

Sapele Power Plc

Annual Report

31 December 2014

Distribution

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Corporate information

Registration Number:

RC. 638650

Directors:

Anthony Onoh (Executive Chairman)
Heather Onoh (Mrs)
Onoriode Odjegba
Liu Zhaolong
Prof. Oladapo Afolabi
Ambassador Robin Sanders
Nwagboe Uwai fiokun
Reginald Bayoko

Registered office:

Sapele Power Complex
Ogorode, Sapele
Delta State

Company secretary:

Olaniwun Ajayi LLP
Plot L2, 401 Close
Banana Island, Ikoyi
Lagos State

Solicitor:

OBLA & CO
Elagbaje Chambers
Bank of Industry Building
B¹ wing 2nd Floor, Plot 256
Off Herbert Macaulay Way
Central Business District
Abuja

Independent auditor:

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

Principal bankers:

United Bank of Africa Plc
Guaranty Trust Bank Plc

Results at a glance

	<u>2014</u>	<u>2013</u>	<u>Change</u>
	N'000	N'000	(%)
Revenue	4,163,778	3,712,143	12
Profit/(loss) before taxation	626,548	(705,460)	(189)
Profit/(loss) after taxation	495,506	(463,224)	(207)
Retained earnings	22,797,527	23,098,860	(1)
Total assets	37,631,057	37,671,194	(0)
Share capital	5,000	5,000	-
Total equity	27,075,794	26,867,229	1

Directors' report

For the year ended 31 December 2014

The directors present their report on the affairs of Sapele Power Plc ("the Company"), together with the financial statements and auditor's report for the year ended 31 December 2014.

Legal form

The Company was incorporated as a private limited liability company on 8 November 2005.

Principal activities

The Company is mainly engaged in the generation and sale of electric power to the National Grid.

Business review

The EPSRA (Act No 6 of 2005) was established for the privatisation and transition of the Nigerian electricity market and as required by this Act, the Nigerian Electricity Regulatory Commission (NERC) was established in October 2005. NERC is Nigeria's independent regulatory agency for the Nigerian electricity industry comprising generation, transmission and distribution sectors and regulates the activities of the Company.

The Company and all other entities operating in the power sector of the economy are expected to comply with the rules issued by NERC. The Company, in accordance with its licence issued by NERC, continues to generate and provide electricity to the National Grid. In 2008, NERC introduced a Multi Year Tariff Order (MYTO) as the framework for determining the industry pricing structure and this forms the basis of revenue earned by the Company after taking into consideration changes as applicable per the rules for the interim period as issued by NERC on 1 June 2014.

During the year, on 20 February 2014, a private consortium led by Nigerian Company, Eurafric Power Limited acquired 100% interest in the Company thereby acquiring control of the Company. The acquisition of 100% interest in the Company was as a result of the privatization initiative of the power sector embarked on by the Federal Government of Nigeria.

Sapele Power Plant currently has an installed capacity of 1020 mega-watts (MW). Revenue is realised from billings for electricity generated and delivered to the National Grid and is represented by the monthly settlement statements received from the Operator of the Nigerian Electricity Market (ONEM). During the year, the cumulative generated and shared electricity capacity to the grid was 0.55 million mega watts (MW) and the total energy consumed by Electricity Distribution Companies (EDCs) was 429 million kilo-watt-hours (kWh).

Operating results and dividends

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

	2014	2013
	N'000	N'000
Revenue	4,163,778	3,712,143
Profit/(loss) before taxation	626,548	(705,460)
Taxation	(131,042)	242,236
Profit/(loss) after taxation	495,506	(463,224)

The Directors declared and paid an interim dividend of ₦79.68 per share (2013:Nil) on the issued share capital of 10,000,000 ordinary shares of 50k each. This dividend is subject to withholding taxes. No final dividend has been recommended by the directors (2013: Nil).

Directors and their interests

The Directors who served during the year were as follows:

Name	(Resigned)/ Appointed
Mohammed Dikwa	(20 February 2014)
Benjamin Dikki	(20 February 2014)
Anthony Onoh (a nominee of Eurafic Power Limited)	20 February 2014
Liu Zhaolong	20 February 2014

Subsequent to year end, at an Extra-ordinary general meeting held on 19 November 2015, the following directors were appointed: Heather Onoh, Onoriode Odjegba, Prof. Oladapo Afolabi, Ambassador Robin Sanders, Nwagboe Uwaiokun and Reginald Bayoko. In addition, Anthony Onoh resigned as a nominee director of Eurafic Power Limited and was re-appointed as a director of the Company on the same date.

The directors do not have any interests to be disclosed under Section 275 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004.

In accordance with Section 277 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, none of the directors has notified the Company of any declarable interests in contracts with the Company.

Shareholding structure

The Company's share holding structure is as follows:

	31 Dec 2014		31 Dec 2013	
	%	No of shares @ 50k each	%	No of shares @ 50k each
Bureau of Public Enterprises (BPE)	-	-	80	8,000,000
Ministry of Finance Incorporated (MOFI)	-	-	20	2,000,000
Eurafic Power Limited	95	9,500,000	-	-
Liu Zhaolong	5	500,000	-	-
		<u>10,000,000</u>		<u>10,000,000</u>

On 21 February 2013, a private consortium, China Machinery Engineering Corporation (CMEC) and Eurafic Energy Limited (together as Shareholders of Eurafic Power Limited (EPL)), the Bureau of Public Enterprises (BPE) and the Ministry of Finance Incorporated entered into a share sale agreement under which EPL acquired a 100% stake in the Company. The acquisition of the Company by EPL was finalised on 20 February 2014 resulting in the change in the shareholding as reflected above.

Subsequent to year end, by virtue of an ordinary resolution dated 9 June 2016, the Company increased its authorised share capital by 10 million ordinary shares of ₦0.50 each.

Material agreements

The Company has entered into the following material agreements:

1 Deed of assignment of pre-completion receivables and liabilities

During the year, 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). As part of the privatization initiative and the restructuring of the Nigerian power sector, NELMCO was established to take over and manage the stranded assets and liabilities in the Power sector.

(a) Pre-completion receivables

Prior to the acquisition of the Company by the private consortium, it entered into a Deed of Assignment of Pre-completion receivables with NELMCO where all its trade receivables as at 20 February 2014 were transferred to NELMCO. The assignment of trade receivables is without recourse.

(b) Pre-completion liabilities

The Deed of Assignment of Pre-completion liabilities transfers all liabilities and contingent liabilities of the Company as at 20 February 2014 to NELMCO subject to certain terms and conditions which management believes do not limit the transfers.

On the basis of this agreement, management has derecognized qualifying assets and liabilities from these financial statements. See Note 22.

2 Power purchase agreement

Sapele Power Plc entered into a 20-year Power Purchase Agreement (PPA) with the Nigerian Bulk Electricity Trading Plc (NBET) on 21 February 2013 to sell electricity power (capacity and energy) generated from its Power Plant in Sapele at an agreed upon price and contract capacity. NBET is wholly owned by the Federal Government of Nigeria (FGN) and was established as part of the ongoing Nigeria power sector reforms.

The agreement is not yet effective as at year end because all enforceable condition precedents are not yet satisfied by both parties.

3 Maintenance contracts

The maintenance contracts include the Interim Operation and Maintenance Agreement (IOMA) signed on 28 April 2014, which appoints SEWA WEST AFRICA LTD, to operate maintain and rehabilitate the power plant. A Technical Services Agreement was also executed on 17 October 2014 to replace the IOMA. These agreements were effective during the year. As a result, the reduction in staff strength did not halt operations of the Company (Note 10(b)(ii)).

Property, plant and equipment

Information relating to property, plant and equipment is disclosed in Note 12 to these financial statements.

Donations and charitable gifts

In accordance with Section 38(2) of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, the Company did not make any donation or gift to any political party, political association or for any political purpose in the course of the year under review (2013: Nil).

Events after reporting period

Subsequent to year end, the interim rule guidelines covering the period between completion of privatization and the start of the Transitional Electricity Market (TEM) has been terminated. Effective 1 February 2015, the Minister of Power declared the commencement of TEM.

Employment and employees

a) Employment of physically challenged persons

The Company has no physically challenged employees. However, applications for employment by physically challenged persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants. 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. The training, career development and promotion of physically challenged persons should, as far as possible, be identical to those of other employees.

b) Employee health, safety and welfare

The Company places a high premium on the health, safety and welfare of its employees in their place of work. The Company's policy includes having various forms of insurance policies to secure and protect its employees. In addition, it operates on-site medical facilities and services for immediate attention to employees as may be necessary in the course of operations.

c) Employee consultation and training

The Company places considerable value on the involvement of its employees in major policy matters and maintains a practice of keeping them informed on matters affecting them as employees, and on the various factors affecting the performance of the Company through formal and informal meetings. Employees receive on-the-job training, complimented where necessary with additional facilities from educational institutions.

Independent Auditors

Messrs. Folageshin Akinnawo & Co resigned in 2014 and Messrs. KPMG Professional Services was appointed as auditor on 23 July 2015. Messrs. KPMG Professional Services, having satisfied the relevant corporate governance rules on their tenure in office have indicated their willingness to continue in office as auditors to the Company. In accordance with Section 357 (2) of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 therefore, the auditors will be re-appointed at the next annual general meeting of the Company without any resolution being passed.

Lagos, Nigeria
5 July 2017

BY THE ORDER OF THE BOARD
OLANWUN AJAYI AP
Company Secretary

OLANWUN AJAYI


Statement of directors' responsibilities in relation to the financial statements for the year ended 31 december 2014


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

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

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:



Signature

Signature

Anthony Onoh
Director
FRC/2017/IODN/00000016431

5 July 2017

Date

Odjegba Onoriode
Director
FRC/2016/NBA/00000015433

5 July 2017

Date



KPMG Professional Services

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Bishop Aboyade Cole Street
Victoria Island
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Lagos

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INDEPENDENT AUDITOR'S REPORT

To the Members of Sapele Power Plc

Report on the Financial Statements

We have audited the accompanying financial statements of Sapele Power Plc ("the Company"), which comprise the statement of financial position as at 31 December, 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 11 to 44.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

KPMG Professional Services, a Partnership established under Nigerian law, is a member of KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Registered in Nigeria No BN 908925

Partners:

Abiola F. Bada	Adedire O. Lamikanra	Adekunle A. Elebute	Adetola R. Adajemi
Adewalu K. Ajayi	Ajibola O. Oloriola	Ayodele A. Soyinka	Ayodele H. Oshilwa
Ayobami L. Salami	Chibuzor N. Anyanachi	Goodluck C. Obi	Ibitomi M. Adepolu
Joseph O. Tegbe	Kabir O. Okunleja	Mohammed M. Adania	Oladapo R. Okubadejo
Oladimeji I. Salaudeen	Olanke I. James	Olumide O. Olayinka	Dfusegun A. Sowande
Oluwatomi O. Awotoye	Oluwatoyin A. Gbagi	Ogunlayo I. Ogunbenro	Victor U. Onyenka

Associate Partners:

Nneka C. Eluma	Temitope A. Onitiri
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements give a true and fair view of the financial position of Sapele Power Plc ("the Company) as at 31 December, 2014, and of the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011.

Other Matter

The financial statements of Sapele Power Plc for the year ended 31 December 2013 were audited by another auditor whose audit report, dated 4 July 2014, expressed an unmodified opinion on those financial statements.

Report on Other Legal and Regulatory Requirements

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

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

Signed:

Ayodele A. Soyinka, FCA

FRC/2012/ICAN/00000000405

For: KPMG Professional Services

Chartered Accountants

8 July 2017

Lagos, Nigeria

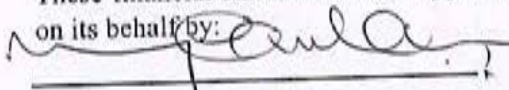


Statement of financial position

As at

	Notes	31 Dec 2014 N'000	31 Dec 2013 N'000	1 Jan 2013 N'000
ASSETS				
Property, plant and equipment	12	35,133,279	36,065,063	36,996,847
Non-current assets		35,133,279	36,065,063	36,996,847
Inventories	13	407,001	414,061	648,983
Trade and other receivables	14	2,001,156	658,842	20,958
Prepayments	15	1,800	494,974	504,791
Cash and cash equivalents	16	87,821	38,254	157,433
Current assets		2,497,778	1,606,131	1,332,165
Total assets		37,631,057	37,671,194	38,329,012
EQUITY				
Share capital	17(a)	5,000	5,000	5,000
Retained earnings		22,797,527	23,098,860	23,562,084
Other reserves	17(c)	4,273,267	3,763,369	3,562,886
Total equity		27,075,794	26,867,229	27,129,970
LIABILITIES				
Deferred tax liabilities	11(d)	8,910,675	8,937,154	9,421,852
Provisions	20	7,370	6,400	5,558
Non-current liabilities		8,918,045	8,943,554	9,427,410
Current tax liabilities	11(e)	157,521	397,354	154,892
Loans and borrowings	18	57,109	-	-
Trade and other payables	19	1,422,588	1,463,057	1,616,740
Total current liabilities		1,637,218	1,860,411	1,771,632
Total liabilities		10,555,263	10,803,965	11,199,042
Total equity and liabilities		37,631,057	37,671,194	38,329,012

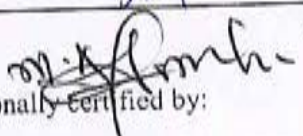
These financial statements were approved by the Board of Directors on 5 July.....2017 and signed on its behalf by:



Anthony Onoh (Executive Chairman)
FRC/2017/IODN/00000016431



Odjegba Onoriode (Director)
FRC/2016/NBA/00000015433

Additionally certified by:


Adejumobi Adebukola (Chief Financial Officer)
FRC/2016/ICAN/00000015388

The notes on pages 15 to 44 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December

	<i>Notes</i>	2014 N'000	2013 N'000
Revenue	6	4,163,778	3,712,143
Direct cost	7	(2,643,192)	(2,906,983)
Gross profit		<u>1,520,586</u>	<u>805,160</u>
Other income	8	80,984	16,597
General and administrative expenses	7	(970,332)	(1,533,790)
Results from operating activities		<u>631,238</u>	<u>(712,033)</u>
Finance income	9	-	7,415
Finance costs	9	(4,690)	(842)
Net finance (costs)/income		<u>(4,690)</u>	<u>6,573</u>
Profit/(loss) before taxation		626,548	(705,460)
Taxation	11(a)	(131,042)	242,236
Profit/(loss) for the year		<u>495,506</u>	<u>(463,224)</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>495,506</u>	<u>(463,224)</u>

The notes on pages 15 to 44 are an integral part of these financial statements.

Statement of changes in equity

	Note	Share capital N'000	Retained earnings N'000	Other reserves N'000	Total equity N'000
At 1 January 2013 (Note 24)		5,000	23,562,084	3,562,886	27,129,970
Total comprehensive income					
Loss for the year		-	(463,224)	-	(463,224)
Other comprehensive income		-	-	-	-
Total comprehensive income		-	(463,224)	-	(463,224)
Transactions with owners					
Federal government funding	17(c)(i)	-	-	200,483	200,483
Total transaction with owners		-	-	200,483	200,483
Balance at 31 December 2013		5,000	23,098,860	3,763,369	26,867,229
Balance as at 1 January 2014		5,000	23,098,860	3,763,369	26,867,229
Total comprehensive income					
Profit for the year		-	495,506	-	495,506
Other comprehensive income		-	-	-	-
Total comprehensive income		-	495,506	-	495,506
Transactions with owners					
Dividends	17 (b)	-	(796,839)	-	(796,839)
Transfer of pre-completion receivables and liabilities	22	-	-	509,898	509,898
Total transaction with owners		-	(796,839)	509,898	(286,941)
Balance at 31 December 2014		5,000	22,797,527	4,273,267	27,075,794

The notes on pages 15 to 44 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
		N'000	N'000
Operating activities			
Profit/(loss) for the year		495,506	(463,224)
<i>Adjustments for:</i>			
- depreciation	12	931,784	931,784
- net finance costs/(income)	9	4,690	(6,573)
- tax expense	11(a)	131,042	(242,236)
		<u>1,563,022</u>	<u>219,751</u>
<i>Changes in:</i>			
- inventories		7,060	234,922
- prepayment		(1,800)	9,817
- trade and other receivable		(2,208,945)	(637,884)
- trade and other payable		1,399,508	(153,683)
Net cash generated/(used in) from operating activities		<u>758,845</u>	<u>(327,077)</u>
Investing activities			
Interest received	9	-	7,415
Net cash generated from investing activities		<u>-</u>	<u>7,415</u>
Financing activities			
Interest paid		(1,001)	-
Loan from a related party	18	54,390	-
Federal Government Funding	17 (c)	-	200,483
Dividend paid		(756,997)	-
Net cash (used in)/generated from financing activities		<u>(703,608)</u>	<u>200,483</u>
Net increase/(decrease) in cash and cash equivalents		55,237	(119,179)
Cash and cash equivalents at the beginning of the year		38,254	157,433
Cash no longer available for operations	22	(5,670)	-
Cash and cash equivalents at the end of the year	16	<u>87,821</u>	<u>38,254</u>

The notes on pages 15 to 44 are an integral part of these financial statements.

Notes to the financial statements

1 Reporting entity

Sapele Power Plc ("the Company") was incorporated on 8 November 2005 as a private limited liability company. The Company is domiciled in Nigeria with its registered office in Sapele Power Complex, Ogorode, Delta State.

The Company operates in the power sector and its principal activity is the generation and sale of electric power to the National Grid.

During the year, on 20 February 2014, a private consortium led by Nigerian Company, Eurafri Limited acquired 100% interest in the Company thereby acquiring control of the Company. The acquisition of the 100% 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 preparation

(a) Basis of accounting

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council (FRC) of Nigeria Act, 2011.

These are the Company's first financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition from the Statements of Accounting Standards previously applicable in Nigeria (NGAAP) to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 24.

Details of the Company's accounting policies are included in Note 3. The financial statements were authorised for issue by the Board of Directors on 5 July 2017

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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 accounting estimates are recognized prospectively that is, in the current period in which the estimates are revised and in any future period affected.

(i) Judgments

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

- Note 22 - Elimination of Assets and Liabilities taken over by NELMCO

Notes to the financial statements

(ii) Assumptions and estimation uncertainties

In particular, information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2014 is described in the following notes:

- Notes 3(c)(iii) and 12(d) - Estimated useful lives and residual values of Property, plant and equipment
- Notes 20 and 22 – Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

3 Significant accounting policies

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

(a) Foreign currency transactions

Transactions denominated in foreign currencies are translated and recorded in Nigerian Naira at the actual exchange rates as of the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. 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 translated at the exchange rate at the date of transaction. Foreign currency differences are generally recognized in profit or loss.

(b) Financial instruments

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

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

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 the risks and rewards of ownership of the financial asset are transferred or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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

Financial assets and 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 on a net basis or to realize the asset and settle the liability simultaneously.

ii. Non-derivative financial assets - measurement

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables and cash and cash equivalents.

Notes to the financial statements

Short term receivables that do not attract interest are measured at original invoice amount where the effect of discounting is not material.

iii. Non-derivative financial liabilities - measurement

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in profit or loss.

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

The Company has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Short term payables that do not attract interest are measured at original invoice amount where the effect of discounting is not material.

iv. Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument at 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 at 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 that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at 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.

(c) Property, plant and equipment (PPE)

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of certain items of property, plant and equipment at 1 January 2013, the Company's date of transition to IFRS, was determined with reference to its fair value at that date.

Notes to the financial statements

Cost includes expenditure that is directly attributable to the acquisition of the asset. Property, plant and equipment under construction are disclosed as capital work-in-progress. The cost of self-constructed asset includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use including, where applicable, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

ii. Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

iii. Depreciation

Items of property, plant and equipment are depreciated from the date that they are available for use or, in respect of self constructed assets, from the date that the asset is completed and ready for use.

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

Leased assets are depreciated over the shorter of the lease term and their useful life unless it is reasonably certain that the Company will obtain ownership by the end of the lease term in which case, the assets are depreciated over the useful life.

The estimated useful lives of significant items of property, plant and equipment for the current and comparative periods are as follows:

Type of asset	Useful life
Buildings	50 years
Plant and machinery	15 to 40 years
Fittings and equipment	10 years
Motor vehicles	5 years

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Land is not depreciated.

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

Notes to the financial statements

(d) Leases

i. Determining whether an arrangement contains a lease

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

At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognized using the Company's incremental borrowing rate.

ii. Leased assets

Leases of property, plant and equipment that transfer to the Company substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and not recognized in the Company's statement of financial position.

iii. Lease payments

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

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

(e) Impairment

i. Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Notes to the financial statements

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset, where applicable, continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease and the decrease can be related objectively to an event occurring after the impairment was recognised, then the decrease in impairment loss is reversed through profit or loss.

ii. Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

Notes to the financial statements

(f) Provisions and contingent liabilities

i 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.

Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of the Company's steam turbines. Provision for decommissioning costs on steam turbine plant is based on estimates established by current legislation and industry practices. The estimates are reviewed periodically. Changes in the provision as a result of changes in the estimated future costs or discount rates are added to or deducted from the cost of the related item of PP&E in the period of change. The liability accretes for the effect of time value of money until it is expected to settle. The decommissioning cost is amortised over the life of the related asset. Actual decommissioning costs expenditures are recorded against the obligation when incurred. Any difference between the accrued liability and the actual expenditures incurred is recorded in profit or loss in the settlement period.

ii 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 recognised 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 recognised 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.

(g) Revenue

The Company generally recognizes revenue upon delivery of goods to customers or purchasers, or upon completion of services rendered. Delivery is deemed complete when the risks and rewards associated with ownership have been transferred to the buyer as contractually agreed, compensation has been contractually established and collection of the resulting receivable is probable. Revenue is measured at the fair value of the consideration received or receivable and recognised only when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount can be measured reliably.

Notes to the financial statements

Revenue is generated primarily from the sale of electricity to the National Grid and recognized when earned on the basis of a contractual arrangement with the customer. Revenue reflects the value of the volume supplied, including an estimated value of the volume supplied to customer between the date of last meter reading and period-end. The Company currently generates its revenue from two major streams: capacity generation and energy shared. Capacity generation is the maximum electricity available for consumption at any given time which is measured in mega watts (MW) whilst energy shared is the actual electricity consumed which is measured in kilo-watt-hours (kWh).

In line with the applicable tariff framework, prices charged by the Company for electricity generation 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 recognised.

(h) Finance income and finance costs

Finance income comprises interest income on deposits. Finance income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(i) Income and deferred tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent of items recognized directly in equity or in other comprehensive income.

i Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates statutorily enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. The Company is subject to tax under the Companies Income Tax Act (CITA). 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 taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Tertiary education tax is assessed at 2% of assessable profit. Minimum tax is recognised when the taxable profit generates an income tax liability which is lesser than the minimum tax.

ii Deferred tax

Deferred tax is recognized 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 recognized for 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.

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 business plans for the Company. 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.

Notes to the financial statements

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable 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.

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is determined using the First-in-First out method and includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. Inventory values are adjusted for obsolete, slow moving and defective items.

(k) Share capital

The Company has only one class of shares, ordinary shares. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

When new shares are issued, they are recorded in share capital at their value. The excess of the issue price is recorded in the share premium reserve.

(l) Employee benefits

i *Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short term cash bonuses 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*

A defined contribution plan is a post-employment benefit plan (pension fund) under which the Company pays fixed contributions into a separate entity as the related service is provided. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

In line with the provisions of the Pension Reform Act 2014, the Company has instituted a defined contribution pension scheme for its permanent staff. The Company and employee contributes 10% and 8% respectively of each employee's basic salary, transport and housing allowances which is charged to profit or loss as employee benefit expense in the periods during which services are rendered by employees. Employee contributions are voluntary and are funded through payroll deductions.

Notes to the financial statements

iii Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company 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.

(m) Statement of cash flows

The statement of cash flows is prepared using the indirect method. Changes in statement of financial position items that have not resulted in cash flows have been eliminated for the purpose of preparing the statement. Dividends paid to ordinary shareholders are included in financing activities. Finance costs paid is also included in financing activities while finance income is included in investing activities.

(n) Operating profit

Operating profit 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 excludes net finance costs and income taxes.

4 New standards and interpretations not yet adopted

A number of new Standards, Amendments to Standards, and Interpretations are effective for annual periods beginning after 1 January 2014. The Company has not applied the following new or amended standards in preparing these financial statements.

Those which may be relevant to the Company are set out below. The Company does not plan to early adopt these standards. These will be adopted in the period that they become mandatory unless otherwise indicated:

Pronouncement	Nature of change	Latest effective date
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation	The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The Company is assessing the potential impact on its financial statements resulting from the application of this amendment to IAS 16 and IAS 38. The Company will adopt the amendments for the year ending 31 December 2016.	1 January 2016 Not yet adopted
Amendments to IAS 1 Disclosure Initiative	The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments also clarify presentation principles applicable to the order of notes, OCI of equity accounted investees and subtotals presented in the statement of financial position, and statement of profit or loss and other comprehensive income. The Company will adopt the amendments for the year ending 31 December 2016.	1 January 2016 Not yet adopted

Notes to the financial statements

Pronouncement	Nature of change	Latest effective date
Amendments to IAS 7 Disclosure Initiative	<p>The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances arising from financing activities.</p> <p>The Company will adopt the amendments for the year ending 31 December 2017.</p>	<p>1 January 2017</p> <p>Not yet adopted</p>
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	<p>The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.</p> <p>The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.</p> <p>Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this. Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type.</p> <p>The amendment is not expected to have any significant impact on the financial statements of the Company. The Company will adopt the amendments for the year ending 31 December 2017.</p>	<p>1 January 2017</p> <p>Not yet adopted</p>
IFRS 9 Financial Instruments	<p>On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.</p> <p>IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.</p> <p>The Company is yet to carry-out an assessment to determine the impact that the initial application of IFRS 9 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2018.</p>	<p>1 January 2018</p> <p>Not yet adopted</p>

Notes to the financial statements

Pronouncement	Nature of change	Latest effective date
IFRS 15 Revenue from contracts with customers	<p>This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.</p> <p>The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.</p> <p>This new standard will most likely have a significant impact on the Company, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised. The Company is yet to carry-out an assessment to determine the impact that the initial application of IFRS 15 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2018.</p>	1 January 2018 Not yet adopted
IFRIC 22 Foreign currency transactions and advance consideration	<p>The amendments provide guidance on the transaction date to be used in determining the exchange rate for translation of foreign currency transactions involving an advance payment or receipt. The amendments clarifies that the transaction date is the date on which the Company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when a Company:</p> <ul style="list-style-type: none"> • pays or receives consideration in a foreign currency; and • recognises a non-monetary asset or liability - eg. non-refundable advance consideration - before recognising the related item. <p>The Company will adopt the amendments for the year ending 31 December 2018.</p>	1 January 2018 Not yet adopted

Notes to the financial statements

Pronouncement	Nature of change	Latest effective date
IFRS 16 Leases	<p>IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases–Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.</p> <p>The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 eliminates the classification of leases as operating leases or finance leases as required by IAS 17 and introduces a single lessee accounting model.</p> <p>Applying that model, a lessee is required to recognise:</p> <p>a) assets and liabilities for all leases with the term of more than 12 months, unless the underlying asset is of low value; and</p> <p>b) depreciation of lease assets separately from interest on lease liabilities in the profit or loss.</p> <p>For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</p> <p>The Company is yet to carry out an assessment to determine the impact that the initial application of IFRS 16 will have on its business; however, the Company will adopt the standard for the year ending 31 December 2019.</p>	<p>1 January 2018</p> <p>Not yet adopted</p>

5 Measurement of fair values

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

When measuring the fair value of an asset or a liability, the CFO uses observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation technique as follows:

- * Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- * Level 2: input other than quoted prices included in level 1 that are observable for the assets or liability, either directly (i.e as prices) or indirectly (i.e as derived from prices).
- * Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the input used to measure the fair value of an asset or a liability might be categorised in different levels of fair value hierarchy, then the fair measurement must be categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring the fair values is included in the following Note 23 - Financial Instruments

Notes to the financial statements

6 Revenue

Revenue comprise amounts derived from generation and supply of electricity to the National Grid.

7 Expenses

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
Natural gas and fuel cost	1,318,821	1,203,978
Salaries and wages (Note 10(b)(i))	110,123	563,317
Depreciation	860,361	860,361
Operation and maintenance costs	252,230	19,848
Write down of inventory	13,128	259,479
Other direct costs	88,529	-
Direct costs	<u>2,643,192</u>	<u>2,906,983</u>
Own consumption	318,911	-
Salaries and wages (Note 10(b)(i))	399,251	632,292
Staff welfare (Note 10(b)(i))	17,582	169,619
Medical expenses	9,289	64,949
Hotel expenses	809	17,851
Transport and travels	15,729	14,043
Entertainment	4,091	36,167
Printing and stationery	1,045	9,139
Rent and rates	3,100	2,695
Bank charges and fees	88	598
Books, newspaper and periodical	-	937
Subscription and fees	-	6,149
Security services	38,314	25,008
Professional fees	16,078	-
Auditor's remuneration	12,000	9,715
Telephone and postages	2,212	3,582
Office repairs and maintenance	21,253	53,957
Vehicle repairs and maintenance	3,811	21,296
Depreciation	71,423	71,423
Others	35,346	394,370
General and administrative expenses	<u>970,332</u>	<u>1,533,790</u>
Total direct costs, general and administrative expenses	<u>3,613,524</u>	<u>4,440,773</u>
	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
Rental income	1,646	10,379
Commission income (Note 8(a))	79,181	-
Miscellaneous income	157	6,218
	<u>80,984</u>	<u>16,597</u>

Notes to the financial statements

(a) Commission income

This represents accrued income on legacy trade receivables collected on behalf of NELMCO during the year. As part of the Deed of assignment of pre-completion receivables signed between the Company and NELMCO, the Company earns a commission of 20% of any legacy trade receivables as at 20 February 2014 which it collects. Remittance of collections to NELMCO is expected to be net of the commission.

9 Finance income and finance costs

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
<i>Finance income</i>		
Interest income	-	7,415
	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
<i>Finance costs</i>		
Interest on intercompany loan (Note 21(c))	(3,720)	-
Unwinding of discounts (Note 20)	(970)	(842)
	<u>(4,690)</u>	<u>(842)</u>
Net finance (costs)/income	<u>(4,690)</u>	<u>6,573</u>

10 Profit/(loss) before taxation

(a) Profit/(loss) before taxation is stated after charging:

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
Depreciation (Note 12)	931,784	931,784
Auditor's remuneration	12,000	9,715
Staff costs (Note 10(b)(i))	526,956	1,365,228

(b) Staff costs and directors' remuneration:

(i) Staff costs during the year amounted to:

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
Salaries and wages	506,439	1,049,901
Employer's pension contribution	2,935	145,708
Welfare costs	17,582	169,619
	<u>526,956</u>	<u>1,365,228</u>

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

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	Number	Number
Management staff	4	28
Senior staff	7	323
Junior staff	30	79
	<u>41</u>	<u>430</u>

Notes to the financial statements

- (iii) The directors of the Company did not receive any remuneration as Directors during the year (2013: Nil).
- (iv) Higher paid employees of the Company, other than directors, whose duties were wholly and mainly discharged in Nigeria, received remuneration (excluding pension contributions) in the following ranges:

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	Number	Number
Below ₦1,000,000	28	78
₦1,000,001 - ₦1,500,000	2	82
₦1,500,001 - ₦2,000,000	3	138
₦2,000,001 - ₦2,500,000	-	76
₦2,500,001 - ₦3,000,000	1	25
₦3,000,001 - ₦3,500,000	2	12
₦3,500,001 - ₦4,000,000	3	15
₦4,000,001 - ₦4,500,000	-	4
Above ₦4,500,000	2	-
	<u>41</u>	<u>430</u>

11 Taxation

(a) Income tax expense

The tax charge is based on the profit/(loss) for the year after adjusting for certain items of expenditure and income which are not deductible or chargeable for tax purposes, and comprise:

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
<i>Current tax expense</i>		
Company income tax	131,246	242,462
Tertiary education tax	26,275	-
	<u>157,521</u>	<u>242,462</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	(26,479)	(484,698)
	<u>131,042</u>	<u>(242,236)</u>

(b) Reconciliation of effective tax rates

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

	<u>31 Dec 2014</u>		<u>31 Dec 2013</u>	
	%	N'000	%	N'000
Profit/(loss) before income tax		626,548		(705,460)
Income tax using the statutory tax rate	30	187,964	30	(211,638)
<i>Effect of:</i>				
Effect of tertiary education tax rate	2	12,531	-	-
Non-deductible expenses *	3	19,945	(17)	118,311
Tax exempt income	(13)	(84,081)	-	-
Impact of TET rates on prior year deductible differences	(1)	(5,317)	-	-
Recognition of previously unrecognised deductible differences	-	-	18	(127,067)
Others	-	-	3	(21,842)
Total income tax expense	<u>21</u>	<u>131,042</u>	<u>34</u>	<u>(242,236)</u>

* Included in Non-deductible expenses is the effect of TET rate on depreciation expenses (931,784*2%)

Notes to the financial statements

(c) Movement in current tax liability

	31 Dec 2014	31 Dec 2013
	N'000	N'000
<i>Opening balance:</i>	397,354	154,892
<i>Charge for the year:</i>		
- income tax	131,246	242,462
- tertiary education tax	26,275	-
Transfer to NELMCO (Note 22)	(397,354)	-
<i>Closing balance</i>	<u>157,521</u>	<u>397,354</u>

(d) Recognised deferred tax assets and liabilities

Deferred tax assets/(liabilities) are attributable to the following:

	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
	N'000	N'000	N'000	N'000	N'000	N'000
Property, plant and equipment	-	-	(8,998,734)	(9,015,317)	(8,998,734)	(9,015,317)
Provisions	824	319	-	-	824	319
Inventories	87,235	77,844	-	-	87,235	77,844
	<u>88,059</u>	<u>78,163</u>	<u>(8,998,734)</u>	<u>(9,015,317)</u>	<u>(8,910,675)</u>	<u>(8,937,154)</u>

Movement in temporary differences is as follows:

	Opening balance		Recognised in profit and loss		Recognised in profit and loss		Balance	
	2013	2014	2013	2014	2013	2014	2013	2014
	N'000	N'000	N'000	N'000	N'000	N'000	N'000	N'000
Property, plant and equipment	(9,421,852)	(9,421,852)	406,535	406,535	(9,015,317)	(9,015,317)	16,583	(8,998,734)
Provisions	-	-	319	319	319	319	505	824
Inventories	-	-	77,844	77,844	77,844	77,844	9,391	87,235
	<u>(9,421,852)</u>	<u>(9,421,852)</u>	<u>484,698</u>	<u>484,698</u>	<u>(8,937,154)</u>	<u>(8,937,154)</u>	<u>26,479</u>	<u>(8,910,675)</u>

Notes to the financial statements

12 Property, plant and equipment

(a) The movement on these accounts during the year was as follows:

	Land	Buildings	Plant & Machinery	Fittings and equipment	Motor Vehicles	Total
	N'000	N'000	N'000	N'000	N'000	N'000
COST:						
Balance at 1 January 2013	14,162,710	2,117,906	20,663,839	36,312	16,080	36,996,847
Additions	-	-	-	-	-	-
Balance as at 31 December 2013	14,162,710	2,117,906	20,663,839	36,312	16,080	36,996,847
Balance at 1 January 2014	14,162,710	2,117,906	20,663,839	36,312	16,080	36,996,847
Additions	-	-	-	-	-	-
Balance as at 31 December 2014	14,162,710	2,117,906	20,663,839	36,312	16,080	36,996,847
DEPRECIATION:						
Balance at 1 January 2013	-	-	-	-	-	-
Charge for the year	-	54,305	860,361	9,078	8,040	931,784
Balance as at 31 December 2013	-	54,305	860,361	9,078	8,040	931,784
Balance at 1 January 2014	-	54,305	860,361	9,078	8,040	931,784
Charge for the year	-	54,305	860,361	9,078	8,040	931,784
Balance as at 31 December 2014	-	108,610	1,720,722	18,156	16,080	1,863,568
CARRYING AMOUNTS:						
At 1 January 2013	14,162,710	2,117,906	20,663,839	36,312	16,080	36,996,847
At 31 December 2013	14,162,710	2,063,601	19,803,478	27,234	8,040	36,065,063
At 31 December 2014	14,162,710	2,009,296	18,943,117	18,156	-	35,133,279

(b) The Company had no capital commitments as at year end (2013:Nil).

(c) In the opinion of management, the Company's Property, plant and equipment are not impaired (2013: Nil).

Notes to the financial statements

13 Inventories

	31 Dec 2014	31 Dec 2013	1 Jan 2013
	N'000	N'000	N'000
Consumable spare parts	178,366	180,376	236,800
Other consumables	228,635	233,685	412,183
	<u>407,001</u>	<u>414,061</u>	<u>648,983</u>

In 2014, inventories were written down to net realisable value during the year, the loss arising on the write-down of ₦13.13 million was included in profit or loss (2013: ₦259.48 million). The basis of the write down was as a result of the inventory inspection carried out by the Company and a determination based on current operations that certain items might be obsolete. No inventories have been pledged as collateral.

14 Trade and other receivables

	31 Dec 2014	31 Dec 2013	1 Jan 2013
	N'000	N'000	N'000
Trade receivables	1,925,263	640,714	-
Advances	-	18,128	20,958
Due from related party - Eurafriic Power Limited	75,893	-	-
	<u>2,001,156</u>	<u>658,842</u>	<u>20,958</u>

Information on the Company's exposure to credit risk is included in Note 23.

15 Prepayments

Prepayments comprise:

	31 Dec 2014	31 Dec 2013	1 Jan 2013
	N'000	N'000	N'000
Rentals	1,800	-	-
Others	-	494,974	504,791

16 Cash and cash equivalents

	31 Dec 2014	31 Dec 2013	1 Jan 2013
	N'000	N'000	N'000
Bank balances	87,730	38,254	157,433
Cash in hand	91	-	-
	<u>87,821</u>	<u>38,254</u>	<u>157,433</u>

Information on the Company's exposure to credit risk is included in Note 23.

17 Capital and reserves

(a) Share capital comprises:

	31 Dec 2014	31 Dec 2013	1 Jan 2013
	N'000	N'000	N'000
<i>Authorized:</i>			
10,000,000 ordinary shares of 50k each	5,000	5,000	5,000
<i>Issued, called-up and fully paid:</i>			
10,000,000 ordinary shares of 50k each	5,000	5,000	5,000

All ordinary shares rank equally with regard to the Company's residual assets. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

(b) Dividends

The following dividends were declared by the Company for the year:

	31 Dec 2014	31 Dec 2013
	N'000	N'000
₦79.68 per qualifying ordinary share (2013:Nil)	796,839	-

Notes to the financial statements

(c) Other reserves

These comprise Federal government funding (See Note 17(c)(i)) and transfer of pre-completion receivables and liabilities (Note 22).

(i) Federal government funding

This represents contributions from the Federal Government to support the Company to meet its objectives of improving electricity generation in the country. The amount has been recognised in other reserves as it is viewed as contribution from a shareholder. See Note 24(b).

18 Loans and borrowings

Loans and borrowings comprise:

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>	<u>1 Jan 2013</u>
	N'000	N'000	N'000
Intercompany working capital facility (Note 18(a))	57,109	-	-

(a) Intercompany working capital facility

This represents a short term working capital financing facility obtained from Eurafic Oil and Coastal Services Ltd. Total principal outstanding under the arrangement is ₦54.39 million and it attracts interest at 5% per month. Interest incurred on the loan as at year end was ₦3.72 million. Interest of ₦2.72 million remains unpaid and is included as part of loans and borrowings above. The facility is unsecured and payable on demand and has been classified as a current liability in these financial statements.

Information on the Company's exposure to liquidity and market risk is included in Note 23.

19 Trade and other payables

Trade and other payables comprise:

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>	<u>1 Jan 2013</u>
	N'000	N'000	N'000
Trade payables	951,652	229,697	597,838
Other payables	324,156	31,854	40,262
Dividend payable	39,842	-	-
Accrued expenses	12,157	83,084	14,453
Employee related liabilities	-	1,031,183	896,572
	<u>1,327,807</u>	<u>1,375,818</u>	<u>1,549,125</u>
Statutory deductions	94,781	87,239	67,615
	<u>1,422,588</u>	<u>1,463,057</u>	<u>1,616,740</u>

Information on the Company's exposure to liquidity risk is included in Note 23.

20 Provisions

Provision for decommissioning costs represents the Company's obligation to de-commission its Steam turbines. This estimate is based on evaluation performed by the Company's technical expert.

The movement in this account is as follows:

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>	<u>1 Jan 2013</u>
	N'000	N'000	N'000
Balance, beginning of year	6,400	5,558	-
Provision for the year	-	-	5,558
Accretion for the year (Note 9)	970	842	-
Balance, end of year	<u>7,370</u>	<u>6,400</u>	<u>5,558</u>

Notes to the financial statements

21 Related party transactions

(a) Parent and ultimate controlling party

During the year ended 31 December 2014, 95% of the Company's shares were acquired by Eurafric Power Limited (EPL) from BPE and MOFI. As a result, the parent company and the ultimate controlling entity is Eurafric Power Limited.

In current year, EPL obtained bank loans which were secured on a share charge over hundred percent (100%) of the equity share capital of the Company.

(b) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director of the Company.

Key management personnel compensation

Key management personnel compensation comprised the following:

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
Short term employee benefits	53,100	-

(c) Other related party transactions

Other related party transactions during the year were as follows:

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
Loan from Eurafric Oil and Coastal Services Ltd	54,390	-
Interest on loan from Eurafric Oil and Coastal Services Ltd (Note 9)	3,720	-

22 Contingencies

Transfer of pre-completion non-core assets and liabilities

As part of the privatization initiative and the restructuring of the Nigerian power sector, the Nigeria Electricity Liability Management Ltd/Gte (NELMCO) was established to take over and manage the stranded assets and liabilities in the Power sector. As a result, non core assets, trade receivables and the liabilities of the Company as at 20 February 2014 were assigned to NELMCO by the National Council on Privatization under the relevant Deeds of Assignment. Although the Company and NELMCO are yet to agree on the list of non-core assets, individual trade debtors and liabilities transferred, the directors, based on independent legal advice obtained as well as their understanding of the Share Purchase Agreement between Eurafric Energy Limited, BPE and the Ministry of Finance Incorporated are of the opinion that all liabilities (crystallised or contingent) as at 20 February 2014 have been effectively transferred. As such, the Company will neither realise those receivables in its own capacity or settle any liabilities incurred or exercise control over the non-core assets on or before 20 February 2014.

The impact of the derecognition (transfer) of liabilities, trade receivables and other assets was as follows:

	<u>31 Dec 2014</u>
	N'000
- Elimination of tax payable (Note 11 (c))	397,354
- Elimination of trade receivables	(848,503)
- Elimination of trade and other payables	1,479,819
- Elimination of cash and cash equivalents	(5,670)
- Elimination of other assets	(513,102)
	<u>509,898</u>

On this basis, a net credit of N509.90 million has been written back to Other reserves (Note 17(c)).

Notes to the financial statements

23 Financial instruments

Financial risk management overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note represents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

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 Company's risk management policies are currently being developed to identify and analyse risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems will be reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, will develop a disciplined and constructive control environment in which all its employees understand their roles and obligations.

The Company's Board of Directors will oversee and monitor compliance with the Company's risk management policies and procedures, and will review the adequacy of the risk management framework in relation to the risks faced by the Company.

(a) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure.

	<i>Note</i>	31 Dec 2014	31 Dec 2013	1 Jan 2013
		N'000	N'000	N'000
Trade and other receivables	<i>14</i>	2,001,156	658,842	20,958
Cash at bank	<i>16</i>	87,730	38,254	157,433
		2,088,886	697,096	178,391

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by sectoral characteristics (such as a tariff based regime which does not cover overall input costs) and default risk of the industry and country which it operates. Management considers the ability of the Operator of the Nigeria Electricity Market ("ONEM" or "Market Operator") to regulate and enforce payments by distribution companies.

Notes to the financial statements

According to Section 20 of "Rules for the interim period between completion of privatisation and the start of the transitional electricity market (TEM) 2014", the Market Operator will only be liable to reimburse allowable revenue of up to 60% and 100% of the receivable from distributor's energy usage and capacity usage respectively. The Company is closely monitoring the economic environment in the industry and is taking actions to limit its exposure to its sole customer.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

Impairment

The Company had not recorded any impairment losses on the carrying amount of trade receivables as the directors are of the opinion that full recovery of the outstanding balance would be made by virtue of the newly implemented Central Bank of Nigeria's (CBN) Intervention fund for the power sector in Nigeria. Management has established processes in place to guarantee fulfillment of all requirements of the Intervention fund; as of date, the Company has approached advanced stages of the collection process.

Cash and cash equivalents

The Company held cash and cash equivalents of ₦87.8 million as at year end (2013: ₦38.3million), which represents its maximum credit exposure on these assets. The cash and cash equivalents (with the exception of ₦91,000 held as cash by the Company (2013: Nil) are held by banks and financial institutions in Nigeria.

(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. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company has a clear focus on ensuring sufficient access to capital to finance growth. As a part of the liquidating management process, the Company sources funds from related companies which can be utilised to meet its liquidating requirements. The Company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

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

		Contractual cash flows				
		Carrying amount ₦'000	Total ₦'000	3 months or less ₦'000	3 - 12 months ₦'000	Above one year ₦'000
Non-derivative financial liabilities						
At 31 December 2014						
Loan and borrowings	<i>18</i>	57,109	57,109	57,109	-	-
Trade and other payables	<i>19</i>	1,327,807	1,327,807	1,327,807	-	-
		1,384,916	1,384,916	1,384,916	-	-
At 31 December 2013						
Trade and other payables	<i>19</i>	1,375,818	1,375,818	-	1,375,818	-
		1,375,818	1,375,818	-	1,375,818	-
At 1 January 2013						
Trade and other payables	<i>19</i>	1,549,125	1,549,125	-	1,549,125	-
		1,549,125	1,549,125	-	1,549,125	-

Notes to the financial statements

(c) Market risk

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

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

Currency risk

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. The Company is not exposed to currency risk because sales and purchases are not denominated in a currency other than the functional currency of the Company, the Naira. All material transactions primarily are denominated in Naira (₦).

Interest rate risk profile

In managing interest rate risk, the Company aims to reduce the impact of short-term fluctuations in earnings.

Exposure to interest rate risk

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

	Note	Carrying amount		
		31 Dec 2014	31 Dec 2013	1 Jan 2013
		N'000	N'000	N'000
Fixed-rate instruments				
Financial liabilities	18	57,109	-	-

Fair value sensitivity analysis for fixed rate instruments.

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(d) Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, using a ratio of adjusted net debt to adjusted equity. For this purpose, adjusted net debt is defined as total liabilities less cash and cash equivalents. Adjusted equity comprises all components of equity.

The Company's debt to adjusted capital ratio at the end of the reporting period was as follows:

	31 Dec 2014	31 Dec 2013
	N'000	N'000
Total liabilities	10,555,263	10,803,965
Less: Cash and cash equivalents	(87,821)	(38,254)
Adjusted net debt	10,467,442	10,765,711
Total equity	27,075,794	26,867,229
Adjusted net debt to equity ratio	0.39	0.40

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

(e) Fair values

Accounting classification and fair value

The following table shows the carrying amount of financial assets and financial liabilities. It does not include fair value information as the carrying amounts of these financial assets and financial liabilities not measured at fair value are reasonable approximations of their fair values.

Notes to the financial statements

		Loans and receivables	Other financial liabilities	Total
		N'000	N'000	N'000
31 December 2014	<i>Note</i>			
Financial assets not measured at fair value				
Trade & other receivables	14	2,001,156	-	2,001,156
Cash and cash equivalents	16	87,821	-	87,821
		<u>2,088,977</u>	<u>-</u>	<u>2,088,977</u>
Financial liabilities not measured at fair value				
Loans and borrowings	18	-	(57,109)	(57,109)
Trade and other payables	19	-	(1,327,807)	(1,327,807)
		<u>-</u>	<u>(1,327,807)</u>	<u>(1,327,807)</u>
31 December 2013				
Financial assets not measured at fair value				
Trade & other receivables	14	658,842	-	658,842
Cash and cash equivalents	16	38,254	-	38,254
		<u>697,096</u>	<u>-</u>	<u>697,096</u>
Financial liabilities not measured at fair value				
Loans and borrowings	18	-	-	-
Trade and other payables	19	-	(1,375,818)	(1,375,818)
		<u>-</u>	<u>(1,375,818)</u>	<u>(1,375,818)</u>
1 January 2013				
Financial assets not measured at fair value				
Trade & other receivables	14	20,958	-	20,958
Cash and cash equivalents	16	157,433	-	157,433
		<u>178,391</u>	<u>-</u>	<u>178,391</u>
Financial liabilities not measured at fair value				
Loans and borrowings	18	-	-	-
Trade and other payables	19	-	(1,549,125)	(1,549,125)
		<u>-</u>	<u>(1,549,125)</u>	<u>(1,549,125)</u>

Trade and other receivables, loans and borrowings, trade and other payables and cash and cash equivalents are the Company's financial instruments. Accordingly, management believes that their fair values are not expected to be materially different from their carrying values.

24 Explanation of transition to IFRS

As stated in Note 2, these are the Company's first financial statements prepared in accordance with IFRSs.

The accounting policies set out in Note 3 have been applied in preparing the financial statements for the year ended 31 December 2014. They have also been applied in preparing the comparative information presented in these financial statements for the year ended 31 December 2013 and in the preparation of an opening IFRS statement of financial position at 1 January 2013 (the Company's date of transition) to the extent of the information available to the directors as of the date of issuing the financial statements. The 2013 accounting records, together with their basis of preparation were not available to the Directors as of the date of issuing this financial statements.

To the extent possible, in preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Nigerian GAAP. An explanation of how the transition from previous Nigerian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the financial statements

24 Explanation of the transition to IFRSs (Cont'd)

Reconciliation of Nigerian GAAP financial statements to IFRSs

Statement of profit or loss and other comprehensive income for the year ended 31 December 2013

	Notes	Nigerian GAAP (SAS) N'000	Effect of transition to IFRS N'000	IFRS N'000
Revenue		3,712,143	-	3,712,143
Direct cost	(f,g)	(1,893,693)	(1,013,290)	(2,906,983)
Gross profit		1,818,450	(1,013,290)	805,160
Other income	(e)	24,012	(7,415)	16,597
General and administrative expenses	(f)	(1,119,384)	(414,406)	(1,533,790)
Results from operating activities		723,078	(1,435,111)	(712,033)
Net finance income	(e,h)	-	6,573	6,573
Profit/(loss) before taxation		723,078	(1,428,538)	(705,460)
Taxation	(i)	(242,462)	484,698	242,236
Profit/(loss) for the year		480,616	(943,840)	(463,224)
Other comprehensive income:				
Other comprehensive income, net of tax		-	-	-
Total comprehensive income for the year		480,616	(943,840)	(463,224)

Notes to the financial statements

24 Explanation of the transition to IFRSs (Cont'd)

Explanatory notes

(a) Trade and other receivables

Under the previous GAAP, temporary advances of ₦18.1 million (1 January 2013: ₦20.9 million) were included as part of prepayments. On transition to IFRS, these amounts were included as trade and other receivables. The net impact to retained earnings of these reclassifications is Nil.

The impact arising from the change is summarised as follows:

	31 December 2013	1 January 2013
	₦'000	₦'000
Statement of financial position		
Prepayments & other debtors	(18,128)	(20,958)
Trade and other receivables	18,128	20,958
Net adjustment to retained earnings	-	-

(b) Federal government funding

Under the previous GAAP, Federal Government funding of ₦3.76 billion was disclosed separately on the statement of financial position as part of equity (1 January 2013: ₦3.56 billion). Under IFRS, Federal Government funding being contribution by a shareholder has been reclassified to other reserves.

(c) Employee retirement benefits

Under the previous GAAP, the accrual for the Company's employee post-employment benefits was classified as a long term liability based on management's estimate of when the Company would settle those obligations. However, with the retirement of all the Company's employees on November 2013, these amounts were classified as current as defined under IFRS. The impact of this is a reduction of employee benefit (non-current liability) by ₦1.03 billion as at 31 December 2013 (1 January 2013: ₦0.9 billion).

(d) Other payables, accruals and tax payables

Upon transition to IFRS, other payables and accruals were reclassified and included as part of trade and other payables for proper presentation on the statement of financial position. In addition, tertiary education tax payable of ₦17.9 million (1 January 2013: ₦17.9 million) were included as part of other payables and accruals. On transition to IFRS, these amounts were included as part of current tax liabilities. The net impact to retained earnings of these reclassifications is Nil.

The impact arising from this is summarised as follows:

	31 December 2013	1 January 2013
	₦'000	₦'000
Statement of financial position:		
Other payables and accruals	(449,775)	(393,742)
Tertiary education tax payable	17,901	17,901
Trade and other payables	431,874	375,841
Net adjustment to retained earnings	-	-

(e) Other income and finance income

Under the previous GAAP, interest income derived from short-term deposits with commercial banks was reported as other income. In line with the requirement of IAS 1, interest income has been reclassified from other income to finance income with no effect on profit or loss for the year.

Notes to the financial statements

Statement of profit or loss or other comprehensive income

	<u>31 December 2013</u>
	N'000
Increase in finance income	7,415
Decrease in other income	(7,415)
Net adjustment before taxation	-

(f) Property, plant and equipment

Upon transition to IFRS, the Company applied the deemed costs exemption and stated its property, plant and equipment at fair values at 1 January 2013. The Company used professional valuers (A.C Otegbulu & Partners - FRC/2013/NIESV/00000001582) to determine the fair values after evaluation of the useful lives, residual values and depreciated replacement costs of all items of PPE based on the level of network performance and the equipment manufacturers estimated/recommended useful life. The net impact on depreciation expense as at 31 December 2013 (costs of sales and administrative expense) amounts to ₦ 1.38 million.

The impact of this change is summarised as follows:

	<u>31 December 2013</u>	<u>1 January 2013</u>
	N'000	N'000
Statement of profit or loss or other comprehensive income		
Depreciation (direct cost)	738,844	
Depreciation (general and administrative expenses)	20,035	
Other expenses	394,371	
Adjustment before taxation	1,153,250	
Statement of financial position	N'000	N'000
Property, plant and equipment	32,671,735	33,824,985
Net adjustment to retained earnings	(32,671,735)	(33,824,985)

(g) Inventories

Under the previous Nigerian GAAP, strategic spare parts, which meet the definition of property, plant and equipment, were carried as inventories. Under IFRS, the strategic spares are included as part of property, plant and equipment and depreciated accordingly. At the date of transition, the cost of these spares amounted to ₦374.17 million (1 January 2013: ₦374.17 million).

The Company's inventory was additionally written down to reflect measurement in line with the FIFO methodology and its inventory was valued at the lower of cost and net-realizable value in accordance with IAS 2.

The impact of this change is summarised as follows:

	<u>31 December 2013</u>
	N'000
Statement of profit or loss or other comprehensive income	
Depreciation of strategic spares (direct cost)	14,967
Write down of inventory (direct cost)	259,479
Adjustment before taxation	274,446

Notes to the financial statements

	<u>31 December 2013</u>	<u>1 January 2013</u>
	N'000	N'000
Statement of financial position		
Inventories	(633,653)	(374,174)
Property, plant and equipment	359,207	374,174
Net adjustment to retained earnings	<u>274,446</u>	<u>-</u>

(h) Provisions

Under the previous GAAP, provisions for the decommissioning costs on the Company's Steam turbines were not recognised. Upon transition to IFRS, an estimate has been made of this amount and its present value included as part of property, plant and equipment with a corresponding liability recognised. The impact of this is an increase in provisions (non-current liability) by ₦6.4 million and property, plant and equipment by ₦ 5.6 million at 31 December 2013 (1 January 2013: ₦5.6 million). The impact arising from this change is summarized as follows:

	<u>31 December 2013</u>	<u>1 January 2013</u>
	N'000	N'000
Statement of profit or loss or other comprehensive income		
Accretion expense (finance costs)	842	
Adjustment before taxation	<u>842</u>	
Statement of financial position		
Property, plant and equipment	5,558	5,558
Provisions	(6,400)	(5,558)
Net adjustment to retained earnings	<u>842</u>	<u>-</u>

- (i) The deferred tax impact (at an income tax rate of 30 percent) of the above transition adjustments by components are as follows:

	<i>Note</i>	<u>31 December 2013</u>	<u>1 January 2013</u>
		N'000	N'000
Impact on Statement of profit or loss or other comprehensive income			
Property, plant and equipment	<i>f</i>	(406,535)	
Inventories	<i>g</i>	(77,844)	
Provisions	<i>h</i>	(319)	
Adjustments to tax expense		<u>(484,698)</u>	
Impact on Statement of financial position			
Property, plant and equipment	<i>f</i>	(9,015,317)	(9,421,852)
Inventories	<i>g</i>	77,844	-
Provisions	<i>h</i>	319	-
Net adjustment to retained earnings		<u>8,937,154</u>	<u>9,421,852</u>

- (j) Material adjustments to statement of cash flows

There were no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under the previous NGAAP.

25 Events after reporting period

Subsequent to year end, the interim rule guidelines covering the period between completion of privatization and the start of the Transitional Electricity Market (TEM) has been terminated. Effective 1 February 2015, the Minister of Power declared the commencement of TEM.

Other national disclosures

Value added statement

For the year ended 31 december

	2014	%	2013	%
	N'000		N'000	
Revenue	4,163,778		3,712,143	
Bought in materials and services:				
- Local	(1,913,534)		(2,143,761)	
- Foreign	(241,250)		-	
	<u>2,008,994</u>		<u>1,568,382</u>	
Finance income	-		7,415	
Other income	80,984		16,597	
Value added	<u>2,089,978</u>	100	<u>1,592,394</u>	100
To employees:				
- as salaries, wages and other staff costs	526,956	25	1,365,228	85
To providers of finance:				
- Finance cost and similar charges	4,690	-	842	-
To government as:				
- taxes	131,042	6	(242,236)	(15)
Retained in the business:				
To maintain and replace:				
- property plant and equipment	931,784	45	931,784	59
To pay interim dividends	796,839	38	-	-
To deplete reserve	(301,333)	(14)	(463,224)	(29)
Value added	<u>2,089,978</u>	100	<u>1,592,394</u>	100

Financial summary

Statement of profit or loss and other comprehensive income

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>
	N'000	N'000
Revenue	4,163,778	3,712,143
Results from operating activities	631,238	(712,033)
Profit/(loss) before taxation	626,548	(705,460)
Profit/(loss) for the year	<u>495,506</u>	<u>(463,224)</u>

Statement of financial position

	<u>31 Dec 2014</u>	<u>31 Dec 2013</u>	<u>31 Dec 2012</u>
	N'000	N'000	N'000
Employment of funds			
Property, plant and equipment	35,133,279	36,065,063	36,996,847
Net current assets/(liabilities)	860,560	(254,280)	(439,467)
Non-current liabilities	(8,918,045)	(8,943,554)	(9,427,410)
	<u>27,075,794</u>	<u>26,867,229</u>	<u>27,129,970</u>
Funds Employed			
Share capital	5,000	5,000	5,000
Retained earnings	22,797,527	23,098,860	23,562,084
Other reserves	4,273,267	3,763,369	3,562,886
	<u>27,075,794</u>	<u>26,867,229</u>	<u>27,129,970</u>

The financial information presented above reflects historical summaries based on International Financial Reporting Standards. Information related to prior periods has not been presented as it is based on a different financial reporting framework (Nigerian GAAP) and is therefore not directly comparable.