

Eko Electricity Distribution Plc

Annual Report

31 December 2018

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Corporate Information

Registration Number RC. 638862

Directors:	Charles Momoh - Chairman Adeoye Fadeyibi - Managing Director/CEO Alex Okoh Ernest Oji Tunji Olowolafe Dere Otubu George Etomi
Registered and Principal office address:	24/25 Marina Lagos
Company secretary:	GEP Nominees Limited 1b, Prof. Tiamiyu Belo-Osagie Street Parkview Estate, Ikoyi Lagos
Solicitor:	George Etomi & Partners (Legal practitioners) 1b, Prof. Tiamiyu Belo-Osagie Street Parkview Estate, Ikoyi Lagos
Auditor:	KPMG Professional Services KPMG Tower Bishop Aboyade Cole Street Victoria Island Lagos
Principal bankers:	First City Monument Bank Ltd Polaris Bank Limited Zenith Bank Plc Union Bank of Nigeria Plc Fidelity Bank Plc United Bank for Africa Plc Access Bank Plc Wema Bank Plc Ecobank Nigeria Limited

Results at a glance

	31 Dec 2018	Restated 31 Dec 2017	Change
	NGN'000	NGN'000	%
Revenue	<u>76,156,820</u>	<u>69,065,249</u>	<u>10</u>
Loss before minimum tax and income tax	<u>(58,803,842)</u>	<u>(39,709,729)</u>	<u>48</u>
Minimum tax	<u>(95,208)</u>	<u>(86,343)</u>	<u>10</u>
Loss for the year	<u>(58,899,050)</u>	<u>(39,796,072)</u>	<u>48</u>
Total assets	<u>89,768,812</u>	<u>88,899,991</u>	<u>1</u>
Net current liabilities	<u>(123,043,074)</u>	<u>(65,086,793)</u>	<u>89</u>
Equity	<u>(71,165,461)</u>	<u>(14,810,555)</u>	<u>381</u>

Directors' Report

For the year ended 31 December 2018

The directors present their report on the affairs of Eko Electricity Distribution Plc ("the Company" or "EKEDP"), together with the financial statements and auditor's report for the year ended 31 December 2018.

Principal Activity and Business Review

Eko Electricity Distribution Plc ("the Company" or "EKEDP") 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 10 districts namely Apapa, Agbara/ Badagry, Ojo, Festac, Ijora, Islands, Lekki and Mushin, Orile and Ibeju districts.

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 privatisation 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 10% from NGN69.07 billion to NGN76.16 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 by 14% during the year as a result of increase in supply from the electricity grid and an increase in cost of energy purchased. 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 reported a gross loss of NGN9.85 billion (2017: NGN7 billion).

The Company reported a loss after tax of NGN58.90 billion for the year ended 31 December 2018 (2017: NGN39.80 billion). Also as of that date, the Company's current liabilities and total liabilities exceeded its current assets and total assets by NGN123.04 billion and NGN71.17 billion respectively (2017: NGN65.09 billion and NGN14.81 billion).

Directors' Report - cont'd

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, meanwhile, the applicable parameters (inflation, exchange rate and generation capacity) of the MYTO had adversely changed and as a result, cost of energy purchased increased.

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 significant 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 difficult to achieve.

(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 NGN133.22 billion (2017: NGN75.61 billion). This includes an accrued interest of NGN27.68 billion (2017: NGN11.85 billion) which has been recognised in these financial statements. Even though the cost of this shortfall is mainly due to lack of cost reflective tariff, the Company and all other Distribution Companies are not allowed to charge interest on outstanding bills of customers which would have helped reduce the above obligation.

(c) Naira devaluation

Effect on cost of power

The devaluation of the Naira by the Central Bank of Nigeria (CBN) by 54.8% from NGN197 to NGN305 in June 2016 has continued to adversely impact the energy payments to the electricity market, thus increasing the huge trade payable balances to Nigerian Bulk Electricity Trading Plc. (NBET) and Operator of the Nigerian Electricity Market (ONEM). NBET is able to 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 to their customers leading to a shortfall. The MYTO is premised on an exchange rate of NGN198.97/ \$1. This has had a very negative effect on the Company and has significantly contributed to its net loss position. 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.

Given the approval of the Power Sector Recovery Program (PSRP) by the Federal Government of Nigeria (FGN) in April 2017, the directors expect an improvement in the Company's financial position and profitability when the implementation of PSRP initiatives are appropriately performed.

Directors' Report - cont'd

Operating results

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

	31 Dec 2018	31 Dec 2017
	<u>NGN'000</u>	<u>NGN'000</u>
Revenue	<u>76,156,820</u>	<u>69,065,249</u>
Results from operating activities	<u>(41,889,136)</u>	<u>(31,941,434)</u>
Loss before minimum tax and income tax	<u>(58,803,842)</u>	<u>(39,709,729)</u>
Minimum tax	<u>(95,208)</u>	<u>(86,343)</u>
Loss before income tax	<u>(58,899,050)</u>	<u>(39,796,072)</u>

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

Directors and their interests

The directors who served during the year were as follows:

Name	Designation	Appointed
Charles Momoh	Chairman	
Adeoye Fadeyibi	Managing Director	2 January 2018
Alex Okoh/ <i>Yunana Malo</i> *		
Ernest Orji		
Tunji Olowolafe		
Dere Otubu		
George Etomi		

**Yunana Malo is the alternate director to Alex Okoh who is the representative of BPE (Bureau of Public Enterprises) on the Board of Directors.*

The directors' direct and indirect interest (through its Ultimate holding company - WPG International Limited) in the shares of the Company as recorded in the Register of Members and/or as notified by the directors' for the purposes of Section 275 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 are as follows:

Direct

Except as disclosed below, the directors had no direct interest in the shares of the Company during the year.

Directors' Report - cont'd

Indirect

	Shares			
	31 Dec 2018		31 Dec 2017	
	Unit	NGN	Unit	NGN
Atlantic Meridean Limited (through Charles Momoh)	35,507,800	17,753,900	35,507,800	17,753,900
Kagera Limited (through Tunji Olowolafe)	10,849,000	5,424,500	10,849,000	5,424,500
Jachazes Investments Limited (through Ernest Orji)	3,864,000	1,932,000	3,864,000	1,932,000
Eastcorp Investment Limited (through George Etomi)	1,300,000	650,000	1,300,000	650,000

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 27 to these financial statements.

Shareholding structure

The shareholding structure of the Company was as follows:

	Ordinary Shares of 50 kobo each as at 31 Dec 2018		31 Dec 2017	
	Number	%	Number	%
West Power and Gas Ltd (WPG)	6,000,000	60	6,000,000	60
Bureau of Public Enterprises	3,200,000	32	3,200,000	32
Ministry of Finance Incorporated	800,000	8	800,000	8
	10,000,000	100	10,000,000	100

Subsequent to year end, on 18 February 2019, the Company increased its authorized share capital by 390m shares and issued same on that date. The Company's share capital after the increase is as follows:

	Ordinary Shares of 50 kobo each	
	Number	%
West Power and Gas Ltd (WPG)	240,000,000	60
Bureau of Public Enterprises	128,000,000	32
Ministry of Finance Incorporated	32,000,000	8
Total issued share capital	400,000,000	100
Authorised share capital	400,000,000	

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 comprising five (5) non-executive directors, one (1) independent director and one (1) executive director.

Directors' Report - cont'd

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 the directors at board meetings during the year was as follow:

Directors	Designation	29-Jan-18	13-Jul-18
Charles Momoh	Chairman	X	X
Adeoye Fadeyibi	Managing director	X	X
Alex Okoh	* Director (B.P.E)	X	X
Ernest Orji		X	X
Tunji Olowolafe		-	-
Dere Otubu		X	X
George Etomi		X	X
Yunana Malo	* Alternate Director (B.P.E)	-	-

X = Attended

- = Absent

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:

Directors	Designation	30-Jan-18
Dere Otubu	Chairman	X
Adeoye Fadeyibi		X
Alex Okoh		-
George Etomi		X
Ernest Orji		X
Tunji Olowolafe		-
Yunana Malo		-

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.

Directors' Report - cont'd

- 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.
- To assist the Board in fulfilling its responsibilities relating to managing the financial activities of the Company.
- Periodically review the Company's investor relation's program, shareholder profile and analyst coverage.
- 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:

Directors	Designation	29-Jan-18
Ernest Orji	Chairman	X
Adeoye Fadeyibi		X
Alex Okoh		X
Dere Otubu		X
George Etomi		X
Tunji Olowolafe		-

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:

Directors	Designation
Tunji Olowolafe	Chairman
Adeoye Fadeyibi	
Alex Okoh	
Dere Otubu	
George Etomi	
Ernest Orji	

No meeting held during the year.

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.

Directors' Report - cont'd

4. Legal, Corporate Governance and Regulatory Committee

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

Directors	Designation
George Etomi	Chairman
Adeoye Fadeyibi	
Alex Okoh	
Dere Otubu	
Ernest Orji	
Tunji Olowolafe	

No meeting held during the year.

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:

Directors	Designation	30-Jan-18	13-Jul-18	12-Sep-18
Dere Otubu	Chairman	X	X	X
Alex Okoh		-	X	X
George Etomi		X	X	X
Ernest Orji		X	X	X
Tunji Olowolafe		-	-	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.

Directors' Report - cont'd

- 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 privatisation 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 the Board believes do not limit the transfers.

On the basis of the agreements above, 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 West Power and Gas Limited (a related party) for the provision of local, top level and expatriate staff to enable Eko Electricity Distribution Plc (EKEDP) meet the performance standard in the Performance Agreement entered into with BPE (Note 27(b)).

3. Embedded generation

In 2016, the Company entered into 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. Paras Energy and Natural Resources Development also suspended power supply to the Company effective 31 January 2017 till a cost reflective tariff is implemented and payments are fully structured in line with NERC approved parameters. In 2018, the Company had no arrangement in place to obtain electricity outside of the national grid. However, amount unpaid as at year end as a result of this arrangement is disclosed in Note 24 of the financial statements.

Directors' Report - cont'd

4. Revenue collection management

The Company entered into an agreement with Haleford Investment Limited ("Haleford") for provision of revenue collection management services. This agreement requires Haleford to ensure maximisation of revenue collections of the Company. It also sets out the terms and conditions under which the agreed scope of services would be performed to the Company. The agreement became effective on 1 August 2017.

Geographical presence

To enable the Company operate within the Eko Zone where it distributes electricity, it has ten (10) (2017: ten (10)) 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 disclosed in Note 17 to these financial statements.

Charitable donations

In accordance with Section 38 (2) of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, the Company did not make any donation or gift to any political party, political association or for any political purpose in the course of the year (2017: Nil).

Events after the reporting period

Events after the reporting date have been disclosed in Note 32 to these financial statements.

Employment and employees

(a) Employee 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.

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 and overseas training for its employees. This has broadened opportunities for career development within the organization.

(b) Dissemination of information

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

(c) Employment of physically challenged persons

The Company has four (4) physically challenged persons in its employment (2017: four (4)). Applications for employment by physically challenged persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming physically challenged, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that training, career development and promotion of physically challenged persons should, as far as possible, be identical with that of other employees.

Directors' Report - cont'd

(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.

The Company has a well-established Environmental Health and Safety (EH&S) management system, which formalises EH&S processes, procedures and programmes and provides for integration of EH&S issues into business planning and operations. 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.

Auditors

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

BY ORDER OF THE BOARD



GEP Nominees Limited
Company Secretary
Lagos, Nigeria

2 September 2020



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

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

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

As disclosed in Note 34, 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:

B. S. Nl

Signature

Dere Otubu

Name

2 September 2020

Date

Charles Momoh

Signature

Charles Momoh

Name

2 September 2020

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:

- the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices;
- the scope and planning of the audit for the year ended 31 December 2018 are satisfactory;
- 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. Tunji Olowolafe
3. Ernest Oji
4. Alex Okoh
5. George Etomi

Chairman



Dere Otubu
Chairman, Audit and Compliance Committee
FRC/2013/IODN/00000004695
2 September 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders 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 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information, as set out on pages 20 to 75.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 34 to the financial statements which indicates that the Company incurred a loss after tax of ₦58.90 billion for the year ended 31 December 2018 and as of that date, the Company's current liabilities and total liabilities exceeded its current assets and total assets by ₦123.04 billion and ₦71.17 billion respectively. These events or conditions, along with other matters set forth in Note 34 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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Partners:

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Adewale K. Ajayi	Ajibola O. Olomola	Akinyemi Ashade	Ayobami L. Salami
Ayodele A. Soyinka	Ayodele H. Othihiwa	Chibuzor N. Anyanechi	Chineme B. Nwigbo
Elijah O. Oladunmoye	Goodluck C. Obi	Ibitomi M. Adepoju	Ijeoma T. Emezie-Ezigbo
Joseph O. Tegbe	Kabir O. Okunlola	Lawrence C. Amadi	Mohammed M. Adama
Nneka C. Eluma	Oguntayo I. Ogungbenro	Olabinpe S. Afolabi	Oladimeji I. Salaudeen
Olanike I. James	Olumide O. Olayinka	Olusegun A. Sowande	Olutoyin I. Ogunlowo
Oluwafemi O. Awotoye	Oluwatoyin A. Gbagi	Temitope A. Onitiri	Tolulope A. Odukale
Victor U. Onyenkpa			

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue recognition (R76.16 billion)

See Note 7(a) (Accounting policy) and Note 9 (Revenue) to these financial statements

The key audit matter	How the matter was addressed in our audit
<p>Revenue was a matter of significance to our audit due to:</p> <ul style="list-style-type: none"> Significant judgement and estimate involved in the determination of deferred revenue for prepaid customers at year end. Significant risk of fraud attached to revenue with respect to post paid customers due to the judgment and estimate involved in its determination. Several rules that the company needs to comply with, in relation to tariff and billing methodology. 	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> We assessed the reasonableness of the Company's assumptions and judgement with respect to the estimation of deferred revenue from pre-paid energy sales and unbilled revenue from post-paid customers. We applied our data & analytics tool to re-perform a computation of deferred revenue and unbilled revenue using parameters such as average daily consumption and compared to amounts previously determined by the Company. We evaluated billings to customers/revenue recognized to determine whether billings/revenue are consistent with NERC rules and guidelines. These include NERC guidance on back-billing, estimated billing of maximum demand customers, reading of customers' meters and billing of CAPMI customers. We assessed the reasonability of the parameters used by comparing them to parameters in the NERC tariff order; and also performed a rationalization of the billing efficiency.

Impairment of trade receivables (R22.56 billion)

See Note 7(k)(i) (Accounting policy), Note 20 (Trade and other receivables) and Note 29(a) (Credit risk) to these financial statements

The key audit matter

How the matter was addressed during our audit

Impairment of trade receivables was a matter of significance on our audit due to:

- The implementation of IFRS 9 and the resultant change from incurred loss to the expected credit loss model. The determination of the appropriate categorisation of customers into similar credit risk categories for the purpose of determining the historical loss rate and forward looking information (FLI) involves judgement and estimates.
- Poor collection history from unmetered customers and government entities such as military, parastatals etc.

Our audit procedures included the following:

- We assessed the basis for categorizing trade receivables into buckets in line with the guidelines of the standard and our understanding of the business.
- We evaluated the reasonableness of the assumptions used in calculating the expected credit losses on receivables based on our understanding of the Company and industry. We recalculated the expected impairment losses based on relevant assumptions and compared to the amounts recorded in the general ledger.
- We assessed the appropriateness of the historical loss rates and evaluated the reasonableness of the FLI by comparing assumptions to our expectations and to other external industry information.
- We evaluated the appropriateness of the accounting policies and related financial statements disclosures based on the requirements of IFRS 9.



Other Information

The Directors are responsible for the other information. The other information comprises the Corporate information, Results at a glance, Directors' report, Statement of directors' responsibilities, Report of the Audit and Compliance Committee and Other National Disclosures, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

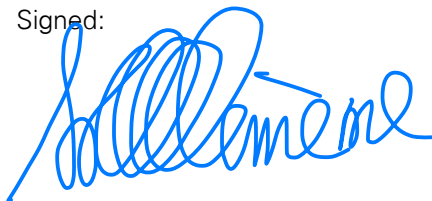
From the matters communicated with Audit and Compliance Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

Signed:



Chineme B. Nwigbo, FCA
FRC/2013/ICAN/00000001897
For: KPMG Professional Services
Chartered Accountants
28 October 2020
Lagos, Nigeria

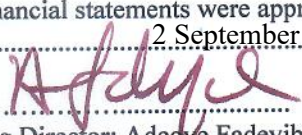


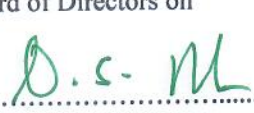
Statement of Financial Position

As at	Notes	31 Dec 2018 NGN'000	Restated* 31 Dec 2017 NGN'000
ASSETS			
Property, plant and equipment	17	50,365,319	51,542,685
Intangible assets	16	240,432	125,525
Prepayments	19	2,891,858	3,060,212
Trade and other receivables	20	2,300,000	1,500,000
Non-current Assets		55,797,609	56,228,422
Inventories	18	1,723,118	1,615,464
Prepayments	19	145,486	36,659
Trade and other receivables	20	24,611,218	23,506,568
Contract assets	9	2,866,944	-
Cash and cash equivalents	21	4,624,437	7,512,878
Current Assets		33,971,203	32,671,569
Total Assets		89,768,812	88,899,991
EQUITY			
Share capital	22	5,000	5,000
Retained earnings		(71,170,461)	(14,815,555)
Total equity		(71,165,461)	(14,810,555)
LIABILITIES			
Loans and borrowings	23	3,056,506	4,931,879
Deferred income	25	863,490	1,020,305
Non-current liabilities		3,919,996	5,952,184
Loans and borrowings	23	1,664,369	2,637,622
Trade and other payables	24	154,014,183	93,153,845
Deferred income	25	339,266	666,182
Contract liabilities	9	606,690	-
Current tax liabilities	15(d)	389,769	1,300,713
Current liabilities		157,014,277	97,758,362
Total liabilities		160,934,273	103,710,546
Total equity and liabilities		89,768,812	88,899,991


*See Note 33

These financial statements were approved and authorized for issue by the Board of Directors on
 2 September 2020 and signed on its behalf by:


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


 Director: Dere Otubu
 FRC/2013/IODN/00000004695

Additionally certified by:


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

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

Statement of Profit or Loss and Other Comprehensive Income

For the year ended

	<i>Notes</i>	31 Dec 2018 <u>NGN'000</u>	Restated* 31 Dec 2017 <u>NGN'000</u>
Revenue	9	76,156,820	69,065,249
Cost of sales	10(a)	<u>(86,006,856)</u>	<u>(76,067,069)</u>
Gross loss		(9,850,036)	(7,001,820)
Other income	11	457,148	449,237
Operating expenses	10(b)	<u>(22,742,132)</u>	<u>(16,678,208)</u>
Impairment loss on financial assets	29(a)	<u>(9,754,116)</u>	<u>(8,710,643)</u>
Results from operating activities		(41,889,136)	(31,941,434)
Finance income	12	321,563	1,756,528
Finance costs	12	<u>(17,236,269)</u>	<u>(9,524,823)</u>
Net finance costs		<u>(16,914,706)</u>	<u>(7,768,295)</u>
Loss before minimum tax and income tax		(58,803,842)	(39,709,729)
Minimum tax	15(a)	<u>(95,208)</u>	<u>(86,343)</u>
Loss before income tax		(58,899,050)	(39,796,072)
Income tax expense	15(b)	<u>-</u>	<u>-</u>
Loss for the year		(58,899,050)	(39,796,072)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive loss for the year		<u>(58,899,050)</u>	<u>(39,796,072)</u>

**Refer to restatement Note 33.*

The Company has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated.

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

Statement of Changes in Equity

	<i>Note</i>	Share capital NGN'000	Retained Earnings NGN'000	Total equity NGN'000
<i>For the year ended 31 December 2017</i>				
Balance as at 1 January 2017		<u>5,000</u>	<u>24,980,517</u>	<u>24,985,517</u>
Total comprehensive income				
Loss for the year (Restated)	33	-	(39,796,072)	(39,796,072)
Other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income (Restated)		5,000	(14,815,555)	(14,810,555)
Transactions with owners of the company		<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2017 (Restated)		<u>5,000</u>	<u>(14,815,555)</u>	<u>(14,810,555)</u>
<i>For the year ended 31 December 2018</i>				
Balance as at 1 January 2018 (Restated)		5,000	(14,815,555)	(14,810,555)
Adjustment on initial application of IFRS 9, net of tax (Note 35(b))		<u>-</u>	<u>2,544,144</u>	<u>2,544,144</u>
Adjusted balance as at 1 January 2018		5,000	(12,271,411)	(12,266,411)
Total comprehensive income				
Loss for the year		-	(58,899,050)	(58,899,050)
Other comprehensive income		<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income		<u>-</u>	<u>(71,170,461)</u>	<u>(71,170,461)</u>
Transactions with owners of the company		<u>-</u>	<u>-</u>	<u>-</u>
Balance as at 31 December 2018		<u>5,000</u>	<u>(71,170,461)</u>	<u>(71,165,461)</u>

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

Statement of Cash flows

For the year ended

	<u>Notes</u>	<u>31 Dec 2018</u> <u>NGN'000</u>	<u>31 Dec 2017</u> <u>NGN'000</u>
Cash flows from operating activities			
Loss for the year		(58,899,050)	(39,796,072)
<u>Adjustment for:</u>			
Depreciation	17	6,659,900	6,305,892
Amortisation	16	56,711	42,954
Impairment loss on trade receivables		9,754,116	8,710,643
Finance cost	12	17,236,269	9,524,823
Write down of inventory items	10(a)	31,337	193,628
Write-off of property, plant and equipment	10(b)	-	14,462
Profit on disposal of property, plant and equipment	11		(34,740)
Finance income	12	(321,563)	(1,756,528)
Minimum tax		95,208	86,343
<u>Changes in working capital:</u>			
Inventory	18(b)	(138,991)	(558,567)
Trade and other receivables	20(d)	(11,981,566)	(9,466,465)
Prepayments		59,527	(222,013)
Trade and other payables	24(d)	44,893,163	38,911,414
Deferred revenue	25(d)	293,017	(83,689)
Cash generated from operating activities		7,738,078	11,872,085
Income tax paid	15(d)	(1,006,152)	(215,000)
Settlement of provisions		-	(10,247)
Net cash generated from operating activities		<u>6,731,926</u>	<u>11,646,838</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	17(f)	(5,341,062)	(4,519,805)
Acquisition of intangible assets	16	(171,618)	(12,131)
Proceeds from sale of property, plant and equipment		-	35,000
Interest received	12	90,239	21,110
Net cash flows used in investing activities		<u>(5,422,441)</u>	<u>(4,475,826)</u>
Cash flows from financing activities			
Loan received	23(e)	214,269	-
Repayments- principal	23(e)	(3,312,471)	(4,092,807)
Interest paid	23(e)	(632,636)	(903,163)
Bank charges paid	12	(457,336)	(412,020)
Net cash flows used in financing activities		<u>(4,188,174)</u>	<u>(5,407,990)</u>
Net (decrease) / increase in cash and cash equivalents		(2,878,689)	1,763,022
Cash and cash equivalents at 1 January		7,512,878	5,739,187
Effect of exchange rate fluctuations on cash held		(9,752)	10,669
Cash and cash equivalents 31 December		<u>4,624,437</u>	<u>7,512,878</u>

The accompanying notes on pages 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 8 districts namely Apapa, Agbara/ Badagry, Ojo, Festac, Ijora, Islands, Lekki and Mushin districts. In 2017, Orile and Ibeju were separated from Mushin and Lekki respectively as stand alone districts. Thus the Company now has 10 districts.

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 privatisation 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 privatisation 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 privatisation initiative of the power sector embarked on by the Federal Government of Nigeria.

2. Basis of accounting

These financial statements have been prepared 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.

Details of the Company's accounting policies, including changes during the year are included in Note 7 and Note 35 respectively.

This is the first set of the Company's financial statements in which IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* have been applied. Changes to significant accounting policies are described in Note 35.

3. Functional and presentation currency

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

4. Basis of measurement

These financial statements have been prepared on the historical cost basis except otherwise stated.

Notes to the financial statements - cont'd

5. Use of judgments and estimates

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

a. Judgments

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

- Note 9 – Determination of whether billings to non-paying customers meet the revenue recognition criteria.
- Note 15(e) – Unrecognised deferred tax assets: availability of future taxable profit against which carryforward tax losses can be used

b. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 December 2018 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 9(a) - Recognition of contract assets – determination of consumption factor to estimate unbilled revenue from Post-paid arrangements
- Note 9(a) - Recognition of contract liabilities - determination of a consumption factor to estimate contract liabilities from prepaid arrangements
- Note 28(b) – Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources
- Note 29(a) - Impairment of trade receivables; measurement of ECL allowance for trade receivables; key assumptions in determining the loss rate.

i. Measurement of fair values

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

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

Notes to the financial statements - cont'd

- 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.

6. Fair value measurement

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

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (Note 5(i)). 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. If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price. 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.

Notes to the financial statements - cont'd

7. Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements except as otherwise stated:

a. (i) Revenue from contract with customers

Revenue primarily represents the sales value of electricity and other related energy services supplied to customers during the year and excludes Value Added Tax. The Company generally recognizes revenue when it transfers control over a good or service to a customer. 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.

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. Revenue from customers are recognized based on the evaluation of the historical payment patterns of the customers to determine whether collection of consideration is probable in line with IFRS 15.

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

Category of revenue	Nature and timing of satisfaction of performance obligations, including significant payments terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Pre-paid revenue	Satisfaction of performance obligation is same as postpaid revenue. Payment is received in advance of consumption of electricity.	Revenue is recognised over time as electricity is provided. In case of prepaid customers, an estimate is made for unearned revenue as at year end and this is included in the statement of financial position as contract liability.	Revenue is recognised over time as electricity is provided. In case of prepaid customers, an estimate is made for unearned revenue as at year end and this is included in the statement of financial position as contract liability.

Notes to the financial statements - cont'd

Category of revenue	Nature and timing of satisfaction of performance obligations, including significant payments terms	Revenue recognition under IFRS 15 (applicable from 1 January 2018)	Revenue recognition under IAS 18 (applicable before 1 January 2018)
Post-paid revenue	The performance obligation of the Company is satisfied overtime as electricity is supplied to the customers. Billing is done on a monthly basis and payment is contractually expected within 30 days of billing.	Revenue is recognised over time as electricity is provided. The amount of revenue to recognise during the year is assessed based on the unit delivered method. The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers. Billings to customers are recognised as revenue based on the evaluation of whether collection of consideration is probable.	Revenue is recognised over time as electricity is provided. The amount of revenue to recognise during the year is assessed based on the unit delivered method. The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers Billings to customers are recognised as revenue based on the evaluation of whether collection of consideration is probable.

(ii) Other revenue: Customer granted assets

Contributions by customers of items of property, plant and equipment (PPE), which require an obligation to supply goods to the customer in the future, are recognized at the fair value when the Company has control of the item. The Company assesses whether the transferred item meets the definition of an asset, and if so recognizes the transferred asset as PPE. At initial recognition, its cost is measured at fair value, and a corresponding amount is recognized as revenue as performance obligation is satisfied.

b. Finance income and finance cost

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

Finance costs comprise interest expense on interest bearing liabilities, unwinding discount from CAPMI and bank charges. Interest expense on interest bearing borrowings is recognised using the effective interest method. 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.

Foreign exchange gains and losses are recognized on net basis.

c. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency using exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency (Nigerian Naira) at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

Notes to the financial statements - cont'd

d. Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are recognised and measured at cost less accumulated depreciation and 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 the Company including relevant borrowing costs.

Contributions of items of property, plant and equipment by customers, 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 Property, plant and equipment. At initial recognition, its cost is measured at fair value, and a corresponding amount is recognised as revenue 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.

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. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	40 - 50 years
Distribution network assets	10 - 30 years
Motor vehicles	4 - 5 years
Equipments, fixtures & fittings	5 years

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.

Notes to the financial statements - cont'd

iv. Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal of the asset or when no future economic benefits are expected to accrue to the Company from its continued use. Any gain or loss arising on de-recognition is included in the statement of profit or loss in the period in which the asset is derecognised. The gain or loss is determined as the difference between the carrying value and the net proceeds on the sale of the assets, if any, at the time of disposal.

v. Contribution of assets by customer

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

e. 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.

i. Subsequent expenditure

Subsequent expenditure is capitalised 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.

ii. Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. The estimated useful life for the current and comparative years for computer software is 5 years.

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

f. Financial instruments

i. Recognition and initial measurement

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

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

Notes to the financial statements - cont'd

ii. Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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

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

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

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

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

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

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

Notes to the financial statements - cont'd

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

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

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

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

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

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

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

Notes to the financial statements - cont'd

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

Financial assets at amortised cost

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

Financial assets – Policy applicable before 1 January 2018

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

Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. They are included in current assets, except for non-trade receivables that have maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Financial liabilities – Classification, subsequent measurement and gains and losses

The Company classifies non-derivative financial liabilities into the other financial liabilities category. All financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

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

iii. Derecognition

Financial assets

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

Financial liabilities

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

iv. Offsetting

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

Notes to the financial statements - cont'd

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. Government grants

The Central Bank of Nigeria provided the Company with a loan facility at an interest rate lower than the market rate. Gains on government loan (the difference between the fair value and face value of the loans) is recognised as government grants. Government grants are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant, they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset they relate to.

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

j. Leases

i. Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the 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. 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 assets are accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

Notes to the financial statements - cont'd

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.

k. Impairment

i. Non-derivative financial assets

Policy applicable from 1 January 2018

Financial instruments and contract assets

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

- financial assets measured at amortised cost

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

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

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Company considers a financial asset to be in default when;

- the debtor is unlikely to pay its credit obligations to the company in full without recourse by the company to actions such as realising security (if any held); or
- the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when the security is held with a financial institution that have high credit ratings and meet the cash and liquidity thresholds set by the Central Bank of Nigeria (CBN). Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

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

Notes to the financial statements - cont'd

Credit-impaired financial assets

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

Write-off

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

Policy applicable before 1 January 2018

Non-derivative financial assets

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

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- indications that a debtor or issuer would enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.

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.

Notes to the financial statements - cont'd

An impairment loss is calculated as the difference between an asset's carrying amount and the estimated recoverable amount. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

ii. Non-financial assets

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

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

i. 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 plans

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 - cont'd

m. Provisions

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 recognised 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.

n. Income tax

Income tax expense comprises current tax (CIT and TET) 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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income tax, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

ii. Minimum tax

The Company is subject to the Companies Income Tax Act (CITA). Total amount of tax payable under CITA is determined based on the higher of two components namely Company Income Tax (based on taxable income (or loss) for the year); and Minimum tax (determined based on the sum of (i) the highest of; 0.25% of revenue of N500,000, 0.5% of gross profit, 0.25% of paid up share capital and 0.5% of net assets; and (ii) 0.125% of revenue in excess of N500,000).

Notes to the financial statements - cont'd

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

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

iii. Deferred tax

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

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Company as approved by the Board.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax are reassessed at each reporting date and recognised to the extent that it has become probable that future profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

o. Share capital

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

p. Statement of 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 received is included in investing activities.

8. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual period beginning after 1 January 2019 and early application is permitted; however, the Company has not applied the new or amended standards in preparing these financial statements. The Company plans to adopt these as applicable, on their effective dates. Those standards, amendments to standards and interpretations which may be relevant to the Company are set out below:

Notes to the financial statements - cont'd

Standard not yet effective	Effective date	Summary of the requirements and impact assessment
IFRS 16 <i>Leases</i>	1 January 2019	<p>IFRS 16 was published in January 2016. It 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 replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 includes a single model for lessees which will result in almost all leases being included in the statement of financial position. No significant change have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors.</p> <p>The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15.</p> <p>The Company is yet to complete its detailed assessment of the potential impact of this standard on its financial statements.</p>
IFRIC 23 <i>Uncertainty Over Income Tax Treatments</i>	1 January 2019	<p>IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.</p> <p>IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:</p> <ul style="list-style-type: none"> • Judgments made; • Assumptions and other estimates used; and • The potential impact of uncertainties that are not reflected. <p>IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.</p>

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements;

- *Amendments to references to conceptual Framework in IFRS standards*
- *Definition of a Business* (Amendments to IFRS 3)
- *Definition of Material* (Amendments to IAS 1 and IAS 8)
- *IFRS 17 Insurance contracts*

9. Revenue

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

Revenue comprise amounts derived from delivering of electricity and other related activities across the Company's distribution network in Lagos state.

Notes to the financial statements - cont'd

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Revenue from contract with customers	75,723,363	68,498,087
Other revenue		
Customer granted assets (Note 17(e))	433,457	567,162
Total revenue	<u>76,156,820</u>	<u>69,065,249</u>

Classification by customer type

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Private individuals/companies	70,030,235	64,919,701
Government institutions	6,126,585	4,145,548
	<u>76,156,820</u>	<u>69,065,249</u>

Classification by customer payment mode

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Post-paid revenue	65,500,817	59,135,314
Pre-paid revenue	10,222,546	9,362,773
	75,723,363	68,498,087
Customer granted assets (Note 17(e))	433,457	567,162
Total revenue	<u>76,156,820</u>	<u>69,065,249</u>

a. Contract balances

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

	<u>31 December 2018</u>	<u>1 January 2018</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Receivables, which are included in "trade and other receivables" Note 20	22,560,984	18,726,985
Contract assets Note 20(a)	2,866,944	3,411,183
Contract liabilities Note 25(a)	<u>606,690</u>	<u>313,675</u>

The contract assets primarily relate to the Company's right to consideration for electricity supplied to post paid customers but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the company issues an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from prepaid customers for supply of electricity for which revenue is recognised over time.

Notes to the financial statements - cont'd

10. Expenses by nature

Expenses by nature comprise:

a. Cost of sales

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Cost of energy purchased from ONEM and NBET	79,618,859	69,279,130
Cost of energy purchased through bilateral agreements with third parties	-	428,994
Wheeling charge (Note 10(c))	-	94,084
Impairment of inventory (Note 18(a))	31,337	193,628
Depreciation (Note 17(a))	6,356,660	6,071,233
Total cost of sales	<u>86,006,856</u>	<u>76,067,069</u>

b. Operating expenses

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Depreciation (Note 17(a))	303,240	234,659
Amortisation (Note 16)	56,711	42,954
Maintenance expenses	4,796,994	3,622,427
Consultancy fees	4,505,536	3,210,084
Employee benefits expenses (Note 13(a))	5,316,370	5,056,641
Directors' remuneration (Note 13(d))	500,841	365,515
Auditors' remuneration	70,000	50,000
Staff training and welfare	833,017	771,949
Transport , travels and insurance	505,560	327,999
Rent and rates	934,271	491,976
Vehicle lease expense (Note 30(b))	315,614	138,108
Publicity and advertisement	269,314	190,549
Revenue collection expenses	2,990,543	1,449,277
Consumables	184,974	248,162
Write off of property, plant and equipment	-	14,462
Penalties	14,520	11,318
Office expenses	467,700	285,950
Health, safety and environment	422,876	-
Security expenses	254,051	166,178
Total operating expenses	<u>22,742,132</u>	<u>16,678,208</u>

c. Wheeling charge

In 2016, 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 ONEM to provide priority services on designated feeders for energy received from these suppliers.

The priority services are billed to the Company by ONEM as wheeling charge which was nil (2017: NGN94.08 million) during the year. The purchase of energy from Egbin Power Plc was suspended in the 2016 financial year while purchase from Paras Energy was suspended during the 2017 financial year.

Notes to the financial statements - cont'd

11. Other income

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Re-connection fee	237,275	151,355
Contractor registration fees	8,000	6,900
Service connection fee	69,293	227,010
Insurance compensation	4,303	3,289
Donation of materials by USAID	28,521	-
Donation of asset	70,000	-
Car park income	29,857	25,943
Proceed from sale of obsolete inventory	9,899	-
Profit on disposal of property, plant and equipment	-	34,740
	<u>457,148</u>	<u>449,237</u>

12. Finance income and costs

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
<i>Finance income</i>		
Interest income on financial instruments held at amortised cost	90,239	21,110
Fair value gain on loans and borrowings	231,324	230,541
Net foreign exchange gain	-	1,504,877
Total finance income	<u>321,563</u>	<u>1,756,528</u>
<i>Finance costs</i>		
Interest expense on loans and borrowings (Note 23(e))	914,370	1,567,398
Bank charges	457,336	412,020
Net foreign exchange loss	38,860	-
Interest on shortfall remittance to electricity suppliers (Note 12(a))	15,825,703	7,545,405
Total finance costs	<u>17,236,269</u>	<u>9,524,823</u>
Net finance costs	<u>16,914,706</u>	<u>7,768,295</u>

Notes to the financial statements - cont'd

a. Interest on shortfall remittance to electricity suppliers

This represents interest arising from the Company's default with respect to amounts due on NBET, ONEM 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 4%. Also, in line with the agreement between the Company and Paras Energy, 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 year end and forms part of amounts due to NBET, ONEM and Paras Energy in trade and other payables.

b. During the year, amortization of day-one fair value gain on CBN loan into profit or loss is NGN231.32 million (2017: NGN230.54 million) (Note 25(d)).

13. Loss before income tax

a. Loss before income tax is stated after charging/ (crediting):

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Depreciation	6,659,900	6,305,892
Amortization	56,711	42,954
Employee benefits	5,316,370	5,056,641
Auditor's remuneration	70,000	50,000
Fair value gain on loans and borrowing	231,324	230,541
Net foreign exchange loss/(gain)	<u>38,860</u>	<u>(1,504,877)</u>

14. Employee benefit expense and director's remuneration

a. Employee benefit expense during the year amounted to:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Salaries	4,858,175	4,621,887
Pension costs	<u>458,195</u>	<u>434,754</u>
	<u>5,316,370</u>	<u>5,056,641</u>

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

	<u>2018</u>	<u>2017</u>
	<u>Number</u>	<u>Number</u>
Finance	189	182
Administrative	250	231
Operations	<u>1,383</u>	<u>1,409</u>
	<u>1,822</u>	<u>1,822</u>

Notes to the financial statements - cont'd

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:

		<u>2018</u>	<u>2017</u>
		Number	Number
Below	NGN1,000,000	118	208
NGN1,000,001 -	NGN2,000,000	789	765
NGN2,000,001 -	NGN3,000,000	349	455
NGN3,000,001 -	NGN4,000,000	325	222
NGN4,000,001 -	NGN5,000,000	113	62
Above	NGN5,000,001	128	110
		<u>1,822</u>	<u>1,822</u>

d. Directors' remuneration

Directors' remuneration paid during the year includes:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Fees as directors	12,500	12,500
Other emoluments	488,341	353,015
	<u>500,841</u>	<u>365,515</u>

The directors' remuneration shown above includes:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Chairman and highest paid director	<u>105,569</u>	<u>97,037</u>

The other directors received remuneration in the following ranges:

		<u>2018</u>	<u>2017</u>
		Number	Number
Below	NGN40,000,000	-	6
NGN40,000,000 -	NGN50,000,000	-	2
Above	NGN50,000,000	6	-
		<u>6</u>	<u>8</u>

15. Taxation

a. Minimum tax

The Company has applied the provisions of the Companies Income Tax Act that mandates a minimum tax assessment, where a 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 2018 is NGN95.21 million (2017: NGN86.34 million).

Notes to the financial statements - cont'd

b. Income tax expense

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 2018 (2017: 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 2018 (2017: Nil). No deferred tax has been recorded on loss incurred to date by the Company because of the uncertainties around the timing and extent of availability of future taxable profits against which the amounts of deferred tax asset will reverse.

c. Reconciliation of effective tax rates

	%	<u>2018</u> <u>NGN'000</u>	%	<u>2017</u> <u>NGN'000</u>
Loss before minimum tax and income tax	100	(58,803,842)	100	(39,709,729)
Income tax using the statutory tax rate	32	(18,817,229)	32	(12,707,113)
Effect of deductible temporary difference for which no deferred tax is recognized	1	(408,154)	(39)	15,398,545
Current year losses for which no deferred tax is recognized		14,558,440		-
Tax exempt income	30	(74,024)		(5,118,000)
Tax incentives	-	(107,712)	-	(111,628)
Effect of non-deductible expenses	(1)	720,632	(6)	2,538,196
Changes in prior year estimate	-	<u>4,128,047</u>		<u>-</u>
Total income tax expense	=	<u>=</u>	=	<u>=</u>

d. Movement in current tax liability

	<u>2018</u> <u>NGN'000</u>	<u>2017</u> <u>NGN'000</u>
Balance as at 1 January	1,300,713	1,429,370
Minimum tax (Note 15(a))	95,208	86,343
Payments during the year	<u>(1,006,152)</u>	<u>(215,000)</u>
Balance as at year end	<u><u>389,769</u></u>	<u><u>1,300,713</u></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:

	<u>2018</u> <u>NGN'000</u>	<u>2017</u> <u>NGN'000</u>
Deductible temporary differences	26,166,196	32,865,291
Tax losses (will never expire)	<u>25,620,632</u>	<u>11,050,191</u>
	<u><u>51,786,828</u></u>	<u><u>43,915,482</u></u>

Notes to the financial statements - cont'd

16. Intangible assets

	Computer software	Total
Cost	NGN'000	NGN'000
Balance as at 1 January 2017	212,895	212,895
Additions during the year	<u>12,131</u>	<u>12,131</u>
Balance as at 31 December 2017	<u>225,026</u>	<u>225,026</u>
Balance as at 1 January 2018	225,026	225,026
Additions during the year	<u>171,618</u>	<u>171,618</u>
Balance as at 31 December 2018	<u>396,644</u>	<u>396,644</u>
Amortisation		
Balance as at 1 January 2017	56,547	56,547
Charge for the year	<u>42,954</u>	<u>42,954</u>
Balance as at 31 December 2017	<u>99,501</u>	<u>99,501</u>
Balance as at 1 January 2018	99,501	99,501
Charge for the year	<u>56,711</u>	<u>56,711</u>
Balance as at 31 December 2018	<u>156,212</u>	<u>156,212</u>
Carrying amounts		
At 1 January 2017	<u><u>156,348</u></u>	<u><u>156,348</u></u>
At 31 December 2017	<u><u>125,525</u></u>	<u><u>125,525</u></u>
At 31 December 2018	<u><u>240,432</u></u>	<u><u>240,432</u></u>

The amortisation of computer software is included in "Administrative expenses" in Note 10(b) to these financial statements.

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Notes to the financial statements - cont'd

17. Property, plant and equipment

	Land and building	Distribution network assets	Equipment fixtures & fittings	Motor vehicles	Capital work in progress	Total
	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000	NGN'000
Cost						
Balance as at 1 January 2017	580,935	127,430,604	874,746	1,495,145	1,510,869	131,892,299
Additions during the year	-	3,450,313	111,797	81,900	875,795	4,519,805
Transfers	-	125,059	33,875	-	(158,934)	-
Disposals	-	-	-	(15,894)	-	(15,894)
Write offs	-	-	(315)	(45,855)	-	(46,170)
Balance as at 31 December 2017	<u>580,935</u>	<u>131,005,976</u>	<u>1,020,103</u>	<u>1,515,296</u>	<u>2,227,730</u>	<u>136,350,040</u>
Balance as at 1 January 2018	580,935	131,005,976	1,020,103	1,515,296	2,227,730	136,350,040
Additions during the year	110,000	2,963,730	154,685	303,450	1,950,669	5,482,534
Transfers	-	626,669	10,845	-	(637,514)	-
Write offs	-	-	-	-	-	-
Balance as at 31 December 2018	<u>690,935</u>	<u>134,596,375</u>	<u>1,185,633</u>	<u>1,818,746</u>	<u>3,540,885</u>	<u>141,832,574</u>
Accumulated Depreciation						
Balance as at 1 January 2017	88,124	76,665,523	583,615	1,211,543	-	78,548,805
Charge for the year	12,727	6,071,233	114,555	107,377	-	6,305,892
Disposals	-	-	-	(15,634)	-	(15,634)
Write offs	-	-	(95)	(31,613)	-	(31,708)
Balance as at 31 December 2017	<u>100,851</u>	<u>82,736,756</u>	<u>698,075</u>	<u>1,271,673</u>	<u>-</u>	<u>84,807,355</u>
Balance as at 1 January 2018	100,851	82,736,756	698,075	1,271,673	-	84,807,355
Charge for the year	<u>12,726</u>	<u>6,356,660</u>	<u>128,594</u>	<u>161,920</u>	<u>-</u>	<u>6,659,900</u>
Balance as at 31 December 2018	<u>113,577</u>	<u>89,093,416</u>	<u>826,669</u>	<u>1,433,593</u>	<u>-</u>	<u>91,467,255</u>
Carrying amounts						
At 1 January 2017	<u>492,811</u>	<u>50,765,081</u>	<u>291,131</u>	<u>283,602</u>	<u>1,510,869</u>	<u>53,343,494</u>
At 31 December 2017	<u>480,084</u>	<u>48,269,220</u>	<u>322,028</u>	<u>243,623</u>	<u>2,227,730</u>	<u>51,542,685</u>
At 31 December 2018	<u>577,358</u>	<u>45,502,959</u>	<u>358,964</u>	<u>385,153</u>	<u>3,540,885</u>	<u>50,365,319</u>

Notes to the financial statements - cont'd

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

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Cost of sales	6,356,660	6,071,233
Administrative expenses	303,240	234,659
	<u>6,659,900</u>	<u>6,305,892</u>

b. The fixed and floating charge on all assets of the Company is held as security for the related party loan obtained (Note 23(b)).

c. The Company had capital commitments amounting to NGN15.93 billion (2017: NGN6.10 billion) as at year end.

d. Capital work in progress (CWIP) comprises:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Ongoing works with respect to substations	1,613,715	698,709
PPE items in store *	1,927,170	1,529,021
	<u>3,540,885</u>	<u>2,227,730</u>

*PPE items in store consist mainly of transformers of NGN120.03 million (2017: NGN66.43 million) and meters of NGN1.81 billion (2017: NGN1.46 billion) that are yet to be energised.

e. Customer granted assets

These are distribution network assets transferred to the Company by its customers during the year. The fair value of these assets was estimated at NGN433.46 million (2017: NGN567.16 million) by the directors based on observable prices of similar items purchased during the year. This has been recognised as revenue (Note 9).

f. Reconciliation of additions to property, plant and equipment in statement of cashflows:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Additions to property, plant and equipment	(5,482,534)	(4,519,805)
Recognition of NIPP and PMU assets (Note24(d))	141,472	-
Acquisition of property, plant and equipment for cashflows	<u>(5,341,062)</u>	<u>(4,519,805)</u>

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

18. Inventories

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Consumable spare parts	1,661,161	1,598,155
Other consumables	61,957	17,309
	<u>1,723,118</u>	<u>1,615,464</u>

Notes to the financial statements - cont'd

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 NGN296.63 million (2017: NGN977.81 million).

During the year, an allowance of NGN31.34 million was recorded to write down inventories to their net realisable value (2017: NGN193.63 million). The fixed and floating charge on all assets of the Company is held as security for the related party loan obtained during the year (Note 23(b)).

b. Reconciliation of changes in inventories to statement of cashflows is as follows:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Changes in inventories	(107,654)	(364,939)
Impairment of inventory	(31,337)	(193,628)
	<u>(138,991)</u>	<u>(558,567)</u>

19. Prepayments

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Rents	197,454	36,659
Advance payment for construction of non-current assets (Note 27(c)(iii))	2,839,890	3,060,212
	<u>3,037,344</u>	<u>3,096,871</u>
Prepayments are analysed into:		
Non-current	2,891,858	3,060,212
Current	145,486	36,659
	<u>3,037,344</u>	<u>3,096,871</u>

20. Trade and other receivables

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Trade receivables	22,560,984	18,726,985
Contract asset (Note 20(a))	2,866,944	-
Unbilled receivables	-	3,411,183
Other receivables	355,057	473,131
Other deposits (Note 20(c))	2,300,000	1,500,000
	28,082,985	24,111,299
Advance payments to vendors (Note 20(b))	1,695,177	895,269
	<u>29,778,162</u>	<u>25,006,568</u>
Trade and other receivables are analysed into:		
Current	24,611,218	23,506,568
Non-current (other deposits (Note 20(c)))	2,300,000	1,500,000
Contract asset (Note 20(a))	2,866,944	-
	<u>29,778,162</u>	<u>25,006,568</u>

Notes to the financial statements - cont'd

a. Contract assets 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 vendors represent amounts advanced for the acquisition of consumable spare parts and other consumables, which were yet to be delivered as at year end.

c. Other deposits represent cash deposits of NGN2.30 billion held as collateral with respect to bank guarantees issued in favour of the Nigerian Bulk Electricity Trading Company Plc (NBET) and the Operator of the Nigeria Electricity Market (ONEM). These bank guarantees were issued by a Nigerian commercial bank (Note 28(c)). These deposits will mature at the expiration of the guarantees which are long-term in nature and have been classified as non current in these financial statements.

d. Reconciliation of changes in trade and other receivables to statement of cashflows is as follow:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Changes in trade and other receivables	(4,771,594)	(755,822)
Impairment loss on trade receivables (Note 29(a))	(3,450,342)	(5,023,401)
Trade receivables written off	(6,303,774)	(3,687,242)
Effect of IFRS 9 (Note 35b)	2,544,144	-
	<u>(11,981,566)</u>	<u>(9,466,465)</u>

Information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Notes 29(a) and (c).

21. Cash and cash equivalents

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Bank balances	4,618,974	7,491,471
Cash on hand	5,463	21,407
	<u>4,624,437</u>	<u>7,512,878</u>

22. Capital and reserves

Share capital comprises:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
<i>Authorised:</i>		
10,000,000 ordinary shares of 50k each	<u>5,000</u>	<u>5,000</u>
<i>Issued, called-up and fully paid:</i>		
10,000,000 ordinary shares of 50k each	<u>5,000</u>	<u>5,000</u>

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.

Notes to the financial statements - cont'd

23. Loans and borrowings

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Loans from customers - CAPMI (Note 23(a))	1,383,528	1,857,545
Loans from CBN - NEMSF Intervention Fund (Note 23(c))	3,337,347	3,404,265
Loans from commercial bank (Note 23(d))	-	74,985
Loans from related parties (Note 23(b))	-	2,232,706
	<u>4,720,875</u>	<u>7,569,501</u>
Loans and borrowings are analysed into:		
Non-current	3,056,506	4,931,879
Current	<u>1,664,369</u>	<u>2,637,622</u>
	<u>4,720,875</u>	<u>7,569,501</u>

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 varied 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.

On 16 August 2016, NERC issued an order discontinuing the CAPMI scheme. However, advance payment from customers were allowed up till 1 November 2016. Thus, subsequent to this date, no further payments were received from customers with respect to this scheme. Outstanding amount is expected to be refunded to the customers. The outstanding balance at the year end relates to the amount yet to be refunded to customers.

Cost of installation and other accessories not yet installed as at year end was NGN134.55 million (2017: NGN134.55 million) and is recorded as deferred revenue (Note 25). Interest expense for the year amounted to NGN16.55 million (2017: NGN 42.66 million).

b. Loan from related party - West Power and Gas Ltd

On 17 December 2013, the Company entered into a loan agreement with its parent company, West Power and Gas Ltd amounting to \$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 to be disbursed in Naira (NGN) and US Dollar in a ratio of 30:70. The loan agreement had an original tenor of five (5) years.

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 made 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.

Notes to the financial statements - cont'd

In 2017, the working capital facility was restructured with a tenure extension of two (2) years ending December 2018. Outstanding interest amounting to \$0.5 million together with principal of \$5.53 million was consolidated into one facility.

A total amount of \$15 million has been drawn down on both facilities till date. No amount was drawn on the loan during the year (2017: Nil). Interest expense for the year amounted to \$264,101 (NGN95.35 million) (2017: \$1,165,348 (NGN636.98 million)). The loan has been fully repaid as at year end.

c. CBN - Nigerian Electricity Market Stabilization Facility (CBN - NEMSF)

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 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 Company received NGN5.8 billion from this fund in 2015. The loan is 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%.

During the year, a disbursement of NGN214 million was made by CBN to Market Operators. This disbursement was made directly to the Market Operators and EKEDP did not receive any cash for the disbursement.

Interest expenses for the year amounted to NGN799.16 million (2017: NGN823.89 million).

d. Loan from commercial bank

On 20 September 2016, the Company obtained two facilities from a local commercial bank. The first facility was a loan of NGN300 million to finance the payment for the supply and installation of smart meters which was fully repaid by the Company in 2017.

The second facility is a loan of NGN300 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 NGN3.31 million (2017 :NGN38.76 million).

An amount which is equivalent to one (1) month installment payment has been placed under lien with the bank for the duration of the remaining facility and has been included in other receivables in these financial statements (Note 20). The loan has been fully repaid as at year end.

Notes to the financial statements - cont'd

e. The movement on the loan balances during the year was as follows:

	<u>2018</u> <u>NGN'000</u>	<u>2017</u> <u>NGN'000</u>
Balance at 1 January	7,569,502	12,509,342
Proceeds from drawdowns	214,269	
Loan repayment	(3,312,471)	(4,092,807)
Interest paid	(632,636)	(903,163)
Interest expense (Note 12)	914,370	1,567,398
Day-one fair value gain on initial recognition of loan	(61,266)	(17,060)
Exchange difference	29,108	(1,494,208)
Balance at 31 December	<u>4,720,876</u>	<u>7,569,502</u>

24. Trade and other payables

	<u>2018</u> <u>NGN'000</u>	<u>2017</u> <u>NGN'000</u>
Trade payables (Note 24(a))	134,133,271	77,008,461
Employee related liabilities	104	40,528
Payable to NELMCO (Note 24(b))	1,138,931	1,238,106
Accruals	4,397,554	4,206,622
Other payables	164,409	134,139
	<u>139,834,269</u>	<u>82,627,856</u>
Statutory liabilities (Note 24(c))	14,179,914	10,525,989
	<u>154,014,183</u>	<u>93,153,845</u>

a. Trade payables is analysed into:

	<u>2018</u> <u>NGN'000</u>	<u>2017</u> <u>NGN'000</u>
Trade payables to ONEM	11,820,660	7,528,111
Trade payables to NBET	118,998,722	65,288,294
Trade payables to Egbin Power Plc	1,452,195	1,588,741
Trade payables to Paras Energy	950,499	1,204,398
Trade payables to other suppliers	911,195	1,398,917
	<u>134,133,271</u>	<u>77,008,461</u>

The Company's exposure to liquidity and market risks for trade and other payables is included in Note 29.

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. Included in this balance is an amount of NGN35 million which represents rent payable to NELMCO as at year end by the Company (2017: NGN 99.18 million).

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.

Notes to the financial statements - cont'd

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

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Changes in trade and other payables	60,860,338	46,456,819
Interest accrued on baseline remittance shortfall on market operator's bill (Note 12)	(15,825,703)	(7,545,405)
NIPP/PMU assets recognised during the year (Note 16(f))	<u>(141,472)</u>	<u>-</u>
	<u>44,893,163</u>	<u>38,911,414</u>

25. Deferred income

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Advance collections from prepaid customers (Note 25(a))	606,690	313,675
Deferred income on CAPMI scheme (Note 23(a))	134,548	134,548
Government grant (Note 25(c))	<u>1,068,208</u>	<u>1,238,264</u>
	<u>1,809,446</u>	<u>1,686,487</u>

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 prorated basis to estimate quantity of the last units of energy purchased by the customer that should be deferred. Included in advance collections from pre-paid customers is an amount of NGN203 million representing loss of revenue recovered from pre-paid customers.

b. Deferred income is analysed into:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Current portion	945,956	666,182
Non current portion	<u>863,490</u>	<u>1,020,305</u>
	<u>1,809,446</u>	<u>1,686,487</u>
Contract liabilities	741,238	-
Deferred revenue	-	448,223
Others	<u>1,068,208</u>	<u>1,238,264</u>
	<u>1,809,446</u>	<u>1,686,487</u>

c. Day-one fair value gain on CBN-NEMSF loan intervention fund relates to the benefits derived by the Company from the low interest loan received from the Central Bank of Nigeria (CBN) (Note 23(c)). The difference between the fair value of the facility and face value of the loan has been accounted for as government grant. The government grant is amortized over the life of the associated assets.

d. Reconciliation of changes in deferred revenue to the statement of cashflows is as follows:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Changes in deferred revenue	122,959	(297,169)
Additions during the year (Note 23 (e))	(61,266)	(17,060)
Day-one value gain released to profit or loss (Note 12(b))	<u>231,324</u>	<u>230,540</u>
	<u>293,017</u>	<u>(83,689)</u>

Notes to the financial statements - cont'd

26. Non- audit services provided by KPMG Professional Services

During the year, KPMG Professional Services did not provide any non-audit service to the Company (2017: advisory services provided). Payment made during the year in relation to the advisory service provided in 2017 was NGN40 million (2017: Nil).

27. 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. Note 23(b) and 23 detail transactions between the Company and its parent, West Power and Gas Limited. A novation agreement was signed by West Power and Gas Limited and WPG Services and became effective 3 August 2018. The agreement is for the provision of technical support services to Eko Electricity Distribution Plc.

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. This was novated to West Power and Gas Limited during the year. During the year, expenses incurred by the Company with respect to services provided on this contract amounted to \$16.5 million (NGN5.7 billion) (2017: \$16.5 million (NGN6.1 billion)). No amount was due to WPG Services Limited as at year end (2017: Nil).

c. 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. 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 Orji 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 expenses incurred during the year with respect to the services provided by ACL was NGN6.8 million (2017: NGN16.99 million). The Company paid NGN6.8 million (2017: NGN16.99 million) during the year. No amount was due to ACL as at year end (2017: Nil).

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, some staff of George Etomi & Partners were seconded to the Legal department of the Company to assist the department in discharging its functions during the year. The total expenses incurred during the year with respect to the services provided by George Etomi & Partners was NGN104.4 million (2017: NGN28.88 million). The Company paid NGN104.4 million (2017: NGN28.88 million) during the year. No amount was due to George Etomi & Partners as at year end (2017: Nil).

Notes to the financial statements - cont'd

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 2016, the Company made an advance payment amounting to NGN2.88 billion with respect to the Design, installation and implementation of SCADA/DMS phase of the project as well as NGN220 million in 2017 for the renovation of 5th and 6th floor of EKEDP head office as the SCADA control center and Supply and installation of ICT facilities for SCADA operations phase of the project. During the year, a further amount of NGN434.62 million (2017: NGN220 million) was paid to DPL which relates to the Renovation of 5th and 6th floor of EKEDP head office as the SCADA control center and Supply and installation of ICT facilities for SCADA operations of the project. The amount advanced as at the year end to DPL with respect to the Design, installation and implementation of SCADA/DMS of the SCADA project are disclosed as non-current prepayments (Note 19) in these financial statements. No other amount was due from DPL as at yearend (2017: Nil). The directors confirm that the project is on-going and that the amounts advanced is being monitored and are not impaired.

iv. CFL Swift Technology (CFL)

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 Nil (2017: NGN29.3 million). The Company paid NGN11 million (2017: NGN18.3 million) to CST in current year. The amount due to CFL as at year end was Nil (2017: NGN11 million).

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 NGN163.5 million (2017: NGN59.96 million). The Company paid NGN163.5 million (2017: NGN59.96 million). No amount was due to SIBL as at year end (2017: Nil).

vi. Key management personnel compensation comprised:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Short-term benefits	<u>672,512</u>	<u>663,756</u>

Notes to the financial statements - cont'd

28. 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. 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 a number of litigations and claims (separate from those taken over by NELMCO). Maximum exposure based on the damages being claimed by the litigants amounts to NGN824 million (2017: NGN11.5 million). Based on legal advice, management has performed an assessment of all litigations and claims and believe that none of the cases are likely to succeed against the Company or lead to any material loss; and as such no provisions have been recorded in these financial statements.

c. Guarantees

The Company has obtained bank guarantees amounting to NGN7.78 billion (2017: NGN7.78 billion) in favour of Nigeria Bulk Electricity Trading Company Plc (NBET) and NGN1.47 billion (2017: NGN1.47 billion) in favour of Operator of Nigeria Electricity Market (ONEM). This is to guarantee payment to NBET and ONEM for 90 days power purchase and also to ONEM for provision of administrative service. The directors do not expect any significant loss to arise from these guarantees.

29. Financial risk management

This Company has exposure to the following risks arising from 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 analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Notes to the financial statements - cont'd

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 and monitors compliance with 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 counterpart 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:

	<u>Notes</u>	<u>2018</u> <u>NGN'000</u>	<u>2017</u> <u>NGN'000</u>
Trade and other receivables*	20	28,082,985	24,111,299
Cash and cash equivalents**	21	4,618,974	7,491,471
		<u>32,701,959</u>	<u>31,602,770</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.

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

	<u>2018</u> <u>NGN'000</u>	<u>2017</u> <u>NGN'000</u>
Impairment loss on trade receivables and contract assets arising from contracts with customers	(3,450,342)	(5,023,401)
Write off of trade receivables	(6,303,774)	(3,687,242)
	<u>(9,754,116)</u>	<u>(8,710,643)</u>

Trade receivables with a contractual amount of NGN 6.3bn written off during 2018 (2017: NGN3.69bn) are not subject to enforcement activity.

Trade receivables and contract assets

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base. The Company has a large customer base within its licensed area of supply thereby reducing its concentration of credit risk. To further mitigate credit risk, the Company is continually increasing the share of prepaid customers in its portfolio. The Company's exposure to credit risk is influenced by the characteristics of each category of customers.

In monitoring credit risk, customers are grouped according to common credit risk characteristics – tariff rates, metering status and volume of consumption. No security is provided for the electricity supplied though the Company retains the right to disconnect non paying customers to enforce collections. The Company does not require collateral in respect of trade and other receivables. The company does not have trade receivable for which no loss allowance is recognised because of collateral.

Notes to the financial statements - cont'd

Trade receivables and contract assets

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Residential customers	13,893,643	9,884,771
Commercial customers	5,130,414	5,657,691
Industrial customers	743,269	868,113
Special customers and street light	2,793,658	2,316,410
Total	<u>22,560,984</u>	<u>18,726,985</u>

Comparative information under IAS 39

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

	<u>2017</u>
	<u>NGN'000</u>
Neither past due nor impaired	11,121,933
Past due 0 - 30 days	4,304,504
Past due 31 - 90 days	837,237
Past due 91 - 120 days	565,502
Past due 120 days and above	1,897,809
	<u>18,726,985</u>

Impaired trade receivables at 31 December 2018 had a gross carrying amount of NGN39.2 billion (2017: NGN34.40 billion). At 31 December 2018, there was an impairment loss of NGN16.6 billion (2017: NGN15.69 billion) related to several customers that the Company was not expecting to pay their outstanding balances.

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

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

Loss rates are calculated separately for exposures in different segments based on nature of customers as this reflects common credit risk characteristics of the customers.

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

Notes to the financial statements - cont'd

	Expected credit loss rate	Gross carrying amount	Loss allowance
	%	NGN'000	NGN'000
Residential customers	41	24,049,313	(10,155,671)
Commercial customers	46	9,517,062	(4,386,648)
Industrial customers	9	817,960	(74,691)
Special customers and street light	41	4,771,495	(1,977,836)
		<u>39,155,830</u>	<u>(16,594,846)</u>

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

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

	2018	2017
		Collective impairments
	NGN'000	NGN'000
Balance at 1 January under IAS 39	15,688,647	10,665,246
Adjustment on initial application of IFRS 9	<u>(2,544,143)</u>	-
Balance at 1 January under IFRS 9	13,144,504	10,665,246
Net remeasurement of loss allowance	<u>3,450,342</u>	<u>5,023,401</u>
Balance at 31 December	<u>16,594,846</u>	<u>15,688,647</u>

Cash at bank

The Company held cash and cash equivalents of NGN4.62 billion at 31 December 2018 (2017: NGN 7.51 billion). The cash and cash equivalents are held with bank and reputable financial institution in Nigeria. Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

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

Notes to the financial statements - cont'd

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. No impairment was recorded with respect to this amount in the current year as they are considered fully recoverable and thus have minimal credit risk (2017: Nil).

Other deposits

Other deposits represent cash deposits used to collateralize Bank Guarantees (BGs) issued in favour of Nigerian Bulk Electricity Trading Company Plc (NBET) and the Operator of the Nigeria Electricity Market (ONEM). These cash deposits are held by reputable banks and financial institutions. In the directors' view, all amounts are collectible. No impairment was recorded with respect to this amount in the current year as they are considered fully recoverable and thus have minimal credit risk (2017: Nil).

b. Liquidity risk

Liquidity risk is the risk that the Company either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access them only at excessive cost. The Company'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 by

- intensifying efforts to collect its trade receivables and continuous effort to improve its cash collection process;
- accessing the various financial interventions applicable to the Company under the PSRP. See also (Note 30)
- Managing operational cashflows by delaying payments to the ONEM/NBET on the basis that the implication of such delays are limited to interest charges.

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

Notes to the financial statements - cont'd

	Notes	Carrying amount <u>NGN'000</u>	Total <u>NGN'000</u>	Contractual cash flows			
				0 - 6 months	6 - 12 months	1 - 2 years	Over 2 years
				<u>NGN'000</u>	<u>NGN'000</u>	<u>NGN'000</u>	<u>NGN'000</u>
Non - derivative financial liabilities							
31 December 2018							
Loans and borrowings		4,720,875	5,140,664	177,441	164,086	370,653	4,428,484
Trade and other payables*		<u>139,834,269</u>	<u>139,834,269</u>	<u>139,834,269</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>144,555,144</u>	<u>144,974,933</u>	<u>140,011,710</u>	<u>164,086</u>	<u>370,653</u>	<u>4,428,484</u>
31 December 2017							
Loans and borrowings		7,569,501	11,316,921	2,975,318	531,642	965,408	6,844,553
Trade and other payables*		<u>82,627,856</u>	<u>82,627,856</u>	<u>82,627,856</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>90,197,357</u>	<u>93,944,777</u>	<u>85,603,174</u>	<u>531,642</u>	<u>965,408</u>	<u>6,844,553</u>

* Carrying amounts 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 optimising the return.

The Company manages market risks by keeping costs low through various cost optimisation 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 borrowings that are denominated in currencies other than the functional currency which is 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 - cont'd

Exposure to currency risk

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

	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>
Financial assets		
Cash and cash equivalents	24	9
Financial liability		
Loans and Borrowings	-	(6,241)
Net statement of financial position exposure	<u>24</u>	<u>(6,232)</u>

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	
	<u>NGN'000</u>	<u>NGN'000</u>
31 December 2018		
USD (10 percent strengthening/(weakening))	<u>(874)</u>	<u>874</u>
31 December 2017		
USD (10 percent strengthening/(weakening))	<u>222,962</u>	<u>222,962</u>

The following significant exchange rates were applied during the year:

	<u>Average rate</u>		<u>Spot rate at Report date</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	NGN	NGN	NGN	NGN
USD	<u>361.77</u>	<u>370.75</u>	<u>364.18</u>	<u>358.00</u>

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

Exposure to interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments is as follows:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Fixed rate instruments		
Financial liabilities	<u>4,720,875</u>	<u>7,569,501</u>
	<u>4,720,875</u>	<u>7,569,501</u>
Variable rate instruments		
Financial liabilities	<u>27,675,965</u>	<u>15,489,574</u>
	<u>27,675,965</u>	<u>15,489,574</u>

Notes to the financial statements - cont'd

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model.

Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Effect on Profit or Loss	
	<u>NGN'000</u>	<u>NGN'000</u>
31 December 2018		
Variable rate instruments	<u>276,760</u>	<u>(276,760)</u>
31 December 2017		
Variable rate instruments	<u>154,896</u>	<u>(154,896)</u>

d. Fair values

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Notes to the financial statements - cont'd

	Financial assets at amortised cost	Other financial liabilities	Total carrying amount	Fair value (Level 2)
	<u>NGN'000</u>	<u>NGN'000</u>	<u>NGN'000</u>	<u>NGN'000</u>
31 December 2018				
Financial Assets				
Trade and other receivables* (Note 20)	28,082,985	-	28,082,985	-
Cash and cash equivalents (Note 21)	<u>4,624,437</u>	<u>-</u>	<u>4,624,437</u>	<u>-</u>
	<u>32,707,422</u>	<u>-</u>	<u>32,707,422</u>	<u>-</u>
Financial liabilities				
Trade and other payables**	-	139,834,269	139,834,269	-
Loans and borrowings	<u>-</u>	<u>4,720,875</u>	<u>4,720,875</u>	<u>4,720,875</u>
	<u>-</u>	<u>144,555,144</u>	<u>144,555,144</u>	<u>4,720,875</u>
31 December 2017				
Financial Assets				
Trade and other receivables	24,111,299	-	24,111,299	-
Cash and cash equivalents	<u>7,512,878</u>	<u>-</u>	<u>7,512,878</u>	<u>-</u>
	<u>31,624,177</u>	<u>-</u>	<u>31,624,177</u>	<u>-</u>
Financial liabilities				
Trade and other payables*	-	82,627,856	82,627,856	-
Loans and borrowings	<u>-</u>	<u>7,569,501</u>	<u>7,569,501</u>	<u>3,544,868</u>
	<u>-</u>	<u>90,197,357</u>	<u>90,197,357</u>	<u>3,544,868</u>

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

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

Notes to the financial statements - cont'd

30. Operating Leases

The Company leases a number of its office buildings, service stations and operational vehicles under both cancelable and non-cancelable leases. Lease rentals on its office buildings and service stations are paid upfront and included in prepayments which are amortised to profit or loss over the life of the lease. Lease payments are renegotiated when necessary to reflect market rentals.

The Company also leases a number of its operational vehicles under operating lease agreements. The leases typically run for a period of three years, with an option to renew the lease after that date. Lease payments are renegotiated every three years to reflect market rentals.

a. Future minimum lease payments

At 31 December, the future minimum lease payments under non-cancelable leases were payable as follows.

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Less than one year	119,293	224,043
Between one and two years	91,642	111,145
More than two years	-	85,347
	<u>210,935</u>	<u>420,535</u>

b. Amounts recognised in profit or loss

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Vehicle lease expense (Note 10(b))	315,614	138,108
Rent expense	92,504	170,115
	<u>408,118</u>	<u>308,223</u>

31. 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:

	<u>2018</u>	<u>2017</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Total liabilities	160,934,273	103,710,546
Less: Cash and cash equivalents	(4,624,437)	(7,512,878)
Adjusted net debt	156,309,836	96,197,668
Total equity	(71,165,461)	(14,810,555)
Net adjusted debt to equity ratio	<u>(2.20)</u>	<u>(6.50)</u>

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.

Notes to the financial statements - cont'd

32. Events after the reporting period

(a) COVID-19 Outbreak

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

The Company has performed a business risk assessment specific to the pandemic's possible effects and no significant adjustments has been deemed applicable to these financial statements to date.

(b) Finance Act 2019

On 13 January 2020, the Finance Act, 2019 became effective and introduced significant changes to some sections of the Companies Income Tax Act (CIT), Value Added Tax Act, Petroleum Profits Tax Act, Personal Income Tax Act, Capital Gains Tax Act, Customs and Excise Tariff etc. (Consolidation) Act and Stamp Duties Act. Some of the changes include a change in the Value Added Tax rate to 7.5% and a change in the minimum tax computation basis to 0.5% of the Company's gross turnover less franked investment income. The Company expects an increase in the minimum tax charge in subsequent periods as a result of this amendment.

(c) 2019 Tariff shortfall

Subsequent to year end, NERC issued two Minor Review Orders (Order No. NERC/GL/172A and NERC/GL/186B/2019). These Orders awarded tariff shortfall of NGN95.6 billion to the Company for 2015-2018; NGN58.6 billion for 2019 and projected NGN54 billion for 2020. These tariff shortfalls will be offset against amounts payable to NBET/ONEM in the subsequent years.

(d) Cost reflective tariffs

On 26 June 2020, the Company issued a notification of the commencement of service reflective tariffs from 1 July 2020. However, the implementation of this increase was delayed by NERC in consideration of the impact of COVID-19 on the Nigerian economy. Subsequently, implementation commenced on 1 September 2020. As a consequence, the Company is now required to settle 75.3% of its NBET bills going forward. As at the date of approval of these financial statements, the Company is yet to determine the full financial effect of the cost reflective tariffs.

On 28 September 2020, NERC issued an Order to suspend for a period of 14-days, with effect from 28 September 2020 to 11 October 2020, the implementation of the service reflective tariff order that was issued. As at the date of this report, the suspension of the service reflective tariff is yet to be lifted. The implication is that all tariffs for end-user customers and market obligations of the DisCos shall be computed on the basis of rates applicable as at 31 August 2020 for the period of the suspension.

Notes to the financial statements - cont'd

(e) Increase of shares

Subsequent to year end, on 18 February 2019, the Company increased its authorized share capital by 390m shares and issued same on that date.

33. Correction of prior year error

The Company erroneously omitted operating expenses related to 2017 from the 2017 financial statements. As a consequence, administrative expenses and trade and other payables were understated in prior year. The errors have been corrected by restating each of the affected financial statement line items for prior period. The impact of this error is limited to the Company's financial performance for the year ended 31 December 2017 and the statement of financial position as at 31 December 2017. Therefore, a third balance sheet is not presented. The following table summarize the impact on the financial statement.

(i) Statement of financial position (Extract)

Impact of correction of error

31 December 2017	As previously reported NGN'000	Adjustment NGN'000	As restated NGN'000
Total assets	<u>88,899,991</u>	<u>-</u>	<u>88,899,991</u>
Trade and other payables	92,863,278	290,567	93,153,845
Others	<u>10,556,701</u>	<u>-</u>	<u>10,556,701</u>
Total liabilities	<u>103,419,979</u>	<u>290,567</u>	<u>103,710,546</u>
Retained earnings	(14,524,988)	(290,567)	(14,815,555)
Others	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total equity	<u>(14,519,988)</u>	<u>(290,567)</u>	<u>(14,810,555)</u>

(ii) Statement of profit or loss and other comprehensive income (Extract)

Impact of correction of error

31 December 2017	As previously reported NGN'000	Adjustment NGN'000	As restated NGN'000
Revenue	69,065,249	-	69,065,249
Cost of sales	(76,067,069)	-	(76,067,069)
Gross loss	<u>(7,001,820)</u>	<u>-</u>	<u>(7,001,820)</u>
Other income	449,237	-	449,237
Administrative expenses	(16,387,641)	(290,567)	(16,678,208)
Impairment loss	-	-	-
Finance income	1,543,047	-	1,543,047
Finance cost	(18,021,985)	-	(18,021,985)
Net finance costs	(16,478,938)	-	(16,478,938)
Loss before minimum tax	<u>(39,419,162)</u>	<u>(290,567)</u>	<u>(39,709,729)</u>
Minimum tax	(86,343)	-	(86,343)
Loss for the year	<u>(39,505,505)</u>	<u>(290,567)</u>	<u>(39,796,072)</u>

Notes to the financial statements - cont'd

(iii) Statement of cashflows (Extract)

Impact of correction of error

31 December 2017	<u>As previously reported NGN'000</u>	<u>Adjustment NGN'000</u>	<u>As restated NGN'000</u>
Cash flows from operating activities			
Loss for the year	(39,505,505)	(290,567)	(39,796,072)
Finance cost	-	-	-
Changes in trade and other payables	38,620,847	290,567	38,911,414
Others	11,964,334	-	11,964,334
Net cash generated from operating activities	<u>11,079,677</u>	<u>-</u>	<u>11,079,677</u>
Net cash used in investing activities	<u>(3,908,664)</u>	<u>-</u>	<u>(3,908,664)</u>
Net cash used in financing activities	<u>5,407,990</u>	<u>-</u>	<u>5,407,990</u>
Cash and cash equivalents at 1 January	<u>5,739,187</u>	<u>-</u>	<u>5,739,187</u>
Effect of exchange rate fluctuations on cash held	<u>10,669</u>	<u>-</u>	<u>10,669</u>
Cash and cash equivalents 31 December	<u>7,512,878</u>	<u>-</u>	<u>7,512,878</u>

34. Going concern

Indicators of uncertainty

The Company reported a loss after tax of NGN58.90 billion for the year ended 31 December 2018 (2017: NGN39.80billion) and as of that date, the Company's current liabilities and total liabilities exceeded its current assets and total assets by NGN123.04 billion and NGN71.17 billion respectively (2017: NGN65.09 billion and NGN14.81 billion respectively). The Company has historically incurred losses due to the existing electricity pricing regime that has not allowed for full recovery of costs through price increases.

A significant portion, 81.29% (2017: 70.21%) of the Company's total liabilities are due to NBET and ONEM (included in trade payables). These include interest on unpaid NBET and ONEM invoices to date amounting to NGN27.68 billion (2017: NGN11.85 billion).

There is a general acknowledgment that the Nigerian Electricity Supply Industry (NESI) is far from where it should be. The recent fall in the value of the Naira together with the non-cost reflective nature of the tariffs present significant challenges to planned future investments required to achieve the growth targets of the Company. Although, the Company is still assessing the impact and situation is evolving, COVID-19 pandemic may cause protracted fall in demand for energy and a slow down in collections, which may aggravate liquidity shortfall (See Note 32).

These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as going concern in the foreseeable future.

Mitigating factors

In April 2017, the Federal Government of Nigeria (FGN), approved the Power Sector Recovery Program (PSRP) backed by the World Bank which is expected to address the liquidity issues in the NESI. The implementation of the PSRP commenced in 2017 with the issuance of a NGN701 billion Payment Assurance Guarantee (PAG) by the FGN to NBET and the FGN's payment of Ministries, Departments, and Agencies' (MDA) verified debts to the Distribution Companies (DISCOs).

Notes to the financial statements - cont'd

In prior year, the Company recovered the 2015 and 2016 verified MDA debts amounting to NGN4.59 billion from the Federal Government, through a net off against the amounts due to NBET. The implementation of the PSRP continued during the year as follows:

1. The CBN continued to make disbursement to NBET on the NGN701 billion Payment Assurance Guarantee (PAG) by the FGN.
2. The industry reset promised in the PSRP commenced with NERC performing preliminary computation of the industry tariff shortfalls (minor tariff review).

The PSRP backed by the World Bank, is expected to address the liquidity issues in the NESI. The industry reset promised in the PSRP continued subsequent to year end with NERC issuing two Minor Review Orders. These Orders awarded tariff shortfall of NGN95.6 billion for 2015-2018; NGN58.6 billion for 2019 and projected NGN54 billion for 2020. In accordance with the guidance of the NERC Orders, these tariff shortfalls will be offset against the payables to NBET/ONEM.

Paragraph 10 (d) of the NERC order No. NERC/GL/170 “The 2016 - 2018 Minor Review of the Multi Year Tariff Order (MYTO) 2015 and Minimum Remittance Order for the year 2019” states that “All interest payable by DisCos on unpaid invoices issued by NBET and the MO and attributable to tariff shortfall shall be transferred off the balance sheet of the utilities.

Also, subsequent to year end, on 25 February 2020, NERC issued the “Consultation Paper on Proposed Extra-Ordinary Tariff Review of the MYTO-2015 Tariff Order for the Nigerian Electricity Supply Industry” to facilitate stakeholder participation in this regulatory process. NERC’s decision on these proposals are to be incorporated in the MYTO model and an Order issued accordingly upon completion of the consultation process. Based on this, on 26 June 2020, the management of the Company issued a notification of the commencement of service reflective tariff from 1 July 2020. Although, this was initially suspended by NERC in consideration of the impact of COVID 19 on the economy, the service reflective tariffs took effect on 1 September 2020.

The directors have considered that the FGN has acknowledged in the PSRP, that the illiquidity of the distribution companies is mainly due to the tariff deficit and has instituted various mechanisms that will enable the Company continue to operate for at least one year from the financial year end. These include:

- Continued disbursement of payments to NBET by the DISCOs on liabilities incurred on the purchase of electricity. This approach allows the Company to only settle 42% of its NBET bills as required in NERC order No. NERC/GL/184/2019 “December 2019 Minor Review Multi Year Tariff Order 2015 and Minimum Remittance Order for the year 2020”
- Timely payments of monthly billings and offset of historical MDA debts.
- Projected tariff shortfall of NGN54 billion for 2020 to be awarded to the Company.

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

- Rapid deployment of meters to previously unmetered customers in line with NERC's Meter Asset Provider Regulation to improve billing and collection efficiency. The waiver of import levy on electricity meters for one year by the FGN (in August 2020) is expected to accelerate mass metering of unmetered customers.
- Strengthening the revenue assurance function to identify areas of revenue losses and putting in place mechanisms to reduce these losses.

Notes to the financial statements - cont'd

- Partnering with an experienced and qualified debt collection agent that offers unlimited options for achieving maximum recoveries of receivables. This will also improve collections in the remote and unbanked areas.
- Metering all distribution transformers for better energy accounting and proper estimation of bills across the Company's network.
- Enforcing regular customer meter reading in accordance with the NERC guidelines.
- Reporting instances of energy theft to relevant authorities to deter future occurrences
- The Company was granted a reduction in the interest rate charged on the CBN-NEMSF facility from 10% to 5%, effective 1 March 2020 till February 2021. This implies a reduction in the finance costs incurred by the Company during the period covered. This is part of CBN palliative for COVID-19 impacts on companies in Nigeria.

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

35. Changes to significant accounting policies

The Company has initially applied IFRS 15 (Note 35(a)) and IFRS 9 (Note 35(b)) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards. The effect of initially applying these standards is mainly attributed to the following:

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

a. IFRS 15 *Revenue from Contracts with Customers*

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

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients) with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated - i.e. it is presented, as previously reported, under IAS 18 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

There was no impact on the transition to IFRS 15 on retained earnings and statement of financial position at 1 January 2018.

Notes to the financial statements - cont'd

b. IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contract to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require impairment of financial assets to be presented as a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade and other receivables in finance costs. Consequently, the Company reclassified impairment losses amounting to NGN8.71 billion from 'finance costs' to 'impairment loss on financial assets' in the statement of profit or loss and OCI for the year ended 31 December 2017.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings.

	<i>Impact of adopting IFRS 9 on opening balance</i>
	<u>NGN'000</u>
Retained Earnings	
Recognition of expected credit loss under IFRS 9	(2,544,144)
Related tax	-
Impact at 1 January 2018	<u>(2,544,144)</u>

The Company has not recognized the net deferred tax asset on transition date due to unpredictability of availability of sufficient future taxable profits.

i. Classification and measurement of financial assets and financial liabilities

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

IFRS 9 largely retains the existing requirements of IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related financial liabilities and derivative financial instruments.

For explanations on how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 7(f).

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

Notes to the financial statements - cont'd

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
			<u>NGN'000</u>	<u>NGN'000</u>
Financial assets				
Trade and other receivables	Loans and receivables	Amortised cost	25,006,568	27,550,712
Cash and cash equivalents	Loans and receivables	Amortised cost	<u>7,512,878</u>	<u>7,512,878</u>
Total Financial assets			<u>32,519,446</u>	<u>35,063,590</u>
Financial liabilities				
Trade payables	Other financial liabilities	Other financial liabilities	(82,627,856)	(82,627,856)
Loans and borrowings	Other financial liabilities	Other financial liabilities	<u>(7,569,501)</u>	<u>(7,569,501)</u>
Total Financial liabilities			<u>(90,197,357)</u>	<u>(90,197,357)</u>

a. Trade and other receivables that were classified as loans and other receivables under IAS 39 are now classified as amortised costs. A decrease of NGN2.54 billion in allowance for impairment over these receivables was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

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

	IAS 39 Carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
	<u>NGN'000</u>	<u>NGN'000</u>	<u>NGN'000</u>	<u>NGN'000</u>
Financial assets				
Cash and cash equivalents:				
Brought forward: <i>Loans and receivables</i>	7,512,878			
Remeasurement		-	-	
Carried Forward: <i>Amortised cost</i>				7,512,878
Trade and other receivables				
Brought forward: <i>Loans and receivables</i>	25,006,568			
Remeasurement		-	2,544,144	
Carried Forward: <i>Amortised cost</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,550,712</u>
Total Amortised cost	<u>32,519,446</u>	<u>-</u>	<u>2,544,144</u>	<u>35,063,590</u>

Notes to the financial statements - cont'd

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 - see Note 7(k).

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

	<u>NGN'000</u>
Loss allowance at 31 December 2017 under IAS 39	15,688,647
Reduction in impairment at 1 January 2018 on:	
Trade and other receivables as at 31 December 2017	(2,544,144)
Cash and cash equivalents	-
Loss allowance at 1 January 2018 under IFRS 9	<u>13,144,503</u>

Additional information about how the Company measures the allowance for impairment is described in Note 7(k).

Other national disclosures

Value Added Statement
For the year ended 31 December

	<u>2018</u>		<u>2017</u>	
	<u>NGN'000</u>	%	<u>NGN'000</u>	%
Revenue	76,156,820		69,065,249	
Bought-in materials and services				
- Imported	-		-	
- Local	(96,215,166)		(80,974,275)	
Other income	457,148		449,237	
Finance income	321,563		1,756,528	
	<u>(19,279,635)</u>	<u>100</u>	<u>(9,703,261)</u>	<u>100</u>
To Government:				
- taxes	95,208	-	86,343	(1)
To employees:				
- as salaries, wages, directors' remuneration and other staff costs	5,817,211	(30)	5,422,156	(56)
To providers of finance:				
- finance costs and similar charges	26,990,385	(140)	18,235,466	(188)
Retained earnings in business				
- to maintain and replace property, plant and equipment	6,659,900	(35)	6,305,892	(65)
- to maintain and replace intangibles assets	56,711	-	42,954	-
- to deplete reserves	(58,899,050)	305	(39,796,072)	410
Value added	<u>(19,279,635)</u>	<u>100</u>	<u>(9,703,261)</u>	<u>100</u>

Eko Electricity Distribution Plc
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Financial Summary

Statement of profit or loss and other comprehensive income

For the year ended 31 December

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Revenue	76,156,820	69,065,249	56,536,377	51,007,001	40,764,783
Cost of sales	(86,006,856)	(76,067,069)	(53,036,490)	(38,301,190)	(31,371,546)
Result from operating activities	(41,889,136)	(31,941,434)	(9,317,355)	(3,232,847)	(5,629,827)
Loss before taxation	(58,803,842)	(39,709,729)	(28,468,825)	(6,126,049)	(5,990,790)
Loss for the year	(58,899,050)	(39,796,072)	(28,662,720)	(6,577,375)	(6,461,882)
Total comprehensive income for the year	<u>(58,899,050)</u>	<u>(39,796,072)</u>	<u>(28,662,720)</u>	<u>(6,577,375)</u>	<u>(6,461,882)</u>

Statement of financial position

As at 31 December

Employment of funds

Property, plant and equipment	50,365,319	51,542,685	53,343,494	54,806,682	57,655,754
Intangible assets	240,432	125,525	156,348	142,763	70,513
Prepayments	2,891,858	3,060,212	2,841,750	-	-
Trade and other receivables	2,300,000	1,500,000	-	-	-
Net current (liabilities)/assets	(123,043,074)	(65,086,793)	(24,646,200)	3,100,960	3,326,913
Non current liabilities	(3,919,996)	(5,952,184)	(6,709,875)	(4,402,168)	(827,568)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net (liabilities)/assets	<u>(71,165,461)</u>	<u>(14,810,555)</u>	<u>24,985,517</u>	<u>53,648,237</u>	<u>60,225,612</u>

Funds employed

Share capital	5,000	5,000	5,000	5,000	5,000
Retained earnings	(71,170,461)	(14,815,555)	24,980,517	53,643,237	60,220,612
	<u>(71,165,461)</u>	<u>(14,810,555)</u>	<u>24,985,517</u>	<u>53,648,237</u>	<u>60,225,612</u>