

Eko Electricity Distribution Plc
Annual Report -- 31 December 2016

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Corporate Information

Registration Number RC. 638862

Directors:

Name

Charles Momoh - Chairman
Engr. Oladele Amoda - Managing Director/CEO
Alex Okoh/Yuwana Malo*
Ernest Oji
Dr. Tunji Olowolafe
Dere Otubu
George Etomi

*Yuwana Malo is the alternate director to Alex Okoh on the Board of Directors.

Registered and Principal Office Address:

24/25, Marina
Lagos

Auditor:

KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
Lagos

Company Secretary:

GEP Nominees Limited
1b, Prof. Tihamiyu Belo-Osagie Street
Parkview Estate, Ikoyi
Lagos

Solicitor:

George Etomi & Partners (Legal practitioners)
1b, Prof. Tihamiyu Belo-Osagie Street
Parkview Estate, Ikoyi
Lagos

Bankers:

First City Monument Bank Ltd
Skye Bank Plc
Zenith Bank Plc
Mainstreet Bank Limited
Union Bank of Nigeria Plc
Fidelity Bank Plc
Enterprise Bank Plc
United Bank for Africa Plc
Access Bank Plc
Wema Bank Plc
Ecobank Nigeria Limited
Stanbic IBTC Plc
Diamond Bank Plc

Directors' Report

For the year ended 31 December 2016

The Directors present their report on the affairs of Eko Electricity Distribution Plc ("the Company"), together with the financial statements and auditor's report for the year ended 31 December 2016.

Principal Activity and Business Review

Eko Electricity Distribution Plc ("the Company") was incorporated in Nigeria on November 8, 2005 as a public limited liability company to take over as a going concern, the electricity distribution activities and related business of the Power Holding Company of Nigeria ("PHCN") within the Eko zone, which comprised of 11 districts namely Apapa, Ajele, Agbara, Orile, Ojo, Festac, Ibeju, Ijora, Islands, Lekki and Mushin districts. In 2015, some districts were merged together reducing the number of districts to 8 - namely, Festac, Ijora, Lekki, Ojo, Island, Apapa, Mushin and Agbara/Badagry districts - with the zone/coverage still remaining the same.

As part of the Federal Government of Nigeria's ("FGN's") 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) 2005. 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 2013, the FGN completed its planned privatization of the electricity sector effectively handing over 5 generation and 10 distribution companies to new owners under various share sale agreements. As a result of this, 60% equity interest in the Company was acquired by a Nigerian Company, West Power and Gas Ltd. ("WPG"). 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.

During the year, the Company's revenue increased by 11% from ₦51.01 billion to ₦56.54 billion. The increase in revenue is as a result of increased availability of energy for distribution in the current year compared to prior year. The cost of energy purchased increased during the year as a result of the intake of embedded generation from Egbin Power Plc and PARAS energy.

However, the increase in cost of energy purchased was not commensurate with the increase in revenue as the Company was unable to pass the increase in cost through the MYTO tariff. Thus, the Company's gross profit reduced significantly by 72% from ₦12.71 billion to ₦3.50 billion.

The Company reported a loss after tax of ₦28.66 billion for the year ended 31 December 2016 (2015 : ₦6.58 billion). Also as of that date, the Company's current liabilities exceeded its current assets by ₦21.80 billion (2015: Net current assets of ₦3.10 billion). The reported results are principally as a result of the following factors which are beyond the control of the Company:

(a) Non-cost reflective tariff - Lack of implementation of Minor tariff review results

Section 76 subsection (2a) of the EPSR Act envisages that all licensees must be allowed to recover full cost of its business activities. The MYTO order further demands a bi-annual minor tariff review process for adjusting changes to agreed parameters. However, this was not implemented in the year under review. Even though, the applicable parameters (inflation, exchange rate and generation capacity) had adversely changed consequently affecting the results.

In June 2016, NERC minor review calculations yielded an increase of 18.96% for the first half of the year. This was not implemented and if implemented would have increased the Company's revenue by approximately ₦19.83 billion based on the estimates included in the NERC report. The lack of implementation of the Minor tariff review results has had an adverse impact on the revenue generated by the Company and the associated shortfall led to the huge net loss position for the period. This challenge made it impracticable to make full remittances to the electricity market, as the full receipt through tariffs from the electricity distributed remained mispriced.

(b) Interest on electricity suppliers' invoices

Due to the lack of a cost reflective tariff, the Company was unable to meet full payment on its market obligation to the tune of ₦29.59 billion. This includes an accrued interest of ₦3.51 billion which has been recognized in these financial statements. Even though the cost of this shortfall is mainly due to lack of cost reflective tariff, the Company and all Distribution Companies are not allowed to charge interest on outstanding bills of recalcitrant customers which would have helped reduce the above obligation.

(c) Naira devaluation

1 Effect on cost of power

The consequence of the devaluation of the Naira by the Central Bank of Nigeria (CBN) by 54.8% from ₦197 to ₦305 in June 2016 has also played a major role in the reduction of energy payments to the electricity market, thus leading to huge trade payable balances.

NBET can adjust their monthly invoices to reflect the changes in exchange rate. However, Distribution Companies in the year under review were not allowed to pass this change leading to a shortfall. This has had a very negative effect on the trade payables for 2016 and has significantly contributed to the net loss position of the Company. It is apparent that when the cost of power cannot be fully recovered from the tariff in a regulated entity, it portends a threat to the existence of the business and its ability to continue to operate as a going concern.

2 Effect on shareholder loan

The Company recorded a net foreign exchange loss of ₦2.98 billion which mainly arose as a result of the naira devaluation in June 2016.

This amount largely represents the losses due to foreign exchange rate changes on the outstanding portion of the dollar denominated shareholder loan facilities (CAPEX and Working Capital) majorly used to fund network improvements, the reduction in ATC&C losses as well as other critical operational expenses.

(d) Rate of inflation

The inflation rate rose by 93.2% during the year from 9.6% in January 2016 to 18.55% in December 2016.

The effect of rising prices generally impact the cost of doing business, borrowing, and the economy in general. Even though the movement in inflation rate is one of the triggers for a tariff review, the tariff was not reviewed upwards to contain this trend during the year under review.

(e) Bilateral Power Arrangement

During the year under review, the Company entered into bilateral agreements with Egbin Power Plc and Paras Energy and Natural Resources Development Limited in its bid to be innovative in augmenting supply from the grid and improving power supply availability to customers on its network which in turn should have improved its financial results. The Regulator, NERC, approved the transaction and the wholesale power purchase cost was considerably higher than the grid price from NBET.

The Company subsequently commenced taking power with the agreement that tariffs will be reviewed to accommodate the higher price of power during the minor tariff review which was meant to have been implemented by July 2016. Though a desktop exercise for tariff review was conducted, it was however not implemented thereby leading to huge financial loss to the Company.

(f) Ministries Departments and Agencies (MDA) debt

As at year end 2016, the total MDA debts stood at over ₦11 billion. The Office of the Vice President (OVP) of the Federal Republic of Nigeria has only shown a clear commitment to repay MDA debts for the period January 2015 till December 2016, thus leaving debts from the period November 2013 till December 2014 outstanding. Based on this reality, the total MDA Debts submitted to the OVP by the Company for desktop and physical verification stood at ₦7.21 billion. As at date, only about ₦4.59 billion has been validated to be paid. The effect of the OVP disregarding MDA debts prior to 2015 is significant and an additional impairment loss of ₦2.62 billion was recognized on the MDA debt.

Operating Results

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

	2016	2015
	₦'000	₦'000
Revenue	56,536,377	51,007,001
Gross profit	3,499,887	12,705,811
Operating loss	(19,807,955)	(3,232,847)
Loss before minimum tax and income tax	(28,468,825)	(6,126,049)
Minimum Tax	(193,895)	(331,943)
Income Tax	-	(119,383)
Loss for the year	(28,662,720)	(6,577,375)

No dividend has been recommended by the directors (2015: Nil).

Directors and their Interests

The Directors who served during the year were as follows:

<u>Name</u>	<u>Designation</u>
Charles Momoh	Chairman
Engr. Oladele Amoda	Managing Director
Benjamin Ezra Dikki/Obaro Osauzo*	
Ernest Oji	
Dr. Tunji Olowolafe	
Dere Otubu	
George Etomi	Independent Director

* Obaro Osauzo is the alternate director to Benjamin Ezra Dikki who is the representative of BPE (Bureau of Public Enterprises) on the Board of Directors.

Subsequent to year end, on 12 June 2017, Benjamin Ezra Dikki was replaced by Alex Okoh as the representative of BPE on the Board of Directors. On the same day, Alex Okoh appointed Yuwana Malo as the alternate director.

The interests of the Directors in the issued share capital of the Company (through its Holding Company - WPG International Limited) as recorded in the register of members and as notified by them for the purpose of section 275 of the Companies and Allied Matters Act of Nigeria, Cap C.20, Laws of the Federation of Nigeria, 2004, are as follows:

	Ordinary Shares of ₦1 each	
	2016	2015
Atlantic Meridean Limited (through Charles Momoh)	35,507,800	3,534,000
Kagera Limited (through Dr. Tunji Olowolafe)	10,849,000	2,466,000
Jachazes Investments Limited (through Ernest Oji)	3,864,000	-
Eastcorp Investment Limited (through George Etomi)	1,300,000	-

For the purpose of Section 277 of the Companies and Allied Matters Act of Nigeria, Cap C.20, Laws of the Federation of Nigeria, 2004, no other Director has notified the Company of any declarable interests in contracts with the Company, except as disclosed in Note 26 to these financial statements.

Shareholding Structure

The shareholding structure of the Company is as follows:

	Ordinary Shares of 50 Kobo each			
	31 December 2016		31 December 2015	
	%	Number	%	Number
West Power and Gas Ltd.	60	6,000,000	60	6,000,000
Bureau of Public Enterprises	32	3,200,000	32	3,200,000
Ministry of Finance Incorporated	8	800,000	8	800,000
Total	100	10,000,000	100	10,000,000

Corporate Governance

Subsequent to WPG's acquisition of 60% equity interest in the Company, and consistent with applicable NERC rules, the Board re-emphasized 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.

NERC rules require that the Company has at least five directors of which at least one must be an Independent Director. The Company has seven (7) directors, five (5) non-executive directors, one (1) independent director and one (1) executive director.

The Managing Director has extensive knowledge of the power sector while the non-executive directors bring to the table their broad knowledge of business and their financial, commercial and technical experience.

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

DIRECTORS	DESIGNATION	Mar 08, '16	Jun 29, '16	Sept 19, '16	Nov 30, '16
Charles Momoh	Chairman	X	X	X	X
Engr. Oladele Amoda	Managing Director	X	X	X	X
Ezra Dikki (Obaro Osauzo)*	Director	X	X	X	X
Ernest Oji	Director	X	X	X	X
Dr. Tunji Olowolafe	Director	-	X	-	-
Dere Otubu	Director	X	X	-	X
George Etomi	Director	X	-	-	X

X = Attended

- = Absent

* = Alternate director

Sub Committees of the Board

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

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

1. Finance and General Purpose Committee

The attendance of the members of this committee during the year was as follows:

Members	Designation	Mar 07, '16	Jun 27, '16	Nov 30, '16
Dere Otubu	Chairman	X	X	X
Engr. Oladele Amoda		X	X	X
George Etomi		X	-	X
Dr. Tunji Olowolafe		-	-	-
Ernest Oji		X	X	X
Obaro Osauzo		X	X	X

The primary objective of the Committee is to carry out oversight functions on matters relating to or affecting the Company's financial direction and the development and implementation of necessary initiatives. The Committee is responsible for proffering independent recommendations to the Board on financial matters. The Committee also has the following responsibilities:

- To provide oversight with respect to capital structure, cash flows and key financial ratios of the Company and make recommendations with respect to the Company's financial policies.
- Review policies with respect to distributions to shareholders generally, make recommendations with respect to the declaration of dividends, and also recommend the repurchase of shares of the Company from time to time consistent with authority levels established by the Board.
- Review the Company's liquidity position, including the Company's credit facilities.
- To review the Company's credit ratings and monitor its activities with respect to credit rating agencies.
- To review financial plan and make recommendations on behalf of the Board as part of its oversight functions.
- Periodically review the Company's investor relation's program, shareholder profile and analyst coverage.
- To assist the Board in fulfilling its responsibilities relating to managing the financial activities of the Company.
- Any additional matters delegated to the Committee by the Board.

2. Board Strategy and Technical Matters Committee

The attendance of the members of this committee during the year was as follows:

Members	Designation	Feb 23, '16	Mar 07, '16	Jun 27, '16
Ernest Oji	Chairman	X	X	X
Engr. Oladele Amoda		X	X	X
Tunji Olowolafe		-	-	X
George Etomi		X	X	-
Dere Otubu		X	X	X
Obaro Osauzo		X	X	X

The primary objective of the Committee is to assist the Board in its oversight of the strategic and technical operations and activities of the Company in delivering its business plans whilst not diluting the accountability of the Company's executive team for the management of strategy and technical operations of the Company.

3. Board Human Resources and Administration Committee

The attendance of the members of this committee during the year was as follows:

Members	Designation	Mar 07, '16	Jun 27, '16
Tunji Olowolafe	Chairman	-	X
Engr. Oladele Amoda		X	X
Dere Otubu		X	X
Ernest Oji		X	X
George Etomi		X	-
Obaro Osauzo		X	X

The Board Human Resources and Administration Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities in relation to:

- The compensation of the Managing Director/Chief Executive Officer and senior management;
- The selection and retention of staff;
- Planning for the succession of staff;
- Professional development for staff; and
- The management of pension and significant benefit plans for employees; and any additional matters delegated to the Human Resources Committee by the Board.

4. Legal, Corporate Governance and Regulatory Committee

The attendance of the members of this committee during the year was as follows:

Members	Designation	Mar 07, '16	Nov 30, '16
George Etomi	Chairman	X	X
Engr. Oladele Amoda		X	X
Ernest Oji		X	-
Obaro Osauzo		X	X
Dere Otubu		X	-
Tunji Olowolafe		-	X

The primary objective of the Committee is to carry out oversight functions on matters relating to the Company in respect of corporate procedures, corporate governance, statutory/regulatory and procedural compliance, general legal matters and policies. The Committee is also responsible for the following:

- Review of the Company's corporate governance matters and make recommendation to the Board.
- Review and advise the Company on contentious legal issues that may arise and proffering solutions
- To seek any information it requires from any employee of the Company.
- To obtain any independent legal or other professional advice and to source the attendance of external advisers at its meetings if it considers this necessary, at the Company's expense.

5 Audit and Compliance Committee

The attendance of the members of this committee during the year was as follows:

Members	Designation	Sept 19, '16	Nov 29, '16
Obaro Osauzo	Chairman	X	X
Engr. Oladele Amoda		-	X
George Etomi		X	-
Dr. Tunji Olowolafe		-	-
Ernest Oji		X	X
Dere Otubu		-	X

The Audit and Compliance Committee's overall purpose is to enhance confidence in the integrity of the Company's processes and procedures relating to internal control and corporate reporting. The Audit and Compliance Committee is responsible for the review of financial reporting, appointment and provision of oversight for the work of the external auditor. The Committee makes recommendations to the Board concerning internal financial controls, effectiveness of its internal audit functions viz a viz compliance with internal processes and procedures. It also ensures statutory compliance with the provisions of Companies and Allied Matters Act of Nigeria, Cap C.20, Laws of the Federation of Nigeria, 2004.

The Committee derives its authority from the Board to:

- Assist the Board in effectively discharging its responsibilities prescribed by applicable laws relating to financial accountability, audit, risk assessment, financial and performance management and financial reporting process.
- Adequately monitor and manage the Company's system of internal control, audit Process and ensure due compliance with relevant Corporate Governance and Regulatory Policies.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-recommend all auditing and non-audit services.

Material Agreements

The Company has entered into the following material agreements:

1. Deeds of assignment of pre-completion receivables and liabilities

The Company signed a deed of assignment of pre-completion receivables and liabilities with the Nigerian Electricity Liability Management Company Limited (NELMCO) effective 31 October 2013. As part of the privatization initiative and the restructuring of the Nigerian power sector, NELMCO was 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 derecognised qualifying assets and liabilities as at 31 October 2013 from the 2013 financial statements.

2. Technical Agreement with Related Party

The Company has an operations, management and maintenance contract with WPG Services Limited (a related party) for the provision of local, top level and expatriate staff to enable EKEDP meet the performance standard in the Performance Agreement entered into with BPE. See Note 26 (b).

3. Embedded generation

During the year, the Company entered into bilateral agreements with Egbin Power Plc and Paras Energy and Natural Resources Development Limited to increase power delivery by 160MW in order to meet up with the demand of customers.

As a result of the liquidity challenges facing the industry, the Company was unable to meet up with its payment obligations. This prompted Egbin Power Plc to suspend its bilateral agreement with the Company effective 1 August 2016 until all outstanding balances are cleared.

Geographical Presence

To enable the Company operate within the Eko Zone where it distributes electricity, it has 8 districts excluding the head office. Each business unit is headed by a business manager who reports to the leadership team based at the head office.

Property, plant and equipment

Information relating to changes in property, plant and equipment is provided in Note 15 to these financial statements.

Charitable Contributions

Donations made by the Company comprise:

	2016	2015
	N'000	N'000
Almighty God Compassionate Home, Apapa	200	-
Association for Handicapped Persons Welfare, Ikorodu	100	-
	<u>300</u>	<u>-</u>

In accordance with Section 38(2) of the Companies and Allied Matters Act of Nigeria, Cap C.20, Laws of the Federation of Nigeria, 2004, the Company did not make any donation to any political association, or for any political purpose in the course of the year (2015: Nil).

Events after the reporting period

Events after the reporting period have been disclosed in Note 30 to the financial statements.

Employment and Employees

(a) Employment Consultation and Training

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

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

(b) Dissemination of Information

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

(c) Employment of physically challenged persons

The Company has 6 physically challenged persons in its employment (2015: 5). Applications for employment by physically challenged persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming physically challenged, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that training, career development and promotion of physically challenged persons should, as far as possible, be identical with that of other employees.

(d) Employee Health, Safety and Welfare:

The Company places a high premium on the health, safety and welfare of its employees in their places of work. To this end, the Company has various forms of insurance policies, including workmen's compensation and group life insurance, to adequately secure and protect its employees. It is the Company's goal to ensure that incident free safety record in operations is amongst the best, both locally and globally, upon which it has set its safety policy.

Auditor

Messrs. KPMG Professional Services, having satisfied the relevant corporate governance rules on their tenure in office have indicated their willingness to continue in office as auditor to the Company. In accordance with Section 357 (2) of the Companies and Allied Matters Act of Nigeria, Cap C.20, Laws of the Federation of Nigeria, 2004, therefore, the Auditors will be re-appointed at the next annual general meeting of the Company without any resolution being passed.

Lagos, Nigeria

28 September 2017


G. E. & P. NOMINEES
BY ORDER OF
THE BOARD

GEP Nominees Limited

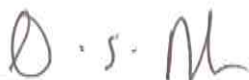
Statement of Directors' Responsibilities in Relation to the Financial Statements for the year ended 31 December 2016

The directors accept responsibility for the preparation of the annual financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and Financial Reporting Council of Nigeria Act, 2011.

The directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and 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.

The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not remain a going concern in the year ahead.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:



Signature

Dere Otubu

Name

FRC/2013/IODN/00000004695

FRC Number

28 September 2017

Date

Signature

Oladele Amoda

Name

FRC/2016/NSE/00000014444

FRC Number

28 September 2017

Date

Report of the Audit and Compliance Committee

To the members of Eko Electricity Distribution Plc

In accordance with the terms of reference as contained in the Company's Audit and Compliance Committee Charter and the provisions of section 359(6) of the Companies and Allied Matters Act of Nigeria, Cap C.20, Laws of the Federation of Nigeria, 2004, we, the Members of the Audit and Compliance Committee of Eko Electricity Distribution Plc, having carried out our functions hereby report that:

- (a) the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices;
- (b) the scope and planning of the audit for the year ended 31 December 2016 are satisfactory;
- (c) having reviewed the independent auditor's memorandum of recommendations on accounting procedures and internal controls, we are satisfied with management responses thereon.

Members of the Audit and Compliance Committee are:

- 1) Dere Otubu
- 2) George Etomi
- 3) Dr. Tunji Olowolafe
- 4) Ernest Oji
- 5) Engr. Oladele Amoda

Ag. Chairman



Dere Otubu

Chairman, Audit Committee*

FRC/2013/IODN/00000004695

28 September 2017

** The Company obtained a waiver from the Financial Reporting Council of Nigeria (FRC) dated 25 September 2017 which allows the Audit Committee Chairman to sign the 2016 financial statements irrespective of the fact that the Chairman is not a professional member of an accounting body established by Act of National Assembly in Nigeria, according to FRC Rule 2.*

**KPMG Professional Services**

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INDEPENDENT AUDITOR'S REPORT

To the Members of Eko Electricity Distribution Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Eko Electricity Distribution Plc (the Company), which comprise the statement of financial position as at 31 December, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 17 to 59.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related To Going Concern

We draw attention to Note 33 to these financial statements which indicates that the Company incurred a loss after tax of ₦28.66 billion during the year ended 31 December 2016 and, as of that date, the Company's current liabilities exceeded its current assets by ₦21.80 billion. As stated in Note 33, these events or conditions, along with other matters as set forth in Note 33, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Registered in Nigeria No BN 986925

Partners:

Abiola F. Bada	Adebisi O. Lemikanra	Adekunle A. Elebuta	Adetola P. Adeyemi
Adeleke K. Ajayi	Ajibola O. Olofinla	Ayodele A. Soyinka	Ayodele H. Othiniwa
Ayobami L. Salami	Chibuzor N. Anyanachi	Goodluck C. Obi	Ibitomi M. Adepoju
Joseph O. Tegbe	Kabir O. Okunola	Mohammed M. Adama	Oladapo R. Okubadejo
Oladimeji I. Salaudeen	Olanike I. James	Oluide O. Oluyinka	Olusegun A. Sowande
Oluwalafemi O. Awotayo	Oluwetoyin A. Gbagi	Ogunlayo I. Ogungbenro	Victor U. Oriyinka

Associate Partners:

Nneka C. Eluma
Termitope A. Onitiri



Information Other than the Financial Statements and Audit Report thereon

The Directors are responsible for the other information which comprises the Corporate Profile, Results at a Glance, Report of the Directors, Statement of Directors' Responsibilities, Report of the Statutory Audit Committee, Other National Disclosures, but does not include the financial statement and our audit thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Report on Other Legal and Regulatory Requirements

Compliance with the requirements of Schedule 6 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004

In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books and the Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Signed:



Ayodele A. Soyinka, FCA
FRC/2012/ICAN/00000000405
For: KPMG Professional Services
Chartered Accountants
28 September 2017
Lagos, Nigeria



Statement of Financial Position

As at

	Notes	31 Dec 2016 N'000	31 Dec 2015 N'000
ASSETS			
Property, plant and equipment	15	53,343,494	54,806,682
Intangible assets	16	156,348	142,763
Non-current assets		53,499,842	54,949,445
Inventories	17	1,250,525	1,174,029
Prepayments	18	33,108	1,136,714
Trade and other receivables	19	27,092,496	25,755,305
Cash and cash equivalents	20	5,739,187	5,537,823
Current assets		34,115,316	33,603,871
Total assets		87,615,158	88,553,316
EQUITY			
Share capital	21	5,000	5,000
Retained earnings		24,980,517	53,643,237
Total equity		24,985,517	53,648,237
LIABILITIES			
Loans and borrowings	22	5,467,398	2,947,327
Deferred revenue	24	1,242,477	1,454,841
Non-current liabilities		6,709,875	4,402,168
Loans and borrowings	22	7,041,944	6,866,994
Trade and other payables	23	46,697,026	20,993,150
Deferred revenue	24	741,179	1,334,435
Provisions	25	10,247	10,247
Current tax liabilities	14(d)	1,429,370	1,298,085
Current liabilities		55,919,766	30,502,911
Total liabilities		62,629,641	34,905,079
Total equity and liabilities		87,615,158	88,553,316

These financial statements were approved by the Board of Directors on 28 September 2017 and signed on its behalf by:


_____) Managing Director: Oladele Amoda
FRC/2016/NSE/0000001444


_____) Director: Dere Otubu
FRC/2013/IODN/00000004695

Additionally certified by:


_____) Chief Financial Officer: Joseph Esenwa
FRC/2013/ICAN/00000001049

The accompanying notes on pages 21 to 59 form an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

	<u>Notes</u>	<u>2016</u> <u>₦'000</u>	<u>2015</u> <u>₦'000</u>
Revenue	<i>9</i>	56,536,377	51,007,001
Cost of sales	<i>10(a)</i>	(53,036,490)	(38,301,190)
Gross profit		<u>3,499,887</u>	<u>12,705,811</u>
Other income	<i>11</i>	530,364	176,769
Administrative expenses	<i>10(b)</i>	(23,838,206)	(16,115,427)
Results from operating activities		<u>(19,807,955)</u>	<u>(3,232,847)</u>
Finance income	<i>12</i>	18,108	164,479
Finance costs	<i>12</i>	(8,678,978)	(3,057,681)
Net finance costs		<u>(8,660,870)</u>	<u>(2,893,202)</u>
Loss before minimum tax and income tax		(28,468,825)	(6,126,049)
Minimum tax	<i>14(a)</i>	(193,895)	(331,943)
Loss before income tax		<u>(28,662,720)</u>	<u>(6,457,992)</u>
Income tax expense	<i>14(b)</i>	-	(119,383)
Loss for the year		<u>(28,662,720)</u>	<u>(6,577,375)</u>
Other comprehensive income, net of tax		-	-
Total comprehensive income		<u>(28,662,720)</u>	<u>(6,577,375)</u>

The accompanying notes on pages 21 to 59 form an integral part of these financial statements.

Statement of Changes in Equity

<u><i>For the year ended 31 December 2015</i></u>	Share capital	Retained earnings	Total
	₦'000	₦'000	₦'000
Balance as at 1 January 2015	5,000	60,220,612	60,225,612
Total comprehensive income			
Loss for the year	-	(6,577,375)	(6,577,375)
Other comprehensive income	-	-	-
Total comprehensive income	-	(6,577,375)	(6,577,375)
Transactions with owners of the Company	-	-	-
Balance at 31 December 2015	5,000	53,643,237	53,648,237
<u><i>For the year ended 31 December 2016</i></u>			
Balance as at 1 January 2016	5,000	53,643,237	53,648,237
Total comprehensive income			
Loss for the year	-	(28,662,720)	(28,662,720)
Other comprehensive income	-	-	-
Total comprehensive income	-	(28,662,720)	(28,662,720)
Transactions with owners of the Company	-	-	-
Balance at 31 December 2016	5,000	24,980,517	24,985,517

The accompanying notes on pages 21 to 59 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December

	Notes	2016 N'000	2015 N'000
Cash flows from operating activities:			
Loss for the year		(28,662,720)	(6,577,375)
Adjustments for :			
- depreciation of property, plant and equipment	15	6,041,909	5,786,999
- amortisation of intangible assets	16	32,509	11,935
- impairment loss on trade receivables	10(b)	9,671,472	4,749,621
- impairment loss on NELMCO receivables	10(b)	459,035	-
- customer-granted assets	9	(370,007)	(73,930)
- finance income	12	(18,108)	(164,479)
- finance costs	12	8,678,978	3,057,681
- (write-back)/ write-down of defective inventory items	10(a)	(216,142)	265,463
- write-off of property, plant and equipment	15	51,405	545
- education tax	14(b)	-	119,383
- minimum tax	14(a)	193,895	331,943
		(4,137,774)	7,507,786
Changes in:			
- Inventories	17(b)	139,646	(912,100)
- Trade and other receivables	19(e)	(11,467,698)	(19,594,294)
- Prepayments	18(b)	204,294	37,134
- Trade and other payables	23(d)	21,612,176	10,627,578
- Deferred revenue	24(d)	(600,434)	843,198
Cash generated from/(used in) operating activities		5,750,210	(1,490,698)
Income taxes paid	14(d)	(62,610)	-
Net cash generated from/(used in) operating activities		5,687,600	(1,490,698)
Cash flows from investing activities:			
Acquisition of property, plant and equipment	15(g)	(3,674,158)	(2,151,278)
Acquisition of intangible assets	16	(46,094)	(84,185)
Interest received	12	18,108	127,484
Cash used in investing activities		(3,702,144)	(2,107,979)
Cash flows from financing activities:			
Loan received	22(f)	1,309,511	7,690,243
Repayments - principal	22(f)	(2,141,392)	(167,219)
Interest paid	22(f)	(953,416)	(477,401)
Cash (used in)/generated from financing activities		(1,785,297)	7,045,623
Net increase in cash and cash equivalents		200,159	3,446,946
Cash and cash equivalents as at 1 January		5,537,823	2,064,630
Effect of movements in exchange rates on cash held		1,205	26,247
Cash and cash equivalents as at 31 December		5,739,187	5,537,823

The accompanying notes on pages 21 to 59 form an integral part of these financial statements.

Notes to the Financial Statements

1 Reporting entity

Eko Electricity Distribution Plc ("the Company") was incorporated in Nigeria on November 8, 2005 as a public limited liability company to take over as a going concern, the electricity distribution activities and related business of the Power Holding Company of Nigeria ("PHCN") within the Eko zone, which comprised of 11 districts namely Apapa, Ajele, Agbara, Orile, Ojo, Festac, Ibeju, Ijora, Islands, Lekki and Mushin districts. In 2015, some districts were merged together reducing the number of districts to 8 - namely, Festac, Ijora, Lekki, Ojo, Island, Apapa, Mushin and Agbara/Badagry districts - with the zone/coverage still remaining the same.

The Company supplies electricity within the captive regions above based on a licence granted to it by the Nigerian Electricity Regulatory Commission (NERC). The licence is for a period of 15 years and expires in 2028 with an option to renew for another 10 years. Based on the terms and conditions of the licence and regulations as contained in the Electrical Power Sector Reform Act (EPSRA) 2005, the Company is a monopoly within its geographical coverage area and operates under a price control regime known as the Multi Year Tariff Order (MYTO). As a result of the privatization of the power sector, the business activity of the Company during the year was governed by "the Interim Electricity Market Rules for the period between completion of privatization and the start of the Transitional Electricity Market (TEM) of the Nigerian Electricity Supply Industry (NESI)", and the TEM Rules which became effective from 1 February 2015.

Effective 1 November 2013, West Power and Gas Ltd a Nigerian Company, acquired 60% interest in the Company thereby acquiring control of the Company. The remaining 40% shareholding is held by Bureau of Public Enterprises (32%) and Ministry of Finance Incorporated (8%). The acquisition of the 60% interest in the Company was as a result of the privatization initiative of the power sector embarked on by the Federal Government of Nigeria.

2 Basis of Accounting

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies and Allied Matters Act of Nigeria, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011. These financial statements were authorised for issue by the Board of Directors on 28 September 2017.

Details of the Company's accounting policies are included in Note 7.

3 Functional and presentation currency

These financial statements are presented in Nigerian Naira (₦), which is the Company's functional currency. All amounts stated in Naira have been rounded to the nearest thousand, unless otherwise indicated.

4 Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Notes to the Financial Statements

(a) Judgments

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

Note 15(e) – Reliable measurement of the fair value of National Integrated Power Project (NIPP) and Project Management Unit (PMU) Assets transferred to the Company

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments in the year ending 31 December 2017 is included in the following notes:

Note 19(a) - Recognition of accrued receivables – adoption of a revenue model to estimate unbilled revenue from Post-paid arrangements

Note 24(a) - Recognition of deferred revenue - determination of a consumption factor to estimate deferred revenue from prepaid arrangements

Note 14(e) – Unrecognised deferred tax assets: availability of future taxable profit against which carryforward tax losses can be used

Notes 25 & 27(b) – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources

5 Basis of measurement

The financial statements have been prepared on the historical cost basis except for recognition of the following items, which are measured on an alternative basis on each reporting date:

S/N	Items	Measurement bases
1	Property, plant and equipment (PPE)	Refer to Note 7 (d)
2	Intangible assets	Refer to Note 7 (e)
3	Inventories	Refer to Note 7 (g)
4	Loans and borrowings	Refer to Note 7 (f)

6 Measurement of fair values

Some of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values. The Chief Financial Officer (CFO) has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the 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 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 categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Notes to the Financial Statements

- 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 categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised 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 recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

7 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Revenue

Revenue primarily represents the sales value of electricity and other related energy services supplied to customers during the year and excludes Value Added Tax. The Company generally recognizes revenue upon delivery of goods to customers on purchases, or upon completion of services rendered. Delivery is deemed complete when the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed that is the electricity has been consumed by the customers, compensation has been contractually established and collection of the resulting receivable is probable. Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of electricity to postpaid customers is the value of the volume of units supplied during the year including an estimate of the value of volume of units supplied to these customers between the date of their last meter reading and the year-end. In case of prepaid meter customers, an estimate is made for unearned revenue as at year-end and this is included in the statement of financial position as deferred revenue.

In line with the applicable tariff framework, prices charged by the Company for electricity distribution are regulated. However, the Company is allowed to recover excess costs incurred through future price increases charged on future deliveries. Similarly, where current regulated rates are determined to be excessive, the Company may be subject to a rate reduction in the future against future deliveries. The Company does not recognise 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 recognised. Revenue from rendering of services is recognised when such services are rendered.

The Company receives transfers of certain items of PPE from customers. 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, the asset is measured at fair value, and a corresponding amount is recognized as revenue when the Company has no future performance obligations.

(b) Finance income and finance costs

Finance income comprises interest income on short-term deposits with banks. Interest income on short-term deposits is recognised using the effective interest method.

Notes to the Financial Statements

Finance costs comprise interest expense on interest bearing borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognised in profit or loss using the effective interest method.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency (Nigerian Naira) using the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in foreign currency are not translated.

(d) Property, plant and equipment (PPE)

i Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management including relevant borrowing costs.

Contributions by customers of items of property, plant and equipment, which require an obligation to supply goods to the customer in the future, are recognised at the fair value when the Company has control of the item. The Company assesses whether the transferred item meets the definition of an asset, and if so recognizes the transferred asset as PPE. At initial recognition, its cost is measured at fair value, and a corresponding amount is recognised as income when the Company has no future performance obligations. If the Company is yet to discharge the future performance obligation, the corresponding amount is recognised as a deferred income pending the performance of the obligation.

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.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

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. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

iii Depreciation

Depreciation is calculated to write off the cost 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 recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Notes to the Financial Statements

The estimated useful life of items of property, plant and equipment are as follows:

	Life (years)
Buildings	40-50
Distribution network assets	10-30
Motor vehicles	5
Equipment, fixtures & fittings	5

During the year, the Company reviewed the estimated useful life of its leasehold land on the basis that it is reasonably certain that it is more likely than not that the Lagos State Governor will renew the land upon expiration. The substance of lease, therefore, is that the Company has ownership of the land and not a right to use the land for a predefined period. Consequently, the Company has discontinued depreciation of leasehold land.

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

Capital work in progress is not depreciated. The attributable cost of each asset is transferred to the relevant asset category at the point when the asset becomes available for use and is depreciated accordingly.

(c) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Acquired computer software licences are capitalized on the basis of costs incurred to acquire and bring the specific software to the useful state.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortization

Amortization is calculated to write-off the cost of intangible assets less the estimated residual values using the straight line method over their estimated useful lives and is generally recognized in profit or loss.

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

The estimated useful life is as follows:

Computer Software	5 years
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(f) Financial instruments

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

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

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

The Company initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

Notes to the Financial Statements

The Company derecognises 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 derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

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

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

ii Non-derivative financial assets – measurement

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

iii Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(g) *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and cash balances with banks. Bank overdrafts which are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of statement of cash flows. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

(h) *Inventories*

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses. Allowance is made for obsolete, slow-moving or defective items where appropriate. Inventories are stated net of write-downs and provisions.

(i) *Leases*

i Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset.

Notes to the Financial Statements

Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

ii Leased assets

Assets held by the Company under leases that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

iii Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(j) Impairment

i Non-derivative financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes: □

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers.

Financial assets measured at amortised cost

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

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

An impairment loss is calculated as the difference between an asset's carrying amount and the estimated recoverable amount. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off.

Notes to the Financial Statements

If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

ii Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or 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 recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised 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 amortisation, if no impairment loss had been recognised.

(k) Employee benefits

i Short term employee benefits

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.

The Company operates a defined contribution pension scheme. Staff contributions to the scheme amount to 8% of the employee's basic salary, housing and transport allowances which are funded through payroll deductions while the Company's contribution of 10% of the employee's basic salary, housing and transport allowances is recognised in profit or loss as employee benefit expense in the periods during which services are rendered by employees.

iii 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 recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

Notes to the Financial Statements

(l) Provisions and contingent liabilities

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

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

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

Contingent liabilities

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

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

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

(m) Income tax

Income tax expense comprises current 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.

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. It is measured using tax rates enacted or substantively enacted at the reporting date.

The Company is subject to the Companies Income Tax Act (CITA) and Tertiary Education Trust Fund (Establishment Act 2011). Total amount of tax payable under CITA is determined based on the higher of two components namely Companies Income Tax (based on taxable income (or loss)) for the year; and Minimum tax (determined based on the sum of the highest of 0.25% of revenue of ₦500,000, 0.5% of gross profit, 0.25% of paid up share capital and 0.5% of net assets; and 0.125% of revenue in excess of ₦500,000).

Taxes based on taxable profit for the period are treated as income tax in line with IAS 12; whereas Minimum tax which is based on a gross amount is outside the scope of IAS 12 and therefore not presented in the income tax expense line item in profit or loss.

Notes to the Financial Statements

Where the minimum tax charge is higher than the Companies Income Tax (CIT), a hybrid tax situation exists. In this situation, the CIT is recognized in the income tax expense line in profit or loss and the excess amount is presented above the income tax line as Minimum tax.

Tertiary education tax is assessed at 2% of assessable profit. Where there is an assessable loss, the Company would not be liable to Education tax.

ii Deferred tax

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. 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.

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.

(n) Share capital

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

(o) Statement cash flows

The statement of cash flows is prepared using the indirect method. Changes in statement of financial position items that have not resulted in cash flows such as fair value changes and other non-cash items, have been eliminated for the purpose of preparing the statement. Finance costs paid is also included in financing activities while finance income is included in investing activities.

(p) 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.

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.

Notes to the Financial Statements

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.

8 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early. These will be adopted in the period that they become mandatory unless otherwise indicated.

Effective for the financial year commencing 1 January 2017

- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for unrealised losses (Amendments to IAS 12)

Effective for the financial year commencing 1 January 2018

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers
- Classification and measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
- IFRS 22 Foreign currency transactions and advance consideration

Effective for the financial year commencing 1 January 2019

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Income Tax Treatments

Effective for the financial year commencing 1 January 2021

- IFRS 17 Insurance Contracts

Standard available for optional adoption

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

All Standards and Interpretations will be adopted at their effective date (except for those that are not applicable to the entity).

IFRS 17, amendments to IFRS 2, IFRS 4, IFRS 10 and IAS 28 are not applicable to the business of the entity and will therefore have no impact on future financial statements. The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

Notes to the Financial Statements

Amendments to IAS 7 Disclosure Initiative

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances arising from financing activities. The Company will adopt the amendments for the year ending 31 December 2017.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.

The Company is yet to carry-out an assessment to determine the impact that the initial application of this amendments to IAS 12 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2017.

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IFRS 9 Financial Instruments

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Company is yet to carry-out an assessment to determine the impact that the initial application of IFRS 9 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2018.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The Company is yet to carry-out an assessment to determine the impact that the initial application of IFRS 15 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2018.

Notes to the Financial Statements

IFRC 22 Foreign currency transactions and advance consideration

The amendment provides guidance on the transaction date to be used in determining the exchange rate for translation of foreign currency transactions involving an advance payment or receipt.

The amendment clarifies that the transaction date is the date on which the Company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. IFRIC 22 is effective 1 January 2018 with early adoption permitted.

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as operating leases or finance leases as required by IAS 17 and introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (b) depreciation of lease assets separately from interest on lease liabilities in profit or loss.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company is yet to carry out an assessment to determine the impact that the initial application of IFRS 16 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2019.

IFRIC 23 Uncertainty over Income Tax Treatments

These amendments provide clarity on the accounting for income tax treatments that have yet to be accepted by the tax authorities.

The amendments clarifies that the key test for determining the amounts to be recognised in the financial statements is whether it is probable that the tax authority will accept the chosen tax treatment; this could result in an increase in the tax liability or a recognition of an asset depending on the current practice. The Company will adopt the amendments for the year ending 31 December 2019.

Notes to the Financial Statements

9 Revenue

Revenue comprises:

	2016	2015
	N'000	N'000
Sale of electricity	55,777,670	50,897,173
Sale of electricity - CAPMI	388,700	35,898
Customer-granted assets (Note 15(f))	370,007	73,930
	56,536,377	51,007,001

10 Expenses by nature

Expenses by nature comprise:

	2016	2015
	N'000	N'000
(a) Cost of sales		
Cost of energy purchased from ONEM and NBET	38,846,731	33,328,014
Cost of energy purchased through bilateral agreements with third parties	7,842,904	-
Wheeling charge (Note 10 (e))	748,626	-
(Write back)/ write down of bad inventory items	(216,142)	265,463
Depreciation (Note 15 (a))	5,814,371	5,589,778
Imbalance deductions (Note 10 (d))	-	(882,065)
Total cost of sales	53,036,490	38,301,190
	2016	2015
	N'000	N'000
(b) Administrative expenses		
Depreciation (Note 15 (a))	227,538	197,221
Amortisation (Note 16)	32,509	11,935
Maintenance expenses	954,156	900,908
Consultancy fees (Note 10 (c))	5,299,044	3,342,021
Employee benefit expenses (Note 13(a))	4,930,899	5,179,621
Directors' remuneration (Note 13(d))	205,837	288,816
Auditor's remuneration	45,000	26,000
Bank charges	360,093	337,232
Staff training and welfare	106,134	57,912
Transport, travels and insurance	191,176	223,422
Rent and rates	107,430	53,170
Publicity and advertisement	122,474	75,618
Consumables	154,315	47,058
Write-off of property, plant and equipment (Note 15)	51,405	545
Impairment of trade receivables	9,671,472	4,749,621
Impairment of NELMCO receivables (Note 19(c))	459,035	-
Penalties	18,570	-
Office expenses	901,119	624,327
Total administrative expenses	23,838,206	16,115,427

Notes to the Financial Statements

(c) Consultancy fees

Included in consultancy fees are fees amounting to ₦4.67 billion (2015: ₦3.09 billion), which relate to a technical support services agreement between the Company and WPG Services Limited (WSL). Based on the agreement, the services covered include provision of local, top level and expatriate staff to enable the Company meet the performance standard in the Performance Agreement entered into with BPE (Note 26(b)) which were provided by WSL. The fee on the contract, increased from \$15 million per annum to \$22.5 million per annum during the year.

(d) Imbalance deductions

Imbalance deductions represent reductions which accrued to the Company for receiving less energy from the national grid than its MYTO 2 allocation of 11%. In prior years, due to energy generation and transmission grid inadequacy affecting the industry, energy made available into the grid has been allocated among all distribution companies on an easily understandable basis by NERC over a 5-year period from 2012 to 2016 financial year (EKEDP's energy allocation per MYTO is 11%). The MYTO also provides for a mechanism whereby in the event that a distribution company is unable to absorb its allocated energy, such energy will be allocated to other distribution companies. An order (Order No. NERC/139) dated 30 July 2015 was issued to amend the MYTO provisions of imbalance penalty/deductions. Hence, a company taking delivery of excess energy will no longer be penalized, while a company taking delivery of less energy will be compensated by the Transmission Service Provider if the inability to take such delivery is due to transmission constraints. On the other hand, if the inability to take delivery of allocated energy is due to constraints on its network, the distribution company will not be entitled to any compensation. However, subject to a NERC pronouncement, changes/deductions are no longer due from/to the Company with respect to taking excess/less energy from the national grid. Thus, imbalance deduction for the year is Nil (2015 : ₦882.07 million).

(e) Wheeling charge

During the year, the Company entered into separate bilateral agreements with Paras Energy and Egbin Power Plc for energy purchase. In order to obtain maximum benefit for energy supply from these companies, the Company signed a service level agreement with the Market Operator to provide priority services on designated feeders for energy received from these suppliers. The priority services are billed to the Company by the Market Operator as wheeling charge which amounted to ₦748.63 million (2015 : Nil) during the year.

11 Other income

	2016	2015
	₦'000	₦'000
Re-connection fee	145,019	110,383
Contractor registration fees	13,200	7,125
Service connection fee	209,923	37,922
Insurance compensation	4,602	712
Car park income	52,620	20,627
Discount received	105,000	-
	<u>530,364</u>	<u>176,769</u>

Notes to the Financial Statements

12 Finance income and cost

	2016 N'000	2015 N'000
Finance income		
Interest income on bank balances	18,108	127,484
Fair value gain on loans and borrowings	-	36,995
Total finance income	<u>18,108</u>	<u>164,479</u>
Finance cost		
Interest expense on loans and borrowings (Note 12(b))	1,291,633	959,233
Commitment fees on shareholder loan	899,312	-
Fair value loss on loans and borrowings	7,137	-
Net foreign exchange loss	2,975,157	1,426,908
Interest on shortfall remittance to electricity suppliers (Note 12 (a))	3,505,739	671,540
Total finance cost	<u>8,678,978</u>	<u>3,057,681</u>
Net finance cost	<u>(8,660,870)</u>	<u>(2,893,202)</u>

(a) Interest on shortfall remittance to electricity suppliers

This represents interest arising from the Company's default with respect to amounts due on the Market Operator's (NBET and ONEM) invoices and PARAS energy invoices during the year. In line with the Transitional Electricity Market Rule, the Company is required to remit 100% of the Nigeria Bulk Electricity Trading Company Plc (NBET) and Operator of Nigeria Electricity Market (ONEM) monthly bills from 1 February 2015. The shortfall on baseline remittance attracts interest at NIBOR plus 10%. Also, in line with the agreement between the Company and PARAS energy which commenced during the year, any default in payment of any amount due shall bear interest at NIBOR plus 1.5%. The interest on amounts due still remained unpaid as at the year end and forms part of amounts due to the Market Operator and PARAS energy in trade and other payables.

- (b) Included in interest expense is a credit amount of ₦205.19 million (2015 : ₦150.39 million) representing the impact of current year amortisation of day-one fair value gain on CBN loan into profit or loss (Note 24(d)).

13 Employee benefit expense and director's remuneration

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

	2016 N'000	2015 N'000
Salaries	4,506,615	4,745,624
Pension costs	424,284	433,997
	<u>4,930,899</u>	<u>5,179,621</u>

- (b) The average number of full time persons employed by the Company during the year was as follows:

	2016 Number	2015 Number
Finance	191	189
Admin	243	241
Operations	1,452	1,449
	<u>1,886</u>	<u>1,879</u>

Notes to the Financial Statements

- (c) Employees of the Company, other than directors, whose duties were wholly or mainly discharged in Nigeria received remuneration (excluding pension costs and certain benefits) in the following ranges:

		2016	2015
		Number	Number
Below	-	349	373
₦1,000,001	-	667	625
₦2,000,001	-	552	460
₦3,000,001	-	120	235
₦4,000,001	-	87	64
Above	-	111	122
		1,886	1,879

- (d) Directors' remuneration
Directors' remuneration paid during the year includes:

	2016	2015
	₦'000	₦'000
Fees as directors	12,500	12,500
Other emoluments	193,337	276,316
	205,837	288,816

The directors' remuneration shown above includes:

	2016	2015
	₦'000	₦'000
Chairman and highest paid director	64,185	66,161

The other directors received remuneration in the following ranges:

	2016	2015
	Number	Number
Below	5	1
₦40,000,001	-	4
₦50,000,001	1	1
	6	6

14 Taxation

- (a) The Company has applied the provisions of the Companies Income Tax Act that mandates a minimum tax assessment, where an qualifying taxpayer does not have taxable profit which would generate an eventual tax liability when assessed to tax. The Company's assessment based on the minimum tax legislation for the year ended 31 December 2016 is ₦193.89 million (2015: ₦331.94 million).
- (b) The Company is subject to tax under the Companies Income Tax Act as amended to date. Companies Income Tax was not charged during the year as the Company did not have taxable profit for the year ended 31 December 2016 (2015: Nil). Also, Tertiary Education Tax was not charged during the year as the Company did not have assessable profit for the year ended 31 December 2016 (2015: ₦119.38 million).

No deferred tax has been recorded on loss incurred to date by the Company because of the uncertainties around the recoverability of the losses (Note 14(e)).

Notes to the Financial Statements

(c) Reconciliation of effective tax rates

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

		2016		2015
		N'000		N'000
Loss before minimum tax and income tax		(28,468,825)		(6,126,049)
Income tax using the statutory tax rate	32%	(9,110,024)	30%	(1,837,815)
Effect of:				
Tertiary education tax	0%	-	(2%)	119,383
Movement in unrecognized deferred tax assets	(31%)	8,938,043	(26%)	1,622,285
Tax incentives	0%	(93,870)	1%	(75,094)
Non-deductible expenses*	(1%)	419,913	(5%)	290,624
Impact of TET rates on prior year deductible differences	1%	(154,062)	0%	-
Total income tax expense	0%	-	(2%)	119,383

* Included in Non-deductible expenses is the effect of TET rate on depreciation expenses (2%*N6.04 billion)

(d) Movement in current tax liability

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Balance at 1 January	1,298,085	846,759
Minimum tax (Note 14(a))	193,895	331,943
Tertiary education tax (Note 14(b))	-	119,383
Payments for the year	(62,610)	-
Balance at end of year	<u>1,429,370</u>	<u>1,298,085</u>

(e) Unrecognised deferred tax assets

Due to unpredictability of availability of sufficient future taxable profits, deferred tax assets have not been recognised in respect of the following items:

	2016	2015
	N'000	N'000
Deductible temporary differences (will never expire)	28,674,129	22,564,420
Tax losses (will never expire)	4,960,808	2,132,475
	<u>33,634,937</u>	<u>24,696,895</u>

Notes to the Financial Statements

15 Property, plant and equipment

The movement in property, plant and equipment was as follows:

	Land and buildings	Distribution network assets	Equipment fixtures & fittings	Motor vehicles	Capital work in progress	Total
	N'000	N'000	N'000	N'000	N'000	N'000
Cost						
Balance at 1 January 2015	480,690	121,798,445	587,571	1,252,860	256,085	124,375,651
Additions	-	2,402,710	157,611	190,835	187,316	2,938,472
Transfers	-	100,437	18,476	-	(118,913)	-
Write-offs	-	-	-	-	(545)	(545)
Balance at 31 December 2015	480,690	124,301,592	763,658	1,443,695	323,943	127,313,578
Balance at 1 January 2016	480,690	124,301,592	763,658	1,443,695	323,943	127,313,578
Additions	100,245	3,040,066	111,088	51,450	1,327,277	4,630,126
Transfers	-	88,946	-	-	(88,946)	-
Write-offs	-	-	-	-	(51,405)	(51,405)
Balance at 31 December 2016	580,935	127,430,604	874,746	1,495,145	1,510,869	131,892,299
Depreciation						
Balance at 1 January 2015	66,349	65,261,374	421,841	970,333	-	66,719,897
Charge for the year	10,721	5,589,778	67,136	119,364	-	5,786,999
Balance at 31 December 2015	77,070	70,851,152	488,977	1,089,697	-	72,506,896
Balance at 1 January 2016	77,070	70,851,152	488,977	1,089,697	-	72,506,896
Charge for the year	11,054	5,814,371	94,638	121,846	-	6,041,909
Write-offs	-	-	-	-	-	-
Balance at 31 December 2016	88,123	76,665,523	583,615	1,211,543	-	78,548,805
Carrying amounts						
At 31 December 2015	403,620	53,450,440	274,681	353,998	323,943	54,806,682
At 31 December 2016	492,812	50,765,081	291,131	283,602	1,510,869	53,343,494

Notes to the Financial Statements

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

	2016	2015
	N'000	N'000
Cost of sales	5,814,371	5,589,778
General and administrative expenses	227,538	197,221
	6,041,909	5,786,999

- (b) The fixed and floating assets of the Company are held as security for the related party loan obtained during the year (Note 22(b)).
- (c) The Company had capital commitments amounting to ₦8.6 billion (2015: ₦4.01 billion) as at year end.
- (d) Capital work in progress represents on going construction works on substations handled by third party vendors not yet completed as at year end.
- (e) Included in additions to network distribution assets are the director's best estimate of the cost of National Integrated Power Project (NIPP) and Project Management Unit (PMU) assets transferred to the Company during the year. The directors have estimated the fair value of these assets as ₦585.96 million at initial recognition. The directors are yet to reach a final settlement for these assets with the manufacturers as at the date of approval of these financial statements.
- (f) **Customer-granted assets**
These are distribution network assets granted to the Company by its customers. The fair value of these assets was estimated at ₦370.01 million (2015: ₦73.93) by the directors based on observable prices of similar items purchased during the year (level 2). This has been recognised as revenue (Note 9).

- (g) Reconciliation of additions to property, plant and equipment in statement of cashflows

	2016	2015
	N'000	N'000
Additions to property, plant and equipment	4,630,126	2,938,472
Recognition of NIPP and PMU assets	(585,961)	(713,264)
Customer-granted assets	(370,007)	(73,930)
Acquisition of property, plant and equipment for cashflows	3,674,158	2,151,278

The amounts relating to NIPP and PMU assets are included in other payables and have been adjusted for in the statement of cashflows.

Notes to the financial statements

Intangible assets

Intangible assets relate to the Company's accounting, billing and internal audit software application packages. The movement on these accounts during the year was as follows:

	Computer software	Intangible assets in progress	Total
	N'000	N'000	N'000
Cost			
Balance at 1 January 2015	42,716	39,900	82,616
Additions during the year	77,532	6,653	84,185
Balance at 31 December 2015	120,248	46,553	166,801
Balance at 1 January 2016	120,248	46,553	166,801
Additions during the year	46,094	-	46,094
Transfers	46,553	(46,553)	-
Balance at 31 December 2016	212,895	-	212,895
Amortisation			
Balance at 1 January 2015	12,103	-	12,103
Charge for the year	11,935	-	11,935
Balance at 31 December 2015	24,038	-	24,038
Balance at 1 January 2016	24,038	-	24,038
Charge for the year	32,509	-	32,509
Balance at 31 December 2016	56,547	-	56,547
Carrying amounts:			
At 31 December 2015	96,210	46,553	142,763
At 31 December 2016	156,348	-	156,348

Inventories

Inventories comprise:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Consumable spare parts	1,237,177	1,151,561
Other consumables	13,348	22,468
	1,250,525	1,174,029

Notes to the financial statements

- (a) Inventories recognised as expense include consumable spare parts and other consumables used in maintenance during the year. They are included as part of maintenance expenses under administrative expenses and amounted to ₦524.76 million (2015: ₦246.93 million).

In 2015, the Company wrote down inventories to their net realisable value amounting to ₦265.46 million. During the year, ₦216.14 million of the write-down was reversed.

The fixed and floating assets of the Company are held as security for the related party loan obtained during the year (Note 22(b)).

- (b) Reconciliation of changes in inventories to statement of cashflows is as follows:

	2016	2015
	₦'000	₦'000
Changes in inventories	(76,496)	(646,637)
Write-back/ (write-down) of bad inventory items	216,142	(265,463)
	<u>139,646</u>	<u>(912,100)</u>

18 Prepayments

Prepayments comprise:

	31 Dec 2016	31 Dec 2015
	₦'000	₦'000
Rents	33,108	65,105
Prepaid transaction cost on loan (Note 18 (a))	-	1,071,609
	<u>33,108</u>	<u>1,136,714</u>

- (a) Amount represents transaction costs paid in advance relating to the portion of loan issued by West Power and Gas Ltd (WPG) to the Company which was yet to be drawn as at year end (Note 22 (b)). The directors do not expect to make any further drawdowns, hence 100% of the unamortised portion amounting to ₦899.31 million (2015 : Nil) was recorded as part of finance costs in the current year.

- (b) Reconciliation of changes in prepayments to statement of cashflows is as follows:

	2016	2015
	₦'000	₦'000
Changes in prepayments	1,103,606	37,134
Write-off of prepaid transaction costs	(899,312)	-
	<u>204,294</u>	<u>37,134</u>

19 Trade and other receivables

Trade and other receivables comprise:

	31 Dec 2016	31 Dec 2015
	₦'000	₦'000
Trade receivables	20,100,184	17,468,260
Accrued receivables (Note 19(a))	3,156,370	3,308,251
Advance payments to contractors (Note 19(b))	3,683,691	4,402,861
Other receivables (Note 19(c))	152,250	575,932
Other deposits (Note 19(d))	1	1
	<u>27,092,496</u>	<u>25,755,305</u>

Notes to the financial statements

- (a) Included in accrued receivables are unbilled receivables, which are derived by using a consumption factor based on billings for the year multiplied by the number of outstanding days till the period end from the last billing date.
- (b) Advance payments to contractors represent amounts advanced for the acquisition of property, plant and equipment, which were yet to be delivered as at year end.
- (c) Included in other receivables is a commission receivable of Nil (2015: ₦459.04 million) from NELMCO on account of collections of legacy debts in line with the Deed of Assignment of Pre-Completion Receivables. In the opinion of the directors, the likelihood of recovery is remote and as such an impairment loss of ₦459.04 million was recorded in current year (see Note 28 (a)).

As part of the Deed of Assignment of Pre-completion Receivables signed between the Company and NELMCO, the Company earns a commission of 20% of any legacy trade receivables as at 31 October 2013 which it collects.

- (d) Other deposits relate to the balance in two (2) escrow accounts opened with a commercial bank. The accounts are maintained solely as a guarantee for payments to two vendors operating the Credit Advanced Payment for Metering Implementation (CAPMI) scheme with the Company.
- (e) Reconciliation of changes in trade and other receivables to statement of cashflows is as follows:

	<u>2016</u>	<u>2015</u>
	₦'000	₦'000
Changes in trade and other receivables	(1,337,191)	(14,844,673)
Impairment loss on trade receivables	(9,671,472)	(4,749,621)
Impairment loss on NELMCO receivables	(459,035)	-
	<u>(11,467,698)</u>	<u>(19,594,294)</u>

Information about the Company's exposure to credit and market risks and impairment losses for trade receivables is included in Note 28.

20 Cash and cash equivalents

Cash and cash equivalents comprise

	<u>31 Dec 2016</u>	<u>31 Dec 2015</u>
	₦'000	₦'000
Bank balances	5,709,527	5,534,743
Cash on hand	29,660	3,080
	<u>5,739,187</u>	<u>5,537,823</u>

- (a) Included in cash and cash equivalents is an amount of ₦1.62 billion (2015: ₦56.93 million) held as security for making repayments due on the CBN- NEMSF Intervention Fund (Note 22 (c)).

Notes to the financial statements

21 Capital and reserves

(a) Share capital comprise:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
<i>Authorized:</i>		
10,000,000 ordinary shares of 50k each	5,000	5,000
<i>Issued, called-up and fully paid:</i>		
10,000,000 ordinary shares of 50k each	5,000	5,000

(b) The movement on the share capital during the year was as follows:

<i>In thousands of shares</i>	31 Dec 2016	31 Dec 2015
In issue at 1 January	10,000	10,000
Share issue	-	-
In issue at 31 December - fully paid	10,000	10,000

Ordinary Shares

All shares rank equally with regard to the Company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at the general meetings of the Company.

22 Loans and borrowings

Loans and borrowings comprise:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Non-current liabilities		
Loans from customers - CAPMI (Note 22 (a))	1,990,344	408,416
Loans from CBN - NEMSF Intervention Fund (Note 22 (c))	3,401,552	2,538,911
Loans from commercial bank (Note 22 (d))	75,502	-
	5,467,398	2,947,327
Current liabilities		
Loans from customers (Note 22 (a))	412,003	1,587,429
Loans from related parties (Note 22 (b))	6,012,865	4,302,997
Loans from CBN - NEMSF Intervention Fund (Note 22 (c))	167,240	976,568
Loans from commercial bank (Note 22 (d))	449,836	-
	7,041,944	6,866,994
Total	12,509,342	9,814,321

Notes to the financial statements

(a) Customer loan (CAPMI)

In a bid to bridge metering gap and reduce estimated billings, NERC issued the Credit Advanced Payment for Metering Implementation (CAPMI) scheme. This scheme allowed willing customers to advance funds to the distribution companies for meter procurement and installation. The tenor for the individual loans vary from 12 months to 36 months at an interest rate of 12% per annum. The loans were to be repaid through monthly deductions from the fixed charge component of energy billings to customers.

During the year, NERC issued an order dated 16 August 2016 discontinuing the CAPMI scheme. Thus, subsequent to this date, no further payments were received from customers with respect to this scheme.

Cost of installation and other accessories not yet installed as at year end was ₦167.69 million (2015: ₦19.84 million) and is recorded as deferred income (Note 24).

Interest expense for the year amounted to ₦78.85 million (2015: ₦88.97 million).

(b) Loan from related party - West Power and Gas Ltd

Under the terms and conditions of the loan agreement between the Company and West Power and Gas Ltd, its parent company, the Company has access to a total amount of \$145 million to finance working capital and capital expenditure requirements. The line available for working capital requirements is \$20 million while \$125 million is available to be drawn for capital expenditure requirements. The loan is to disbursed in Naira and US Dollar in a ratio of 30:70.

The loan is secured on an all asset debenture charge over fixed and floating assets of the Company as well as all cash flows and revenues accruing to the Company from all electricity distributed to end users and off-takers. The loan amount is available through a facility obtained by West Power and Gas Ltd from a commercial bank.

The commercial bank also has an all asset debenture charge over the fixed and floating assets of the Company as well as a charge on the Company's cash flows.

The working capital and capital expenditure loans are repayable after a moratorium of 6 months and 1 year respectively from drawdown date. Interest is repayable monthly during the respective moratorium periods. Interest is payable at 19% per annum for Naira drawdowns and LIBOR plus margin of 8.5% per annum, subject to a floor of 11% per annum for US Dollar drawdowns.

No amount was drawn down on the loan during the year (2015: \$9.46 million). Interest expense for the year amounted to \$1,066,750 (₦380.39 million) (2015: \$1,533,117 (₦360.79 million)).

(c) CBN - NEMSF Intervention Fund

The Central Bank of Nigeria commenced disbursement to market participants who have met the condition precedent to the disbursement of the CBN-Nigerian Electricity Market Stabilization Facility ("CBN-NEMSF") in 2015. The NEMSF, also known as the CBN Intervention fund, amounting to ₦213 billion, is aimed at settling the outstanding payment obligations due to the market participants during the Interim Rules Period ("IRP Debts") as well as the legacy gas debt of the PHCN generation companies owed to gas suppliers ("Legacy Gas Debt") which has been transferred to the Nigerian Electricity Liability Management Company Limited by Guarantee ("NELMCO"). The loans are repayable over a 10-year period, with a 1 year moratorium on the principal repayment beginning from the date of first disbursement. Interest is payable on outstanding loan balances at an interest rate of 10%.

Interest expense for the year amounted to ₦1.02 billion (2015: ₦0.59 billion).

Notes to the financial statements

(d) Loan from Commercial Bank

On 20 September 2016, the Company obtained two facilities from a local commercial bank. The first facility is a loan of ₦300 million to finance the payment for the supply and installation of smart meters. The tenor of this facility is 12 months. Monthly repayments include both principal and interest with no moratorium at an interest rate of 21% per annum. Interest expense for the year amounted to ₦10.10 million (2015 : Nil).

The second facility is a loan of ₦300 million to finance the payment for the supply and installation of transformers. The tenor of this facility is 18 months. Monthly repayments include both principal and interest with no moratorium at an interest rate of 21% per annum. Interest expense for the year amounted to ₦10.25 million (2015 : Nil).

An amount equivalent to one (1) month instalmental payment has been placed under lien with the bank for the duration of both facilities and disclosed as other receivables in these financial statements.

(e) Breach of loan covenants

The terms and conditions of the loan agreement between the Company and West Power and Gas Ltd contain certain financial covenants, which include:

(i) Senior debt service coverage of atleast 1.2: Senior debt service coverage is defined as EBITDA achieved for a financial year divided by the aggregate of the borrower's principal repayments for all its outstanding senior loans plus interest payments falling due in the following financial year, where senior loans are all long-term loans with an initial maturity of more than one year.

(ii) Interest coverage of atleast 3.0: Interest coverage is defined as EBITDA divided by interest expense for the year.

(iii) Debt to equity ratio of 70:30. Debt to equity ratio is defined as total liabilities divided by total equity.

The Company was not in compliance with all the covenant ratios as specified in the loan agreement. The loan balance and any interest due becomes payable on demand in an event of a breach of the loan covenant. Thus, the carrying amount of the loan as at year end is classified as current in these financial statements.

(f) The movement on the loan balances during the year was as follows:

	2016	2015
	₦'000	₦'000
Balance at 1 January	9,814,321	2,050,237
Proceeds from drawdowns	1,309,511	7,690,243
Loan repayment	(2,141,392)	(167,219)
Interest paid	(953,416)	(477,401)
Interest expense	1,496,819	959,233
Day-one fair value gain on initial recognition of loan	-	(1,693,927)
Day-one fair value loss on initial recognition of loan	7,137	-
Exchange difference	2,976,362	1,453,155
Balance at 31 December	12,509,342	9,814,321

Notes to the financial statements

23 Trade and other payables

Trade and other payables comprise:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Trade payables (Note 23(a))	30,319,040	10,190,539
Employee related liabilities	90	3,741
Payable to NELMCO (Note 23(b))	1,138,931	1,138,931
Statutory liabilities (Note 23(c))	6,879,927	4,554,219
Accruals	8,253,410	5,009,411
Other payables	105,628	96,309
	46,697,026	20,993,150

(a) Trade payables is analysed into:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Trade payables to ONEM	3,790,958	2,389,284
Trade payables to NBET	23,370,674	7,433,893
Trade payables to Egbin Power Plc	1,588,741	-
Trade payables to PARAS energy	845,098	-
Trade payables to other suppliers	723,569	367,362
	30,319,040	10,190,539

(b) This represents amount due to NELMCO with respect to cash collections received from customers in respect of the legacy debts which had been transferred to NELMCO in line with the deed of assignment of pre-completion receivables. Per the deed, these collections by the Company should be remitted to NELMCO.

(c) This represents statutory deductions which are mandated by law or statute. They include Value Added Tax (VAT), Withholding Tax (WHT) and Pay As You Earn (PAYE) liabilities.

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

	2016	2015
	N'000	N'000
Changes in trade and other payables	25,703,876	12,012,382
Interest accrued on baseline remittance shortfall on market operator's bill	(3,505,739)	(671,540)
NIPP/PMU assets recognised during the year	(585,961)	(713,264)
	21,612,176	10,627,578

Notes to the financial statements

24 Deferred revenue

Deferred revenue comprises:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Advance collections from prepaid customers (Note 24(a))	364,222	1,112,509
Deferred income on CAPMI scheme (see Note 22(a))	167,689	19,836
Day-one fair value gain on CBN loan (Note 24(c))	1,451,745	1,656,931
	1,983,656	2,789,276

- (a) This represents advance collections from prepaid customers. This is derived by calculating an energy consumption factor for each customer based on energy unit purchases during the year and using this on a prorata basis to estimate quantity of the last units of energy purchased by the customer that should be deferred.

- (b) Deferred income is analysed into:

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Current portion	741,179	1,334,435
Non current portion	1,242,477	1,454,841
	1,983,656	2,789,276

- (c) Day-one fair value gain on CBN loan relates to the benefits derived by the Company from the low interest loan received from the Central Bank of Nigeria (CBN) (Note 22 (c)). The gain is recognised as deferred income, and is being amortised together with the related loan using the effective interest rate method.

- (d) Reconciliation of changes in deferred revenue to the statement of cashflows is as follows:

	2016	2015
	N'000	N'000
Changes in deferred revenue	(805,620)	2,500,130
Day-one fair value gain released to profit or loss (Note 12(b))	205,186	150,398
Day-one fair value gain	-	(1,807,330)
	(600,434)	843,198

25 Provisions

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Balance at 1 January (Note 25(a))	10,247	10,247
Provisions made during the year	-	-
Balance at 31 December	10,247	10,247

- (a) Based on the understanding of the Directors on the terms of the Share Sale Agreement (SSA), the Company took the position that the cash at 1 November 2013, belonged to the Company. However, based on correspondence with NERC and NELMCO and industry trend, the Directors have assessed that the Company may have to pay NELMCO the cash at 1 November 2013 and as such, the Directors have opted to record their estimate of the potential cash out flow with respect to this as a payable to NELMCO.

Notes to the financial statements

The amount is derived after adjusting the cash balance as at 31 October 2013 for balances held in mareva bank accounts (as the Company has no access to the mareva bank accounts) as well as certain payments made to the Market Operator in November 2013 on pre-completion liabilities already transferred to NELMCO. The total balance in the mareva accounts has been accounted for directly in equity together with other balances as at 31 October 2013 in line with the applicable Deeds of Assignment of pre-completion receivables/liabilities in prior year.

Based on communication with NERC, the cash balances were due to be remitted to NELMCO on 27 November 2014. As a result, the provision is classified as current in the statement of financial position.

26 Related party transactions

(a) Parent and Ultimate Controlling party

Effective 1 November 2013, a majority of the Company's shares was acquired by West Power and Gas Ltd from BPE and MOFI. Consequently, the Company's parent is West Power and Gas Ltd. The ultimate controlling party of the Company is WPG international Limited, a Company incorporated in Mauritius.

Notes 22 (b) and 22 (e) detail transactions between the Company and its parent, West Power and Gas Limited.

(b) WPG Services Limited

In 2013, the Company entered into an operations, management and maintenance contract with WPG Services Limited for the provision of local, top level and expatriate staff to enable the Company meet the performance standards in the Performance Agreement entered into with BPE. During the year, expenses incurred by the Company with respect to services provided on this contract amounted to \$22.5 million (₦4.67 billion) (2015: \$15 million (₦3.09 billion)) (See Note 10(c)). No amount was due to WPG Services Limited as at year end (2015: ₦341.77 million).

(c) Other related party transactions

During the year, the Company had transactions with:

(i) Alpha Consortium Limited

Alpha Consortium Limited (ACL) is related to the Company through a Director; Ernest Oji who exercises significant influence over both the Company and Alpha Consortium Limited. ACL provided installation and maintenance services and also supplied electrical equipment to the Company during the year.

The total charge to profit or loss on transactions with ACL during the year was ₦10.94 million (2015: ₦39.73 million). No amount was due to ACL as at year end (2015: Nil).

Notes to the financial statements

(ii) *George Etomi & Partners Legal Practitioners*

George Etomi & Partners Legal Practitioners is related to the Company through a Director; George Etomi who exercises significant influence over both the Company and George Etomi & Partners Legal Practitioners. George Etomi & Partners provided legal services to the Company during the year. Also, during the year, the board of directors approved the secondment of some staff of George Etomi & Partners to the Legal department of the Company to assist the department in discharging its functions. The total expenses incurred during the year with respect to the services provided by George Etomi & Partners was ₦32.85 million (2015: ₦17.85 million). No amount was due to George Etomi & Partners as at year end (2015: Nil).

(iii) *Deux Projects Limited*

Deux Projects Limited is related to the Company through a Director; Dr. Tunji Olowolafe who exercises significant influence over both the Company and Deux Projects Limited. Deux Projects Limited (DPL) is the contractor in charge of the on-going Supervisory Control and Data Acquisition (SCADA) project embarked on by the Company. In prior year, the Company made an advance payment worth ₦2.78 billion. The total cost incurred during the year with respect to the services provided by DPL was ₦5.11 million (2015: ₦70 million). Amount due from Deux Projects Limited as at year end was ₦2.74 billion (2015: ₦2.7 billion).

(iv) *CFL Swift Technology*

CFL Swift Technology is related to the Company through Charles Momoh, a Director of the Company whose brother is Frank Momoh, the Managing Director of CFL Swift Technology. CFL Swift Tech (CST) provided IT supplies to the Company during the year. The total expenses incurred during the year with respect to the services provided by CST was ₦24.07 million (2015: ₦103.57 million). No amount was due to CFL Swift Technology as at year end (2015: Nil).

(v) *Senforce Insurance Brokers Limited (SIBL)*

Senforce Insurance Brokers Limited is related to the Company through a Director; Dere Otubu who exercises significant influence over both the Company and Senforce Insurance Brokers Limited. Senforce Insurance Brokers Limited (SIBL) provided insurance services to the Company during the year. The total expenses incurred during the year with respect to the services provided by SIBL was ₦79.36 million (2015: ₦52.26 million). No amount was due to SIBL as at year end (2015: Nil).

(vi) **Transactions with key management personnel**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. These are the directors and employees of the Company from Principal Manager up to the Managing Director.

Key management personnel compensation comprised:

	31 Dec 2016	31 Dec 2015
	₦'000	₦'000
Short-term benefits	330,832	292,858

Other transactions with key management personnel are disclosed in notes 26(c)(i) to 26(c)(v)

Notes to the financial statements

27 Contingent liabilities and Guarantees

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

As part of the privatisation completion, the Company through the Bureau of Public Enterprises signed a deed of assignment of pre-completion receivables and liabilities with the Nigerian Electricity Management Company Limited (NELMCO) effective 31 October 2013. The Company and NELMCO are yet to agree on the individual trade debtors and liabilities transferred as at 1 November 2013. The Directors, based on independent legal advice obtained as well as their understanding of the Share Purchase Agreement between West Power and Gas Ltd, BPE and the Ministry of Finance Incorporated are of the opinion that all liabilities (crystallised or contingent) as at 31 October 2013 have been effectively transferred. The Company does not have an estimate of those debtors and liabilities since in its view this is the responsibility of NELMCO. The Company believes that it will neither realise those receivables nor settle any liabilities existing as at 31 October 2013 and as such, no recognition of provision is required other than that shown in Note 25.

If in the process of agreeing the individual trade debtors and liabilities, certain items are identified and agreed to be borne by the Company, the amounts would be recorded in the period they are identified.

(b) Litigations and claims

The Company is involved in certain litigations and claims (separate from those taken over by NELMCO). Maximum exposure based on the damages being claimed by the litigants amounts to ₦202 million (2015: ₦5.32 million). Based on management's assessment supported by the views of the respective solicitors handling the cases on behalf of the Company, the Directors believe the risk of material loss to the Company is remote and as such no provisions have been recorded in these financial statements.

(c) Guarantees

The Company has obtained bank guarantees amounting to ₦9.25 billion (2015: ₦9.25 billion) in favour of Nigeria Bulk Electricity Trading Company Plc (NBET) and Operator of Nigeria Electricity Market (ONEM). This is to guarantee payment to NBET for 90 days power purchase and also to ONEM for provision of services. The directors do not expect any significant loss to arise from these guarantees.

(d) Ongoing tax audit

The Lagos Inland Revenue Service (LIRS) and Federal Inland Revenue Service (FIRS) conducted an audit exercise on the tax and accounting records of the Company in relation to 2013 to 2016 tax year. Following this exercise, the FIRS and LIRS subsequently issued a demand notice amounting to ₦4.37 billion for tax liabilities on Personal Income Tax, Withholding Tax, Value added tax and Companies Income Tax. The directors have challenged the claims and LIRS is yet to either withdraw its report or issue a revised assessment on the Company. The directors do not expect that the revised LIRS assessment, when received, will have a material effect on the Company's financial position.

Notes to the financial statements

28 Financial risk management

Financial risk management overview

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 internal audit 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.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and government related entities.

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

	Note	2016 N'000	2015 N'000
Trade and other receivables*	19	23,408,805	21,352,444
Cash and cash equivalents**	20	5,709,527	5,534,743
		<u>29,118,332</u>	<u>26,887,187</u>

*The carrying amount of Trade and other receivables excludes advance payments to contractors.

**The carrying amount of cash and cash equivalents excludes amounts held as petty cash.

Trade receivables

The Company has a large customer base within its licensed area of supply. To further mitigate credit risk, the Company is continually increasing the share of prepaid customers in its portfolio. The Company's exposure to credit risk is influenced by the individual characteristics of each customer.

In monitoring credit risk, customers are grouped according to their credit characteristics, including whether they are maximum demand or non-maximum demand customers, and whether they are private individuals/companies, government institutions or military establishments. No security is provided for the electricity supplied though the Company retains the right to disconnect non-paying customers to enforce collections.

Notes to the financial statements

At 31 December 2016, the ageing of trade receivables that were not impaired was as follows;

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Neither past due not impaired	10,736,326	13,550,918
1 month past due	3,950,600	684,513
2 months past due	1,565,767	406,548
3 months past due	787,638	257,064
4 months past due	655,539	344,201
5 months past due	354,574	117,198
6 months past due	145,095	74,924
7 months past due	120,250	146,756
Past due 8 months and above	1,784,396	1,886,137
	<u>20,100,184</u>	<u>17,468,260</u>

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

	31 Dec 2016	31 Dec 2015
	N'000	N'000
Balance as at 1 January	8,574,835	3,825,214
Impairment loss recognised	9,671,472	4,749,621
Write-offs	(8,207,905)	-
Balance as at 31 December	<u>10,038,402</u>	<u>8,574,835</u>

Management monitors the Company's trade receivables for indicators of impairment. During the year, ₦8.21 billion was written off as bad debt (2015: Nil).

The Company has strategies to minimize credit losses going forward as follows:

- Continued investment in prepaid meters and conversion of more post paid customers to the prepaid platform;
- More efficient internal processes e.g timely billings and delivery of bills, system automation of billings and collections, system of issuing letters of demand and notices to non-paying customers;
- Aggressive disconnections; and
- Setting KPIs for employees to drive debt collections.

Other receivables

Other receivables include staff debtors and sundry receivables. The Company reviews the balances due from this category on a periodic basis taking into consideration factors such as continued business/employment relationship and ability to offset amounts against transactions due to the parties. Where such does not exist, the amounts are impaired. During the year, commission receivable amounting to ₦459.04 million was impaired (2015: Nil). In the opinion of the directors, the recoverability of this amount is highly unlikely, hence, an impairment was recorded in current year (see Note 19 (c)).

Notes to the financial statements

Cash and cash equivalents

The Company held cash and cash equivalents of ₦5.70 billion as at 31 December 2016 (2015: ₦5.53 billion). The cash and cash equivalents are held with Nigerian banks.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Management's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses after making payments for monthly bills with respect to energy purchases. In order to manage liquidity risks, the Company is doing the following:

- Intensifying efforts to collect trade receivables
- In addition, the Company expects to receive ₦4.59 billion from the Ministerial Departments and Agencies (MDAs).

Notes to the financial statements

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

	Notes	Contractual cash flows				
		Carrying amount	Total	0 to 6 months	6 - 12 months	1 - 2 years
		N'000	N'000	N'000	N'000	N'000
Non-derivative financial liabilities						
31 December 2015						
Loans and borrowings	22	9,814,321	14,659,253	2,835,826	1,450,752	2,654,661
Trade and other payables*	23	16,438,931	16,438,931	16,438,931	-	-
		26,253,252	31,098,184	19,274,757	1,450,752	2,654,661
31 December 2016						
Loans and borrowings	22	12,509,342	17,092,878	7,180,042	825,396	1,128,899
Trade and other payables*	23	39,817,099	39,817,099	39,817,099	-	-
		52,326,441	56,909,977	46,997,141	825,396	1,128,899

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

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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 is exposed to currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Company, the Nigerian Naira (NGN). The currency in which these transactions primarily are denominated is the US Dollar (USD). 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 longer term, permanent changes in exchange rates would have an impact on profit. The Company monitors the movement in the currency rates on an ongoing basis.

Notes to the financial statements

Exposure to currency risk

The Company's main exposure to currency risks arose from foreign currency denominated balances as follows:

<i>in thousands of</i>	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Financial assets		
Cash and cash equivalents	97	129
Financial liability		
Loans and borrowings	(12,155)	(15,477)
Trade and other payables	-	(1,234)
Net statement of financial position exposure	(12,058)	(16,582)

Sensitivity analysis

A reasonable possible strengthening (weakening) of the Naira, as indicated below against the US Dollar at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period and has no impact on equity. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Increase/(decrease) in profit or loss	
	₦'000	₦'000
31 December 2016		
USD (20 percent strengthening/(weakening))	1,181,684	(1,181,684)
31 December 2015		
USD (20 percent strengthening/(weakening))	918,627	(918,627)

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
	₦	₦	₦	₦
USD	390.00	235.33	490.00	277.00

This is the rate at which the Company sourced foreign exchange from its approved vendor during the year.

Notes to the financial statements

(d) Fair values

Fair values versus carrying amounts

The carrying amounts of the Company's financial instruments are shown in the statement of financial position. This consists of financial assets and financial liabilities not measured at fair value. The analysis below does not include fair value information for short-term financial instruments (trade and other receivables, cash and cash equivalents and trade and other payables) as their carrying amount is a reasonable approximation of their fair values. The analysis below is only for long term financial instruments.

The fair value of the Company's long-term financial instruments are compared with their carrying amounts as follows:

		Other financial liabilities	
31 December 2016	Note	Carrying amount	Fair value
		₦'000	₦'000
Loans and borrowings	22	12,509,342	3,826,094
		12,509,342	3,826,094

		Other financial liabilities	
31 December 2015		Carrying amount	Fair value
		₦'000	₦'000
Loans and borrowings	22	9,814,321	4,058,510
		9,814,321	4,058,510

29 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, which the Company defines as result from operating activities divided by total shareholders' equity.

The Company monitors capital using a ratio of adjusted net debt to equity. For this purpose, adjusted net debt is defined as total liabilities less cash and cash equivalents. Equity comprises all components of equity. The Company's adjusted net debt to equity ratio was as follows:

	31 Dec 2016	31 Dec 2015
	₦'000	₦'000
Total liabilities	62,629,641	34,905,079
Less: Cash and cash equivalents	(5,739,187)	(5,537,823)
Adjusted net debt	56,890,454	29,367,256
Total equity	24,985,517	53,648,237
Net adjusted debt to equity ratio	2.28	0.55

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

30 Events after the reporting date

(a) Restructuring of the Working Capital Facility

Subsequent to the year end, the Company restructured the terms and condition of the outstanding working capital loan with West Power and Gas Limited. The tenor of the loan was extended by two (2) years effective 1 January 2017. Outstanding interests amounting to \$0.5 million together with principal of \$5.53 million were consolidated as one facility.

Notes to the financial statements

(b) *Suspension of embedded generation from Paras Energy*

Paras Energy notified the Company of its intention to suspend power supply effective 31 January 2017 till a cost reflective tariff is implemented and payments are fully structured in line with NERC approved parameters.

(c) *Approval of Power Sector Recovery Program*

Subsequent to year end, on 29 March 2017, the Federal Executive Council (FEC) approved the Power Sector Recovery Program. The Directors believe that this would have a positive impact on the industry and the Company's operations going forward.

Other than as disclosed above, there were no events after the reporting period which could have had a material effect on the state of affairs of the Company as at 31 December 2016 and on the loss for the year then ended which have not been adequately provided for or disclosed in the financial statements.

31 **Non-audit services provided by KPMG Professional Services**

During the year, KPMG Professional Services also provided advisory services to the Company amounting to ₦20.66 million (2015: ₦19.68 million).

32 **Prior year corresponding figures**

Corresponding figures of the following financial statement captions have been reclassified and, or restated to conform with current year presentation format:

	Note	2015 Audited financial statements ₦'000	Reclassifications ₦'000	Carrying amount after reclassification ₦'000
Statement of profit or loss and other comprehensive income				
Revenue	9	50,933,071	73,930	51,007,001
Other income	11	250,699	(73,930)	176,769
Cost of sales	10(a)	(38,301,131)	(59)	(38,301,190)
Administrative expenses	10(b)	(16,115,486)	59	(16,115,427)
		<u>(3,232,847)</u>	<u>-</u>	<u>(3,232,847)</u>
Statement of cash flows				
Non-cash adjustments (Customer-granted assets)		-	(73,930)	(73,930)
Acquisition of property, plant and equipment		(2,225,208)	73,930	(2,151,278)
		<u>(2,225,208)</u>	<u>-</u>	<u>(2,225,208)</u>

33 **Going concern**

The Company reported a loss after tax of ₦28.66 billion for the year ended 31 December 2016 (2015: ₦6.58 billion). Also as of that date, the Company's current liabilities exceeded its current assets by ₦21.80 billion (2015: Net current assets of ₦3.10 billion).

The Company had historically incurred losses due to the existing pricing regime which did not allow it recover all its costs through price increases. Despite the increase in cost of power during the year, the pricing regime remained the same.

As a result of the absence of a cost reflective tariff, the Company was unable to meet full payments on its market obligations (payables to NBET, ONEM, Egbin and Paras) amounting to ₦29.59 billion (2015: ₦9.82 billion). This includes accrued interest of ₦3.51 billion (2015: ₦0.67 billion) on the unpaid amounts.

The Company is also in default of the shareholder loan obtained from its parent company (West Power and Gas Ltd) in 2013 (Note 22(e)).

Notes to the financial statements

The current economic environment in Nigerian Electricity Supply Industry is challenging and the current depreciation of the Naira presents significant challenges to planned future investments required to expand and achieve required growth. The foregoing indicates the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern into the foreseeable future and therefore the Company may be unable to realise its assets and settle its liabilities in the normal course of business.

The directors have instituted various strategies as follows to enable the Company continue as a going concern:

- 1 ongoing discussions with the regulator, NERC, to either secure a Federal Government bailout to cover the electricity tariff shortfall estimated at N27.43 billion or approve a MYTO review to recover the estimated tariff shortfall;
- 2 ongoing discussions with the Ministries of Power and Finance to facilitate collection of receivables estimated at N7.21 billion due from Federal Government Ministerial Departments and Agencies (MDAs). As at the date of approval of these financial statements, N4.59 billion has been validated to be paid to the Company by the Advisory Power Team of the Office of the Vice President of the Federal Republic of Nigeria;
- 3 successful restructuring of the tenor on the Company's working capital facility from its majority shareholder, West Power and Gas Ltd (Note 22(b)), by an additional period of two (2) years from the reporting date subsequent to year end;
- 4 subordination of the amounts due to West Power and Gas Ltd on the shareholder loan facility (Note 22 (b)) in favor of other creditors of the Company;
- 5 ongoing discussion with NBET to revise previous energy billings in conformity with the energy tariffs provided in MYTO 2015. The directors believe that these discussions will result in a reduction of the outstanding amount
- 6 the mass metering of Maximum Demand (MD) customers aimed at billing efficiencies and collections;
- 7 working with the government specifically Central Bank of Nigeria to secure cheaper access to foreign exchange currency as well as move the pricing of electricity towards more cost reflective basis;
- 8 the completion phase of the Supervisory Control and Data Acquisition (SCADA) project, a project which will allow the Company monitor the activities on its network as well as help reduce energy losses and increase revenue;
- 9 ongoing discussions with market participants (generation companies and other distribution companies), NERC and the CBN as well as the recent Power Sector Recovery Program approved by the Federal Executive Council of the Federal Republic of Nigeria;

On the basis of the above, the directors have concluded that preparation of the financial statements using accounting policies applicable to a going concern is appropriate.

Other National Disclosures

Other National Disclosures
Value added statement
For the year ended 31 December 2016

	31 Dec 2016	%	31 Dec 2015	%
	₦'000		₦'000	
Revenue	56,536,377		51,007,001	
Bought-in-materials and services				
- Local	(65,663,542)		(43,149,246)	
- Foreign	-		-	
	(9,127,165)		7,857,755	
Other income	530,364		176,769	
Finance income	18,108		164,479	
Value added	(8,578,693)	100%	8,199,003	100%
To employees:				
- as salaries, wages, directors' remuneration and other staff costs	5,136,736	(60%)	5,468,437	67%
To providers of finance:				
- finance cost and similar charges	8,678,978	(101%)	3,057,681	37%
To Government as:				
- taxes	193,895	(2%)	451,326	6%
Retained in the business:				
- to maintain and replace property, plant and equipment	6,041,909	(70%)	5,786,999	71%
- to maintain and replace intangibles assets	32,509	-	11,935	-
- to deplete reserves	(28,662,720)	334%	(6,577,375)	(80%)
	(8,578,693)	100%	8,199,003	100%

Other National Disclosures

Financial Summary

Statement of Profit or Loss and Other Comprehensive Income

	2016	2015	2014	2013	2012
	N'000	N'000	N'000	N'000	N'000
Revenue	56,536,377	51,007,001	40,764,783	35,288,213	32,208,138
Results from operating activities	(19,807,955)	(3,232,847)	(5,629,827)	(10,743,449)	(11,664,542)
Loss before taxation	(28,468,825)	(6,126,049)	(5,990,790)	(10,742,489)	(11,630,183)
Loss for the year	(28,662,720)	(6,577,375)	(6,461,882)	(11,118,156)	(11,813,898)
Total comprehensive income for the year	(28,662,720)	(6,577,375)	(6,461,882)	(11,118,156)	(11,813,898)

Statement of Financial Position

	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
	N'000	N'000	N'000	N'000	N'000
Employment of Funds					
Property, plant and equipment	53,343,494	54,806,682	57,655,754	63,262,449	67,806,700
Intangible assets	156,348	142,763	70,513	79,056	-
Net current (liabilities)/assets	(21,804,450)	3,100,960	3,326,913	3,468,203	(38,658,152)
Non current liabilities	(6,709,875)	(4,402,168)	(827,568)	(122,214)	-
Net assets	24,985,517	53,648,237	60,225,612	66,687,494	29,148,548
Funds Employed					
Share capital	5,000	5,000	5,000	5,000	5,000
Retained earnings	24,980,517	53,643,237	60,220,612	66,682,494	29,143,548
	24,985,517	53,648,237	60,225,612	66,687,494	29,148,548