 2023 and June 2023, a total of 51,403 units of various ratings of meters have been installed and are already impacting the revenue collections, the installation of meters is forecasted to continue into the future to include the replacement of 226,409 obsolete meters and procurement of 419,058 API-compliant prepaid meters to meter all estimated customers.

The introduction of collection agents and the project relating to the prepaid meters will bring about an increase in collections, enhance the billing capabilities of the company, and increase collection efficiency, thereby reducing the receivables and impairment charged on receivables.

The Company (with other Discos) is working with other stakeholders to restructure the terms of payment of the historical debt (Market-short fall from 2015 to 2020) from NBET and ONEM and write off all accumulated interests on the debt. Also, the recognition of interest charges on the market shortfall should be discontinued. This is in consideration that delayed payments from customers on electricity bills do not attract interest charges.

The Federal Government of Nigeria initiated a program in conjunction with Powertech to ensure all Ministries, Departments and Agencies (MDAs) meters are read remotely and visible to the Ministry of Finance so that the Ministry can directly make payments to the DISCOs. This is expected to mitigate the rising MDA debts, positively impact liquidity and reduce impairment on receivables from MDAs.

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 2022

	2022	%	2021	%
	₦'000		₦'000	
Revenue	148,882,467		165,325,621	
Bought in materials and services:				
-Local	(143,633,587)		(148,831,635)	
-Foreign				
	5,248,880		16,493,986	
Finance Income	372,683		185,081	
Other income	25,969,770		2,165,572	
Value added	31,591,333	100%	18,844,639	100%
Applied as follows:				
To Employees:				
- as salaries, wages and other staff costs	12,944,441	41%	13,924,954	74%
To Providers of finance:				
- Finance cost and similar charges	15,095,472	48%	10,283,257	55%
To Government as:				
- Taxes	746,615	2%	737,323	4%
Retained in the business:				
To maintan and replace				
- property, plant and equipment (restated)	9,722,727	31%	5,733,001	30%
- intangible assets	418,880	1%	111,455	0%
- To augment reserves	(7,336,802)	-23%	(11,945,351)	-63%
Loss for the year	31,591,333	100%	18,844,639	100%

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

	2022	2021	2020	2019	2018
	₦'000	N'000	N'000	₦'000	₦'000
Revenue (restated)	148,882,467	165,325,621	139,131,455	255,987,711	82,220,731
Results from operating activities	8,132,602	(1,109,852)	(1,913,809)	107,605,424	(62,141,631)
(Loss)/profit before taxation	(6,590,187)	(11,208,028)	(11,122,518)	125,790,733	(85,616,541)
(Loss)/profit for the year	(7,336,802)	(11,945,351)	(11,471,618)	124,292,535	(85,719,329)
Total comprehensive income/(loss) for the year	(7,229,057)	42,362,998	(10,512,503)	124,194,001	(61,190,548)

Statement of financial position

	2022	2021	2020	2019	2018
Employment of funds	₦'000	N'000	N'000	₦'000	₦'000
Property, plant and	186,384,954	185,781,081	134,662,508	126,906,631	111,649,532
Right of Use asset	197,512	349,640	726,601	820,401	-
Intangible assets	697,724	741,196	848,888	920,334	1,039,954
Withholding tax receivables	-	-	-	-	114,448
Non-current trade and other receivables	-	-	-	-	9,345,410
Non-current prepayments	-	-	-	-	53,577
Net current liabilities	(110,889,167)	(112,432,066)	(116,858,652)	(95,037,339)	(221,568,406)
Non-current liabilities	(43,334,573)	(34,154,344)	(21,456,836)	(25,175,014)	(29,404,113)
Net Assets/(liabilities)	**33,056,450**	**40,285,507**	**(2,077,491)**	**8,435,013**	**(128,769,598)**
Funds Employed					
Share capital	15,000	15,000	15,000	15,000	10,000
Retained losses (restated)	(66,110,031)	(58,880,974)	(47,137,702)	(35,537,529)	(172,737,140)
Revaluation reserve	99,151,481	99,151,481	45,045,211	43,957,542	43,957,542
	33,056,450	**40,285,507**	**(2,077,491)**	**8,435,013**	**(128,769,598)**