Jos Electricity Distribution PLC

Annual Report

31 December 2020

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Corporate information

Registration Number: 638619

TIN:	17848257-0001
Directors:	Ibrahim Sani Bello Babangida Inuwa Zulkifil Yahaya Abba Hajiya Halima Halilu Suleiman Sani Bello Ahmed Sani Bello
Registered office address:	17, Murtala Mohammed Way, Jos, Plateau State Nigeria
Business address:	9, Ahmadu Bello Way, Jos, Plateau State Nigeria
Company secretary:	The Crest Legal Practitioners 182a Corporation Drive Dolphin Estate, Ikoyi Lagos State Nigeria
Solicitors:	T.D. Pepe & Co Enoch Adeboye Street, 24, Road, Off 2nd Avenue, Gwarinpa, Abuja Nigeria Shaakaa JR and Partners 33 Murtala Mohammed Way, P.O Box 6778 Jos. Noble Stallion Associates 5 Rambo Isari Plaza, Old PDP Secretariat, Jakadafari, Gombe State.
Auditor:	KPMG Professional Services KPMG Tower Bishop Aboyade Cole Street Victoria Island Lagos, Nigeria
Bankers:	First Bank of Nigeria Limited First City Monument Bank Union Bank of Nigeria Plc United Bank for Africa Plc

Chairman's Statement

Walking the Ropes to Success

Overview

It is with great pleasure that I welcome you to the Annual General Meeting for the 2020 financial year. It was a very challenging year across the globe on account of the COVID 19 pandemic which resulted in many deaths, the stretching of the health service industry to its outer limits, businesses shutting down and slowed economic growth. I commiserate with those who were bereaved or were negatively impacted by the pandemic.

The first two quarters of the year were marked by lockdown measures which kept families strictly at home and separate from other households; and significant travel restrictions. Mostly as a result of these constraints, the Nigerian economy entered into recession in the third quarter of 2020 following Gross Domestic Product (GDP) contractions in the first and second quarters. Fortunately, the GDP returned to growth in Quarter 4 (Q4) 2020.

Our franchise states of Bauchi, Benue, Gombe and Plateau were among those that suffered the worst impact of the pandemic as a result of the low average household income. With businesses closed and homes struggling to afford groceries, Jos Electricity Distribution Plc (JEDC) struggled to collect its bills. Even in such dire situation, your company had to contribute to alleviating the impact of the pandemic in its communities and ensure the survival and wellbeing of its staff. The pandemic and its consequences explain the poor results in the 2020 financial year.

Tariffs

As you are well aware, our business is tightly regulated by the Nigerian Electricity Regulatory Commission (NERC) which prescribes the tariffs we charge for electricity. NERC issued two tariff Orders in 2020. They are Order/NERC/204/2020 and Order/NERC/204B/2020. The approval granted under Order/NERC/204/2020 were amended by Order/NERC/204B/2020 following the Federal Government of Nigeria (FGN)'s engagement with civil society and organised labour. The orders were issued in response to JEDC's application for the review of its end-user tariffs in consideration of the impact of inflation, changes in foreign exchange rates and implementation of its investment plan towards improving service to customers. The effect of the orders were:

a) the introduction of Service-Based Tariff (SBT) by the creation of five (5) tariff bands- A, B, C, D and E depending on the committed minimum average hours of supply per day over a period of one month, the interruptions, service voltage levels and a number of other service parameters;

b) the then current Multi-Year Tarriff Order (MYTO) load allocation being maintained for the purpose of computing the relevant tariffs for all Discos; and

c) proportionate and retroactive adjustment of the rates payable by all customers in the relevant load cluster, where there is a failure to deliver the committed quality of service by JEDC over a period of sixty (60) days.

Market Remittances

Further to the Orders, after the deduction of the FGN subsidy from the aggregate Nigeria Bulk Electricity Trading Company Plc (NBET) and Market Operator (MO) invoices, JEDC was required to fully meet the following payment obligations:

a) Repayment of CBN-NEMS facility;
b) 100% settlement of MO's invoice; and
c) full settlement of 11.69% of NBET's monthly invoices.

Change of Directors

Consequent upon change in control of the majority shareholder of JED Plc, directors of JEDC with effect from July 17, 2020 are:
a) Alhaji Babangida Inuwa
b) Alhaji Ibrahim Sani-Bello
c) Alhaji Wakil Adamu
d) Ignatius Ayewoh (alternate to Alex A. Okoh, Director General of Bureau of Public Enterprises (BPE))
e) Alhaji Zulkifil Abba
f) Remi Jibowu
g) Mr. Sola Arifayan

Outlook

It was hoped that in 2021, the COVID-19 pandemic would have abated, and attendant restrictions eased. It was also expected that NERC would approve the CAPEX review proposals requested by JEDC and apply them in the tariff orders with effect from 1st January, 2021. The expectation was also that the reconstituted board of directors would turn around the fortunes of the company for good.

Alhaji Ibrahim Sani-Bello

Chairman.

Directors' report

For the year ended 31 December 2020

The Directors are pleased to present to members, their report, and the audited Financial Statements of Jos Electricity Distribution Plc ("the Company") for the year ended 31 December 2020 with the independent audit opinion.

Legal form and business review

Jos Electricity Distribution Plc ("the Company") was incorporated on 7 November 2005, as a public liability company to take over the electricity distribution activities and related businesses of the Power Holding Company of Nigeria ("PHCN") within the franchise area of its network in Plateau, Benue, Bauchi and Gombe states of Nigeria.

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

On 1 November 2013, the FGN completed the privatization of the electricity sector effectively handing over 6 generation and 11 distribution companies to new owners under various sharesale agreements. As a result of this, 50% interest of the Company was acquired by a Nigerian Company, Aura Energy Limited.

On 27 August 2020, the Nigerian Electricity Regulatory Commission issued the Multi-Year Tariff Order (MYTO) 2020 for the Company. Based on the Order, the Commission directed the Company to adopt a revised rate design that aligns tariffs with service level experience of customers in different clusters/locations. With effect from 1 September 2020, the Commission approved five (5) tariff service bands' representing relative quality of service experience as measured by the committed minimum average hours of supply per day over a period of one month, interruptions, service voltage levels and a number of other service parameters. However, on 28 September 2020, the Commission issued an Order on Suspension of the Multi Year Tariff Order (MYTO) 2020 for the Electricity Distribution Licensees. The Commission ordered a suspension for a period of 14 (fourteen) days, with the effect from 28 September 2020 to 11 October 2020, the Multi Year Tariff Order (MYTO) that was previously issued to distribution companies. The implementation of the service reflective tariffs continued after this suspension.

Operating results

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

	2020	2019
Summary of statement of profit or loss	**NGN'000**	**NGN'000**
Revenue	67,048,347	64,640,355
Gross profit	18,145,618	26,745,957
Operating profit	2,434,400	85,799,730
Profit before minimum tax and income tax	**238,312**	**70,732,450**
Minimum tax	(192,144)	(765,510)
Income tax	(295,232)	(1,901,208)
(Loss)/profit for the year	**(249,064)**	**68,065,732**

Directors' report cont'd

For the year ended 31 December 2020

	2020	2019
Summary of financial position	**NGN'000**	**NGN'000**
Total assets	53,479,870	51,023,735
Total liabilities	62,187,245	59,367,444
Equity	(8,707,375)	(8,343,709)

Dividend

The directors did not recommend any dividend payment for the financial year ended 31 December 2020 (2019: Nil)

Directors and their interests

The Directors who served during the year were as follows:

Name	Nationality	Designation	Date (Resigned)/Appointed
Falalu Bello	(Nigerian)	Chairman	(17 July 2020)
Hamid Joda	(Nigerian)	Director	(17 July 2020)
Joseph Tsavsar	(Nigerian)	Director	(17 July 2020)
Serdar Marangoz	(Turkish)	Director	(17 July 2020)
Adamu Yesuf	(Nigerian)	Director	(17 July 2020)
Mehmet Kasehkhagolu	(Turkish)	Director	(17 July 2020)
Babangida Inuwa	(Nigerian)	Chairman	17 July 2020
Zulkifil Yahaya Abba	(Nigerian)	Director	17 July 2020
Ibrahim Sani Bello	(Nigerian)	Director	17 July 2020
Remi Jibowu	(Nigerian)	Director	17 July 2020
Olusola Arifayan	(Nigerian)	Director	17 July 2020
Wakil Adamu	(Nigerian)	Director	17 July 2020
Ignatius Ayewoh	(Nigerian)	Alternate Director	17 July 2020
Alex Okoh*	(Nigeria))	Director	17 July 2020

The directors who were replaced subsequent to year end are the following;

Name	Nationality	Designation	Date (Resigned)/Appointed
Remi Jibowu	(Nigerian)	Chairman	(28 February 2024)
Olusola Arifayan	(Nigerian)	Director	(28 February 2024)
Wakil Adamu	(Nigerian)	Director	(28 February 2024)
Ignatius Ayewoh	(Nigerian)	Alternate Director	(28 February 2024)
Alex Okoh*	(Nigerian)	Director	(28 February 2024)

**Alex Okoh, the representative of BPE on the Company's Board of Directors, was removed from office as the Director-General/CEO of BPE on 08 January 2024. Halima Haliliu is the alternate director to Alex Okoh who is the representative of BPE (Bureau of Public Enterprises) on the Board of Directors.*

The Directors have indicated that they do not have any interests required to be disclosed in current year under Sections 301 of the Companies and Allied Matters Act (CAMA), 2020.

In accordance with Section 303 of the Companies and Allied Matters Act (CAMA), 2020, none of the directors has notified the Company of any declarable interests in contracts or proposed contracts with the Company during the year.

Directors' report cont'd

For the year ended 31 December 2020

Shareholding structure

The shareholding structure of the Company is as follows:

	31 December 2020		31 December 2019	
	%	Number	%	Number
Aura Energy Limited	50	500,000,000	50	500,000,000
Aydem Elektrik Perakende Satis Anonim Siketi	10	100,000,000	10	100,000,000
Bureau of Public Enterprises	32	320,000,000	32	320,000,000
Ministry of Finance Incorporated	8	80,000,000	8	80,000,000
Total	**100**	**1,000,000,000**	**100**	**1,000,000,000**

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

DIRECTORS	DESIGNATION	19 Mar	17 Jul	2 Dec
Falalu Bello	Chairman	X	R	R
Hamid Joda	Director	X	R	R
Joseph Tsavsar	Director	X	R	R
Serdar Marangoz	Director	X	O	O
Adamu Yusuf	Director	X	O	R
Babangida Inuwa	Chairman	N/A	X	X
Zulkifil Yahaya Abba	Director	N/A	X	X
Wakil Adamu	Director	N/A	X	X
Olusola Arifayan	Director	N/A	O	X
Alex Okoh	Director	N/A	A	A
Ibrahim Sani Bello	Director	N/A	X	X
Remi Jibowu	Director	N/A	O	X
Mehmet Kosehkhagolu	Director	X	O	X

X = Attended; O = Absent; N/A = Not yet appointed
A = Attended by an Alternate; R = Already resigned

Material agreements

The Company has entered into the following material agreements:

1. **Nigerian Electricity Market Stabilization Facility (NEMSF) Disbursement agreement with Central Bank of Nigeria (CBN)**
   As part of the initiatives to solve the liquidity problem in the Nigerian Electricity Supply Industry, the Federal Government established the Nigerian Electricity Market Stabilization Facility aimed at settling the outstanding payment obligations due to the Market Participants. For this purpose, the Company entered into an agreement with the Central Bank of Nigeria (CBN).

2. **Super vendor agreement**
   As part of the measures to make vending platforms more readily available to prepaid customers, the Company entered into an agreement with Adroit Metering Service Limited. Under the agreement, the super vendor is to provide electronic platforms and web based applications to enable customers vend electricity online by paying with credit or debit cards. The super vendor earn a commission of between 0.5% and 5% of sales depending on the mode of transaction See Note 7b. The contract with Adroit Metering Services Limited ended during the year and was replaced with an agreement with Allstream Energy Solutions (AES) Limited on 19 November 2020. The services of Allstream Energy Solutions (AES) Limited include the provision of pre-payment meter vending services, post-paid revenue collections, and the integration and management of electronic and third-party payment and is entitled to a 5% commission on total monthly transactions. As at year end Allstream Energy Solutions (AES) is yet to begin collection.

Directors' report cont'd

For the year ended 31 December 2020

3. Technical Agreement

As part of the measures to carry out an enumeration and verification of its entire customer, the Company entered into an agreement with Tripple Seventh Nigeria Limited and Revenue Generation Services (RGS) Limited. Under the agreement, Tripple Seventh Nigeria Limited and Revenue Generation Services (RGS) Limited are to carry out the asset mapping and customer enumeration in the Bauchi, Gombe, Benue and Plateau states in line with the Nigerian Electricity Regulatory Commission approved methodology. In 2018, the Company also had an Operations and Management (O & M) agreement with TATA Power Company Limited for the provision of management services which include corporate services (strategy sitting and change management), risk and compliance services, network planning and operations and capacity building See Note 7c. This agreement expired during the year.

4. National Mass Metering Programme (NMMP) Agreement

The introduction of the service-based tariff (SBT) in the Nigerian Electricity Supply Industry (NESI) effective from 1st September 2020 put increased emphasis on the need to close the metering gap in the NESI. The Federal Government approved the National Mass Metering Programme (NMMP) implementation geared towards mass metering of customers by providing loan facility to the Distribution Companies (DISCOs) and local meter manufacturers. During the year, the company drewdown a total of NGN 2.54 billion from the facility. See Note 23.

5. Deed of assignment of pre-completion receivables and liabilities

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

(a) Pre-completion receivables

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

(b) Pre-completion liabilities

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

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

Geographical presence

To enable the Company operate in States where it distributes electricity, it has thirty-three (33) area offices excluding the head office. The 33 area offices are distributed across four states which are Plateau, Benue, Bauchi and Gombe states from which the Company operates. The regional offices are headed by Regional Managers and the area offices are headed by Area Managers who report to the Regional Managers. The regional managers report to the leadership team based at the head office. Financial reporting is done centrally.

Property, plant and equipment (PPE)

Information relating to property, plant and equipment is in Note 13 to these financial statements.

Charitable contributions

During the year, the Company made no charitable contributions (2019: Nil).

In accordance with Section 43(2) of the Companies and Allied Matters Act (CAMA), 2020, the Company did not make any donation or gift to any political party, political association or for any political purpose in the course of the year (2019: Nil).

Directors' report cont'd

For the year ended 31 December 2020

Events after the reporting date

Events after the reporting date have been disclosed in Note Note 28 to these financial statements.

Employment and employees

(a) ***Employment consultation and training:***

The Company places considerable value on the involvement of its employees in major policy matters and keeps them informed on matters affecting them as employees and on various factors affecting the performance of the Company. This is achieved through regular meetings with employees and consultations with their representatives. Training is conducted for the Company's employees as the need arises.Management, professional and technical expertise are the Company's major assets. The Company continues to invest in developing such skills.

(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 currently has no physically challenged persons in its employment (2019: Nil). Applications for employment by physically challenged persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming physically challenged, every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that training, career development and promotion of physically challenged persons should, as far as possible, be identical with that of other employees.

(d) ***Employee health, safety and welfare:***

The Company places high premium on the health, safety and welfare of its employees in their places of work. To this end, the Company has various forms of insurance policies, including group personal accident and group life insurance, to adequately secure and protect its employees. The Company also trains all categories of staff in health and safety matters based on their job role requirement, in order to enhance their awareness and increase their effective participation and contribution as individuals.

Also, where appropriate, the Company provides employees with protective clothing and equipment in compliance with the health and safety code issued by the Nigerian Electricity Regulatory Commission (NERC). It is the Company's goal to ensure that its incident-free safety record in operations is amongst the best, both locally and globally, upon which it has set its Safety Policy.

Independent 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 401(2) of the Companies and Allied Matters Act (CAMA), 2020, therefore, the auditors will be re-appointed at the next annual general meeting of the company without any resolution being passed.

BY ORDER OF THE BOARD

25/09/24

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Gideon Agbedo
FRC/2022/PRO/ICSAN/002/710141
Company Secretary
Jos, Nigeria

Statement of directors' responsibilities in relation to the financial statements for the year ended 31 December 2020

The directors accept responsibility for the preparation of the annual financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act (CAMA), 2020 and Financial Reporting Council of Nigeria Act, 2011.

The directors further accept responsibility for maintaining adequate accounting records as required by the Companies and Allied Matters Act (CAMA), 2020 and 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. See Note 29 to these financial statements for more details.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

Ibrahim Sani Bello	**Babangida Inuwa**
Chairman	**Director**
FRC/2O22/PRO/DIR/003/984702	*FRC/2022/PRO/DIR/003/734259*
25 September 2024	25 September 2024

Statement of Corporate Responsibility for the Financial Statements for the Year Ended 31 December 2020

Further to the provisions of section 405 of the Companies and Allied Matters Act (CAMA), 2020, the directors, hereby certify the financial statements of Jos Distribution Company Plc for the year ended 31 December 2020 as follows:

a) That we have reviewed the audited financial statements of the Company for the year ended 31 December 2020.

b) That the audited financial statements do not contain any untrue statement of material fact or omit to state a material fact which would make the financial statements misleading, in the light of the circumstances under which such statement was made.

c) That the audited financial statements and all other financial information included in the statements fairly present, in all material respects, the financial condition and results of operation of the Company as of and for, the year ended 31 December 2020.

d) That we are responsible for establishing and maintaining internal controls and have designed such internal controls to ensure that material information relating to the Company is made known to the officer by other officers of the companies, during the year ended 31 December 2020.

e) That we have evaluated the effectiveness of the Company's internal controls within the 90 days prior to the date of the audited financial statements, and certify that the Company's internal controls are effective as of that date.

f) That there were no significant changes in internal controls or in other factors that could significantly affect the internal controls subsequent to the date of our evaluation, including any corrective action with regard to significant deficiencies and material weaknesses.

g) That we have disclosed the following information to the Company's Auditors:

i) there are no significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls, and

ii) there is no fraud that involves management or other employees who have significant role in the Company's internal control.

Abdu Bello Mohammed
Managing Director
FRC/2023/PRO/DIR/003/741066

25 September 2024

Nelson Egwemi
Ag. Chief Financial Officer
FRC/2023/PRO/ICAN/001/463291

25 September 2024

Report of the audit committee
To the members of Jos Electricity Distribution Plc

In compliance with section 404(1) of the Companies and Allied Matters Act (CAMA) 2020, we the members of the Audit Committee of Jos Electricity Distribution Plc, have reviewed the Audit Report for the year ended 31 December 2020 and hereby declare as follows:

1. The scope and planning of the audit for the year ended 31 December 2020 are satisfactory;

2. The accounting and financial reporting policies of the Company conformed to the legal requirements and agreed ethical practices;

3. 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 Committee are:

1. Babangida Inuwa	Chairman
2. Gideon Agbedo	Secretary
3. Suleiman Sani Bello	Member
4. Ahmed Sani Bello	Member

Babangida Inuwa
Chairman
FRC/2022/PRO/DIR/003/734259

25 September 2024

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Jos Electricity Distribution Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Jos Electricity Distribution Plc (the Company), which comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income;
- the statement of changes in equity;
- the statement of cash flows for the year then ended; and
- the notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, 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 (CAMA), 2020 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 International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 29 of the financial statements, which indicates that the Company incurred a loss after tax of NGN 0.25 billion for the year ended 31 December 2020 and, as at that date, the Company's current and total liabilities exceeded its current and total assets by NGN 45.06 billion and NGN 8.71 billion respectively. As stated in Note 29, these events or conditions, along with other matters as set forth in Note 29, 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 matter described below to be the key audit matter to be communicated in our report.

<table>
<tr><th colspan="2">Revenue Recognition from contracts with customers</th></tr>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Revenue was a matter of significance to our audit due to:
• the significant judgement and estimate involved in the determination of performance obligation not fulfilled on contract liability for prepaid customers at year end.
• the several rules and regulations that the Company needs to comply with, in relation to tariff and billing methodology.</td><td>Our audit procedures included the following:
• We obtained an understanding of the Company's customer billing and meter reading processes and evaluated the design and implementation of the relevant controls in relation to revenue estimation and billing systems.
• For revenue recognized in respect of unmetered customers, we evaluated the reasonableness of the Company's estimated billing methodology by checking against industry requirements and recomputing unbilled revenue at year end.
• We assessed the reasonableness of the Company's assumptions and judgement with respect to the estimation of contract liability from pre-paid energy sales and unbilled revenue from post-paid customers as follows:
- With respect to the estimation of contract liability from pre-paid energy sales we -performed a re-computation of contract liability using parameters such as average daily consumption and compared to amounts previously determined by the Company.
- With respect to the estimation of unbilled revenue from postpaid energy sales, we obtained an understanding of the Company's billing cycle for the post paid customers and re-computed estimated unbilled revenue as at year end.
• We evaluated billings to customers and revenue recognized to determine whether billings and revenue are consistent with NERC rules and guidelines. These include NERC guidance on back-billing, estimated billing of maximum demand customers, and reading of customers' meters. We assessed the reasonability of the parameters used by comparing them to parameters in the NERC tariff order.</td></tr>
</table>

	• We evaluated the adequacy of the financial statements disclosures, including disclosures of key assumptions and judgments.
See Note 5(a) (significant accounting policy) and related disclosures (Note 6) of the financial statements.	

Other Information

The Directors are responsible for the other information. The other information comprises the Corporate Information, Chairman's Statetement, Directors' Report, Statement of Directors' Responsibilities, Statement of Corporate Responsibility, Report of the audit committee and Other National Disclosure, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Companies and Allied Matters Act (CAMA), 2020 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.

KPMG

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with the Audit 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 5 of the Companies and Allied Matters Act (CAMA), 2020

i. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

ii. In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books.

iii. The Company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Signed:

Chineme B. Nwigbo, FCA
FRC/2013/ICAN/00000001897
For: KPMG Professional Services
Chartered Accountants
4 October 2024
Lagos, Nigeria

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
ICAN
0717565

Statement of financial position

As at 31 December

	Notes	31 Dec 2020	31 Dec 2019
		NGN'000	NGN'000
ASSETS			
Property, plant & equipment	*13*	34,566,147	36,685,937
Intangible assets	*14*	3,217,144	3,664,603
Prepayments	*17*	4,767,172	2,649,904
Other deposits	*16(c)*	4,706,667	3,754,608
Right of use asset	*25*	14,521	19,361
Non current assets		**47,271,651**	**46,774,413**
Inventories	*15*	657,864	849,884
Trade and other receivables	*16*	4,109,990	2,386,142
Prepayments	*17*	55,413	53,485
Cash and cash equivalents	*18*	1,384,952	959,811
Current assets		**6,208,219**	**4,249,322**
Total assets		**53,479,870**	**51,023,735**
EQUITY			
Share capital	*19*	500,000	500,000
Accumulated deficits		(9,207,375)	(8,843,709)
Total equity		**(8,707,375)**	**(8,343,709)**
LIABILITIES			
Loans and borrowings	*23*	8,718,058	8,203,889
Lease liability	*25*	33,697	28,544
Employee benefits obligation	*24*	546,589	360,633
Trade and other payables	*21*	206,311	-
Provisions	*22(a)*	-	106,549
Deferred income	*20*	1,418,584	1,533,925
Total non-current liabilities		**10,923,239**	**10,233,540**
Current tax liabilities	*12*	3,636,118	3,150,742
Loans and borrowings	*23*	1,362,133	1,294,679
Deferred income	*20*	780,776	378,058
Trade and other payables	*21*	45,137,276	44,175,097
Contract liabilities	*6(c)*	230,787	135,328
Provisions	*22(a)*	116,916	-
Current liabilities		**51,264,006**	**49,133,904**
Total liabilities		**62,187,245**	**59,367,444**
Total equity and liabilities		**53,479,870**	**51,023,735**

These financial statements were approved by the Board of Directors on 25 September 2024 and signed on its behalf by:

Ibrahim Sani Bello	**Babangida Inuwa**
(Chairman)	**(Director)**
FRC/2O22/PRO/DIR/003/984702	*FRC/2022/PRO/DIR/003/734259*

Additionally certified by:

Abdu Bello Mohammed	**Nelson Egwemi**
(Managing Director)	**(Ag. Chief Financial Officer)**
FRC/2023/PRO/DIR/003/741066	*FRC/2023/PRO/ICAN/001/463291*

The accompanying notes are an integral part of these financial statements

Statement of profit or loss and other comprehensive income
For the year ended 31 December

	Notes	31 Dec 2020	31 Dec 2019
		NGN'000	NGN'000
Revenue	*6*	67,048,347	64,640,355
Cost of sales	*7(a)*	(48,902,729)	(37,894,398)
Gross profit		**18,145,618**	**26,745,957**
Selling expenses	*7(b)*	(2,625,292)	(2,569,489)
Administrative expenses	*7(c)*	(4,990,719)	(4,692,192)
Other operating income	*8(a)*	3,963,456	88,461,614
Net impairment losses on financial assets	*30(a)*	(12,058,663)	(22,146,160)
Operating profit		**2,434,400**	**85,799,730**
Finance income	*9*	755,986	460,602
Finance cost	*9*	(2,952,074)	(15,527,882)
Net finance costs		**(2,196,088)**	**(15,067,280)**
Profit before minimum and income tax		**238,312**	**70,732,450**
Minimum tax	*12*	(192,144)	(765,510)
Profit before income tax		**46,168**	**69,966,940**
Income tax expense	*12*	(295,232)	(1,901,208)
(Loss)/profit for the year		**(249,064)**	**68,065,732**
Other comprehensive income			
Actuarial loss on employee benefit obligation		(114,602)	(40,732)
Other comprehensive loss for the year		**(114,602)**	**(40,732)**
Total comprehensive (loss)/income		**(363,666)**	**68,025,000**

The accompanying notes are an integral part of these financial statements

Statement of changes in equity

For the year ended 31 December

	Notes	Share capital	Accumulated deficit	Total equity
For the year ended 31 December 2019		**NGN'000**	**NGN'000**	**NGN'000**
Balance at 1 January 2019		500,000	(76,868,709)	(76,368,709)
Total comprehensive income				
Profit for the year		-	68,065,732	68,065,732
Other comprehensive loss for the year		-	(40,732)	(40,732)
Total comprehensive income for the year		**-**	**68,025,000**	**68,025,000**
Balance at 31 December 2019		**500,000**	**(8,843,709)**	**(8,343,709)**
Balance at 1 January 2020		500,000	(8,843,709)	(8,343,709)
Total comprehensive income				
Loss for the year		-	(249,064)	(249,064)
Other comprehensive loss for the year		-	(114,602)	(114,602)
Total comprehensive loss for the year		-	(363,666)	(363,666)
Balance at 31 December 2020		**500,000**	**(9,207,375)**	**(8,707,375)**

The accompanying notes are an integral part of these financial statements

Statement of cash flows

For the year ended 31 December

	Notes	2020	2019
		NGN'000	NGN'000
Cash flow from operating activities			
(Loss)/profit for the year		(249,064)	68,065,732
Adjustments for non-cash items:			
- Finance costs	*9*	2,952,074	15,527,882
- Amortization of deferred income	*20*	(698,140)	(371,711)
- Provision for end of service appreciation	*11(a)*	134,991	143,619
- Provision for staff death benefit	*11(b)*	24,317	58,217
- Depreciation - ROU asset	*25*	4,840	4,840
- Depreciation of property, plant and equipment	*13*	2,167,545	2,059,089
- Amortisation of intangible asset	*14*	434,728	434,492
- Write off asset under construction	*13*	980,742	-
- Loss on disposal of tangible assets	*7(c)*	54,061	-
- Revenue from customer contributed assets	*6(b)*	(514,298)	-
- Write down of inventory	*7(a)*	295,089	-
- Provision on tax dispute judgement	*7(c)*	-	106,549
- Impairment of trade receivables	*30(a)*	12,058,663	22,146,160
- Mimimum tax expense	*12(a)*	192,144	765,510
- Income tax expense	*12(b)*	295,232	1,901,208
- Finance income	*9*	(57,846)	(88,891)
		18,075,078	**110,752,696**
Changes in:			
Inventories	*15(a)*	(103,069)	(3,841)
Trade and other receivables	*16(d)*	(14,734,570)	(13,061,931)
Prepayment	*17(a)*	416,411	71,750
Contract liabilities	*6(c)*	95,459	90,150
Trade and other payables	*21(f)*	(457,906)	(93,706,150)
Cash generated from operating activities		**3,291,403**	**4,142,674**
Payment of defined benefit obligation	*24*	(655)	(25,442)
Income taxes paid	*12*	(2,000)	-
Net cash generated from operating activities		**3,288,748**	**4,117,232**
Cash flows from investing activities:			
Acquisition of property, plant and equipment	*13(d)*	(567,633)	(1,277,642)
Advance payment for property, plant and equiment	*17(a)*	(2,535,607)	-
Proceeds from disposal of property, plant and equipment	*13(e)*	11,535	-
Acquisition of intangible assets	*14(c)*	(2,620)	(983,263)
Interest received	*9*	57,846	88,891
Net cash used in investing activities		**(3,036,479)**	**(2,172,014)**
Cash flows from financing activities:			
Proceeds from loans and borrowings	*23(b)*	2,535,607	387,550
Interest repayment of loans and borrowings	*23(b)*	(614,869)	(1,167,987)
Principal repayment of loans and borrowings	*23(b)*	(1,751,054)	(1,559,765)
Net cash generated from/(used in) financing activities		**169,684**	**(2,340,202)**
Net increase/(decrease) in cash and cash equivalents		421,953	(394,984)
Cash and cash equivalents at 1 January		959,811	1,354,795
Effect of movements in exchange rates on cash held		3,188	-
Cash and cash equivalents at 31 December		**1,384,952**	**959,811**

The accompanying notes are an integral part of these financial statements

Notes to the financial statements

1. Reporting entity

Jos Electricity Distribution Plc ("the Company") is a public liability company incorporated on 7 November 2005 to take over as a going concern, the electricity distribution activities and related business of the Power Holding Company of Nigeria (PHCN) in the Federal Capital Territory (FCT) Plateau, Benue, Bauchi and Gombe States. The Company is domiciled in Nigeria and has its registered office address at 17, Murtala Mohammed Way, Jos, Plateau State, Nigeria.

The Company supplies electricity within the captive regions above based on a licence granted to it by the Nigerian Electricity Regulatory Commission (NERC) on 1 October 2013. Based on the terms and conditions of the licence and regulations as contained in the Electric 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).

On 1 November 2013, a Nigerian Company, Aura Energy Limited and Aydem Energy FZE, UAE acquired 60% interest in the Company thereby acquiring control of the Company. Highland Disco Acquisition Limited acquired the total shareholding of Aura Energy Limited on 8 May 2019, thereby becoming the ultimate controlling party of the Company. On 21 June 2016, Aydem Energy FZE, UAE transferred its shares in the Company to Aydem Elektrik Perakende Satis Anonim Siketi. 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) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Companies and Allied Matters Act (CAMA), 2020 and the Financial Reporting Council of Nigeria (FRC) Act, 2011.

Details of the Company's significant accounting policies are included in Note 5.

3. Functional and presentation currency

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

4. Use of judgments and estimates

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

(A) Judgments

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

Notes to the financial statements

Note 5(a) - Revenue: Determination of whether billings to non-paying customers meet the revenue recognition criteria.

Note 12(e) – Unrecognized deferred tax assets: availability of future taxable profit against which carry forward tax losses can be used.
Note 25 - Lease term: whether the Company is reasonably certain to exercise extension options.

(B) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties as at 31 December 2020 that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:
Notes 6(B) - Revenue Recognition – Estimation of unbilled revenue from Post-paid customers, and estimation of bills to unmetered customers.
Notes 22 and 27 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resource.
Note 24 - Measurement of employee benefit obligations: key actuarial assumptions
Note (30B)- Measurement of ECL allowance for trade receivables: key assumptions in determining the weighted-average loss rate.

5. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except if mentioned otherwise.

(a) Revenue from contract with customers

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

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

Revenue from contract with customers are recognized based on the evaluation of the historical payment patterns of the customers.

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

Notes to the financial statements (continued)

Category of revenue	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Postpaid revenue	The performance obligation of the Company is satisfied overtime as electricity is supplied to the customers. Billing is done on a monthly basis and payment is contractually within 30 days of billing.	Revenue is recognised over time as electricity is provided. The amount of revenue to recognise during the year (including unbilled revenue for the value of units consumed by customers in December, extracted from the December meter reading (which will be billed in January) is assessed based on the unit consumed method. The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers. Billings to customers are recognised as revenue based on the evaluation of whether collection of consideration is probable.
Prepaid revenue	Satisfaction of performance obligation is same as postpaid revenue. Payment is received in advance of consumption of electricity	Revenue is recognised over time as electricity is provided. In case of prepaid customers, an estimate is made for unearned revenue as at year-end and this is included in the statement of financial position as contract liability. The stand-alone selling price is determined based on the NERC approved tariff for the different categories of customers.

(b) Tariff shortfalls

Tariff shortfalls arising from the difference between actual end-user tariffs approved by the Nigerian Electricity Regulatory Commission (NERC) and cost-reflective tariffs allowed by NERC for recovery are based on regulatory orders and subject to recovery through means other than billings to customers. Shortfalls are recognized in profit or loss as revenue in the periods the shortfalls are approved by NERC. Tariff shortfalls relating to prior periods are recognised in other income in the current period upon NERC approval and a financial asset is created or a financial liability is derecognized as might be applicable.

(c) Finance income and finance costs

Finance income comprises interest income on short-term deposits with banks and net foreign exchange gains. Interest income on short-term deposits is recognized using the effective interest method. In addition, day-one-gain on initial recognition of loans at fair value are recognized as finance income.

Finance costs comprise interest expense on interest bearing liabilities, borrowing costs that are not directly attributable to the acquisition, construction or production of qualifying assets are recognized in profit or loss using the effective interest method, and net foreign exchange loss.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

Foreign exchange gains and losses are recognized on net basis.

Notes to the financial statements (continued)

Write back of interest attributable to tariff shortfalls and interest expenses on liabilities to NBET are recognized on a net basis as either finance income or finance cost depending on whether the summation of both results in a net gain or a net loss position.

(d) Foreign currency transactions

Transactions denominated in foreign currencies are translated and recorded in the functional currency (Nigerian Naira) at the spot exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the spot rates of exchange prevailing at that date.

Foreign currency differences are generally recognized in profit or loss. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

(e) Property, plant and equipment

i. **Recognition and measurement**

All categories of property, plant and equipment are initially recorded at cost and subsequently measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical costs 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.

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.

ii. **Subsequent expenditure**

Subsequent expenditure are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of profit or loss during the financial year in which they are incurred.

iii. **Depreciation**

Depreciation is calculated to write off the cost or revalued amount of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss.

Land is not depreciated as it is a leasehold asset with an infinite useful life; however, depreciation on other categories of assets are calculated using straight line method to write down their cost to their residual values over their estimated useful lives.

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

Asset Category	**Estimated useful life**
Land	Nil
Buildings	2.5%
Distribution network assets	2% - 5%
Furniture and fittings	10%
Motor vehicles	20%

Assets under construction are not depreciated. The attributable cost of each asset is tranferred to the relevant asset category at the point when the asset becomes available for use and is depreciated accordingly.

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

Notes to the financial statements (continued)

***iv.* Derecognition of PPE**

The carrying amount of an item of property, plant and equipment shall be derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Company from its continued use.

The gain or loss arising on derecognition shall be included in profit or loss when the item is derecognized. The gain or loss is determined as the the difference between the carrying value and the net proceeds on the sale of the assets, if any, at the time of disposal.

***v.* Contribution of assets by customer**

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

***vi.* Construction Work in Progress (CWIP)**

The company maintains a Construction Work in Progress (CWIP) account. CWIP represents the transactions and or costs related to all works of capital nature or non-current assets that are under construction or not yet in the location and condition necessary for them to operate in the manner intended by management, at which time they are classified to the relevant asset categories and depreciated. Such items include consumer meters, distribution transformers, etc.

(f) Intangible assets

Intangible assets with finite useful lives that are acquired separately are measured at cost less accumulated amortization and accumulated impairment losses. Acquired computer software licenses are capitalized on the basis of its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any directly attributable cost of preparing the software for its intended use. The estimated useful life of the Customer management system is 10 years.

Subsequent expenditure

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

Amortization

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

Derecognition of Intangible Assets

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

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

Notes to the financial statements (continued)

(g) Financial instruments

i. ***Recognition and initial measurement***

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

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

ii. ***Classification and subsequent measurement***

Financial assets

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

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

Financial assets – business model assessment

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

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

Notes to the financial statements (continued)

– how the performance of the portfolio is evaluated and reported to the Company's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

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

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

– contingent events that would change the amount or timing of cash flows;

– terms that may adjust the contractual coupon rate, including variable-rate features;

– prepayment and extension features; and

– terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

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

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost

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

Notes to the financial statements (continued)

Financial liabilities – Classification, subsequent measurement and gains and losses
The Company classifies non-derivative financial liabilities into the other financial liabilities category.

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

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

iii **Derecognition**

Financial assets

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

Financial liabilities

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

iv **Modification**

When the contractual cashflows of a financial instrument are renegotiated or otherwise modified and renegotiation or modification does not result in derecognition of that financial instrument, the Company calculates the gross carrying amount of the financial instrument and recognises a modification gain or loss immediately within finance income/(cost) at the date of modification. The gross carrying amount of the financial instrument is recalculated as at the present value of the renegotiated or modified contractual cashflows that are discounted at the financial instrument's original effective interest rate.

v **Offsetting**

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

(h) Cash and cash equivalents

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

(i) Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are recognised at par value and classified as "share capital" in equity. Any amounts received from issue of shares in excess of par value is classified as "share premium" in equity. Dividends are recognised as a liability in the company in which they are declared.

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

Notes to the financial statements (continued)

(j) Government grants

The Central Bank of Nigeria provided the Company with a loan facility at an interest rate lower that 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 associated asset.

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.

(k) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on weighted average cost principle. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

***i* As a lessee**

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from

Notes to the financial statements (continued)

various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following: –
– fixed payments, including in-substance fixed payments;
— variable lease payments that depend on an index or a rate, initially measured using the index or
rate as at the commencement date;
— amounts expected to be payable under a residual value guarantee; and
— the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets
The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(m) Impairment

***i.* Non-derivative financial assets**

Financial instruments and contract assets

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

- financial assets measured at amortised cost; and
- contract assets.

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

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

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more

Notes to the financial statements (continued)

than 30 days past due.

The Company considers a financial asset to be in default when:
— the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
— the financial asset is more than 90 days past due.

The Company considers a debt security to have low credit risk when the security is held with a financial institution that have high credit ratings and meet the cash and liquidity thresholds set by the Central Bank of Nigeria (CBN).

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

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

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

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

- significant financial difficulty of the debtor or issuer;
- a breach of contract such as a default or being more than 360 days past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

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

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For customers, the Company makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

ii **Non-financial assets**

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

Notes to the financial statements (continued)

generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units (CGUs).

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

(n) Employee benefits

***i.* Short term employee benefits**

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

***ii.* Defined contribution plan**

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

In line with the provisions of the Pension Reform Act 2014, the Company has instituted a defined contribution pension scheme for all staff effective from 1 November 2013. Staff contributions to the scheme are funded through payroll deductions while the Company's contribution is recognized in profit or loss as employee benefit expense in the periods during which services are rendered by employees.

Employees contribute 8% each of their basic salary, transport and housing allowances to the Fund on a monthly basis. The Company's contribution is 10% of each employee's basic salary, transport and housing allowances.

***iii.* Defined benefits plan**

The Company's defined benefit plan is the amount of pension benefit an employee will receive on retirement, dependent on, years of service and compensation. The liability recognised in the statement of financial position in repsect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are determined in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. Where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions (remeasurements) are recognised in other comprehensive income in the period in which they arise.

Notes to the financial statements (continued)

Acturial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Current service and interest cost are included as part of employee benefit expense in the profit or loss.

iv. **Termination benefits**

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

(o) Provisions and contingent liabilities

Provisions

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

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

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

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

Contingent liabilities

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

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

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

(p) Fair value measurement

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

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.

Notes to the financial statements (continued)

A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(q) Income tax

Income tax expense comprises current tax (company income tax, tertiary education tax, and Nigeria Police Trust Fund levy) and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The Company had determined that interest and penalties relating to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

***i.* Current tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years.

The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income tax, if any. It is measured using tax rates enacted or substantively enacted at the reporting date and is assessed as follows:

- Company income tax is computed on taxable profits
- Tertiary education tax is computed on assessable profits
- Nigeria Police Trust Fund levy is computed on net profit (i.e. profit after deducting all expenses and taxes from revenue earned by the company during the year)

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

Total amount of tax payable under CITA is determined based on the higher of two components namely Company Income Tax (based on taxable income (or loss) for the year); and minimum tax. Taxes based on profit for the period are treated as income tax in line with IAS 12.

***ii.* Offset of current tax assets against current tax assets**

The Company offsets the tax assets arising from withholding tax (WHT) credits and current tax liabilities if, and only if, the Company has a legally enforceable right to set off the recognised amounts, and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The tax asset is reviewed at each reporting date and written down to the extent that it is no longer probable that future economic benefits would be realized.

Notes to the financial statements (continued)

***iii.* Deferred tax**

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

Deferred tax is not recognised for:

– temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

– temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

– taxable temporary differences arising on the initial recognition of goodwill.

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

If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Company as approved by the Board.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax are reassessed at each reporting date and recognised to the extent that it has become probable that future profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(r) Minimum tax

Minimum tax which is based on a gross amount is outside the scope of IAS 12 and therefore, are not presented as part of income tax expense in the profit or loss.

In line with the Finance Act 2019, minimum tax is determined as 0.5% of the annual gross turnover less franked investment income. Also, the Finance Act 2020 stated that the minimum tax payable is determined at 0.25% of the annual gross turnover less franked investment income for 2020 and 2021 year of assessment only.

Gross turnover means the gross inflow of economic benefits during the period arising in the course of the operating activities of an entity. This also includes sales of goods, supply of services, receipt of interest, rent, royalties or dividends. Franked investment income relates to income in the form of dividends paid to a company from earnings on which corporation tax has already been paid by the originating company.

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

Notes to the financial statements (continued)

(s) Operating Profit/Loss

Operating profit/loss is the result generated from the continuing principal revenue producing activities of the Company as well as other income and expenses related to operating activities. Operating profit/loss excludes net finance costs, minimum tax, and income taxes.

(t) Standards and Interpretations not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements:

(a) Onerous contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after 1 January 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated.

The Directors do not expect this to have a significant impact on the Company as it does not have current contracts with customers.

(b) Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

— changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and

— hedge accounting.

(i) Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

(ii) Hedge accounting

The amendments provide exceptions to the hedge accounting requirements in the following areas:

- Allow amendment of the designation of a hedging relationship to reflect changes that are required by the reform.
- When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.
- When a Company of items is designated as a hedged item and an item in the Company is amended to reflect the changes that are required by the reform, the hedged items are allocated to Company based on the benchmark rates being hedged.
- If an entity reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it is not prohibited from designating the rate as a noncontractually specified risk component if it is not separately identifiable at the designation date.

The Directors do not expect this to have a significant impact on the Company as it does not have lease contracts and hedging instrument.

Notes to the financial statements

(c) Other standards•

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

- COVID-19-Related Rent Concessions (Amendment to IFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

(u) Fair value measurement

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 Finance Director has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Audit Committee and Board of Directors.

The Finance Director 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 Finance Director assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Audit Committee and Board of Directors. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

• Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

• Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

6. Revenue

A. Revenue streams

The Company generates revenue primarily from delivering of electricity and other related activities across the Company's distribution network in Plateau, Benue, Bauchi and Gombe States . Other sources of revenue in the current period include tariff shortfall issued by the regulator, Nigerian Electricity Regulatory Commission (NERC).

	2020	2019
	NGN'000	NGN'000
Revenue from contracts with customers	29,244,049	26,941,355
Other revenue		
Tariff Shortfall awarded by NERC (Note 6(a)	37,290,000	37,699,000
Customer contributed assets (Note 6(b))	514,298	-
Total revenue	67,048,347	64,640,355

Notes to the financial statements

(a) Tariff shortfall awarded by NERC

As part of the initiative towards improving the liquidity of Distribution Companies, on 31 December 2020 and 31 March 2021, the Nigerian Electricity Regulatory Commission (NERC) issued the December 2020 Minor Review of MYTO 2020 and Minimum Remittance Order - Order No. NERC/227/2020 and the Revised December 2020 Minor Review of MYTO 2020 and Minimum Remittance Order - Order No. NERC/264/2021. These orders awards the Company a sum of NGN 37.29 billion as the tariff shortfall for 2020 (2019: NGN 37.70 billion). In line with the Order, the awarded tariff shortfalls are netted off the Company's payables to NBET and tranferred off the statement of financial position.

(b) Customer contributed assets

Customer contributed assets are distribution network assets transferred to the Company by its customers during the year. The fair value of these assets were estimated by the Company based on observable prices of similar items purchased during the year.

B. Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by customer type, and mode of payment.

Revenue for the year is analysed as follows:

a. Classification by customer tariff class

	2020	2019
	NGN'000	**NGN'000**
Residential	17,143,261	13,648,748
Commercial	4,669,138	4,102,369
Industrial	3,549,584	2,344,249
Government and others	3,882,066	6,845,989
	29,244,049	**26,941,355**
Tariff shortfall awarded by NERC (Note 6(a))	37,290,000	37,699,000
Customer contributed assets (Note 6(b))	514,298	-
	67,048,347	**64,640,355**

b. Classification by customer payment mode

	2020	2019
	NGN'000	**NGN'000**
Post-paid revenue	25,320,133	23,531,282
Pre-paid revenue	3,923,916	3,410,073
	29,244,049	**26,941,355**
Tariff shortfall awarded by NERC (Note 6(a))	37,290,000	37,699,000
Customer contributed assets (Note 6(b)	514,298	-
	67,048,347	**64,640,355**

Notes to the financial statements

C. Contract balances

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

	Notes	2020	2019
		NGN'000	NGN'000
Receivables, which are included in 'trade and other receivables'	*16*	4,051,435	2,314,402
Contract liabilities		230,787	135,328

The contract liabilities primarily relates to the advance consideration received from prepaid customers for supply of electricity which is yet to be consumed. This is derived by calculating an energy consumption factor for each customer based on energy unit purchased during the year and applying this on a prorated basis to estimate the quantity of the last units of energy purchased by the customer that should be deferred. The amount of NGN135.33 million included in contract liabilities at 31 December 2019 has been recognised as revenue in 2020 (2019: NGN45.18 million). Reconciliation of changes in contract liabilities to statement of cashflows is as follows;

	2020	2019
	NGN'000	NGN'000
Opening Balance	(135,328)	(45,178)
Closing Balance	230,787	135,328
Amount shown in statement of cashflows	**95,459**	**90,150**

Unbilled revenue from post-paid customers

Unbilled receivables for the value of units supplied to customers in December is extracted from the December meter reading (which is billed in January 2021). Unbilled receivables (i.e. included in current year revenues) amounted to NGN 281.14 million (2019: NGN 186.15 million) and has been included as part of trade receivables.

7. Expenses by nature

Expenses by nature comprise:

a. Cost of sales

	2020	2019
	NGN'000	NGN'000
Cost of energy purchased - NBET	37,432,031	29,456,274
Cost of energy purchased - NESCO	9,499	10,708
Administrative charges - ONEM	7,795,218	5,065,325
Cost of repairs and maintenance	259,210	344,967
Depreciation of plants and machinery (Note 13(a))	2,052,245	1,925,462
Write down of inventory	295,089	-
Employee benefits expenses (Note 12(b))	1,059,437	1,091,662
Total cost of sales	**48,902,729**	**37,894,398**

b. Selling expenses

Employee benefits expenses (Note 12(b))	1,463,753	1,508,277
Super agent commission	248,472	201,743
Direct sales agents	546,279	547,399
Marketing expenses	366,788	312,070
Total Selling expenses	**2,625,292**	**2,569,489**

Notes to the financial statements

c. Administrative expenses	**2020** NGN'000	**2019** NGN'000
Depreciation of property, plant and equipment (Note 13(a))	115,300	133,627
Depreciation of right of use assets	4,840	4,840
Employee benefits expenses	1,408,700	1,442,267
Directors' remuneration	115,691	149,461
Auditor's remuneration (Note 7(e))	20,210	20,210
Directors' terminal allowance*	257,398	-
Terminal allowance for management staff*	223,338	-
Amortization of intangible assets (Note 14)	434,728	434,492
Transport and travelling	183,926	239,032
Management services fee	204,354	603,141
Rent of office buildings	25,234	58,150
Repairs and maintenance	112,357	176,844
Hotel and accommodation expenses	61,233	96,516
Security, driving and cleaning costs	287,871	757,792
Insurance expenses	35,759	121,719
Bank charges	71,885	24,939
General advertisement	25,496	24,778
Consultancy fees	47,851	33,175
Staff training and welfare expenses	118,373	111,038
Provision expense (Note Note 22(a))	-	106,549
Office expenses	115,708	113,784
Haulage expenses	69,937	9,495
Development levy	-	12,990
Entertainment expenses	15,727	17,353
Loss on disposal of assets	54,061	-
Write off of asset under construction	980,742	-
Total administrative expenses	**4,990,719**	**4,692,192**
Total cost of sales, selling and administrative expenses	**56,518,740**	**45,156,079**

* Directors' and management staff terminal allowances relates to the severance payment made to board members and management staff who resigned from the Company during the year.

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

	2020 NGN'000	**2019** NGN'000
Cost of sales	48,902,729	37,894,398
Selling expenses	2,625,292	2,569,489
Administrative expenses	4,990,719	4,692,192
	56,518,740	**45,156,079**

e. *Auditor's Remuneration*

	2020 NGN'000	**2019** NGN'000
Audit services	20,210	20,210
	20,210	**20,210**

The auditor did not receive remuneration for any other services to the company during the year.

Notes to the financial statements

8. Other income

	2020	2019
	NGN'000	NGN'000
Service re-connection fees	3,969	7,183
Administrative charge on meter tampering and repairs	97,627	94,538
Repairs of meters	2,139	3,614
Recovery of tariff shortfall (Note 8(a))	3,859,721	88,356,279
	3,963,456	88,461,614

(a) Tariff shortfall awarded by NERC

The tariff shortfall relates to the tariff differential for the financial years before the 2020 financial year which is covered in the MYTO Minor Review Order as described in Note 6(a) above.

9. Finance income and finance costs

	2020	2019
	NGN'000	NGN'000
Finance income		
Interest income on bank deposits	57,846	88,891
Amortization of deferred income (Note 20(a))	698,140	371,711
Total finance income	755,986	460,602
Finance costs		
Interest expense on NBET and ONEM accrued payable	1,322,197	13,876,362
Interest expense on loans and borrowings (Note 23)	1,397,457	1,647,177
Interest expense on lease liability (Note 25)	5,153	4,343
Interest expense on provision (Note 22)	10,367	-
Foreign exchange loss	216,900	-
Total finance costs	2,952,074	15,527,882
Net finance costs	(2,196,088)	(15,067,280)

(a) Net interest on NBET and ONEM bills

This represents interest arising from the non payment of minimum/base line remittances on the Nigerian Bulk Electricity Trading (NBET) and Operator of the Nigerian Electricity Market (ONEM) invoices during the year. In line with the NERC order No. NERC/264/2021 titled "The revised December 2020 Minor Review of MYTO - 2020 and Minimum Remittance Order", the Company is required to remit 11.69% and 100% of the NBET and ONEM bills respectively. The shortfall on remittance attracts interest at NIBOR plus 4%.

10. Profit before minimum tax and income tax

	2020	2019
	NGN'000	NGN'000
Profit before income tax is stated after charging		
Auditor's remuneration (Note 7(e)	20,210	20,210
Depreciation (Note 13)	2,167,545	2,059,089
Depreciation - right-of-use-assets (Note Note 25(i))	4,840	4,840
Amortization of intangible assets (Note Note 14)	434,728	434,492
Employee benefits expenses (Note 12(a))	4,089,666	4,042,206
Amortization of deferred income (Note Note 20)	698,140	371,711

Notes to the financial statements

11. Employee benefit expense and director's remuneration

(a) Employee benefits expenses during the year amounted to:

	2020	2019
	NGN'000	NGN'000
Salaries and wages	3,683,842	3,589,681
Pension costs	246,516	250,689
End of service appreciation (Note 24 (a))	134,991	143,619
Staff death benefit (Note 24 (b))	24,317	58,217
	4,089,666	**4,042,206**

(b) Analysed in Cost of sales, selling and administrative expenses as follows:

	2020	2019
	NGN'000	NGN'000
Cost of sales	1,059,437	1,091,662
Selling expenses	1,463,753	1,508,277
Administrative expenses	1,568,008	1,442,267
	4,091,198	**4,042,206**

(c) Number of employees of the Company as at 31 December, whose duties were wholly or mainly discharged in Nigeria, received annual remuneration excluding pension contributions and certain benefits) in the following ranges:

NGN		NGN	2020 Number	2019 Number
500,000	-	1,000,000	1,671	1,646
1,000,001	-	2,000,000	529	567
2,000,001	-	3,000,000	199	194
3,000,001	-	4,000,000	63	67
4,000,001	-	5,000,000	12	17
Above 5,000,000			98	131
			2,572	**2,622**

(d) The average number of full time personnel employed by the Company during the year is as follows:

	2020	2019
	Number	Number
Management	6	18
Senior Staff	594	684
Junior Staff	1,972	1,920
	2,572	**2,622**

Notes to the financial statements

(e) Directors' remuneration

Directors' remuneration paid during the year comprises:

	2020	2019
	NGN'000	NGN'000
Fees as directors	60,239	83,040
Salaries	55,452	66,421
Directors' terminal allowance*	257,398	-
	373,089	149,461

The directors' remuneration shown above includes:

	2020	2019
	NGN'000	NGN'000
Chairman and highest paid director	6,000	19,000

The other directors received remuneration in the following range:

	2020	2019
	Number	Number
NGN2,000,001 - NGN5,000,000	8	7

12. Taxation

(a) Minimum tax

The Company has applied the provisions of the Companies Income Tax Act and the Finance Act 2019 that mandates a minimum tax assessment, where a tax payer's tax liability based on taxable profit is less than the minimum tax liability.

The Company's assessment based on the minimum tax legislation for the year ended 31 December 2020 is NGN192.14 billion (2019: NGN 765.51 million).

	2020	2019
	NGN'000	NGN'000
Minimum tax	192,144	765,510
	192,144	765,510

(b) Income tax expense

The Company is subject to tax under the Companies Income Tax Act as amended to date. No deferred tax has been recorded by the Company because of the uncertainties around the amount and timing of future taxable profits (Note (e)). Amounts recognised in profit or loss are as follows:

	2020	2019
	NGN'000	NGN'000
Company Income Tax	-	-
Tertiary Education Tax (TET)	295,220	1,897,671
Nigeria Police Trust Fund Levy (NPTF)*	12	3,537
	295,232	1,901,208

* The Nigeria Police Trust Fund (Establishment) Act, 2019 imposes a levy of 0.005% of the net profit of companies operating business in Nigeria.

Notes to the financial statements

(c) Reconciliation of effective tax rates

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

	%	2020 NGN'000	%	2019 NGN'000
Profit before minimum tax and income tax		238,312		70,732,450
Income tax using the statutory tax rate	30	71,494	30	21,219,735
Effect of tertiary education tax rate based on assessable profit/ (loss)	2	4,766	2	1,414,649
Tax effect of:				
Current year losses for which no deferred tax is recognised	237	563,853	(28)	(19,722,568)
Tax exempt income	(163)	(387,980)	-	(118,948)
Tax incentives	(11)	(25,217)	-	52,390
Changes in estimate relating to prior year	17	40,027	(1)	(899,332)
Nigeria Police Trust Fund Levy (NPTF)	-	12	-	(3,536)
Non-deductible expenses	12	28,277	-	(41,182)
Total income tax expense	**124**	**295,232**	**3**	**1,901,208**

(d) Movement in current tax liabilities

	2020 NGN'000	2019 NGN'000
Balance at 1 January	3,150,742	484,024
Charge for the year:		
Minimum tax (Note (a))	192,144	765,510
Income tax expense (Note (b))	295,232	1,901,208
Payments for the year	(2,000)	-
Balance at 31 December	**3,636,118**	**3,150,742**

(e) Unrecognised deferred tax assets

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

	2020 NGN'000	2019 NGN'000
Tax Losses (will never expire)	-	(1,472,572)
PPE	(388,085)	(2,689,755)
Deductible temporary differences	(15,036,970)	(10,695,139)
	(15,425,055)	**(14,857,466)**

Notes to the financial statements

13. Property, plant and equipment

The movements on these accounts were as follows:

	Land	Buildings	Motor Vehicles	Distribution network assets	Office Furnitures and Equipment	Asset under construction	Total
Cost	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**
Balance at 1 January 2019	329,293	649,101	785,239	46,864,088	400,327	1,943,168	50,971,216
Additions	-	4,999	64,041	45,567	75,588	1,297,502	1,487,697
Transfers	-	-	-	1,700,753	-	(1,700,753)	-
Balance at 31 December 2019 -	**329,293**	**654,100**	**849,280**	**48,610,408**	**475,915**	**1,539,917**	**52,458,913**
Balance at 1 January 2020	329,293	654,100	849,280	48,610,408	475,915	1,539,917	52,458,913
Additions	-	-	86,815	504,853	39,076	447,998	1,078,742
Transfers	-	-	-	335,712	900	(336,612)	-
Write off	-	-	-	-	-	(980,742)	(980,742)
Disposals	-	-	(132,444)	-	-	-	(132,444)
Balance at 31 December 2020	**329,293**	**654,100**	**803,651**	**49,450,973**	**515,891**	**670,561**	**52,424,469**
Depreciation							
Balance at 1 January 2019	-	(109,564)	(513,497)	(12,829,198)	(261,628)	-	(13,713,887)
Charge for the year	-	(16,321)	(64,670)	(1,925,462)	(52,636)	-	(2,059,089)
Balance at 31 December 2019	**-**	**(125,885)**	**(578,167)**	**(14,754,660)**	**(314,264)**	**-**	**(15,772,976)**
Balance at 1 January 2020	-	(125,885)	(578,167)	(14,754,660)	(314,264)	-	(15,772,976)
Charge for the year	-	(16,877)	(59,823)	(2,052,245)	(38,600)	-	(2,167,545)
Disposals	-	-	82,199	-	-	-	82,199
Balance at 31 December 2020	**-**	**(142,762)**	**(555,791)**	**(16,806,905)**	**(352,864)**	**-**	**(17,858,322)**
Carrying amounts							
At 1 January 2019	**329,293**	**539,537**	**271,742**	**34,034,890**	**138,699**	**1,943,168**	**37,257,329**
At 31 December 2019	**329,293**	**528,215**	**271,113**	**33,855,748**	**161,651**	**1,539,917**	**36,685,937**
At 31 December 2020	**329,293**	**511,338**	**247,860**	**32,644,068**	**163,027**	**670,561**	**34,566,147**

Notes to the financial statements (continued)

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

	2020	2019
	NGN'000	NGN'000
Cost of sales(Note 7)	2,052,245	1,925,462
General and administrative expenses(Note 7)	115,300	133,627
Depreciation charge for the year	2,167,545	2,059,089

(b) The Company had capital commitments amounting to NGN 416.61 million (2019: NGN 629.61million) relating to the Company's asset acquisition.

(c) Customer granted assets

Included in Property, Plant and Equipment are distribution network assets transferred to the Company by its customers during the year.

	2020	2019
	NGN'000	NGN'000
Customer Donated Assets (Transformers)	311,573	209,500
	311,573	209,500

(d) Reconciliation of additions of property, plant and equipment to statement of cashflows:

	2020	2019
	NGN'000	NGN'000
Additions to property, plant and equipment	(567,633)	(1,277,642)
Customer contributed assets (Note 13(c))	(311,573)	(209,500)
Assets transferred under MAP scheme	(199,536)	(555)
Additions to property, plant and equipment for cashflows	(1,078,742)	(1,487,697)

(e) Reconciliation of loss on disposal of property, plant and equipment to statement of cashflows:

	2020	2019
	NGN'000	NGN'000
Cost of assets disposed	132,444	-
Accumulated depreciation of asset (Note 13)	(82,199)	-
Loss on disposal of PPE	(38,710)	-
Proceeds from disposal of PPE	11,535	-

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

	2020	2019
	NGN'000	NGN'000
PPE in transit	527,532	425,010
Ongoing works with respect to substations	143,029	1,114,907
	670,561	1,539,917

Notes to the financial statements (continued)

14. Intangible assets

(a) Reconciliation of carrying amount

The movement in the account during the year is as follows:

	Computer software licenses	Customer management system	Software Work in Progress	Total
	NGN'000	NGN'000	NGN'000	NGN'000
Cost				
Balance at 1 January 2019	695,659	2,419,891	26,451	3,142,001
Additions	-	1,250,646	27,210	1,277,856
Transfers	53,661	-	(53,661)	-
Balance at 31 December 2019	**749,320**	**3,670,537**	**-**	**4,419,857**
Balance at 1 January 2020	749,320	3,670,537	-	4,419,857
Additions*	2,620	-	-	2,620
Disposals	(18,721)	-	-	(18,721)
Balance at 31 December 2020	**733,219**	**3,670,537**	**-**	**4,403,756**
Accumulated amortization				
Balance at 1 January 2019	78,773	241,989	-	320,762
Charge for the year (Note 7)	67,439	367,053	-	434,492
Balance at 31 December 2019	**146,212**	**609,042**	**-**	**755,254**
Balance at 1 January 2020	146,212	609,042	-	755,254
Charge for the year (Note 7)	67,675	367,053	-	434,728
Disposals	(3,370)	-	-	(3,370)
Balance at 31 December 2020	**210,517**	**976,095**	**-**	**1,186,612**
Carrying amount				
At 1 January 2019	**616,886**	**2,177,902**	**26,451**	**2,821,239**
At 31 December 2019	**603,108**	**3,061,495**	**-**	**3,664,603**
At 31 December 2020	**522,702**	**2,694,442**	**-**	**3,217,144**

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

(b) Software relates to the Company's billing system (Unified Vending system) used for the maintenance of customer records and computation of energy consumption. The Company capitalised the cost of purchasing/implementing the software in line with IAS 38, and recognises the annual amortisation in the statement of profit or loss and other comprehensive income for the year.

Customer management system relates to the Company's customer enumeration software used for maintenance of customer record and computation of energy consumption.

(c) Reconciliation of additions to Intangible assets to statement of cashflows:

	2020	2019
	NGN'000	NGN'000
Additions to Intangible assets	(2,620)	(1,277,856)
Unpaid amount on additions to Intangible assets	-	294,593
Additions to Intangible assets for cashflows	(2,620)	(983,263)

Notes to the financial statements (continued)

15. Inventories

	2020	2019
	NGN'000	NGN'000
Distribution spare parts	650,531	843,439
Other consumables	7,333	6,445
	657,864	**849,884**

i. Inventories recognized as expense include consumable spare parts and other consumables used in maintenance during the year. They are included in maintenance expenses in cost of sales and amounted to NGN 0.26 billion (2019: NGN 0.34 billion).

ii. No item of inventory was pledged as security for borrowings during the year.

(a). Reconciliation of changes in inventory to statement of cashflows is as follows;

	2020	2019
	NGN'000	NGN'000
Opening Balance	849,884	846,043
Write down of inventory (Note 7a)	(295,089)	-
Closing Balance	(657,864)	(849,884)
Amount shown in statement of cash flows	**(103,069)**	**(3,841)**

16. Trade and other receivables

	2020	2019
	NGN'000	NGN'000
Trade receivables from customers	4,051,435	1,954,420
Trade receivables from agents (Note 16(a))	-	359,982
Trade receivables	**4,051,435**	**2,314,402**
Employee Receivables (Note 16(b))	58,555	71,740
Other deposits (Note 16(c))	4,706,667	3,754,608
Trade and other receivables at end of the year	**8,816,657**	**6,140,750**
Analysed into:		
Non current	4,706,667	3,754,608
Current	4,109,990	2,386,142
	8,816,657	**6,140,750**

(a) Receivables from agents relates the collections made by Adriot Metering Services Limited on sale of electricity on behalf of the Company to its postpaid and prepaid customers which has not been remitted to the Company as at year end.

(b) Employee receivables relates to employee advances during the year.

(c) Other deposits represents cash deposits of NGN 4.71 billion (2019: 3.75 billion held as collateral with respect to bank guarantees issued in favour of the Nigerian Bulk Electricity Trading Plc (NBET) and the Operator of the Nigeria Electricity Market (ONEM). These bank guarantees were issued by a Nigerian commercial bank (Note 30(B)). Included in the other deposits is a fixed deposit of NGN 2.11 billion earning interest at a rate of 10% per annum and NGN 2.6 billion in a sinking fund account earning no interest. The deposits will mature at the expiration of the guarantees which are long-term in nature and has been classified as non-current in these financial statements.

Notes to the financial statements (continued)

(d) Reconciliation of changes in trade and other receivables to statement of cash flows is as follows:

	2020	2019
	NGN'000	NGN'000
Opening Balance	6,140,750	15,224,979
Impairment loss on trade and other receivables	(12,058,663)	(22,146,160)
Closing Balance	(8,816,657)	(6,140,750)
Amount shown in the statement of cash flows	**(14,734,570)**	**(13,061,931)**

Information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 30.

17. Prepayments

	2020	2019
	NGN'000	NGN'000
Prepaid expenses	13,063	11,421
Advance payment to Vendor*	4,809,522	2,691,969
	4,822,585	**2,703,390**
Non current	4,767,172	2,649,904
Current	55,413	53,485
	4,822,585	**2,703,389**

*Included in the advance payment to vendor is the deposit for the supply of single and three phase meters made to NiconX Communications Limited, Mojec International Limited and MOMAS Electricity Meters Manufacturing Company Limited.

(a) Reconciliation of changes in prepayment to statement of cashflows is as follows;

	2020	2019
	NGN'000	NGN'000
Opening Balance	2,703,389	2,775,139
Advance payment for property, plant and equipment	2,535,607	-
Closing Balance	(4,822,585)	(2,703,389)
Amount shown in statement of cash flows	**416,411**	**71,750**

18. Cash and cash equivalents

	2020	2019
	NGN'000	NGN'000
Bank balances	1,379,176	955,998
Cash in hand	5,776	3,813
Cash and cash equivalents at end of the year	**1,384,952**	**959,811**

Included in the cash and cash equivalents is NGN 348.75 million (2019: Nil), warehoused in the company's principal collection account. Withdrawals are restricted on this account till the 4th of each month where a one time sweep of balances can be done into the company's funding account after settlement of liabilities relating to the CBN-NEMSF Loan. This is in line with the requirements of the central bank of Nigeria for granting the Facility to the company.

Information about the Company's exposure to credit and market risks, and impairment losses for cash and cash equivalents is included in Note 30.

Notes to the financial statements (continued)

19. Share capital

	2020	2019
	NGN'000	NGN'000
Authorised		
1,000,000,000 ordinary shares of N0.50k each	500,000	500,000
Issued, alloted, and paid		
1,000,000,000 ordinary shares of N0.50k each	500,000	500,000

	2020	2019
In thousands of shares		
In issue as at 1 January	1,000,000	1,000,000
Issued during the year	-	-
In issue as at 31 December	**1,000,000**	**1,000,000**

Shareholders	Unit	Unit
Aura Energy Limited	500,000,000	500,000,000
Aydem Elektrik Perakende Satis Anonim Siketi	100,000,000	100,000,000
Bureau of Public Enterprises	320,000,000	320,000,000
Ministry of Finance Incorporated	80,000,000	80,000,000
In issue as at 31 December	**1,000,000,000**	**1,000,000,000**

Percentage (%) Distribution	%	%
Aura Energy Limited	50	50
Aydem Elektrik Perakende Satis Anonim Siketi	10	10
Bureau of Public Enterprises	32	32
Ministry of Finance Incorporated	8	8
In issue as at 31 December	**100**	**100**

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.

20. Deferred income

	2020	2019
	NGN'000	NGN'000
Day-1 fair value gain and modification gain on loans	2,199,360	1,911,983
	2,199,360	**1,911,983**
Analysed into:		
Current	780,776	378,058
Non-current	1,418,584	1,533,925
	2,199,360	**1,911,983**

Notes to the financial statements (continued)

(a) Deferred income relates to the benefits derived by the Company from the low interest loans received from the Central Bank of Nigeria (CBN) (Note 23(a) and Note 23(b)). The difference between the fair value of the facilities and face value of the loans has been accounted for as government grant. Additionaly, modification gains on these loans has been accounted for as government grant. The government grant is amortized over the life of the loans. The amount amortized during the year was NGN 698.14 million (2019: NGN 371.71 billion).

The movement in deferred income during the year was as follows:

	2020	2019
	NGN'000	NGN'000
Balance at 1 January	1,911,983	2,225,352
Additions	985,517	58,342
Amortization to profit or loss	(698,140)	(371,711)
	2,199,360	1,911,983

21. Trade and other payables

Trade and other payables comprises:

	2020	2019
	NGN'000	NGN'000
Trade payables (Note 21(a))	26,393,046	27,662,428
Other payables and accruals	9,079,944	8,459,118
Payable to NELMCO	19,409	58,770
Customer contributed assets	-	210,055
Employee Benefit Payable (Note 21(g))	87,299	-
	35,579,698	36,390,371
Statutory deductions	9,557,578	7,784,726
MAP liability*	206,311	-
	45,343,587	44,175,097
Analysed into:		
Non-current	206,311	-
Current	45,137,276	44,175,097
	45,343,587	44,175,097

*Amount relates to the liability due to customers who financed the acquisition of meters under the MAP framework and are to be reimbursed with effect from 1 April 2023.

(a) Trade payables comprises;

	2020	2019
	NGN'000	NGN'000
NBET payables (Note 21(b))	5,354,842	9,744,892
ONEM payables (Note 21(c))	21,013,494	17,898,908
NESCO payables (Note 21(d))	24,711	18,628
	26,393,047	27,662,428

(b) NBET payables relates to the amount due to the Nigerian Bulk Electricity Trading Plc for the supply of power to the Company.

(c) ONEM payables relates to the administrative charges incidental to the cost of energy due to the Operator of the Nigerian Electricity Market.

(d) NESCO payables relates to the amount due to the Nigerian Electricity Supply Corporation Limited for the supply of electricity directly to the Company's customers.

(e) The Nigerian Electricity Regulatory Commission (NERC) issued the Meter Asset Provider (MAP) Regulation requiring all distribution companies to engage the services of Meter Asset Providers towards covering the metering gap in the country. In 2019, the Company appointed Mojec International Limited to supply and install meters to its customers within the network. In line with the regulation, the customers bear all costs relating to delivery, activating and

Notes to the financial statements (continued)

maintaining the meters through ownership resides with the Company and these meters are a requirement of the Company to fulfil its contract with the customers. Meters amounting to NGN 199.54 million were installed for customers during the year (2019: 0.55 million).

The movement in the trade payables is as follows:

	2020	2019
	NGN'000	NGN'000
Opening balance	27,662,428	110,827,910
Cost of energy (Note 7)	45,236,748	34,532,307
Interest on NBET accrued payable	1,322,197	13,876,362
Payments during the year	(6,678,605)	(5,518,872)
Tariff shortfall awarded by NERC during the year	(41,149,721)	(126,055,279)
Closing Balance	**26,393,047**	**27,662,428**

The Company's exposure to liquidity and market risks for trade and other payables is included in note 30.

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

	2020	2019
	NGN'000	NGN'000
Opening Balance	(44,175,097)	(123,500,237)
Interest on NBET accrued payable	(1,322,197)	(13,876,362)
Customer contributed assets	-	(210,055)
Unpaid amount on Intangible assets	-	(294,593)
Employee payable	(87,299)	-
Closing Balance	45,343,587	44,175,097
Effect of movement in exchange rate	(216,900)	-
Amount shown in the statement of cash flows	**(457,906)**	**(93,706,150)**

(g) Employee benefit payables is analysed as:

	2020	2019
	NGN'000	NGN'000
End of service appreciation benefit payable (Note 24(a))	87,091	-
Staff death benefit payable (Note(24(b))	208	-
	87,299	**-**

22. Provisions

Provisions represents the Directors best estimate of claims including uncertain tax treatments, evaluated as probable for which finalization of the settlement amount is ongoing.

(a) The movement in the account was as follows:

	2020	2019
	NGN'000	NGN'000
Opening Balance	(106,549)	-
Provisions made during the year (Note 22)	-	(106,549)
Interest accretion	(10,367)	-
Closing Balance	**(116,916)**	**(106,549)**

Notes to the financial statements (continued)

23. Loans and borrowings

	2020 NGN'000	2019 NGN'000
CBN-NESMF (Note 23(a))	7,762,762	9,498,568
CBN-NMMP (Note 23(b))	2,317,429	-
	10,080,191	**9,498,568**
Analysed into:		
Non-current	1,362,133	1,294,679
Current	8,718,058	8,203,889
	10,080,191	**9,498,568**

Information about the Company's exposure to interest rate and liquidity risks is included in Note 30.

(a) CBN-NEMSF

In year 2016, the Nigerian Electricity Supply Industry ("NESI"), the Central Bank of Nigeria ("CBN"), the Federal Ministry of Petroleum Resources, the Federal Ministry of Power and the Nigerian Electricity Regulatory Commission ("NERC"), activated the Central Bank of Nigeria-Nigerian Electricity Market Stabilization Fund ("CBN-NEMSF") contract under the Disco Disbursement Agreement.

The stabilization fund was partly to resolve the sector "NESI" liquidity issues. As such, intervention was determined for all market participants based on MYTO.

The Central Bank of Nigeria-Nigerian Electricity Market Stabilization Fund ("CBN-NEMSF") is secured on disco's collections from the sale of energy at first line charge. Interest rate charged on the facility is at 5% per annum. The reduction in interest rate to 5% was extended till February 2022, reverting to 10% thereafter. This reduction in interest resulted in a modification gain of NGN 762.57 million which was recorded in deferred income and amortized into profit or loss.

(b) CBN-NMMP

The CBN-NMMP loan is the mass metering programme that involve the supply of prepaid meters to the customers at no cost to them. The programme is to replace the previous Meter Asset Procurement (MAP) program where customers pay for their meters. Under this arrangement, disbursement for procurement of the meters is made directly to the meter vendors by the Central Bank of Nigeria (CBN) on behalf of the Company with a 1st line charge on the Company's collections as security for repayment. The Company received two disbursements of NGN 2.54 billion in December 2020 with an interest rate of 5% per annum. This loan is measured at fair value in these financial statements. There is a moratorium on principal repayment till December 2022.

	2020 NGN'000	2019 NGN'000
Opening Balance	9,498,568	10,249,935
Proceeds from loans and borrowings	2,535,607	387,550
Interest expense on loans and borrowings	1,397,457	1,647,177
Day-1 fair value gain and modification gain on loans	(985,518)	(58,342)
Principal repayment of loans and borrowings	(1,751,054)	(1,559,765)
Interest repayment of loans and borrowings	(614,869)	(1,167,987)
Total loans and borrowings	**10,080,191**	**9,498,568**

Notes to the financial statements (continued)

24. Employee benefits obligation

	2020 NGN'000	2019 NGN'000
End of service appreciation scheme ((Note 24(a))	452,423	302,416
Staff death benefit scheme (Note 24(b))	94,166	58,217
Total benefit obligation	**546,589**	**360,633**

(a) End of service appreciation scheme

The Company operates an unfunded defined benefit pension scheme where qualifying employees receive a lump sum payment based on the length of service and the remuneration of the employee at the same time of retirement. The plan was approved management in the staff employment handbook approved on 21 November 2018.

It is paid to qualified employees who have put in at least 5 years in service and are exiting, they shall be paid a certain percentage of their annual salary and emolument as "end of service appreciation" for meritorious service to the Company. The actuarial valuation of the benefit was carried out by Mr. Chidiebere Orji (FRC/2021/004/00000022718) for Logic Professional Services (FRC/2020/00000013617) in the current year.

The Company makes provision for its defined benefit plan based on actuatial valuation performed using the projected unit credit method. The defined benefit costs recognized in the statement of profit or loss amounted to NGN134.99 million (2019: NGN143.62 million).

The movement in the defined benefit obligation during the year was as follows:

	2020 NGN'000	2019 NGN'000
Balance, beginning of year	302,416	143,507
Included in profit or loss (as part of administrative expenses)		
Current service cost	97,247	123,033
Interest cost	37,744	20,586
	134,991	**143,619**
Included in other comprehensive income		
Actuarial loss due to assumption changes	112,554	62,697
Actuarial gain due to experience	(10,447)	(21,965)
	102,107	40,732
Other		
Benefit paid	-	(25,442)
Transfer to trade and other payables* (Note 21(g))	(87,091)	-
Balance at 31 December	**452,423**	**302,416**

*The NGN87,091,000 relates to end of service benefit that accrued to staff who exited the entity in 2020 but were not paid

Notes to the financial statements (continued)

(b) Staff death benefit scheme

The company implemented a staff death benefit scheme for its employees. The heirs of an employee who dies while in the service to the Company in addition to insurance benefit shall be entitled to three (3) months basic salary for the first year of service. The independent actuarial valuation was performed by Chidiebere Orji (FRC/2021/004/00000022718) an employee of Logic Professional Services (FRC/2020/00000013617) using the projected unit credit method. The Company does not maintain any assets for the scheme but ensures that it has sufficient funds for the obligations as they crystallize.

The staff death benefit costs recognized in the statement of profit or loss amounted to NGN 24.32 million (2019: NGN58.22 million).

The movement in the staff death benefit scheme during the year was as follows:

	2020	2019
	NGN'000	**NGN'000**
Balance, beginning of year	58,217	-
Included in profit or loss (as part of administrative expenses)		
Current service cost	16,943	58,217
Interest cost	7,374	-
	24,317	**58,217**
Included in other comprehensive income		
Actuarial loss due to assumption changes	27,263	-
Actuarial gain due to experience	(14,768)	-
	12,495	-
Other		
Benefit paid	(655)	-
Transfer to trade and other payables* (Note 21(g))	(208)	-
Balance at 31 December	**94,166**	**58,217**

*The NGN 208,000 relates to staff death benefit that accrued to deceased staff in 2020 but was not paid

The following were principal actuarial assumptions at the reporting date (expressed as weighted averages)

	2020	2019
Discount rate (%)	13%	13%
Salary increase rate (%)	12%	12%
Retirement Age	60	60
Maximum Working Life	35	35
Pre retirement mortality rate	A67/70	A67/70

At 31 December 2020, the weighted average duration of the defined benefit pension scheme was estimated at 13 years.

Notes to the financial statements (continued)

(c) Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have been affected the defined benefit obligation by the amount shown below;

	31 December 2020	
	Increase	**Decrease**
Effect in thousands of naira		
Discount rate (1% movement)	83,233	107,185
Future salary growth (1% movement)	107,287	82,946

	31 December 2019	
Effect in thousands of naira	**Increase**	**Decrease**
Discount rate (1% movement)	277,909	330,870
Future salary growth (1% movement)	332,343	276,258

25. Leases

(a) Leases as lessee (IFRS 16)

The Company lease relates to the head office rent. The lease typically runs for a period of a year, with an option to renew the lease after expiration. Lease payments are renegotiated when necessary to reflect market rentals.

Information about leases for which the Company is a lessee is presented below.

(i) *Right-of-use assets*

Right-of-use assets related to leased properties that do not meet the definition of investment property are presented on the statement of financial position in these financial statements.

	Building 2020	**Building 2019**
	NGN'000	**NGN'000**
Balance at 1 January	19,361	-
Recognition of right of use assets on initial application of IFRS 16	-	24,201
Depreciation of right-of-use assets	(4,840)	(4,840)
Balance at 31 December	**14,521**	**19,361**

(ii) *Lease liability*

	2020	**2019**
	NGN'000	**NGN'000**
Balance at 1 January	28,544	-
Recognition of lease liability on initial application of IFRS 16	-	24,201
Accretion on lease liability	5,153	4,343
Balance at 31 December	**33,697**	**28,544**

Notes to the financial statements (continued)

(iii) ***Amount recognised in profit or loss***

	2020	2019
	NGN'000	NGN'000
Interest on lease liability	5,153	4,343

(iv) Extension options

The lease contains an extension option exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

26. Related party transactions

Identity of related parties

(a) Parent and ultimate controlling party

i. Highland Disco Acquisition Limited

Highland Disco Acquisition Limited acquired the total shareholding of Aura Energy Limited on 8 May 2019, thereby becoming the ultimate controlling party of the Company. There were no transactions with or balances due from Highland Disco Acquisition Limited during the year (2019: Nil).

(b) Due to related parties

	2020	2019
	NGN'000	NGN'000
- Aydem Energy FZE	2,401,980	2,185,080
- NELMCO	19,409	58,770
- Operator of the Nigerian Electricity Market (ONEM)	21,013,494	17,898,908
- Nigerian Bulk Electricity Trading Plc (NBET)	5,354,842	9,744,892
- Tripple Seventh Nigeria Ltd	66,728	259,428
- RSG Limited	-	22,835

(c) Due from related parties

- Nicon X Communications	4,767,171	2,649,904

ii. Aydem Elektrik Perakende Satis Anonim Siketi

Aydem Elektrik Perakende Satis Anonim Siketi owns 10% of the Company's shareholding. There were no transactions between the Company and this party during the year (2019: Nil).

Notes to the financial statements (continued)

iii. Aydem Energy FZE, UAE

The Company and Aydem Energy FZE, UAE are related by common directorship. This party was a technical partner to the Company, between 2014-2018. There were no transactions between the Company and this party during the year, the amount due for technical services provided during its period of service amounts to NGN 2.4 billion as at year end (2019: 2.2 billion).

iv. Bureau of Public Enterprises (BPE) and Ministry of Finance Incorporated (MoFI)

BPE and MoFI hold 32% and 8% of the shares of the Company respectively. They are both wholly owned by the Nigerian Government. There were no transactions between the Company and these related parties (2019: Nil).

v. Operator of the Nigerian Electricity Market (Market operator or MO)

This is the operational arm of the Transmission Company of Nigeria (TCN). TCN is owned by the Federal Government of Nigeria, through BPE and MoFI. The amount payable to Market Operators by the Company as at 31 December 2020 was NGN 21.0 billion (2019: NGN 17.9 billion).

vi. Nigerian Electricity Liability Management Limited/GTE

Nigerian Electricity Liability Management Limited (NELMCO) is wholly owned by the Federal Government of Nigeria (90% owned by BPE and 10% owned by MoFI) and was authorised by the National Council on Privatisation (NCP) to take over the management and settlement of Power Holding Company of Nigeria's obligations and other legacy debts as may be determined by the Council (NCP) within the Nigeria Electricity Supply Industry. The amount payable to NELMCO as at 31 December 2020 was NGN 19 million (2019: NGN 59 million).

vii. Nigerian Bulk Electricity Trading Company (NBET)

This is the operational arm of the Transmission Company of Nigeria (TCN). TCN is owned by the Federal Government of Nigeria, through BPE and MoFI. The amount payable to Market Operators by the Company as at 31 December 2020 was NGN 17.63 billion (2019: NGN 9.74 billion).

viii. NiconX Communications Limited

The Company and NiconX Communications Limited are related by common directorship. Nicon X Communication Limited supplies prepaid meters to JED Plc. JED Plc had prepaid the sum of NGN 2.23 billion (2019: NGN 2.65 billion) for single and three phase meters which are yet to be supplied as at year end.

ix. RSG Limited

The Company and RSG Limited are related by common directorship. RSG Limited is responsible for providing comprehensive customer enumeration and asset mapping service for JED Plc's customers and its property plant and equipment, respectively for Benue and part of Plateau states. The outstanding balance at year end is nil (2019: NGN 22.8 million).

Notes to the financial statements (continued)

x. Tripple Seventh Nigeria Limited

The Company and RSG Limited are related by common directorship. Tripple Seventh Limited is responsible for providing comprehensive customer enumeration and asset mapping service for JED Plc's customers and its property plant and equipment, respectively for Bauchi, Gombe and part of Plateau states. The outstanding balance at year end is NGN 66.73 million (2019: NGN 259.4 million).

(d) Transactions with key management personnel

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

Key management personnel compensation comprised:

	2020	2019
	NGN'000	NGN'000
Directors fees	60,239	83,040
Contribution to defined contribution plan	1,600	1,600
Directors' terminal allowance	257,398	-
	319,237	84,640

27. Contingent liabilities/Assets

(a) Transfer of pre-takeover liabilities and receivables

As part of the privatization process, the Company through the Bureau of Public Enterprises (BPE) signed a deed of assignment of the pre-takeover liabilities and trade receivables with Nigerian Electricity Liability Management Company (NELMCO) effective 31 October 2013. Therefore, the Company believes that it will neither realise those receivables nor settle any liability existing as at 31 October, 2013 and no recognition of impairment is required.

(b) Litigations and claims

There were a number of claims against the Company arising from litigations over its normal course of operations. As at 31 December 2020, total claims of NGN 575.01 million (2019: NGN 330.17 million) were outstanding against the Company. Based on the legal advise of its external legal counsels, the directors have concluded that the claims are remote and no material financial obligations would result from the litigations. No liabilities have been recorded for these claims in these financial statements.

Notes to the financial statements (continued)

28. Events after the reporting date

(a) Tariff Shortfall received by Nigerian Electricity Regulatory Commission (NERC)

On 29 December 2021, the Company received an Order (NERC/301/2021) titled "Multi-Year Tariff Order 2022" which awarded the Company with tariff shortfall of NGN 23.57 billion for 2021 financial year and NGN 16.46 billion for 2022

On the 28th of December 2023, the Company received an Order (NERC/2023/029) titled "Multi-Year Tariff Order 2024" which awared the company with tariff shortfall of NGN 45.16 billion in 2023 financial year.

(b) **Electricity Act, 2023**

In July 2022 the Electricity Act, 2023 was passed with the core objective of providing a holistic integrated policy plan that recognizes all sources for the generation, transmission, and distribution of electricity, including the integration of renewable energy into Nigeria's energy mix. The company is in the process of evaluating the impact of this Act on its operations.

(c) **Transition to Bilateral Contract**s

On the 28th of December 2023, the Company received an Order (NERC/2023/029) titled "Multi-Year Tariff Order 2024" which requires the entity to secure adequate bilateral contracts to facilitate a seamless exit from NBET's vesting contract regime. Through the bilateral contracts, the entity is required to mitigate its exposure to volumetric energy risks and effective January 2024, and have no recourse to claim revenue shortfall arising from generation shortfalls.The company is in the process of evaluating the impact of this Act on its operations.

(d) **Non-Compliance with NERC order on the capping of Estimated bills**

The Company received an Order (NERC/2024/010) on non-compliance with the capping of estimated bills for the period, January-September 2023 amounting to an overbilling to customers for energy worth NGN13.32 billion, for which a reconciliation shall be done to reconcile the accounts and the entity shall issue credit adjustments for all customers that were overbillied. This will become effective in 2023 based on the order.

Notes to the financial statements (continued)

29. Going concern

The Company reported a loss after tax of NGN0.25 billion for the year ended 31 December 2020, as at same date, the Company's current and total liabilities exceeded its current and total assets by NGN45.06 billion and NGN8.71 billion (2019: NGN44.88 billion and NGN8.34 billion) respectively. The Company's reported losses resulted from a lack of cost reflective tariff being charged by the Company. The profit reported in 2019 was attributed to the cumulative tariff shortfall for 2015-2019 awarded by the Nigerian Electricity Regulatory Commission (NERC) to the Company amounting to NGN126.06 billion.

The Directors however prepared the financial statements on a going concern basis on the following considerations:

- The successful actualization of the 2024 budgeted results of the Company which is premised on assumptions that cost reflective tariffs would be implemented in the immediate future or the receipt of tariff shortfalls will continue until cost reflective tariffs are fully available; and
- Non-recall of the amount due to Operator of the Nigeria Electricity Market (ONEM) and Nigerian Bulk Electricity Trading (NBET) and/or the non-discontinuation of the NERC Minimum Remittance Order which allows for settlement of only 11.69% of NBET bills.

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

The Directors acknowledge that uncertainty exists over the company's ability to meet its obligations as they fall due. However, the directors have confidence that they will continue to operate as a going concern based on the following which have occurred subsequent to year end:

- On 1 April 2021, the Company commenced the implementation of the Revised December 2020 Minor Review of Multi-Year Tariff Order (MYTO) and Minimum Remittance Order. The order introduced a minor increase in the tariff charged to customers for energy sold. Continued disbursement of payments to NBET by the Federal Government on behalf of the company on liabilities incurred on the purchase of electricity as tariff shortfall. This mechanism allows the Company to only settle 11.69% of its 2022 NBET bills as required in the NERC order No. NERC/264/2021.
- Timely remittance of monthly billings and offset of historical debts from Government Ministries, Departments and Agencies (MDA) from 1 November 2013.
- Receipt of additional tariff shortfall amounting to NGN 23.57 billion in 2021, 16.46 billion in 2022 and NGN 45.16 billion in 2023 which was used to offset against the Company's payables to NBET.
- Rapid deployment of meters to previously unmetered customers in line with NERC's Meter Asset Provider Regulation to improve billing and collection efficiency.
- In April 2024, the NERC approved for the entity an average increase of 210% in tariff for customers in band A tariff class. This increases the revenue generation capacity of the company during the period covered.

Based on the above, the Directors have a reasonable expectation that the Company will continue in operational existence for the foreseeable future and as such, realise its assets and settle its liabilities in the normal course of business. Accordingly, these financial statements have been prepared on the basis of accounting policies applicable to a going concern.

Notes to the financial statements (continued)

30. Financial instruments - Fair values and risk management

A Accounting classifications and fair values

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

	Financial assets at amortised cost	Other financial liabilities	Total carrying amount	Fair value (level 2)
31 December 2020	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**
Financial assets				
Trade and other receivables (Note 16)	4,051,435	-	4,051,435	-
Employee Receivables (Note 16))	58,555	-	58,555	-
Other deposits (Note 16)	4,706,667	-	4,706,667	-
	8,816,657	-	**8,816,657**	-
Cash and cash equivalents (Note 18)	1,384,952	-	1,384,952	-
	10,201,609	-	**10,201,609**	-

	Financial assets at amortised cost	Other financial liabilities	Total	Fair value (level 2)
	NGN'000	**NGN'000**	**NGN'000**	**NGN'000**
Financial liabilities				
Trade and other payables (Note 21)	-	35,579,698	35,579,698	-
Loans and borrowings (Note 23)	-	10,080,191	10,080,191	4,270,246
	-	**45,659,889**	**45,659,889**	**4,270,246**

	Financial assets at amortised cost	Other financial liabilities	Total carrying amount	Fair value (level 2)
31 December 2019	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**
Financial assets				
Trade and other receivables (Note 16)	2,314,402	-	2,314,402	-
Employee Receivables (Note 18)	71,740	-	71,740	-
Other deposits (Note 16)	3,754,608	-	3,754,608	-
	6,140,750	-	**6,140,750**	-
Cash and cash equivalents (Note 18)	959,811	-	959,811	-
	7,100,561	-	**7,100,561**	-

	Financial assets at amortised cost	Other financial liabilities	Total carrying amount	Fair value (level 2)
	NGN'000	**NGN'000**	**NGN'000**	**NGN'000**
Financial liabilities				
Trade and other payables (Note 21)	-	36,390,371	36,390,371	-
Loans and borrowings (Note 23)	-	9,498,568	9,498,568	3,984,540
	-	**45,888,939**	**45,888,939**	**3,984,540**

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

* Carrying amount of trade and other payables does not include statutory deductions and meter assets payable.

Notes to the financial statements (continued)

B Financial risk management

The Company has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risk

Risk management framework
The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board of directors is also responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's audit and finance committees oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The audit committee is assisted in its oversight role by Internal Audit. Internal Audit is expected to undertake both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(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:

	Notes	2020	2019
		NGN'000	NGN'000
Trade and other receivables*	*16*	4,051,435	2,314,402
Cash at bank	*18*	1,384,952	959,811
Employee Receivables	*16*	58,555	71,740
Other deposits	*16*	4,706,667	3,754,608
		10,201,609	**7,100,561**

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

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

	2020	2019
	NGN'000	NGN'000
Write back/(off) of unreconciled receivables	5,845,827	(5,845,827)
Impairment loss on trade receivables written back*	(5,845,827)	-
Impairment loss on trade receivables and contract assets arising from contracts with customers	(12,058,663)	(16,300,333)
	(12,058,663)	**(22,146,160)**

* This relates to receivables from customers who were migrated from the postpaid to prepaid metering system in prior year which has now been reconciled.

Notes to the financial statements (continued)

Trade and other receivables

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

In monitoring credit risk, customers are grouped according to common credit risk characteristics – geographic region, metering status and volume of consumption. No security is provided for the electricity supplied though the Company retains the right to disconnect non paying customers to enforce collections.

The Company does not require collateral in respect of trade and other receivables. The company does not have trade receivable for which no loss allowance is recognised because of collateral.

Trade receivables

	2020	2019
	NGN'000	NGN'000
Residential Customers	-	1,149,904
Commercial	443,826	279,369
Industrial	2,935,226	289,129
Special	614,670	233,943
Street light	57,713	2,075
Distribution Agents	-	359,982
Total	**4,051,435**	**2,314,402**

Expected credit loss assessment for customers

The Company uses an allowance matrix to measure the expected credit losses (ECLs) of trade receivables from customers. Loss rates are based on actual credit loss experience over the past three years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables. Scalar factors are based on actual and forecast gross domestic product rates. Loss rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, metering status and volume of consumption.

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

31 December 2020	**Weighted average loss rate**	**Gross carrying amount**	**Loss allowance**
		NGN'000	**NGN'000**
Residential	100%	72,953,802	72,953,802
Commercial	97%	12,860,675	12,416,849
Industrial	2%	3,010,116	74,890
Special	92%	7,246,463	6,631,793
Street light	29%	81,129	23,416
Collection agents	100%	999,508	999,508
		97,151,693	**93,100,258**

Notes to the financial statements (continued)

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from customers as at 31 December 2019.

31 December 2019	Weighted average loss rate	Gross carrying amount	Loss allowance
		NGN'000	NGN'000
Residential	91%	61,301,775	60,151,871
Commercial	91%	12,822,174	12,542,805
Industrial	72%	1,353,704	1,064,575
Special	88%	7,132,406	6,898,463
Street light	86%	38,418	36,343
Collection agents	47%	707,520	347,538
		83,355,997	**81,041,595**

Loss rates are based on actual credit loss experience over the past three years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables. Scalar factors are based on actual and forecast gross domestic product rates.

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

	2020	2019
	NGN'000	NGN'000
Balance at 1 January	(81,041,595)	(64,741,262)
Impairment allowance for the year	(12,058,663)	(16,300,333)
Balance at 31 December	**(93,100,258)**	**(81,041,595)**

Cash at bank
The Company's cash and cash equivalents are as disclosed in Note 18. Impairment on cash and cash equivalents has been measured on a 12 month expected loss basis and reflects the short term maturities of the exposure. The Company limits its exposure to credit risk by investing in treasury bills and placing deposits with local banks with good repute. The Company considers that its cash & cash equivalents have low credit risk based on the external credit ratings of the counterparties and their ability to meet the cash and liquidity thresholds set by the Central Bank of Nigeria. The Company did not recognize any impairment on its cash and cash equivalents at the end of the year (2019: Nil).

Employee receivables
The Company advances represents funds to employees for operational activities. To mitigate credit risk, the Company monitors the progress of such activities which have been funded. 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 employee. Where such does not exist, the amount are impaired. No impairment was recorded with respect to this amount in the current year as they are fully considered fully recoverable and thus have minimal credit risk (2019: Nil)

Other deposits
Fixed deposits relates to cash deposits used to collaterize Bank Guarantees (BGs) issued to the Company to meet the requirement under the vesting contract for the supply of electricity from Nigerian Bulk Electricity Trading Plc (NBET). These cash deposits are held by a reputable bank. In the directors' view, all amounts are collectible. No impairment was recorded with respect to this amount in the current year as they are fully considered fully recoverable and thus have minimal risk (2019: Nil)

Notes to the financial statements (continued)

(b) Liquidity risk

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

In order to manage liquidity risks and ensure that it has sufficient cash to match outflows expected in the normal course of its business, the Company is doing the following:

- Intensifying efforts to collect trade receivables.
- Accessing the various financial interventions applicable to the Company under the PSRP.

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

		Contractual cash flows				
	Carrying amount	**Total**	**0 - 3 Months**	**4 - 12 Months**	**2-5 years**	**Above 5 years**
	NGN'000	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	
Non-derivative financial liabilities 31 December 2020						
Trade and other payables (Note 21)	35,579,698	35,579,698	35,579,698	35,579,698	-	-
Loans and borrowings (Note 23)	10,080,191	14,828,306	616,059	1,948,092	10,518,288	1,745,867
	45,659,889	**50,408,004**	**36,195,757**	**37,527,790**	**10,518,288**	**1,745,867**
Non-derivative financial liabilities 31 December 2019						
Trade and other payables (Note 21)	36,390,371	36,390,371	36,390,371	36,390,371	-	-
Loans and borrowings (Note 23)	9,498,568	14,105,628	692,902	2,084,223	11,328,503	-
	45,888,939	**50,495,999**	**37,083,273**	**38,474,594**	**11,328,503**	**-**

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company manages market risks by keeping costs low through various cost optimization programs. Moreover, market developments are monitored and discussed regularly, and mitigating actions are taken where necessary.

Notes to the financial statements (continued)

Currency risk

The Company, based on operations to date has limited exposure to currency risks based on the fact that its revenue is earned in its functional currency and the cost of energy supplied paid in same. Exposure to currency risk is majorly limited to cash balances which are denominated in US Dollar. The currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.

In managing currency risk, the Company aims to reduce the impact of short-term fluctuations on earnings. Although the Company has various measures to mitigate exposure to foreign exchange rate movement, over the long term, permanent changes in exchange rates would have an impact on profit or loss. It monitors the movement in the currency rates on an ongoing basis.

Exposure to currency risk

The summary of quantitative data about the Company's exposure to currency risk as reported by management is as follows:

	2020	2019
	$'000	$'000
Cash and cash equivalents	1	68
Trade and other payables	(6,923)	(6,629)
Net statement of financial position exposure	**(6,922)**	**(6,561)**

The following significant exchange rates were applied during the year

	Average rate		Reporting date spot rate	
	2020	**2019**	**2020**	**2019**
US$	382.06	361.66	400.33	364.70

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

Sensitivity analysis

A 15% strengthening of the USD at 31 December would have increased loss for the year and equity 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.

	2020	2019
	NGN'000	**NGN'000**
NGN (15% movement)	416	359

A weakening of the US$ against the Naira at 31 December would have had the equal but opposite effect on equity to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk management

The Company is exposed to interest rate risk arising from the interest bearing obligations from the ONEM/NBET payables, vehicle finance, and vendor financed loans.

Notes to the financial statements (continued)

Interest rate risk- Sensitivity analysis

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	Rate	2020 NGN'000	Rate	2019 NGN'000
Fixed rate instruments				
Fixed deposit (Note 16(c))	10%	2,106,667	10%	2,054,608
CBN loan (Note 23)	10%	(10,080,191)	10%	(9,498,568)
Variable-rate instruments				
ONEM/NBET market debts (Note 21(a))	NIBOR+4%	(26,393,046)	NIBOR+4%	(27,662,428)

Fair value sensitivity analysis for fixed-rate instruments

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, or designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 300 basis points in interest rates at the reporting date would have increased/(decreased) loss by the amounts shown below.

300 bp Increase	300 bp Decrease	300 bp Increase	300 bp Decrease
(791,791)	791,791	(829,873)	829,873

31. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

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

The Company's adjusted net debt to equity ratio as at 31 December was as follows:

	2020 NGN'000	2019 NGN'000
Total liabilities	62,187,245	59,367,444
Less: cash and cash equivalents	(1,384,952)	(959,811)
Adjusted net debt	60,802,293	58,407,633
Total equity	8,707,375	8,343,709
Total equity to adjusted net debt	6.98	7.00

Other national disclosures

Value added statement

For the year ended

	31 Dec 2020 NGN'000	%	31 Dec 2019 NGN'000	%
Revenue	67,048,347	718	64,640,355	70
Bought in materials and services::				
- Local	(62,434,793)	(668)	(61,241,676)	(66)
	4,613,554	**50**	**3,398,679**	**4**
Finance income	755,986	8	460,602	-
Other income	3,963,456	42	88,461,614	96
	9,332,996	**100**	**92,320,895**	**100**
To employees:				
- as salaries, wages and other staff costs	4,089,666	44	4,042,206	4
To providers of finance:				
- Finance cost and similar charges	2,952,074	32	15,527,882	17
To government as:				
- taxes	487,376	5	2,666,718	3
Reained in the Business:				
To maintain and replace:				
- property plant and equipment	2,167,546	23	2,059,089	2
To (deplete)/augment reserves	(363,666)	(4)	68,025,000	74
	9,332,996	**100**	**92,320,895**	**100**

Five year financial summary

Statement of profit or loss and other comprehensive income

	31 Dec 2020 NGN'000	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000	31 Dec 2017 NGN'000	31 Dec 2016 NGN'000
Revenue	67,048,347	64,640,355	28,352,558	32,096,746	26,875,032
Profit/(loss) before taxation	238,312	70,732,450	(37,519,456)	(22,341,006)	(16,782,278)
Taxation	(487,376)	(2,666,718)	(35,453)	35,453	(59,443)
(Loss)/profit for the year	(249,064)	68,065,732	(37,554,909)	(22,305,553)	(16,841,721)
Total comprehensive (loss)/ income for the year	(249,064)	68,025,000	(37,554,909)	(22,305,553)	(16,841,721)

Statement of financial position

	31 Dec 2020 NGN'000	31 Dec 2019 NGN'000	31 Dec 2018 NGN'000	31 Dec 2017 NGN'000	31 Dec 2016 NGN'000
Employment of funds					
Non-current assets	47,271,651	46,774,413	44,873,580	42,337,250	38,248,112
Current assets	6,208,219	4,249,322	15,405,944	36,326,246	24,398,290
Current liabilities	(51,264,006)	(49,133,904)	(125,152,512)	(82,264,365)	(44,327,335)
Non-current liabilities	(10,923,239)	(10,233,540)	(11,495,721)	(10,647,613)	(9,699,130)
Net (liabilities)/assets	**(8,707,375)**	**(8,343,709)**	**(76,368,709)**	**(14,248,482)**	**8,619,937**
Funds Employed					
Share Capital	500,000	500,000	500,000	500,000	5,000
Retained earnings	(9,207,375)	(8,843,709)	(76,868,709)	(14,748,482)	8,614,937
Total equity	**(8,707,375)**	**(8,343,709)**	**(76,368,709)**	**(14,248,482)**	**8,619,937**