

Eko Electricity Distribution Plc

Annual Report

31 December 2017

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Corporate Information

Registration Number RC. 638862

Directors:

Charles Momoh - Chairman
Adeoye Fadeyibi - Managing Director/CEO
Alex Okoh/Yunana Malo*
Ernest Oji
Tunji Olowolafe
Dere Otubu
George Etomi
*Yunana Malo is the alternate director to Alex Okoh
on the Board of Directors.

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

Results at a Glance

	<u>31 Dec 2017</u> <u>NGN'000</u>	<u>31 Dec 2016</u> <u>NGN'000</u>	<u>Change</u> <u>%</u>
Revenue	<u>69,065,249</u>	<u>56,536,377</u>	<u>22</u>
Loss before minimum tax and income tax	<u>(32,505,505)</u>	<u>(28,468,825)</u>	<u>38</u>
Minimum tax	<u>(86,343)</u>	<u>(193,895)</u>	<u>111.1</u>
Loss for the year	<u>(32,591,848)</u>	<u>(28,662,720)</u>	<u>145</u>
Total assets	<u>88,899,991</u>	<u>87,615,158</u>	<u>1</u>
Net current liabilities	<u>(64,796,226)</u>	<u>(24,646,200)</u>	<u>163</u>
Equity	<u>(14,019,988)</u>	<u>24,985,517</u>	<u>(176)</u>

Directors' Report

For the year ended 31 December 2017

The directors present their report on the affairs of Eko Electricity Distribution Plc ("the Company"), together with the financial statements and auditor's report for the year ended 31 December 2017.

Principal Activity and Business Review

Eko Electricity Distribution Plc ("the Company") was incorporated in Nigeria on November 8, 2005 as a public limited liability company to take over as a going concern, the electricity distribution activities and related business of the Power Holding Company of Nigeria ("PHCN") within the Eko Zone, which comprised of eight (8) districts namely Apapa, Agbara/ Badagry, Ojo, Festac, Ijora, Islands, Lekki and Mushin districts. During the year, Orile and Ibeju were separated from Mushin and Lekki respectively as stand alone districts. Thus, the Company now has ten (10) 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 privatization of the electricity sector effectively handing over five (5) generation and ten (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 22% from NGN56.54 billion to NGN69.07 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 43% 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 NGN7.00 billion compared to a gross profit of NGN3.50 billion made in prior year.

The Company reported a loss after tax of NGN39.51 billion for the year ended 31 December 2017 (2016 : NGN28.66 billion). Also as of that date, the Company's current liabilities and total liabilities exceeded its current assets and total assets by NGN64.80 billion and NGN14.52 billion respectively (2016: NGN24.65 billion and net assets of NGN24.99 billion).

Directors' Report

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 NGN75.61 billion (2016: NGN33.90 billion). This includes an accrued interest of NGN11.85 billion (2016: NGN4.3 billion) which has been recognized in these financial statements. Even though the cost of this shortfall is mainly due to lack of cost reflective tariff, the Company and all 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 NGN54.8% 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 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 trade payables and has significantly contributed to the net loss position of the Company. It is apparent that when the cost of power cannot be fully recovered from the tariff in a regulated entity, it portends a threat to the existence of the business and its ability to continue to operate as a going concern.

Directors' Report

Operating Results

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

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Revenue	69,065,249	56,536,377
Results from operating activities	(22,940,224)	(9,317,355)
Loss before minimum tax and income tax	(39,419,162)	(28,468,825)
Minimum tax	(86,343)	(193,895)
Loss before income tax year	(39,505,505)	(28,662,720)

No dividend has been recommended by the directors (2016: Nil).

Directors and their interests

The directors who served during the year were as follows:

Name	Designation	Retired/ (Resigned)/ Appointed
Charles Momoh	Chairman	
Oladele Amoda	Managing Director	29 December 2017
Benjamin Ezra Dikki/Obaro Osauzo*		(12 June 2017)
Alex Okoh/ Yunana Malo**		12 June 2017
Ernest Oji		
Tunji Olowolafe		
Dere Otubu		
George Etomi		

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

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

Subsequent to year end, on 2 January 2018, Engr. Adeoye Fadeyibi was appointed as the Managing director to the Company.

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

The directors had no direct interest in the shares of the Company during the year.

Directors' Report

Indirect

	<u>31 Dec 2017</u>		<u>31 Dec 2016</u>	
	<u>Unit</u>	<u>NGN</u>	<u>Unit</u>	<u>NGN</u>
Atlantic Meridean Limited (through Charles Momoh)	35,507,800	17,753,900	35,507,800	17,753,900
Kagera Limited (through Dr. Tunji Olowolafe)	10,849,000	5,424,500	10,849,000	5,424,500
Jachazes Investments Limited (through Ernest Oji)	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 26 to these financial statements.

Shareholding structure

The shareholding structure of the Company was as follows:

	<u>Ordinary Shares of 50 kobo each as at</u>		<u>Ordinary Shares of 50 kobo each as at</u>	
	<u>31 Dec 2017</u>	<u>%</u>	<u>31 Dec 2016</u>	<u>%</u>
	<u>Number</u>		<u>Number</u>	
West Power and Gas Ltd	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
	<u>10,000,000</u>	<u>100</u>	<u>10,000,000</u>	<u>100</u>

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 six (6) non-executive directors and one (1) executive director.

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

Directors' Report

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

DIRECTORS	DESIGNATION	<u>Jan 13,</u> <u>'17</u>	<u>Mar 2nd,</u> <u>'17</u>	<u>Mar 24,</u> <u>'17</u>	<u>Jun 12</u> <u>'17</u>	<u>Dec 5</u> <u>'17</u>
Charles Momoh	Chairman	X	X	X	X	X
Oladele Amoda	Managing Director	X	X	X	X	X
Osuafo Obaro	* Alternate (B.P.E) Director	X	X	X	R	R
Ernest Oji	Director	X	X	X	X	X
Tunji Olowolafe	Director	X	X	X	X	X
Dere Otubu	Director	X	X	X	X	X
George Etomi	Director	X	X	X	X	X
Yununa Malo	* Alternate (B.P.E) Director	Y	Y	Y	-	X
Alex Okoh	* Director (B.P.E)	Y	Y	Y	X	-

X = Attended

- = Absent

Y = Yet to be appointed as a Director

R = Resigned as a Director

** = Alternate director*

Sub Committees of the Board

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

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

1 Finance and General Purpose Committee

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

DIRECTORS	DESIGNATION	<u>Mar 24,</u> <u>'17</u>	<u>June 9,</u> <u>'17</u>	<u>Dec 8,</u> <u>'17</u>
Dere Otubu	Chairman	X	X	X
Ernest Oji		X	X	X
Engr Oladele Amoda		X	X	X
Osuafo Obaro		X	-	R
Tunji Olowolafe		X	-	X
George Etomi		X	-	X
Yunana Malo		Y	Y	X

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

Directors' Report

The Committee also has the following responsibilities:

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

2 Board Strategy and Technical Matters Committee

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

DIRECTORS	DESIGNATION	<u>Mar 24,</u> <u>'17</u>	<u>May 25,</u> <u>'17</u>	<u>Sept 18,</u> <u>'17</u>
Ernest Oji	Chairman	X	X	X
Oladele Amoda		X	X	X
Osauzo Obaro		X	X	-
Tunji Olowolafe		-	-	X
Dere Otubu		X	X	-
George Etomi		X	X	X
Alex Okoh		Y	Y	X

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

Directors' Report

3 Board Human Resources and Administration Committee

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

DIRECTORS	DESIGNATION	Mar 24, '17	Sept 18, '17	Sept 18, '17
Tunji Olowolafe	Chairman	X	X	X
Ernest Oji		X	-	X
Engr Oladele Amoda		X	X	X
Osauzo Obaro		X	X	-
Dere Otubu		X	-	-
George Etomi		X	-	X

- The Board Human Resources and Administration Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities in relation to:
- The compensation of the Managing Director/Chief Executive Officer and senior management;
- The selection and retention of staff;
- Planning for the succession of staff;
- Professional development for staff; and
- The management of pension and significant benefit plans for employees; and any additional matters delegated to the Human Resources Committee by the Board.

4 Legal, Corporate Governance and Regulatory Committee

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

DIRECTORS	DESIGNATION	Mar 23, '17	Sept 18, '17
George Etomi	Chairman	X	X
Tunji Olowolafe		-	-
Ernest Oji		X	X
Oladele Amoda		X	X
Osauzo Obaro		X	-
Dere Otubu		X	X
Alex Okoh		Y	X

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

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

Directors' Report

5 Audit and Compliance Committee

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

DIRECTORS	DESIGNATION	Jan 13, '17	Sept 18, '17	Apr 7, '17	May 25, '17
Dere Otubu	Chairman	X	X	-	X
Tunji Olowolafe		X	-	-	-
Ernest Oji		X	X	X	X
Oladele Amoda		X	-	X	-
Osauzo Obaro		X	X	X	X
George Etomi		X	X	-	X

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

The Committee derives its authority from the Board to:

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

Material Agreements

The Company has entered into the following material agreements:

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

The Company signed a deed of assignment of pre-completion receivables and liabilities with the Nigerian Electricity Liability Management Company Limited (NELMCO) effective 31 October 2013. As part of the privatization initiative and the restructuring of the Nigerian power sector, NELMCO was established to take over and manage the stranded assets and liabilities in the Power sector.

(a) Pre-Completion receivables

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

Directors' Report

(b) Pre-Completion liabilities

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

On the basis of 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 WPG Services Limited (a related party) for the provision of local, top level and expatriate staff to enable EKEDP meet the performance standard in the Performance Agreement entered into with BPE. See Note 26 (b).

3. Embedded generation

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. During the year, 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.

4. Revenue collection management

During the year, 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) (2016: eight (8)) districts excluding the head office. Each business unit is headed by a business manager who reports to the leadership team based at the head office.

Property, plant and equipment

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

Directors' Report

Charitable donations

The Company made no donation to charitable organisations during the year (2016: NGN300,000). 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 (2016: Nil).

Events after the reporting date

Events after the reporting date have been disclosed in Note 31 to the 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 (2016: six (6)). 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

(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.

Lagos, Nigeria

13 JULY 2018

BY ORDER OF THE BOARD



.....
GEP Nominees Limited

G. E. & P NOMINEES

Statement of Directors' Responsibilities in Relation to the Financial Statements for the year ended 31 December 2017

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 (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.

The directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

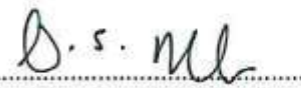
The directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not remain a going concern in the year ahead.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:


Signature

CHARLES MONIH
Name

13 JULY 2018
Date


Signature

DERE OTUBU
Name

13 JULY 2018
Date

Report of the Audit and Compliance Committee

To the members of Eko Electricity Distribution Plc

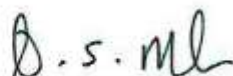
In accordance with the terms of reference as contained in the Company's Audit and Compliance Committee Charter and the provisions of section 359(6) of the Companies and Allied Matters Act of Nigeria, Cap C.20, Laws of the Federation of Nigeria, 2004, we, the Members of the Audit and Compliance Committee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

- (a) the accounting and reporting policies of the Company are in accordance with legal requirements and agreed ethical practices;
- (b) the scope and planning of the audit for the year ended 31 December 2017 are satisfactory;
- (c) having reviewed the independent auditor's memorandum of recommendations on accounting procedures and internal controls, we are satisfied with management responses thereon.

Members of the Audit and Compliance Committee are:

- 1. Dere Otubu
- 2. George Etomi
- 3. Tunji Olowolafe
- 4. Ernest Oji
- 5. Alex Okoh

Chairman



.....
Dere Otubu
Chairman, Audit and Compliance Committee
FRC/2013/IODN/00000004695
13 JUL 2018



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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 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 21- 68.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 33 to these financial statements which indicates that the Company incurred a loss after tax of NGN39.51 billion for the year ended 31 December 2017 and as of that date, the Company's current liabilities and total liabilities exceeded its current assets and total assets by NGN64.80 billion and NGN14.52 billion respectively. As stated in Note 33, these events or conditions, along with other matters as set forth in Note 33, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

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Olutayin A. Gbogi	Temiropo A. Onitiri	Tolulope A. Odokale	Victor U. Onyenika

Revenue recognition (NGN68.50 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
<ul style="list-style-type: none"> The complex billing and collection process that the Company needs to adhere to in order to recognise revenue. This includes the application of regulatory pronouncements/ orders in prior years and in the current year which have a direct impact on whether or not the revenue recognition criteria have been met. 	<ul style="list-style-type: none"> We considered the Regulator's pronouncements/ orders issued with respect to metering and billing of customers and performed tests to ascertain that the Company had considered these in its revenue recognition process. In addition, we recomputed revenue based on established tariffs to ensure that revenue recorded is in accordance with the regulatory pronouncements/ orders;
<ul style="list-style-type: none"> The historical customer payment patterns that in certain instances indicate that revenue recognition criteria is not met. This involves a certain degree of judgement. 	<ul style="list-style-type: none"> We considered the reasonableness of the basis of the directors' assessment of the threshold at which historical customer non-payment resulted in revenue recognition criteria not being met;
<ul style="list-style-type: none"> The billing of unmetered customers requires significant estimation as the Company needs to estimate energy consumption for revenue recognition purposes. 	<ul style="list-style-type: none"> We evaluated the Company's method for estimating energy sold to unmetered customers to ensure compliance with the billing methodology as prescribed by the Regulator. In addition, we reviewed total energy sold to metered and unmetered customers to ascertain that it did not exceed total energy purchased after adjusting for expected losses in the distribution process;
<ul style="list-style-type: none"> The manual process involved in estimating electricity consumed not yet billed (unbilled receivables) by post-paid customers and electricity paid for not yet consumed (deferred revenue) by the prepaid customers. 	<ul style="list-style-type: none"> We recalculated deferred and unbilled revenue to ensure that these are recorded in accordance with the Company's established policy. In addition, we performed procedures to ensure that there is no duplication in revenue recognition (that is, same customers are not billed under both post-paid and prepaid systems); We evaluated journal entries recorded in respective revenue accounts by checking that they represented valid adjustments to revenue recognized and were in accordance with the tariff methodology.

Recoverability of trade receivables (NGN22.14 billion)

See Note 7(j) (Accounting policy), Note 19 (Trade and other receivables) and Note 28(a) (Credit risk) to these financial statements

The key audit matter
How the matter was addressed during our audit

- | | |
|---|---|
| <ul style="list-style-type: none"> • There are significant estimates involved in determining the recoverability of amounts due from customers. In addition, collection is used by the Regulator and the Directors as a significant key performance indicator (KPI) to measure the performance of the Company and the management team respectively. • The Company encounters difficulty in collecting receivables from its unmetered customers who are billed based on estimated consumption. • The calculation of impairment loss on trade and accrued receivables is complex and involves significant assumptions by the Company's credit control team particularly with respect to the determination of impairment scores applicable to the various categories of customers. | <ul style="list-style-type: none"> • We evaluated the reasonableness of the company's assumptions around the collectability of receivables such as customers' willingness to pay and the Company's ability to collect considering each customer's meter status and activity status. We also assessed the customers' historical payment levels against the risk grading assigned to each customer. • We assessed the accuracy of the parameters applied by the Company in estimating impairment allowance; such as classification of customers into the various categories and the impairment scores assigned to the customers by agreeing the data to the relevant report as well as evaluating assumptions applied by the directors in determining the applicable impairment scores to be applied to the respective customers. • We recalculated the expected impairment losses based on agreed assumptions and compared to the amounts recorded in the financial statements. |
|---|---|

Information Other than the Financial Statements and Audit Report thereon

The Directors are responsible for the other information which comprises the Corporate Profile, Results at a Glance, 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 audit thereon.

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

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

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or 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 the 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:

Ayodele A. Soyinka, FCA

FRC/2012/ICAN/00000000405

For: KPMG Professional Services

Chartered Accountants

1 November 2018

Lagos, Nigeria



Statement of Financial Position

As at


	Notes	31 Dec 2017 NGN'000	Restated* 31 Dec 2016 NGN'000	Restated* 1 Jan 2016 NGN'000
ASSETS				
Property, plant and equipment	15	51,542,685	53,343,494	54,806,682
Intangible assets	16	125,525	156,348	142,763
Prepayments	18	3,060,212	2,841,750	2,839,890
Trade and other receivables	19	1,500,000	-	-
Non-current assets		56,228,422	56,341,592	57,789,335
Inventories	17	1,615,464	1,250,525	1,174,029
Prepayments	18	36,659	33,108	1,136,714
Trade and other receivables	19	23,506,568	24,250,746	22,915,415
Cash and cash equivalents	20	7,512,878	5,739,187	5,537,823
Current assets		32,671,569	31,273,566	30,763,981
Total assets		88,899,991	87,615,158	88,553,316
EQUITY AND LIABILITIES				
EQUITY				
Share capital	21	5,000	5,000	5,000
Retained earnings		(14,524,988)	24,980,517	53,643,237
Total equity		(14,519,988)	24,985,517	53,648,237
LIABILITIES				
Loans and borrowings	22	4,931,879	5,467,398	2,947,327
Deferred revenue	24(b)	1,020,305	1,242,477	1,454,841
Non-current liabilities		5,952,184	6,709,875	4,402,168
Loans and borrowings	22	2,637,622	7,041,944	6,866,994
Trade and other payables	23	92,863,278	46,697,026	20,993,150
Deferred revenue	24(b)	666,182	741,179	1,334,435
Provisions		-	10,247	10,247
Current tax liabilities	14(d)	1,300,713	1,429,370	1,298,085
Current liabilities		97,467,795	55,919,766	30,502,911
Total liabilities		103,419,979	62,629,641	34,905,079
Total equity and liabilities		88,899,991	87,615,158	88,553,316

*See Note 32

These financial statements were approved by the Board of Directors on 13 JUL 2018 and signed on its behalf by:


..... Managing Director: Adeoye Fadeyibi
FRC/2014/IODN/00000006970

..... Director: Dere Otubu
FRC/2013/IODN/00000004695

Additionally certified by: 
..... Chief Financial Officer: Joseph Esenwa
FRC/2013/ICAN/00000001049

The accompanying notes on pages 25 - 68 form an integral part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

		2017	Restated*
	Notes	NGN'000	2016
		NGN'000	NGN'000
Revenue	9	69,065,249	56,536,377
Cost of sales	10(a)	<u>(76,067,069)</u>	<u>(53,036,490)</u>
Gross (loss)/ profit		(7,001,820)	3,499,887
Other income	11	449,237	530,364
Administrative expenses	10(b)	<u>(16,387,641)</u>	<u>(13,347,606)</u>
Results from operating activities		<u>(22,940,224)</u>	<u>(9,317,355)</u>
Finance income	12	1,543,047	18,108
Finance costs	12	<u>(18,021,985)</u>	<u>(19,169,578)</u>
Net finance costs		<u>(16,478,938)</u>	<u>(19,151,470)</u>
Loss before minimum tax and income tax		(39,419,162)	(28,468,825)
Minimum tax	14(a)	(86,343)	(193,895)
Loss before income tax		<u>(39,505,505)</u>	<u>(28,662,720)</u>
Income tax expense	14(b)	-	-
Loss for the year		<u>(39,505,505)</u>	<u>(28,662,720)</u>
Other comprehensive income		-	-
Total comprehensive loss for the year		<u>(39,505,505)</u>	<u>(28,662,720)</u>

*See Note 32

The accompanying notes on pages 25 - 68 form an integral part of these financial statements.

Statement of Changes in Equity

<i>For the year ended 31 December 2016</i>	Share capital NGN'000	Retained earnings NGN'000	Total equity NGN'000
Balance at 1 January 2016	5,000	53,643,237	53,648,237
Total comprehensive income			
Loss for the year	-	(28,662,720)	(28,662,720)
Other comprehensive income	-	-	-
Total comprehensive income	-	(28,662,720)	(28,662,720)
Transactions with owners of the Company	-	-	-
Balance at 31 December 2016	5,000	24,980,517	24,985,517
<i>For the year ended 31 December 2017</i>			
Balance at 1 January 2017	5,000	24,980,517	24,985,517
Total comprehensive income			
Loss for the year	-	(39,505,505)	(39,505,505)
Other comprehensive income	-	-	-
Total comprehensive income	-	(39,505,505)	(39,505,505)
Transactions with owners of the Company	-	-	-
Balance at 31 December 2017	5,000	(14,524,988)	(14,519,988)

The accompanying notes on pages 25 - 68 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December

		<u>31 Dec 2017</u>	<u>31 Dec 2016</u>
	<u>Notes</u>	<u>NGN'000</u>	<u>NGN'000</u>
Cash flows from operating activities			
Loss for the year		(39,505,505)	(28,662,720)
Adjustments for:			
– depreciation of property, plant and equipment	15(a)	6,305,892	6,041,909
– amortisation of intangible assets	16	42,954	32,509
– customer-granted assets	9	(567,162)	(370,007)
– finance income	12	(1,543,047)	(18,108)
– finance costs	12	18,021,985	19,169,578
– write down / (write back) of bad inventory items	10(a)	193,628	(216,142)
– profit on disposal of property, plant and equipment	11	(34,740)	-
– write-off of property, plant and equipment		14,462	51,405
– minimum tax	14(a)	86,343	193,895
		<u>(16,985,190)</u>	<u>(3,777,681)</u>
Changes in:			
– Inventories	17(b)	(558,567)	139,646
– Trade and other receivables	19(d)	(9,466,465)	(11,465,838)
– Prepayments		(222,013)	202,434
– Trade and other payables	23(d)	38,620,847	21,612,176
– Deferred revenue	24(d)	(83,689)	(600,434)
Cash generated from operating activities		11,304,923	6,110,303
– Income taxes paid	14(d)	(215,000)	(62,610)
– Settlement of provisions		(10,247)	-
Net cash generated from operating activities		<u>11,079,676</u>	<u>6,047,693</u>
Cash flows from investing activities			
– Acquisition of property and equipment	15(f)	(3,952,643)	(3,674,158)
– Acquisition of intangible assets	16	(12,131)	(46,094)
– Proceeds from sale of property, plant and equipment		35,000	-
– Interest received	12	21,110	18,108
Net cash used in investing activities		<u>(3,908,664)</u>	<u>(3,702,144)</u>
Cash flows from financing activities			
– Loan received	22(f)	-	1,309,511
– Repayments - principal	22(f)	(4,092,807)	(2,141,392)
– Bank charges paid		(412,020)	(360,093)
– Interest paid	22(f)	(903,163)	(953,416)
Net cash used in financing activities		<u>(5,407,990)</u>	<u>(2,145,390)</u>
Net increase in cash and cash equivalents		1,763,022	200,159
Cash and cash equivalents at 1 January		5,739,187	5,537,823
Effect of exchange rate fluctuations on cash held		10,669	1,205
Cash and cash equivalents at 31 December		<u>7,512,878</u>	<u>5,739,187</u>

The accompanying notes on pages 25 - 68 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 eight (8) districts namely Apapa, Agbara/ Badagry, Ojo, Festac, Ijora, Islands, Lekki and Mushin districts. During the year, Orile and Ibeju were separated from Mushin and Lekki respectively as stand alone districts. Thus the Company now has ten (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 privatization of the power sector, the business activity of the Company during the year was governed by "the Interim Electricity Market Rules for the period between completion of privatization and the start of the Transitional Electricity Market (TEM) of the Nigerian Electricity Supply Industry (NESI)", and the TEM Rules which became effective from 1 February 2015.

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

2. Basis of accounting

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (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. The financial statements were authorised for issue by the Board of Directors on 13 July 2018

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

3. Functional and presentational currency

The 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.

Notes to the Financial Statements

4. Use of judgements and estimates

In preparing these financial statements, directors have made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(i) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2018 is included in the following notes:

Note 19(a) - Recognition of accrued receivables – determination of consumption factor to estimate unbilled revenue from Post-paid arrangements

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

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

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

Note 28(a) - Impairment of trade receivables.

I. Fair value measurement

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

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see Note 6).

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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.

Notes to the Financial Statements

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.

5. Basis of measurement

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

6. Measurement of fair values

Some of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. The Chief Financial Controller (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.
- 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.

Notes to the Financial Statements

7. Significant accounting policies

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

(A) Revenue

Revenue primarily represents the sales value of electricity and other related energy services supplied to customers during the year and excludes Value Added Tax. The Company generally recognizes revenue upon delivery of goods to customers or upon completion of services rendered. Delivery is deemed complete when the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed that is the electricity has been consumed by the customers, compensation has been contractually established and collection of the resulting receivable is probable. Revenue is measured at the fair value of the consideration received or receivable.

Revenue from the sale of electricity to postpaid customers is the value of the volume of units supplied during the year including an estimate of the value of volume of units supplied to these customers between the date of their last meter reading and the year-end.

In case of prepaid meter customers, an estimate is made for unearned revenue as at year-end and this is included in the statement of financial position as deferred revenue.

In line with the applicable tariff framework, prices charged by the Company for electricity distribution are regulated. However, the Company is allowed to recover excess costs incurred through future price increases charged on future deliveries. Similarly, where current regulated rates are determined to be excessive, the Company may be subject to a rate reduction in the future against future deliveries. The Company does not recognise an asset or liability, as the case may be, on account of under-recovery or over-recovery except where it is obligated to provide future services at a loss in which case a provision is recognised. Revenue from rendering of services is recognised when such services are rendered.

Billings to customers are recognized as revenue based on the evaluation of the historical payment patterns of the customers. For the purpose of revenue recognized in the current period, revenue is not recognized with respect to customers who are yet to make any payments over the last 12 months.

The Company receives transfers of certain items of PPE from customers. The Company assesses whether the transferred item meets the definition of an asset, and if so recognizes the transferred asset as PPE. At initial recognition, the asset is measured at fair value, and a corresponding amount is recognized as revenue when the Company has no future performance obligations.

(B) Finance income and finance 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 expenses, impairment losses 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.

Notes to the Financial Statements

(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.

(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 PPE. 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.

Notes to the Financial Statements

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	5 years
Equipment, 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.

iv. De-recognition

The carrying amount of an item of property, plant and equipment is derecognized 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 derecognized. 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.

(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.

Notes to the Financial Statements

(F) Financial instruments

The Company has only non-derivative financial assets which are classified into loans and receivables category.

The Company has only non-derivative financial liabilities which are classified into the other financial liabilities category.

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

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

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

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

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

ii. Non-derivative financial assets – measurement

Loans and receivables

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

iii. Non-derivative financial liabilities – measurement

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

(G) Cash and cash equivalents

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

(H) Inventories

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

Notes to the Financial Statements

(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.

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

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Notes to the Financial Statements

Objective evidence that financial assets are impaired includes:

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

Financial assets measured at amortised cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment.

Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

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

ii. Non-financial assets

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

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Financial Statements

(L) 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.

(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 recognized as finance cost.

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

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

Notes to the Financial Statements

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). 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.

Notes to the Financial Statements

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.

Notes to the Financial Statements

8. New standards and interpretations not yet adopted

A number of new standards, amendments to standards, and interpretations are effective for annual periods beginning after 1 January 2017 and early application is permitted; however, the Company has not applied the new or amended standards in preparing these financial statements.

Those standards, amendments to standards, and interpretations which may be relevant to the Company are set out below:

Effective for the financial year commencing 1 January 2018

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers

Effective for the financial year commencing 1 January 2019

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

Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (Amendment to IFRS 4), IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, *Annual Improvements to IFRSs 2014-2017 cycle* (Amendments to IFRS 1 *First-time adoption of IFRSs* and IAS 28 *Investments in Associates and Joint Ventures*, *Long-term interest in associates and joint ventures* (Amendments to IAS 28)),

Prepayment Features with Negative Compensation (Amendments to IFRS 9), *Classification and Measurement of Share-based Payment Transactions* (Amendments to IFRS 2), *Transfer of Investment Property* (Amendments to IAS 40) IFRS 17 *Insurance Contracts* are not applicable to the business of the Company and will therefore have no impact on future financial statements.

The directors are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

(a) IFRS 9 Financial Instruments

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

IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

The Company is yet to carry-out an assessment to determine the impact that the initial application of IFRS 9 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2018.

Notes to the Financial Statements

(b) IFRS 15 Revenue from Contracts with Customers

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

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

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

(c) IFRS 16 Leases

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

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

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company is yet to carry out an assessment to determine the impact that the initial application of IFRS 16 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2019.

Notes to the Financial Statements

9. Revenue

Revenue comprises:

	2017	2016
	NGN'000	NGN'000
Post-paid revenue	57,806,501	47,582,401
Pre-paid revenue	10,691,586	8,583,969
Revenue from sale of electricity	68,498,087	56,166,370
Customer-granted assets (Note 15(e))	567,162	370,007
Total revenue	69,065,249	56,536,377

10. Expenses by nature

Expenses by nature comprise:

	2017	2016
	NGN'000	NGN'000
(a) Cost of sales		
Cost of energy purchased from ONEM and NBET	69,279,130	38,846,731
Cost of energy purchased through bilateral agreements with third parties	428,994	7,842,904
Wheeling charge (Note 10 (c))	94,084	748,626
Write down / (write back) of bad inventory items	193,628	(216,142)
Depreciation (Note 15 (a))	6,071,233	5,814,371
Total cost of sales	76,067,069	53,036,490

Notes to the Financial Statements

	2017	2016
	NGN'000	NGN'000
(b) Administrative expenses		
Depreciation (Note 15 (a))	234,659	227,538
Amortisation (Note 16)	42,954	32,509
Maintenance expenses *	3,506,832	2,649,951
Consultancy fees *	3,161,804	1,600,583
Employee benefit expenses (Note 13(a))	5,044,058	4,930,899
Directors' remunerations (Note 13(d))	365,515	205,837
Auditor's remuneration	50,000	45,000
Staff training and welfare*	769,553	530,083
Transport, travels and insurance	292,949	191,176
Rent and rates	476,399	105,374
Vehicle lease expense (Note 29(b))	131,333	2,056
Publicity and advertisement	190,549	122,474
Revenue collection expenses*	1,444,261	1,578,717
Consumables	248,107	154,315
Write-off of property, plant and equipment	14,462	51,405
Penalties	11,318	18,570
Office expenses	402,888	901,119
Total administrative expenses	16,387,641	13,347,606

* Prior year numbers have been reclassified to conform with the current year reporting format without any impact on the total administrative expenses.

(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 amounted to NGN94.08 million (2016: NGN748.63 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 year.

Notes to the Financial Statements

11. Other income	2017	2016
	NGN'000	NGN'000
Re-connection fee	151,355	145,019
Contractor registration fees	6,900	13,200
Service connection fee	227,010	209,923
Insurance compensation	3,289	4,602
Car park income	25,943	52,620
Discount received	-	105,000
Profit on disposal of property, plant and equipment	34,740	-
	449,237	530,364

12. Finance income and costs	2017	2016
	NGN'000	NGN'000
<i>Finance income</i>		
Interest income on bank balances	21,110	18,108
Fair value gain on loans and borrowings	17,060	-
Net foreign exchange gain	1,504,877	-
Total finance income	1,543,047	18,108
<i>Finance costs</i>		
Interest expense on loans and borrowings	1,353,917	1,291,633
Impairment loss on trade receivables (Note 19 (d))	5,023,401	9,671,472
Impairment of NELMCO receivables	-	459,035
Trade receivables written off	3,687,242	-
Bank charges	412,020	360,093
Commitment fees on shareholder loan	-	899,312
Fair value loss on loans and borrowings	-	7,137
Net foreign exchange loss	-	2,975,157
Interest on shortfall remittance to electricity suppliers (Note 12(a))	7,545,405	3,505,739
Total finance costs	18,021,985	19,169,578
Net finance costs	(16,478,938)	(19,151,470)

Notes to the Financial Statements

(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) Included in interest expense is a credit amount of NGN213.48 million (2016 : NGN205.19 million) representing the impact of current year amortisation of day-one fair value gain on CBN loan into profit or loss (Note 24(d)).

13. Employee benefit expense and director's remuneration

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

	2017	2016
	NGN'000	NGN'000
Salaries	4,609,304	4,506,075
Pension costs	434,754	424,824
	<u>5,044,058</u>	<u>4,930,899</u>

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

	2017	2016
	Number	Number
Finance	182	191
Administrative	231	243
Operations	1,409	1,452
	<u>1,822</u>	<u>1,886</u>

(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:

	2017	2016
	Number	Number
Below - NGN1,000,000	208	349
NGN1,000,001 - NGN 2,000,000	765	667
NGN2,000,001 - NGN 3,000,000	455	552
NGN3,000,001 - NGN 4,000,000	222	120
NGN4,000,001 - NGN5,000,000	62	87
Above - NGN 5,000,000	110	111
	<u>1,822</u>	<u>1,886</u>

Notes to the Financial Statements

(d) Directors' remuneration

Directors' remuneration paid during the year includes:

	<u>2017</u>	<u>2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Fees as directors	12,500	12,500
Other emoluments	353,015	193,337
	<u>365,515</u>	<u>205,837</u>

The directors' remuneration shown above includes:

	<u>2017</u>	<u>2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Chairman and highest paid director	<u>97,037</u>	<u>64,185</u>

The other directors received remuneration in the following ranges:

	<u>2017</u>	<u>2016</u>
	<u>Number</u>	<u>Number</u>
Below - NGN40,000,000	6	5
NGN40,000,000 - NGN50,000,000	2	-
Above - NGN 50,000,000	-	1
	<u>8</u>	<u>6</u>

14. 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 2017 is NGN86.34 million (2016: NGN193.90 million).

(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 2017 (2016: 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 2017 (2016: Nil).

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

Notes to the Financial Statements

(c) Reconciliation of effective tax rates

	2017		2016	
	%	NGN'000	%	NGN'000
Loss before minimum tax and income tax		<u>(39,419,162)</u>		<u>(28,468,825)</u>
Income tax using the statutory tax rate	32	(12,614,132)	32	(9,110,024)
Movement in unrecognized deferred tax assets	(26)	10,280,545	(31)	8,938,043
Tax incentives	-	(111,628)	-	(93,870)
Effect of non-deductible expenses	(7)	2,589,215	(1)	419,913
Impact of TET rates on prior year deductible differences	-	-	-	(154,062)
Total income tax expense	<u>(1)</u>	<u>144,000</u>	<u>-</u>	<u>-</u>

(d) Movement in current tax liability

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Balance at 1 January	1,429,370	1,298,085
Minimum tax (Note 14(a))	86,343	193,895
Payments during the year	<u>(215,000)</u>	<u>(62,610)</u>
Balance at end of year	<u>1,300,713</u>	<u>1,429,370</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:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Deductible temporary differences	32,865,291	28,674,129
Tax losses (will never expire)	11,050,191	4,960,808
	<u>43,915,482</u>	<u>33,634,937</u>

Notes to the Financial Statements

15 Property, plant and equipment

	Land and buildings NGN'000	Distribution network assets NGN'000	Equipment fixtures & fittings NGN'000	Motor vehicles NGN'000	Capital work in progress NGN'000	Total NGN'000
Cost:						
Balance at 1 January 2016	480,690	124,301,592	763,658	1,443,695	323,943	127,313,578
Additions	100,245	3,040,066	111,088	51,450	1,327,277	4,630,126
Transfers	-	88,946	-	-	(88,946)	-
Write offs	-	-	-	-	(51,405)	(51,405)
Balance at 31 December 2016	580,935	127,430,604	874,746	1,495,145	1,510,869	131,892,299
Balance at 1 January 2017	580,935	127,430,604	874,746	1,495,145	1,510,869	131,892,299
Additions	-	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 at 31 December 2017	580,935	131,005,976	1,020,103	1,515,296	2,227,730	136,350,040
Depreciation						
Balance at 1 January 2016	77,070	70,851,152	488,977	1,089,697	-	72,506,896
Charge for year	11,054	5,814,371	94,638	121,846	-	6,041,909
Balance at 31 December 2016	88,124	76,665,523	583,615	1,211,543	-	78,548,805
Balance at 1 January 2017	88,124	76,665,523	583,615	1,211,543	-	78,548,805
Charge for 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 at 31 December 2017	100,851	82,736,756	698,075	1,271,673	-	84,807,355
Carrying amounts						
At 1 January 2016	403,620	53,450,440	274,681	353,998	323,943	54,806,682
At 31 December 2016	492,811	50,765,081	291,131	283,602	1,510,869	53,343,494
At 31 December 2017	480,084	48,269,220	322,028	243,623	2,227,730	51,542,685

Notes to the Financial Statements

15. Property, plant and equipment - (cont'd)

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

	<u>31 Dec 2017</u>	<u>31 Dec 2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Cost of sales	6,071,233	5,814,371
General and administrative expenses	234,659	227,538
	<u>6,305,892</u>	<u>6,041,909</u>

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

(c) The Company had capital commitments amounting to NGN6.1 billion (2016: NGN8.6 billion) as at year end.

(d) Capital work in progress (CWIP) comprises:

	<u>31 Dec 2017</u>	<u>31 Dec 2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Ongoing works with respect to substations	698,709	29,053
PPE items in store *	1,529,021	1,481,816
	<u>2,227,730</u>	<u>1,510,869</u>

* PPE items in store consist mainly of transformers of NGN66.43 million (2016: NGN194.08 million) and meters of NGN1.46 billion (2016: NGN1.29 billion) that are yet to be energized.

(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 NGN567.16 million (2016: NGN370.01 million) by the directors based on observable prices of similar items purchased during the year (level 2). This has been recognised as revenue (Note 9 and 15(f)).

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

	<u>31 Dec 2017</u>	<u>31 Dec 2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Additions to property, plant and equipment	4,519,805	4,630,126
Recognition of NIPP and PMU assets (Note 23(d))	-	(585,961)
Customer-granted assets (Note 9 and 15(e))	(567,162)	(370,007)
Acquisition of property, plant and equipment for cashflows	<u>3,952,643</u>	<u>3,674,158</u>

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

Notes to the Financial Statements

16. Intangible assets

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

Cost:	Computer software NGN'000	Intangible assets in progress NGN'000	Total NGN'000
Balance at 1 January 2016	120,248	46,553	166,801
Additions during the year	46,094	-	46,094
Transfers	46,553	(46,553)	-
Balance at 31 December 2016	212,895	-	212,895
Balance at 1 January 2017	212,895	-	212,895
Additions during the year	12,131	-	12,131
Balance at 31 December 2017	225,026	-	225,026
Amortization:			
Balance at 1 January 2016	24,038	-	24,038
Charge for the year	32,509	-	32,509
Balance at 31 December 2016	56,547	-	56,547
Balance at 1 January 2017	56,547	-	56,547
Charge for the year	42,954	-	42,954
Balance at 31 December 2017	99,501	-	99,501
Carrying amounts			
At 1 January 2016	96,210	46,553	142,763
At 31 December 2016	156,348	-	156,348
At 31 December 2017	125,525	-	125,525

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

17. Inventories

	31 Dec 2017 NGN'000	31 Dec 2016 NGN'000
Inventories comprise:		
Consumable spare parts	1,598,155	1,237,177
Other consumables	17,309	13,348
	1,615,464	1,250,525

(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 NGN977.81 million (2016: NGN524.76 million).

During the year, an allowance of NGN193.63 million was recorded to write down inventories to their net realisable value (2016: write back of NGN216.14 million).

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

Notes to the Financial Statements

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

	2017	2016
	NGN'000	NGN'000
Changes in inventories	(364,939)	(76,496)
(Write-down)/ write-back of bad inventory items	(193,628)	216,142
	(558,567)	139,646

18. Prepayments

Prepayments comprise:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Rents	36,659	33,108
Advance payment for construction of non current assets (Note 26(c)(iii))	3,060,212	2,841,750
	3,096,871	2,874,858
Prepayments are analysed into:		
Non-current	3,060,212	2,841,750
Current	36,659	33,108
	3,096,871	2,874,858

19. Trade and other receivables

Trade and other receivables comprise:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Trade receivables	18,726,985	20,100,184
Accrued receivables (Note 19 (a))	3,411,183	3,156,370
Advance payments to vendors (Note 19(b))	895,269	841,941
Other receivables	473,131	152,250
Other deposits (Note 19(c))	1,500,000	1
	25,006,568	24,250,746

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Current	23,506,568	24,250,746
Non-current portion (Other deposits)(Note 19(c))	1,500,000	-
	25,006,568	24,250,746

Notes to the Financial Statements

- (a) Accrued receivables represent unbilled receivables, which are derived by using a consumption factor based on billings for the year multiplied by the number of outstanding days till the period end from the last billing date.
- (b) Advance payments to 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 NGN1.5 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 (See Note 27(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 follows:

	2017	2016
	NGN'000	NGN'000
Changes in trade and other receivables	(755,822)	(1,335,331)
Impairment loss on trade receivables (Note 28(a))	(5,023,401)	(9,671,472)
Trade receivables written off	(3,687,242)	-
Impairment loss on NELMCO receivables	-	(459,035)
	<u>(9,466,465)</u>	<u>(11,465,838)</u>

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

20. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Bank balances	7,491,471	5,709,527
Cash on hand	21,407	29,660
	<u>7,512,878</u>	<u>5,739,187</u>

21. Capital and reserves

- (a) Share capital comprise:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
<i>Authorized:</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>

Notes to the Financial Statements

Ordinary Shares

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

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

22. Loans and borrowings

Loans and borrowings comprise:

	2017	2016
	NGN'000	NGN'000
Loans from customers - CAPMI (Note 22 (a))	1,857,545	2,402,347
Loans from CBN - NEMSF Intervention Fund (Note 22 (c))	3,404,265	3,568,792
Loans from commercial bank (Note 22 (d))	74,985	525,338
Loans from related parties (Note 22 (b))	2,232,706	6,012,865
	7,569,501	12,509,342

Loans and borrowings are analysed into:

Non-current	4,931,879	5,467,398
Current	2,637,622	7,041,944
	7,569,501	12,509,342

(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. The balance at the year end relates to the portion of the advance payments that are yet to be refunded to customers through vending of electricity units.

Cost of installation and other accessories not yet installed as at year end was NGN134.55 million (2016: NGN167.69 million) and is recorded as deferred revenue (Note 24). Interest expense for the year amounted to NGN42.66 million (2016: NGN 78.85 million).

Notes to the Financial Statements

(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.

During the year, 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 (2016: Nil). Interest expense for the year amounted to \$1,165,348 (NGN636.98 million) (2016: \$1,066,750 (NGN380.39 million)).

The carrying amount of this loan has been classified as current in these financial statements on the basis of the default in the terms and conditions of the loan. See Note 22(e).

(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%.

Interest expense for the year amounted to NGN823.89 million (2016:NGN1.02 billion).

Notes to the Financial Statements

(d) *Loan from Commercial Bank*

On 20 September 2016, the Company obtained two facilities from a local commercial bank. The first facility is a loan of NGN300 million to finance the payment for the supply and installation of smart meters. The tenor of this facility is 12 months. Monthly repayments include both principal and interest with no moratorium at an interest rate of 21% per annum. Interest expense for the year amounted to NGN25.11 million (2016 : NGN10.10 million). This loan was fully repaid by the Company during the year.

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 NGN38.76 million (2016 :NGN10.25 million).

An amount which is equivalent to one (1) month instalmental 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 19).

(e) *Breach of loan covenants*

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

- (i) Senior debt service coverage of at least 1.2: Senior debt service coverage is defined as EBITDA achieved for a financial year divided by the aggregate of the borrower's principal repayments for all its outstanding senior loans plus interest payments falling due in the following financial year, where senior loans are all long-term loans with an initial maturity of more than one year.
- (ii) Interest coverage of at least 3.0: Interest coverage is defined as EBITDA divided by interest expense for the year.
- (iii) Debt to equity ratio of 70:30. Debt to equity ratio is defined as total liabilities divided by total equity.

The Company was not in compliance with all the covenant ratios as specified in the loan agreement. The loan balance and any interest due become payable on demand in an event of a breach of the loan covenant. Thus, the carrying amount of the loan of NGN2.23 billion as at year end is classified as current in these financial statements.

Notes to the Financial Statements

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

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Balance at 1 January	12,509,342	9,814,321
Proceeds from drawdowns	-	1,309,511
Loan repayment	(4,092,807)	(2,141,392)
Interest paid	(903,163)	(953,416)
Interest expense	1,567,397	1,496,819
Day-one fair value gain on initial recognition of loan	(17,060)	-
Day-one fair value loss on initial recognition of loan	-	7,137
Exchange difference	(1,494,208)	2,976,362
Balance at 31 December	7,569,501	12,509,342

23. Trade and other payables

Trade and other payables comprise:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Trade payables (Note 23(a))	77,008,461	34,623,896
Employee related liabilities	40,528	90
Payable to NELMCO (Note 23(b))	1,238,106	1,138,931
Statutory liabilities (Note 23(c))	10,525,989	6,879,927
Accruals	3,916,056	3,948,555
Other payables	134,138	105,627
	92,863,278	46,697,026

(a) Trade payables is analysed into:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Trade payables to ONEM	7,528,111	5,220,353
Trade payables to NBET	65,288,294	26,020,890
Trade payables to Egbin Power Plc	1,588,741	1,588,741
Trade payables to PARAS energy	1,204,398	1,070,343
Trade payables to other suppliers	1,398,917	723,569
	77,008,461	34,623,896

(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 NGN 99.18 million which represents rent payable to NELMCO as at year end by the Company (2016: 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

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

	<u>2017</u>	<u>2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Changes in trade and other payables	46,166,252	25,703,876
Interest accrued on baseline remittance shortfall on market operator's bill (Note 12)	(7,545,405)	(3,505,739)
NIPP/PMU assets recognised during the year (Note 15(f))	-	(585,961)
	<u>38,620,847</u>	<u>21,612,176</u>

24. Deferred revenue

Deferred revenue comprises:

	<u>31 Dec 2017</u>	<u>31 Dec 2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Advance collections from prepaid customers (Note 24(a))	313,675	364,222
Deferred income on CAPMI scheme (see Note 22(a))	134,548	167,689
Day-one fair value gain on CBN-NEMSF loan intervention fund (Note 24(c))	1,238,264	1,451,745
	<u>1,686,487</u>	<u>1,983,656</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 prorata basis to estimate quantity of the last units of energy purchased by the customer that should be deferred.

- (b) Deferred income is analysed into:

	<u>31 Dec 2017</u>	<u>31 Dec 2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Current portion	666,182	741,179
Non current portion	1,020,305	1,242,477
	<u>1,686,487</u>	<u>1,983,656</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 22 (c)). The gain is recognised as deferred income, and is being amortised together with the related loan using the effective interest rate method.

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

	<u>2017</u>	<u>2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Changes in deferred revenue	(297,169)	(805,620)
Day-one fair value gain released to profit or loss (Note 12(b))	213,480	205,186
	<u>(83,689)</u>	<u>(600,434)</u>

Notes to the Financial Statements

25. Non- audit services provided by KPMG Professional Services

During the year, KPMG Professional Services provided advisory services to the Company. No amount was paid in respect of this service during the year (2016: NGN 20.66 million).

26. Related party transactions

(a) Parent and Ultimate Controlling party

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

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

(b) WPG Services Limited

In 2013, the Company entered into an operations, management and maintenance contract with WPG Services Limited for the provision of local, top level and expatriate staff to enable the Company meet the performance standards in the Performance Agreement entered into with BPE. During the year, expenses incurred by the Company with respect to services provided on this contract amounted to \$16.5 million (NGN6.1 billion) (2016: \$22.5 million (NGN4.67 billion)). No amount was due to WPG Services Limited as at year end (2016: Nil).

(c) Other related party transactions

During the year, the Company had transactions with:

(i) Alpha Consortium Limited

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

The total expenses incurred during the year with respect to the services provided by ACL was NGN16.99 million (2016: NGN10.94 million). The Company paid NGN16.99 million (2016: NGN10.94 million) during the year. No amount was due to ACL as at year end (2016: 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 NGN28.88 million (2016: NGN32.85 million). The Company paid NGN28.88 million (2016: NGN32.85 million) during the year. No amount was due to George Etomi & Partners as at year end (2016: Nil).

Notes to the Financial Statements

(iii) Deux Projects Limited

Deux Projects Limited is related to the Company through a Director; Dr. Tunji Olowolafe who exercises significant influence over both the Company and Deux Projects Limited. Deux Projects Limited (DPL) is the contractor in charge of the on-going Supervisory Control and Data Acquisition (SCADA) project embarked on by the Company. In prior year, the Company made an advance payment amounting to NGN2.88 billion with respect to the project. During the year, a further amount of NGN218.46 million was advanced to DPL. All amounts advanced as at the year end to DPL with respect to the SCADA project are disclosed as non-current prepayments in these financial statements (See Note 18). No amount was due from DPL as at year end (2016: Nil).

(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 NGN29.3 million (2016: NGN24.07 million). The Company paid NGN18.3 million (2016: NGN24.07million). The amount due to CFL as at year end was NGN11 million (2016: Nil).

(v) Senforce Insurance Brokers Limited (SIBL)

Senforce Insurance Brokers Limited is related to the Company through a Director; Dere Otubu who exercises significant influence over both the Company and Senforce Insurance Brokers Limited. Senforce Insurance Brokers Limited (SIBL) provided insurance services to the Company during the year. The total expenses incurred during the year with respect to the services provided by SIBL was NGN59.96 million (2016: NGN79.36 million). The Company paid NGN59.96 million (2016: NGN79.36 million). No amount was due to SIBL as at year end (2016: Nil).

(vi) Transactions with key management personnel

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

Key management personnel compensation comprised:

	2017	2016
	NGN'000	NGN'000
Short-term benefits	<u>663,756</u>	<u>536,717</u>

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

Notes to the Financial Statements

27 Contingent liabilities and Guarantees

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

As part of the privatisation completion, the Company through the Bureau of Public Enterprises signed a deed of assignment of pre-completion receivables and liabilities with the Nigerian Electricity Management Company Limited (NELMCO) effective 31 October 2013. The Company and NELMCO are yet to agree on the individual trade debtors and liabilities transferred as at 1 November 2013.

The Directors, based on independent legal advice obtained as well as their understanding of the Share Purchase Agreement between West Power and Gas Ltd, BPE and the Ministry of Finance Incorporated are of the opinion that all liabilities (crystallised or contingent) as at 31 October 2013 have been effectively transferred.

The Company does not have an estimate of those debtors and liabilities since in its view this is the responsibility of NELMCO. The Company believes that it will neither realise those receivables nor settle any liabilities existing as at 31 October 2013 and as such, no recognition of provision is required.

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

(b) Litigations and claims

The Company is involved in certain litigations and claims (separate from those taken over by NELMCO). Maximum exposure based on the damages being claimed by the litigants amounts to NGN11.5 million (2016: NGN202 million). Based on the directors' assessment supported by the views of the respective solicitors handling the cases on behalf of the Company, they believe that the risk of material loss to the Company is remote and as such no provisions have been recorded in these financial statements.

(c) Guarantees

The Company has obtained bank guarantees amounting to NGN 7.78 billion (2016: NGN9.25 billion) in favour of Nigeria Bulk Electricity Trading Company Plc (NBET) and Operator of Nigeria Electricity Market (ONEM). This is to guarantee payment to NBET for 90 days power purchase and also to ONEM for provision of administrative service. The directors do not expect any significant loss to arise from these guarantees.

28. 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.

Notes to the Financial Statements

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's internal audit oversees 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 counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and government related entities.

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

		2017	2016
	Notes	NGN'000	NGN'000
Trade and other receivables*	19	24,111,299	23,408,805
Cash and cash equivalents**	20	7,491,471	5,709,527
		<u>31,602,770</u>	<u>29,118,332</u>

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

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

Trade receivables

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

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

At 31 December 2017, the ageing of trade receivables that were not impaired was as follows;

	2017	2016
	NGN'000	NGN'000
Neither past due not impaired	11,121,933	10,736,326
Past due 0-30 days	4,304,504	3,950,600
Past due 31-90 days	837,237	2,353,405
Past due 91-120 days	565,502	655,539
Past due 120 days and above	1,897,809	2,404,315
	<u>18,726,985</u>	<u>20,100,185</u>

Notes to the Financial Statements

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

	2017	2016
	NGN'000	NGN'000
Balance as at 1 January	10,665,246	9,201,679
Impairment loss recognised (Note 19(d))	5,023,401	9,671,472
Write-offs	-	(8,207,905)
	<u>15,688,647</u>	<u>10,665,246</u>

The directors monitor the Company's trade receivables for indicators of impairment. During the year, NGN5.02 billion was recorded as impairment loss (2016: NGN9.67 billion).

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

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

Other receivables

Other receivables include staff debtors and sundry receivables. The Company reviews the balances due from this category on a periodic basis taking into consideration factors such as continued business/employment relationship and ability to offset amounts against transactions due to the parties. Where such does not exist, the amounts are impaired. 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 (2016: NGN 459.04 million).

Cash and cash equivalents

The Company held cash and cash equivalents of NGN7.51 billion (excluding cash in hand) as at year end (2016: NGN5.7 billion) which represents its maximum credit exposure on these assets. The cash and cash equivalents (with the exception of NGN21.41 million (2016: NGN29.66 million)) held as cash by the Company) are held by Nigerian banks. The Company mitigates the credit risk exposure of its bank balances by selecting reputable banks with good credit ratings and a history of strong financial performance.

Other deposits

Other deposits represent cash deposits used to collateralise 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 (2016: Nil).

Notes to the Financial Statements

(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.

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

		Contractual cash flows				
	Notes	Carrying amount	Total	0 to 6 months	6 - 12 months	1 - 2 years
		NGN'000	NGN'000	NGN'000	NGN'000	NGN'000
Non-derivative financial liabilities						
31 December 2017						
Loans and borrowings	22	7,569,501	11,316,921	2,975,318	531,642	965,408
Trade and other payables*	23	82,337,289	82,337,289	82,337,289	-	-
		<u>89,906,790</u>	<u>93,654,210</u>	<u>85,312,607</u>	<u>531,642</u>	<u>965,408</u>
						<u>6,844,553</u>
31 December 2016						
Loans and borrowings	22	12,509,342	17,092,878	7,180,042	825,396	1,128,899
Trade and other payables*	23	39,817,099	39,817,099	39,817,099	-	-
		<u>52,326,441</u>	<u>56,909,977</u>	<u>46,997,141</u>	<u>825,396</u>	<u>1,128,899</u>
						<u>7,958,541</u>

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

Notes to the Financial Statements

(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 optimization programs. Moreover, market developments are monitored and discussed regularly, and mitigating actions are taken where necessary.

Currency risk

The Company is exposed to currency risk on 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.

Exposure to currency risk

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

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	9	97
Financial liability		
Loans and borrowings	(6,241)	(12,155)
Net statement of financial position exposure	<u>(6,232)</u>	<u>(12,058)</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.

Notes to the Financial Statements

	<u>Increase/(decrease) in</u>	
	<u>profit or loss</u>	
	<u>NGN'000</u>	<u>NGN'000</u>
31 December 2017		
USD (10 percent strengthening/(weakening))	222,962	(222,962)
31 December 2016		
USD (20 percent strengthening/(weakening))	1,181,684	(1,181,684)

The following significant exchange rates were applied during the year:

	<u>Average rate</u>		<u>Reporting date spot rate</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	<u>NGN</u>	<u>NGN</u>	<u>NGN</u>	<u>NGN</u>
USD	370.75	390.00	358.00	490.00

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 of the Company is as follows:

	<u>Carrying amounts</u>	
	<u>2017</u>	<u>2016</u>
	<u>NGN'000</u>	<u>NGN'000</u>
Fixed rate instruments		
Financial liabilities	7,569,501	12,509,342
	<u>7,569,501</u>	<u>12,509,342</u>
Variable-rate instruments		
Financial liabilities	15,489,574	3,516,339
	<u>15,489,574</u>	<u>3,516,339</u>

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.

Notes to the Financial Statements

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	
	100 NGN'000	100 NGN'000
31 December 2017		
Variable-rate instruments	154,896	(154,896)
	<u>154,896</u>	<u>(154,896)</u>
31 December 2016		
Variable-rate instruments	35,163	(35,163)
	<u>(35,163)</u>	<u>(35,163)</u>

(d) Fair values

Fair values versus carrying amounts

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

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

	Note	Other financial liabilities	
		Carrying amount NGN'000	Fair value NGN'000
31 December 2017			
Loans and borrowings	22	7,569,501	3,544,868
		<u>7,569,501</u>	<u>3,544,868</u>
31 December 2016			
Loans and borrowings	22	12,509,342	3,826,094
		<u>12,509,342</u>	<u>3,826,094</u>

Notes to the Financial Statements

29. Operating leases

The Company leases a number of its office buildings, service stations and operational vehicles under both cancellable and non-cancellable 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-cancellable leases were payable as follows.

	2017	2016
	NGN'000	NGN'000
Less than one year	224,043	131,333
Between one and two years	111,145	224,043
More than two years	85,347	196,493
	<u>420,535</u>	<u>551,869</u>

(b) Amounts recognised in profit or loss

	2017	2016
	NGN'000	NGN'000
Vehicle lease expense (Note 10(b))	131,333	2,056
Rent expense	170,115	84,037
	<u>301,448</u>	<u>86,093</u>

30. 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:

	Carrying amounts	
	2017	2016
	NGN'000	NGN'000
Total liabilities	103,419,979	62,629,641
Less: Cash and cash equivalents	(7,512,878)	(5,739,187)
Adjusted net debt	95,907,101	56,890,454
Total equity	(14,519,988)	24,985,517
Net adjusted debt to equity ratio	<u>(6.61)</u>	<u>2.28</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

31. Events after the reporting date

There were no events after 31 December 2017 which could have had a material effect on the state of affairs of the Company and on the loss for the year ended which have not been adequately provided for or disclosed on the financial statements.

32. Change in classification

(a) Payments to Deux for SCADA project recorded as trade and other receivables

During the year, the directors noted that amounts paid to Deux Projects Limited for the execution of the ongoing Supervisory Control and Data Acquisition (SCADA) project had been erroneously recognised as trade and other receivables rather than non-current prepayments in its prior years financial statements. As a consequence, trade and other receivables have been overstated while the prepayments have been understated. The accounts have been corrected by restating each of the affected financial statements line items for prior periods. The reclassification does not have any impact on profit or loss and other comprehensive income or any tax consequences.

The following tables summarise the impacts on the Company's financial statements;

(i) Statement of financial position (Extract)

	<u>Impact of reclassification</u>		
	As previously reported	Reclassification	As restated
	NGN'000	NGN'000	NGN'000
1 January 2016			
Trade and other receivables	25,755,305	(2,839,890)	22,915,415
Prepayments	1,136,714	2,839,890	3,976,604
Others	61,661,297	-	61,661,297
Total assets	88,553,316	-	88,553,316
Others	34,905,079	-	34,905,079
Total liabilities	34,905,079	-	34,905,079
Others	53,648,237	-	53,648,237
Total equity	53,648,237	-	53,648,237

	<u>Impact of reclassification</u>		
	As previously reported	Reclassification	As restated
	NGN'000	NGN'000	NGN'000
31 December 2016			
Trade and other receivables	27,092,496	(2,841,750)	24,250,746
Prepayments	33,108	2,841,750	2,874,858
Others	60,489,554	-	60,489,554
Total assets	87,615,158	-	87,615,158
Others	62,629,641	-	62,629,641
Total liabilities	62,629,641	-	62,629,641
Others	24,985,517	-	24,985,517
Total equity	24,985,517	-	24,985,517

Notes to the Financial Statements

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

The reclassification above has no impact on the statement of profit or loss and other comprehensive income for the periods presented in these financial statements.

(iii) Statement of cash flows

31 December 2016	<u>Impact of reclassification</u>		
	As previously reported NGN'000	Reclassification NGN'000	As restated NGN'000
Cash flows from operating activities			
Loss for the year	(28,662,720)	-	(28,662,720)
Changes in trade and other receivables	(11,467,698)	(1,860)	(11,465,838)
Changes in prepayments	204,294	1,860	202,434
Others	45,613,724	-	(45,613,724)
Net cash generated from operating activities	<u>5,687,600</u>	<u>-</u>	<u>5,687,600</u>
Net cash used in investing activities	<u>(3,702,144)</u>	<u>-</u>	<u>(3,702,144)</u>
Net cash used in financing activities	<u>(1,785,297)</u>	<u>-</u>	<u>(1,785,297)</u>
Net increase in cash and cash equivalent	200,159	-	200,159
Cash and cash equivalent as at 1 January	5,537,823	-	5,537,823
Effect of movement in exchange rates on cash held	1,205	-	1,205
Cash and cash equivalent as at 31 December	<u>5,739,187</u>	<u>-</u>	<u>5,739,187</u>

(b) Finance costs recorded in administrative expense

In 2016, impairment losses and bank charges were classified as administrative expenses.

These have however been reclassified to finance costs in the current year to align with the Company's accounting policies without any impact on retained earnings.

The impact of this reclassification is as follows:

<u>Note</u>	2016 Audited Financial Statements NGN'000	Reclassification NGN'000	Carrying Amount after reclassification NGN'000
Administrative expense	23,838,206	(10,490,600)	13,347,606
Finance costs	8,678,978	10,490,600	19,169,578
	<u>32,517,184</u>	<u>-</u>	<u>32,517,184</u>

Notes to the Financial Statements

33 Going concern

The Company reported a loss after tax of NGN39.51 billion for the year ended 31 December 2017 (2016 : NGN28.66 billion) and as of that date, the Company's current liabilities and total liabilities exceeded its current assets and total assets by NGN64.80 billion and NGN14.52 billion respectively (2016: NGN24.65 billion and net assets of NGN24.99 billion). 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.

70.41% (2016: 49.88%) 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 NGN11.85 billion (2016: NGN4.3 billion). While the Company is able to settle all other liabilities as and when due, it does so only by making part payments on monthly invoices from NBET/ONEM. This approach is permissible under the TEM regulations to the extent that the Company agrees that the unpaid amounts are subject to interest at 4% plus NIBOR (Nigerian Inter-bank Offered Rate) for unpaid amounts to NBET and ONEM.

The current economic environment within the Nigerian Electricity Supply Industry (NESI) is challenging and 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. The eligible customer regulation, recently enacted by NERC which allows customers who meet certain criteria to access power directly from the Generation Companies (GENCOS) also has the potential to strip the Company of some of its customers. However, based on the directors' assessment, the probability of losing these customers in the short to medium term is low as the logistics required for direct purchase from the GENCOS are enormous.

The Federal Government of Nigeria (FGN), represented as shareholders in the Company and NBET/ONEM through BPE and MOFI, in April 2017 approved the Power Sector Recovery Program (PSRP) backed by the World Bank. The PSRP is expected to address the liquidity issues in the NESI. The implementation of the PSRP has gradually commenced with the issuance of a NGN701 billion Payment Assurance Guarantee (PAG) by the FGN and the FGN's payment of Ministries, Departments, and Agencies' (MDA) debts to the Distribution Companies (DISCOs). With the commencement of the implementation of the PSRP, the FGN has committed to making 100% payment of the Company's billings to MDAs. During the 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. In addition, cash collections directly from the MDAs during the year averaged about 72% of MDAs' monthly billings.

The directors have continued discussions with the key stakeholders in the NESI and the FGN with respect to the abolishment of the interest on the shortfall on remittances to the NBET and ONEM amounting to NGN11.85 billion; and extension of the MDA debt verification exercise to cover 2013 and 2014 MDA billings. As at the date of approval of these financial statements, the major issue in the sector and as indicated in the PSRP, is the absence of cost reflective tariffs. Based on the PSRP, NGN27.43 billion is due to the Company in respect of 2015 and 2016 tariff deficit, however, negotiations are ongoing to determine the actual amount of tariff deficits due to the Company for the 2017 financial year. Based on the PSRP, the FGN would continue to fund the tariff deficits upto 2021 when cost reflective tariffs are achieved. The tariff deficit has not been recorded in these financial statements on the basis that it does not meet the recognition criteria under IFRS. Were the receivables recognised, it would have reduced the Company's net current liabilities to NGN37.74 billion while placing the Company in a net asset position of NGN12.54 billion.

Notes to the Financial Statements

The successful actualization of the budgeted results of the Company is largely dependent on successful implementation of the PSRP (especially around the implementation of cost reflective tariffs) by the FG, and this is not within the control of the Company.

In addition, based on the Market Rules for the Transitional Electricity Market (TEM), NBET's/ ONEM's current recourse with respect to the Company's non-payment of bills for electricity purchased involves charging of penalty interest which has been recorded in these financial statements and thereafter drawing on the security cover issued in favor of NBET/ ONEM by the Company. The Company will be unable to make full payments on outstanding amounts should NBET/ ONEM call them.

The foregoing indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern in the foreseeable future and as such the Company may be unable to realize its assets and settle its liabilities in the normal course of business. The directors have considered that the 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:

1. Issuance of NGN701 billion Payment Assurance Guarantee (PAG) to ensure that NBET is able to pay the GENCOs' invoices without sole reliance on only DISCOs' remittances.
2. Timely payments of monthly billings and offset of historical MDA debts.
3. Ensuring adequate financing is obtained from the World Bank by achieving set milestones.

In addition, as of the date of approval of the financial statements, the Company has not been notified of NBET's/ ONEM's intention to draw on the security cover. The directors are also of the view that since non-payment of NBET/ ONEM bills is applicable to all Discos, NBET's/ ONEM's option if they were to call is to demand immediate payment from all Discos and this would imply that all Discos would become insolvent. As such, calling in the immediate future without cost-reflective tariffs as described under the PSRP is deemed as remote by the directors. Based on ongoing discussions with NBET/ ONEM on interest renegotiations and invoice settlement mechanisms, neither NBET nor ONEM have called nor are there any indications that the outstanding amounts due to NBET/ ONEM will be called.

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

1. Strengthening the revenue assurance function to identify areas of revenue losses and putting in place mechanisms to reduce these losses.
2. Partnering with an experienced and qualified debt collection agent that offers unlimited options for achieving maximum recoveries of receivables. This will also improve revenue collections in the remote and unbanked areas.
3. Metering all distribution transformers for better energy accounting and proper estimation of bills across the Company's network.
4. Enforcing regular customer meter reading in accordance with the NERC guidelines.
5. Reporting instances of energy theft to relevant authorities to deter future occurrences.

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

Other National Disclosures

Value Added Statement
For the year ended 31 December

	2017 N'000	%	2016 N'000	%
Revenue	69,065,249		56,536,377	
Bought-in-materials and services				
- Local	(80,696,291)		(55,172,942)	
- Foreign	-		-	
	<u>(11,631,042)</u>		<u>1,363,435</u>	
Other income	449,237		530,364	
Finance income	1,543,047		18,108	
	<u>(9,638,758)</u>	<u>100</u>	<u>1,911,907</u>	<u>100</u>
To employees:				
- as salaries, wages, directors' remuneration and other staff costs	5,409,573	(56)	5,136,736	269
To providers of finance:				
- finance cost and similar charges	18,021,985	(187)	19,169,578	1,003
To Government as:				
- taxes	86,343	(1)	193,895	10
Retained in the business:				
- to maintain and replace property, plant and equipment	6,305,892	(66)	6,041,909	316
- to maintain and replace intangibles assets	42,954	-	32,509	1
- to deplete reserves	<u>(39,505,505)</u>	<u>410</u>	<u>(28,662,720)</u>	<u>(1,499)</u>
	<u>(9,638,758)</u>	<u>100</u>	<u>1,911,907</u>	<u>100</u>

Financial Summary

Statement of profit or loss and other comprehensive income

For the year ended 31 December

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>	<u>N'000</u>
Revenue	69,065,249	56,536,377	51,007,001	40,764,783	35,288,213
Cost of sales	(76,067,069)	(53,036,490)	(38,301,190)	(31,371,546)	(31,732,774)
Result from operating activities	(22,940,224)	(9,317,355)	(3,232,847)	(5,629,827)	(10,743,449)
Loss before taxation	(39,419,162)	(28,468,825)	(6,126,049)	(5,990,790)	(10,742,489)
Loss for the year	(39,505,505)	(28,662,720)	(6,577,375)	(6,461,882)	(11,118,156)
Total comprehensive income for the year	<u>(39,505,505)</u>	<u>(28,662,720)</u>	<u>(6,577,375)</u>	<u>(6,461,882)</u>	<u>(11,118,156)</u>

Statement of financial position

As at 31 December

Employment of funds

Property, plant and equipment	51,542,685	53,343,494	54,806,682	57,655,754	63,262,449
Intangible assets	125,525	156,348	142,763	70,513	79,056
Prepayments	3,060,212	2,841,750	-	-	-
Trade and other receivables	1,500,000	-	-	-	-
Net current (liabilities)/assets	(64,796,226)	(24,646,200)	3,100,960	3,326,913	3,468,203
Non current liabilities	(5,952,184)	(6,709,875)	(4,402,168)	(827,568)	(122,214)
Net (liabilities)/assets	<u>(14,519,988)</u>	<u>24,985,517</u>	<u>53,648,237</u>	<u>60,225,612</u>	<u>66,687,494</u>

Funds employed

Share capital	5,000	5,000	5,000	5,000	5,000
Retained earnings	(14,524,988)	24,980,517	53,643,237	60,220,612	66,682,494
	<u>(14,519,988)</u>	<u>24,985,517</u>	<u>53,648,237</u>	<u>60,225,612</u>	<u>66,687,494</u>