Sapele Power Plc

Annual Report

31 December 2017

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Corporate information

Registration Number RC. 638650

Directors:	Prof. Oladapo Abraham Afolabi	(Chairman)
	Anthony Onoh	
	Heather Onoh (Mrs)	
	Onoriode Odjegba	(Managing Director)
	Lui Zhaolong	
	Robin Renee Sanders	
	Uwagbee Kennedy Uwaifiokun	
	Reginald Bayoko	
	Goodluck Hayi	
Registered office:	Sapele Power Complex Ogorode,Sapele Delta State	
Company secretary	Olaniwun Ajayi LLP Plot L2, 401 Close Banana Island, Ikoyi Lagos State	
Solicitors	Obla & Co Elagbaje Chambers Bank of Industry Building B wing 2nd Floor, Plot 256 Off Herbert Macaulay Way Central Business District, Abuja	
	Ken E. Mozia Plot 87A Okoro-Otun Avenue Off Ikpokpan Road, G.R.A Benin City, Edo State	
	J.Y. Odebala Top floor Orogun Villa 149, Yoruba Road Sapele Delta State Nigeria	
	Excellence Solicitors Effurun-Warri, Delta State.	
Independent auditors	KPMG Professional Services KPMG Tower Bishop Aboyade Cole Street Victoria Island Lagos State	
Principal bankers:	United Bank of Africa Plc Guaranty Trust Bank Plc Keystone Bank Plc Access Bank Plc Polaris Bank Limited	

Results at a glance

	2017 NGN'000	2016 NGN'000	Change (%)
Revenue	7,098,510	7,055,066	1
(Loss) / Profit before taxation	(80,600)	429,165	(119)
Loss for the year	(80,600)	(10,334)	(680)
Retained earnings	15,718,835	20,217,880	(22)
Total assets	43,554,017	44,107,978	(1)
Share capital	5,000	5,000	-
Total equity	19,997,102	24,496,147	(18)

Directors' report

For the year ended 31 December 2017

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

Legal form

The Company was incorporated in Nigeria as a public liability Company on 8 November 2005..

Principal activity

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

Business review

On 20 February 2014, a private consortium led by a 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.

The Electric Power Sector Reform Act (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, in accordance with its licence issued by NERC, continues to generate and provide electricity to the National Grid. The Company and other players in the Nigerian power sector operated under the Interim Rules issued by the regulatory body - NERC. However, the Transitional Stage Electricity Market ("TEM") with its market rules was declared on 1 February 2015. The Bulk Power Purchasing Agreement ("PPA") with the Nigerian Bulk Electricity Trading Plc (NBET) covering the terms upon which NBET is to engage in the bulk purchase and resale of electric capacity, electric energy and ancillary services with the Company, during the TEM was however not activated as the conditions precedent were not met. As such, NERC issued a supplementary order from 1 February 2015 providing the framework to address the operational aspects of the TEM in the absence of effective PPAs.

The 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 0.32 million mega watts (MW) (2016: 0.39 million mega watts (MW)) and the total energy shared to the grid was 294 million kilo-watt-hours (kWh) (2016: 355 million kilo-watt-hours (kWh)).

Operating results and dividends

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

	2017	2016
	NGN'000	NGN'000
Revenue	7,098,510	7,055,065
(Loss) / Profit before taxation	(80,600)	429,165
Taxation	-	(439,499)
Loss for the year	(80,600)	(10,334)

The Directors declared an interim dividend of NGN- per share (2016:NGN141.31 per share) on the issued share capital of 10,000,000 ordinary shares of 50k each. This dividend is subject to witholding taxes. No final dividend has been recommended by the directors (2016: Nil).

Directors' report cont'd

Directors and their interests

The directors who served during the year are as follows:

Name
Anthony Onoh
Liu Zhaolong
Heather Onoh (Mrs)
Onoriode Odjegba
Prof.Oladapo Abraham Afolabi
Robin Renee Sanders
Uwagbee Kenny Uwaifiokun
Reginald Bayoko

Subsequent to year end (on 1 November 2018), Mr. Goodluck Hayi was appointed as a director of the Company.

The directors do not have any interests required 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:

	% Holding	**31 Dec 2017 No of shares @ 50k each**	**% Holding**	**31 Dec 2016 No of shares @ 50k each**
Eurafric Power Limited	95	9,500,000	95	9,500,000
Liu Zhaolong	5	500,000	5	500,000
		10,000,000		10,000,000

By virtue of an ordinary resolution dated 9 June 2016, the Company increased its authorised share capital by 10 million ordinary shares of N0.50 each to 20 million ordinary shares of N0.50 each.

Sub-committees of the board

The Board established an audit committee along with an investment and risk management committee in 2017. The members of the investment and risk management committee are Oladapo Abraham Afolabi, Robin Renee Sanders, Cornelius Semteye, Heather Onoh and Amobi Unanwa. The members of the audit committee are Uwagbee Kennedy Uwaifiokun, Onoriode Odjegba and Liu Zhaolong.

Material agreements

The Company has the following material agreements:

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

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 derecognized qualifying assets and liabilities in 2014.

Directors' report cont'd

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.

Property, plant and equipment

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

Donation 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 (2016: Nil).

Other donations made donations amounted to NGN0.76 during the year. (2016: NGN7.23 million).

Employment and employees

(a) ***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.

(b) ***Dissemination of information***

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

(c) ***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.

(d) ***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.

Independent Auditors

Messrs, KPMG Professional Services, having satisfied the relevant corporate governance rules on their tenure in office have indicated their willingness to continue in office as auditors of 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 reappointed at the next annual general meeting of the Company without any resolution being passed.

BY ORDER OF THE BOARD

Lagos, Nigeria

……………… 2019

Company Secretary

Statement of directors' responsibilities in relation to the financial statements for the year ended 31 December 2017

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

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

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:

....	....
Oladapo Abraham Afolabi	Odjegba Onoriode
Director	Director
FRC no:...	FRC/2016/NBA/00000015433
....	....
Date	Date

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Statement of financial position

As at

	Note	31 Dec 2017 NGN'000	31 Dec 2016 NGN'000
ASSETS			
Property, plant and equipment	*13*	33,774,785	34,119,348
Intangible assets	*14*	20,777	-
Non-current assets		**33,795,562**	**34,119,348**
Inventories	*15*	400,899	357,793
Trade and other receivables	*16*	8,487,886	9,221,968
Prepayments	*17*	1,182	5,228
Cash and cash equivalents	*18*	868,488	403,641
Current assets		**9,758,455**	**9,988,630**
Total Assets		**43,554,017**	**44,107,978**
EQUITY			
Share capital	*19(a)*	5,000	5,000
Retained earnings		15,718,835	20,217,880
Other reserves	*19(c)*	4,273,267	4,273,267
Total Equity		**19,997,102**	**24,496,147**
LIABILITIES			
Deferred tax liabilities	*11(ii)*	9,071,992	9,071,992
Provisions	*21*	340,528	190,286
Non-current liabilities		**9,412,520**	**9,262,278**
Current tax liabilities	*12(c)*	1,268,712	1,268,712
Trade and other payables	*20*	12,875,683	9,080,841
Total current liabilities		**14,144,395**	**10,349,553**
Total liabilities		**23,556,915**	**19,611,831**
Total equity and liabilities		**43,554,017**	**44,107,978**

These financial statements were approved by the Board of Directors on.................2019 and signed on its behalf by:

………………………………… Oladapo Abraham Afolabi (Chairman)
FRC no:...

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

Additionally certified by:

.... Valentine Ashinze, FCA (Chief Financial Officer)
FRC/2016/ICAN/00000013834

The notes on pages 16 to 42 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

For the year ended 31 December

	Note	2017 NGN'000	2016 NGN'000
Revenue	*7*	7,098,510	7,055,065
Cost of sales	*8*	(7,224,554)	(6,090,616)
Gross profit		**(126,044)**	**964,449**
Other income	*9*	95,081	132,595
General and administrative expenses	*8*	(703,822)	(649,372)
Gains from reversal of Impairment of trade receivables	*8*	678,147	-
Operating (loss)/profit		**(56,638)**	**447,672**
Finance income	*10*	4,872	9,242
Finance costs	*10*	(28,834)	(27,749)
Net finance costs		**(23,962)**	**(18,507)**
(Loss) / Profit before taxation		**(80,600)**	**429,165**
Taxation	*12(b)*	-	(439,499)
Loss for the year		**(80,600)**	**(10,334)**
Other comprehensive income, net of tax		**-**	**-**
Total comprehensive income for the year		**(80,600)**	**(10,334)**

The notes on pages 16 to 42 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December

	Share capital	Retained earnings	Other reserve	Total equity
	NGN'000	NGN'000	NGN'000	NGN'000
Balance as at 1 January 2016	**5,000**	**21,641,303**	**4,273,267**	**25,919,570**
Total comprehensive income				
Loss for the year	-	(10,334)	-	(10,334)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(10,334)	-	(10,334)
Transactions with owners of the company				
Dividend (Note 19(b))	-	(1,413,089)	-	(1,413,089)
Total transaction with owners of the company	**-**	**(1,413,089)**	-	**(1,413,089)**
At 31 December 2016	**5,000**	**20,217,880**	**4,273,267**	**24,496,147**
Balance as at 1 January 2017	**5,000**	**20,217,880**	**4,273,267**	**24,496,147**
Adjustments on initial application of IFRS 9, net of tax	-	(4,418,445)	-	(4,418,445)
Adjusted balance as at 1 January 2017	**5,000**	**15,799,435**	**4,273,267**	**20,077,702**
Total comprehensive income				
Loss for the year	-	(80,600)	-	(80,600)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	(80,600)	-	(80,600)
Balance at 31 December 2017	**5,000**	**15,718,835**	**4,273,267**	**19,997,102**

The notes on pages 16 to 42 are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December

	Note	2017 NGN'000	2016 NGN'000
Cash flows from operating activities			
Loss for the year		(80,600)	(10,334)
Adjustments for:			
- Depreciation	*13a*	891,934	947,988
- Amortisation of intangible assets	*14*	8,279	-
- Net finance costs	*10*	23,962	18,507
- Adjustments on initial application of IFRS 9	*8*	(4,418,445)	-
- Reversal of impairment losses on trade receivables	*8*	(678,147)	-
- Gain on disposal of property, plant and equipment	*9*	(6,700)	-
- Tax expense	*12a*	-	439,499
		(4,259,717)	**1,395,660**
Changes in:			
- Inventories		(43,106)	43,016
- Trade and other receivables		1,412,229	(5,046,803)
- Prepayments		539	37,217
- Trade and other payables		3,768,559	5,310,560
Cash generated from operating activities		**878,504**	**1,739,650**
Cash flows from Investing activities			
Interest received	*10(i)*	4,872	9,242
Acquisition of property, plant and equipment	*13(a)*	(431,529)	(342,581)
Proceeds from the disposal of property, plant and equipment		13,000	-
Net cash used in investing activities		**(413,657)**	**(333,339)**
Cash flow from financing activities			
Interest paid	*10*	-	(2,710)
Repayment of borrowings		-	(26,854)
Dividends paid		-	(1,334,584)
Net cash used in financing activities		**-**	**(1,364,148)**
Net increase in cash and cash equivalents		464,847	42,163
Cash and cash equivalents at the beginning of the year		403,641	361,478
Cash and cash equivalents at 31 December	*18*	**868,488**	**403,641**

The notes on pages 16 to 42 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 public liability company. The Company is domiciled in Nigeria with its registered office in Sapele Power Complex, Ogorode, Delta State.

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 the 100% interest in the Company was as a result of the privatizations initiative of the power sector embarked on by the Federal Government of Nigeria.

2. Basis of accounting

(a) Statement of compliance

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

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

(b) Basis of measurement

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

(c) Functional and presentational 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. Assumptions and estimation uncertainties

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

• *Notes 20 – Recognition and measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources.*

Decommissioning costs will be incurred by the Company at the end of the operating life of the Company's plant and equipment. The Company assesses its decommissioning provision at each reporting date. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors, including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other generation sites. The expected timing, extent and amount of expenditure can also change, for example in response to changes in estimated useful life of the plant or changes in laws and regulations or their interpretation. Therefore, significant estimates and assumptions are made in determining the provision for decommissioning. As a result, there could be significant adjustments to the provisions established which would affect future financial results. The provision at reporting date represents management's best estimate of the present value of the future decommissioning costs required.

Notes to the financial statements - (cont'd)

• *Note 11 (d) - Recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used*

Judgment is also required in determining whether deferred tax assets are recognised in the statement of financial position. Deferred tax assets, including those arising from un-utilised tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilise recognised deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by generation and power delivered, tariff rates and natural gas prices, operating costs, decommissioning costs, capital expenditure, dividends and other capital management transactions) and judgment about the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to utilise the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods.

• *Note 12(c) - Impairment test of property, plant and equipment: key assumptions underlying recoverable amounts.*

3. Change in significant accounting policy

IFRS 9 Financial Instruments

The Company has early adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2017. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

The nature and effects of the key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

As a result of the adoption of IFRS 9, the Company adopted consequential amendments to IAS 1 *Presentation of Financial Statements* which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of trade receivables in other expenses. Additionally, the Company adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2017 but generally have not been applied to comparative information

i. Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 23.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial liabilities.

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39 – see Note 4(b).

iii.Transition

Changes in accounting policies resulting from the adoption of IFRS 9 (2014) have been applied retrospectively, except for differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2017. Accordingly, the information presented for 2016 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2017 under IFRS 9.

Notes to the financial statements - (cont'd)

The following assessments have been made on the basis of the facts and circumstances that

- existed at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9,
- then the Company assumed that the credit risk on the asset had not increased significantly since its
- initial recognition.

The following table summarises the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings at 1 January 2017.

	Impact of adopting IFRS 9 at 1 January 2017
	NGN'000
Retained earnings	
Closing balance under IAS 39 (31 December 2016)	20,217,880
Recognition of expected credit losses under IFRS 9	(4,418,445)
	15,799,435

iv. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 January 2017.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				NGN'000	**NGN'000**
Financial assets					
Trade and other receivables		Loans and receivables	Amortised cost	8,487,886	9,221,968
Cash and cash equivalents		Loans and receivables	Amortised cost	868,488	403,641
				9,356,374	**9,625,609**
Financial liabilities					
Trade liabilities		Other financial liabilities	Other financial liabilities	11,245,762	7,844,123
				11,245,762	**7,844,123**

The Company's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 4(b). The application of these policies resulted in the reclassifications set out in the table above and explained below.

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of NGN**4.42** billion in the allowance for impairment was recognised in opening retained earnings at 1 January 2017 on transition to IFRS 9.

4. 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.

Notes to the financial statements - (cont'd)

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). Recognition and initial measurement

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

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

(ii). Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2017

On initial recognition, a financial asset is classified as measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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

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

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

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

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

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

Financial assets – Business model assessment: Policy applicable from 1 January 2017

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

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

Notes to the financial statements - (cont'd)

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

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

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2017

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets – Policy applicable before 1 January 2017
The Group classified its financial assets into loans and receivables;

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 January 2017

Loans and receivables	Trade receivables and cash and cash equivalents were measured at amortised cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses
Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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

Notes to the financial statements - (cont'd)

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities
The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(c) Property, plant and equipment (PPE)

(i) Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes 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.

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
Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the item will flow to the Company. 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 any replaced part is derecognised. 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. Land is not depreciated.
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

Notes to the financial statements - (cont'd)

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.

(d) Intangible asset

(i) Recognition and measurement

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

(ii) Subsequent expenditure

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

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.
The estimated useful lives for current and comparative periods are as follows:

Type of asset	**Useful life**
- Licence cost	15 years
- Accounting Software:	5 years

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

(e) 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.

Notes to the financial statements - (cont'd)

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.

(f) Impairment

(i) Non-derivative financial assets

Policy applicable from 1 January 2017

Financial instruments

The Company recognises loss allowances for ECLs on:

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

- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

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

- the financial asset is more than 90 days past due

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

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

Measurement of ECLs

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

Credit-impaired financial assets

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

Evidence that a financial asset is credit-impaired includes the following observable data: significant financial difficulty of the borrower or issuer;

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

Presentation of allowance for ECL in the statement of financial position

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

Notes to the financial statements - (cont'd)

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For BET, the Company does not write off receivables.

Policy applicable before 1 January 2018

Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.
Objective evidence that financial assets were impaired included:

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

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

(ii) Non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

(g) 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

Notes to the financial statements - (cont'd)

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.

(h) 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 is 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.

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 the 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.

(i) 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.

(j) 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.

Notes to the financial statements - (cont'd)

***(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.

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.

(k) Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is based on 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.

(l) 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.

(m) Other reserves

Capital contributions from transactions with shareholders that arise from the prior oil and gas assets and would not result in issue of new equity shares are recognised as other reserves. The cost directly attributable to these assets are recovered based on cost oil revenue from the sale of crude oil. Other reserves is transferred to retained earnings by the measure of asset that has been recovered.

Notes to the financial statements - (cont'd)

(n) 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.

(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.

(o) 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.

(p) 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.

(q) 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

Notes to the financial statements - (cont'd)

than when the valuation is wholly supported by observable market data or the transaction is closed out.

5. 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 2018, and early application is permitted; however, the Company has not applied the new standards in preparing these financial statements.

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

Effective for the financial year commencing 1 January 2018

- IFRS 15 *Revenue from contracts with customers*
- IFRIC 22 *Foreign currency transactions and advance considerations*

Effective for the financial year commencing 1 January, 2019

- IFRS 16 *Leases*
- IFRIC 23 *Uncertainty over income tax treatments*

IFRS 15 Revenue from contracts with customers

This standard replaces IAS I1 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer loyalty Programmes,* IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue- Barter of Transactions Involving Advertising Services.*

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

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.

IFRIC 22 Foreign currency transactions and advance considerations

When foreign currency consideration is paid or received in advance of the item it relates to - which may be an asset, an expense or income - IAS 21 The Effects of changes in Foreign Exchange Rates is not clear on how to determine the transaction date for translating the related item.

This has resulted in diversity in practice regarding the exchange rate used to translate the related item. IFRIC 22 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 Company is yet to carry out an assessment to determine the impact that the initial application of lFRIC 22 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2018.

IFRS 16 Leases

lFRS 16 was published in January 2016. lt 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').

lFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. lFRS 16 includes a single model for lessees which will result in almost all leases being included in the Statement of Financial Position. No significant changes have been included for lessors . IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors.

Notes to the financial statements - (cont'd)

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

IFRIC 23 Uncertainty over income tax treatments
IFRIC 23 clarifies the accounting for income tax: treatments that have yet to be accepted by tax authorities. Specifically, IFR1C 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.
IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made
- assumptions and other estimates used and;
- the potential impact of uncertainties that are not reflected

The Company is yet to carry out an assessment to determine the impact that the initial application of IFRIC 23 could have on its business; however, the Company will adopt the standard for the year ending 31 December 2019.

6. 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 notes:
Note 22 - Financial Instruments

Notes to the financial statements - (cont'd)

7. Revenue

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

	2017	2016
	NGN'000	NGN'000
Capacity generated	2,510,070	2,624,902
Energy shared	4,588,440	4,430,163
	7,098,510	7,055,065

8. Expenses

	2017	2016
	NGN'000	NGN'000
Natural gas and fuel cost	5,724,928	4,909,265
Salaries and wages *	187,650	195,617
Depreciation (Note 13(e))	832,835	869,242
Amortisation of license cost (Note 14)	7,447	-
Insurance	75,060	-
NERC operation fees	333,784	-
Other direct costs	62,850	116,492
Direct costs	7,224,554	6,090,616
	NGN'000	NGN'000
Own consumption	356,376	317,988
Salaries and wages *	80,422	85,329
Director's fees	3,783	3,363
Medical expenses *	2,430	2,119
Hotel expenses	310	405
Transport and travels	8,719	17,907
Entertainment	7,521	1,975
Bank charges and fees	2,648	2,638
Security services	58,486	55,066
Professional fees	56,032	46,413
Auditor's remuneration	12,000	12,000
Communication	696	528
Office expenses	36,725	10,419
Insurance expense	7,002	2,396
Repairs and maintenance	9,979	4,847
Depreciation (Note 13(e))	59,099	78,746
Amortisation of accounting software cost (note 14)	832	-
Donation	762	7,233
General and administrative expenses	**703,822**	**649,372**
Total direct costs, general and administrative expenses	7,928,376	6,739,988

* Total employee benefits expense incurred for the year amounted to NGN270,502 (2016: NGN287,279). See note 11(b)(i) for analysis of employee benefits expense.

9. Other income

	2017	2016
	NGN'000	NGN'000
Rental income *	88,315	132,595
Gain on disposal of property, plant and equipment	6,700	-

Notes to the financial statements - (cont'd)

Miscellaneous income	66	-
	95,081	**132,595**

* Rental income was recognised from the rental of tank farm and event space. The tank farm was leased by the Company to Seistech Energy Limited for the storage of petroleum products. During the year Seistech Energy Limited defaulted on payments and were restricted from accessing the tank farm and their stored product and Seistech Energy Limited initiated legal proceedings against the Company to resolve the dispute. Hence, rental income has only been recognised to the extent of consideration received as at year end.

10. Finance income and finance costs

	2017	**2016**
	NGN'000	**NGN'000**
(i) *Finance income*		
Interest income	**4,872**	**9,242**
(ii) *Finance costs*		
Interest on vehicle loan	-	(2,710)
Unwinding of discounts (Note 21)	(28,834)	(25,039)
	(28,834)	**(27,749)**
Net finance costs	**(23,962)**	**(18,507)**

11. (Loss)/ profit before taxation

(a) (Loss) / profit before taxation is stated after charging:

	2017	**2016**
	NGN'000	**NGN'000**
Depreciation (Note 13)	891,934	947,988
Auditor’s remuneration	12,000	12,000
Employee benefits expense (Note 8)	270,501	287,279
Gain on disposal of property plant and equipment	6,700	-

(b) Staff costs and directors' remuneration:

i. Staff costs during the year comprises:

	2017	**2016**
	NGN'000	**NGN'000**
Employee benefits expense	243,701	255,496
Employer's pension contribution	24,370	25,450
Welfare costs	2,430	6,333
	270,501	**287,279**

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

	2017	**2016**
	Number	Number
Management staff	4	4
Senior staff	22	23
Junior staff	84	84
	110	**111**

iii. The directors of the Company did not receive any remuneration as Directors during the year (2016: Nil).

Notes to the financial statements - (cont'd)

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:

			2017	2016
			Number	**Number**
Below N1,000,000			46	46
N1,000,001	-	N1,500,000	2	3
N1,500,001	-	N2,000,000	4	3
N2,000,001	-	N2,500,000	35	31
N2,500,001	-	N3,000,000	7	2
N3,000,001	-	N3,500,000	-	7
N3,500,001	-	N4,000,000	1	3
N4,000,001	-	N4,500,000	6	6
Above N4,500,000			9	10
			110	**111**

12. Income tax

(a) Income tax expense

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

	2017	2016
	NGN'000	**NGN'000**
Current tax expenses		
Company income tax	-	423,927
Tertiary education tax	-	28,101
	-	452,028
Deferred tax expense		
Origination and reversal of temporary differences	-	(12,529)
	-	**439,499**

(b) Reconciliation of effective tax rates

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

		2017		2016
	%	**NGN'000**	**%**	**NGN'000**
Profit before income		-		429,165
Income tax using the statutory tax rate	-	-	-	137,333
Income tax arising from dividend declared	-	-	-	283,561
Effect of;				
Non-deductible expenses	-	-	-	920
Impact of TET on depreciation	-	-	-	18,959
Tax incentives	-	-	-	(1,274)
Total income tax expense	-	-	-	439,499

Notes to the financial statements - (cont'd)

(c) Movement in current tax liability

	31 Dec 2017 NGN'000	31 Dec 2016 NGN'000
Balance at 1 January	1,268,712	816,684
Charge for the year:		
- Income tax	-	423,927
- tertiary education tax	-	28,101
Balance at 31 December	1,268,712	1,268,712

(d) Recognised deferred tax assets and liabilities

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

	Assets		*Liabilities*		*Net*	
	31 Dec 2017 NGN'000	31 Dec 2016 NGN'000	31 Dec 2017 NGN'000	31 Dec 2016 NGN'000	31 Dec 2017 NGN'000	31 Dec 2016 NGN'000
Property, plant and equipment	-	-	(9,179,735)	(9,179,735)	(9,179,735)	(9,179,735)
Provisions	20,508	20,508	-	-	20,508	20,508
Inventories	87,235	87,235	-	-	87,235	87,235
	107,743	**107,743**	**(9,179,735)**	**(9,179,735)**	**(9,071,992)**	**(9,071,992)**

Movement in temporary differences is as follows:

	1 January 2016 NGN'000	Recognised in Profit and loss 2016 NGN'000	31 December 2016 NGN'000	Recognised in Profit and loss 2017 NGN'000	31 December 2017 NGN'000
Property, plant and equipment	(9,182,328)	2,593	(9,179,735)	-	(9,179,735)
Provision	10,572	9,936	20,508	-	20,508
Inventories	87,235	-	87,235	-	87,235
	(9,084,521)	**12,529**	**(9,071,992)**	**-**	**(9,071,992)**

Notes to the financial statements - (cont'd)

13. Property, plant and equipment

(a) The movement on this account was as follows;

	Land	Buildings	Asset retirement cost	Plant & machineries	Fittings and equipment	Motor Vehicle	Capital work in progress	Total
COST:	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**
Balance at 1 January 2016	14,162,710	2,124,704	141,691	20,693,753	41,107	58,805	294,401	37,517,171
Additions	-	723	-	42,469	1,826	200	297,363	342,581
Balance as at December 2016	**14,162,710**	**2,125,427**	**141,691**	**20,736,222**	**42,933**	**59,005**	**591,764**	**37,859,752**
Balance at 1 January 2017	14,162,710	2,125,427	141,691	20,736,222	42,933	59,005	591,764	37,859,752
Additions	-	3,450	-	335	881	27,000	400,598	432,264
Revision (note 21)	-	-	121,407	-	-	-	-	121,407
Disposal	-	-	-	-	-	(10,500)	-	(10,500)
Balance as at December 2017	**14,162,710**	**2,128,877**	**263,098**	**20,736,557**	**43,814**	**75,505**	**992,362**	**38,402,923**
DEPRECIATION:								
Balance at 1 January 2016	-	163,031	7,077	2,574,739	27,932	19,637	-	2,792,416
Charge for the year	-	54,434	7,084	862,158	10,013	14,299	-	947,988
Balance as at December 2016	**-**	**217,465**	**14,161**	**3,436,897**	**37,945**	**33,936**	**-**	**3,740,404**
Balance at 1 January 2017	-	217,465	14,161	3,436,897	37,945	33,936	-	3,740,404
Charge for the year	-	55,098	7,085	825,750	37	3,964	-	891,934
Disposal	-	-	-	-	-	(4,200)	-	(4,200)
Balance as at December 2017	**-**	**272,563**	**21,246**	**4,262,647**	**37,982**	**33,700**	**-**	**4,628,138**
CARRYING AMOUNT:								
At 31 December 2016	**14,162,710**	**1,907,962**	**127,530**	**17,299,325**	**4,988**	**25,069**	**591,764**	**34,119,348**
At 31 December 2017	**14,162,710**	**1,856,314**	**241,852**	**16,473,910**	**5,832**	**41,805**	**992,362**	**33,774,785**

(b) The company have committed NGN400 million to revamp three (3) out of the existing turbines in order to achieve some consistency in the operation and maintenance of the turbines. This is to be completed within five (5) months from the year end (2016: Nil).

(c) Subsequent to the year end (in 2019), due to the sub-optimal performance of its steam turbines, the Company tested its entire plant and machinery for impairment. For this purpose, a 'value in use' calculation had been performed by management to estimate the recoverable amount of its plant and machinery. The cash generating units (CGU's) include the various steam turbines (ST 01 to ST 06) installed by the Company for the power generation.

(d) Capital work-in-progress represents the costs incurred to date on the ongoing rehabilitation of steam turbine 03 (ST 03).

Notes to the financial statements - (cont'd)

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

	2017	2016
	NGN'000	NGN'000
Direct costs (note 8)	832,835	869,242
General and administrative expenses (note 8)	59,099	78,746
	891,934	947,988

14. Intangible assets

(a) Reconciliation of carrying amount

COST:	License cost NGN'000	Accounting Software NGN'000	Total NGN'000
Balance as at 1 January 2017	-	-	-
Additions	26,283	2,773	29,056
Balance as at 31 December 2017	**26,283**	**2,773**	**29,056**
AMORTISATION:			
Balance as at 1 January 2017	-	-	-
Charge for the year	7,447	832	8,279
Balance as at 31 December 2017	**7,447**	**832**	**8,279**
CARRYING AMOUNT:			
At 31 December 2016	**-**	**-**	**-**
At 31 December 2017	**18,836**	**1,941**	**20,777**

The amortisation of license cost is included in 'direct cost'; the amortisation of accounting software cost is included in 'general and administrative expenses'.

15. Inventories

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Consumable spare parts	209,209	137,430
Other consumables	191,690	220,363
	400,899	**357,793**

Inventories recognized as expense include consumable spare parts and other consumables used in maintenance during the year. They are included in operation and maintenance costs in costs of sales and amounted to NGN -million (2016:NGN 89.56million). No inventory was written off during the year (2016:Nil). No inventories have been pledged as collateral.

16. Trade and other receivables

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Trade receivables	8,906,275	8,250,418
Provision for bad debt	(3,740,298)	-
Unbilled receivables	1,053,077	-
Due from related parties (Note 22(d))	2,268,832	864,695
Other receivables	-	106,855
	8,487,886	**9,221,968**

Information about the Company's exposure to credit and market risks, and impairment losses for trade and other receivables, is included in Note 23.

Notes to the financial statements - (cont'd)

17.Prepayments

Prepayments comprise:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Rentals	158	158
Insurance	1,024	1,564
Advance to vendors	-	3,506
Current portion	1,182	5,228

18. Cash and cash equivalents

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Bank balances	802,981	403,602
Call deposit*	65,245	-
Cash in hand	262	39
	868,488	403,641

* Call deposit represents rolling fixed deposit held with a commercial bank. Call deposits are held with commercial banks at interest rates between 6% and 10% per annum. Information on the Company's exposure to credit risk in included in Note 23.

19. Capital and reserves

(a) Share capital comprises:

	31 Dec 2017	31 Dec 2016
Authorized:	NGN'000	NGN'000
20,000,000 ordinary shares of 50k each (2015: 10,000,000 ordinary shares of 50k each)	10,000	10,000
Issued, called-up and fully paid:		
10,000,000 ordinary shares of 50k each	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) Dividend

In 2016, dividends of NGN141.31 per qualifying ordinary share, amounting to NGN1.41 billion, was declared by the board. No dividends were declared in the current year.

The movement in dividend payable during the year was as follows:

	2017	2016
	NGN'000	NGN'000
Balance at 1 January	211,876	133,371
Dividend declared	-	1,413,089
Payments	-	(1,334,584)
Balance at 31 December	211,876	211,876

(c) Other reserves

Other reserves comprise:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Federal government funding (Note19(c)(i))	3,763,369	3,763,369
Federal government funding (Note 19(c)(i))	509,898	509,898
	4,273,267	4,273,267

Notes to the financial statements - (cont'd)

***(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.

20.Trade and other payables

Trade and other payables comprise:

	31 Dec 2017	31 Dec 2016
	NGN'000	**NGN'000**
Trade payables	11,245,762	7,844,123
Other payables	14,633	15,399
Dividend payable (Note 19(b))	211,876	211,876
Accrued expenses	623,191	231,104
Payable to NELMCO (Note 20(a))	316,724	316,724
	12,412,186	**8,619,226**
Statutory deductions	463,497	461,614
	12,875,683	**9,080,841**

(a) Payable to NELMCO

Payable to NELMCO represents certain pre-completion receivables collected on behalf of NELMCO net of commission income. Information on the Company's exposure to liquidity risk is included in Note 22.

21. Provision for decommissioning obligation

Provision for decommissioning obligation represents the Company's provision for Asset Retirement Obligation (ARO) on Sapele Power Plant. This estimate is based on evaluation performed by the Company. Additional ARO cost of NGN121.41 million was estimated at the end of the year due to the change in the applicable discount rate from 15.15% used in prior year to 13.35% at 31 December 2017.
This estimate for ARO is based on evaluation performed by internal experts.

The movement in this account is as follows:

	2017	2016
	NGN'000	**NGN'000**
Balance at 1 January	190,286	165,247
Accretion for the year (Note 9)	28,834	25,039
Revision at year end (Note 12(a))	121,408	-
Balance at 31 December	**340,528**	**190,286**

22. Related party transactions

(a) Parent and ultimate controlling party

In 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. EPL also obtained bank loans which were secured on a share charge over hundred percent (100%) of the equity share capital of the Company.
In 2015, the Company granted a financing facility to EPL. Total amount available under the facility is NGN167.31 million. There were no drawdowns by EPL during the year (2016: NGN96.22 million). The facility bears no interest, is unsecured, payable on demand and has been classified as a current asset in these financial statements.

Notes to the financial statements - (cont'd)

(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. The directors are considered the key management personnel of the Company. No remuneration was paid to the directors by the Company during the year (2016:Nil).

(c) Other related party transactions

***(i).* Eurafric Oil and Coastal Limited**

In 2015, the Company had a short term working capital financing facility obtained from Eurafric Oil and Coastal Services Ltd. It attracted interest at 5% per month. Interest incurred in 2015 was NGN4.08 million and the Company made full repayments in 2015 amounting to NGN61.19 million comprising of the principal and accrued interest amount.

In 2014, the Company granted a financing facility to Eurafric Oil and Coastal Limited. There were no drawdowns by Eurafric Oil and Coastal Limited during the year (2016: NGN127.56 million). This facility bears no interest, is unsecured, payable on demand and has been classified as a current asset in these financial statements.

(d) Due from related parties comprise:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Due from related party - Eurafric Power Limited	2,156,235	752,098
Due from related party - Eurafric Oil and Coastal Limited	112,597	112,597
	2,268,832	**864,695**

Information on the Company's exposure to credit risk is included in Note 22.

23. Financial instruments

A. 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.

i. 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 it's 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.

ii. 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.

Notes to the financial statements - (cont'd)

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

	Note	31 Dec 2017	31 Dec 2016
		NGN'000	NGN'000
Trade and other receivables	16	12,228,184	9,221,968
Bank balances	18	868,488	403,641
		13,096,672	9,625,609

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each distribution company and the ability of the Operator of the Nigeria Electricity Market ("ONEM" or "Market Operator") and the Nigerian Bulk Electricity Trading Plc (NBET) to regulate and enforce payments by distribution companies.

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.

As at year end, the aging of trade and other receivables that were not impaired was as follows:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Past due 0 - 30 days	-	617,521
Past due 31 - 60 days	-	507,080
Past due 61 - 180 days	924,629	2,111,684
Past due 181 days and above	7,981,646	5,014,133
	8,906,275	8,250,418

Impairment

The Company recorded impairment losses on its financial assets from NBET. The directors are of the opinion that the Company should adopt a neutral position and make provisions for the long outstanding receivables above 365 days until the amounts are recovered by virtue of the Federal Government's interest and policies for the power sector in Nigeria.

The movement in the allowance for impairment in respect of individual trade and other receivables during the year was as follows.

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Balance as at 1 January	-	-
Opening balance adjustments*	4,418,445	-
Reversal of impairment losses	(678,147)	-
Balance as at 31 December	3,740,298	-

Due from related parties

The Company has transactions with its parent and other related parties. Payment terms are usually not established for transactions and amounts receivable from related parties are not impaired except the member is facing bankruptcy. In the directors view, all amounts are collectible. No impairment was recorded with respect to amounts due from related parties in the current year (2016: Nil).

Cash and cash equivalents

The Company held cash and cash equivalents of NGN868.49 million as at year end (2016:NGN403.64 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents (with the exception of NGN0.26 million held as cash by the Company (2016: NGN0.04) are held by banks and financial institutions in Nigeria.

Other receivables

The Company closely reviews the sundry receivables due from the its rental income, for evidence of impairment. No impairment loss was recognised during the year (2016:Nil).

Notes to the financial statements - (cont'd)

(e) 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 liquidity management process, the Company sources funds from related companies which can be utilised to meet its liquidity 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 NGN'000	Total NGN'000	3 months or less NGN'000
Non-derivative financial liabilities				
At 31 December 2017	*Note*			
Trade and other payables*	*20*	12,412,186	12,412,186	12,412,186
		12,412,186	**12,412,186**	**12,412,186**
At 31 December 2016				
Trade and other payables*	*20*	8,619,226	8,619,226	8,619,226
		8,619,226	**8,619,226**	**8,619,226**

*Trade and other payables excludes statutory deductions.

(f) Market risk

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

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

***(i).*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 now exposed to currency risk because supplementary payments received from sales are denominated in a currency other than the functional currency of the Company, the Naira.

Exposure to currency risk

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

	31 Dec 2017 USD	31 Dec 2016 USD
Financial asset		
Cash and cash equivalents	**858,788**	**-**

The following significant exchange rates have been applied during the year.

	Average rate		Reporting date spot rate	
	NGN	NGN	NGN	NGN
USD	305.79	253.42	306.00	305.00

Notes to the financial statements - (cont'd)

Sensitivity analysis

A reasonably possible strengthening (weakening) of the US dollar against all other currencies at 31 December would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Increase/(decrease) in profit or loss
	NGN'000
At 31 December 2017	
USD (20% strengthening)	52,386.07
At 31 December 2016	
USD (20% strengthening)	-

(i). **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 as follows:

	31 Dec 2017	31 Dec 2016
	NGN'000	NGN'000
Financial assets		
Call deposits (Note 18)	65,245	-

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.

(g) 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 2017	31 Dec 2016
	NGN'000	NGN'000
Total liabilities	23,556,915	19,611,831
Less: cash and cash equivalents	(868,488)	(403,641)
Adjusted net debt	22,688,427	19,208,190
Total equity	19,997,102	24,496,147
Adjusted net debt to equity ratio	**1.13**	**0.78**

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.

Notes to the financial statements - (cont'd)

(h) 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.

At 31 December 2017	*Note*	Loan and receivables NGN'000	Other financial liabilities NGN'000	Total NGN'000
Financial assets not measured at fair value				
Trade and other receivables	*16*	8,487,886	-	8,487,886
Cash and cash equivalents	*18*	868,488	-	868,488
At 31 December 2016		**9,356,374**	**-**	**9,356,374**
Financial liabilities not measured at fair value				
Trade and other payables	*20*	-	12,412,186	12,412,186
		-	**12,412,186**	**12,412,186**
31 December 2016				
Financial assets not measured at fair value				
Trade & other receivables	*16*	9,221,968	-	9,221,968
Cash and cash equivalents	*18*	403,641	-	403,641
		9,625,609	**-**	**9,625,609**
Financial liabilities not measured at fair value				
Trade and other payables	20	-	8,619,226	8,619,226
		-	**8,619,226**	**8,619,226**

*Trade and other payables excludes statutory deductions.
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. Going concern

The Company incurred a loss of NGN80.60 million for the year (2016:NGN10.33 million). The Company's current liabilities exceeds its current assets by NGN 4.39 billion (2016:NGN 0.36 billion). The Company's loss for the year was due to a 19% increase in direct costs and maintenance of the plant with a 8% increase in administrative expenses as a result of a NGN3.74 billion provision made on long outstanding receivables from NBET.
The management's strategy is to manage the existing cash generated by operating activities to meet the maintenance needs and day to day activities of the plant, sign new contracts to improve the plants production while securing funding for the rehabilitation of the plant. The management operated with a 115% increase in cash flows during the year by growing current liabilities by 19%.

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

25. Events after the reporting date

There are no events after the reporting date which could have had a material effect on the financial position of the Company as at 31 December 2017 and on the loss for the year ended which has not been adequately provided for or disclosed in these financial statements.

Other national disclosures

Value added statement

For the year ended 31 December

****The value added statement is not a part of the financial statements***

	2017	%	2016	%
	NGN'000		**NGN'000**	
Revenue	7,098,510		7,055,065	
Brought in materials and services				
- Local	(7,657,875)		(5,504,722)	
	(559,365)		**1,550,344**	
Finance income	4,872		9,242	
Other income	95,081		132,595	
Value (eroded)/added	**(459,412)**	**100**	**1,692,181**	**100**
To Employee;				
-as salaries,wages and other staff costs	270,501	(60)	287,279	17
To provider of finance;				
-Finance cost and similar charges	28,834	(6)	27,749	2
To government as;				
- Taxes	-	-	439,499	26
Retained in the business:				
To maintain and replace;				
- Property, plant and equipment	891,934	(194)	947,988	56
To pay interim dividends	-	-	1,413,089	84
To deplete reserve	(1,650,681)	359	(1,423,423)	(85)
Value (eroded)/added	**(459,412)**	**99**	**1,692,181**	**100**

Financial summary

As at 31 December

Statement of profit or loss and other comprehensive income

	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013
	NGN'000	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**
Revenue	7,098,510	7,055,066	5,028,691	4,163,778	3,712,143
Results from operating activities	(56,638)	447,672	1,410,266	631,238	(712,033)
(Loss)/ profit before taxation	(80,600)	429,165	1,360,301	626,548	(705,460)
(Loss)/ profit for the year	(80,600)	(10,334)	635,098	387,700	(463,224)

Statement of financial position

	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013
	NGN'000	**NGN'000**	**NGN'000**	**NGN'000**	**NGN'000**
Employment of fund					
Property, plant and equipment	33,795,562	34,119,348	34,724,755	35,133,279	36,065,063
Net current assets/(liabilities)	(4,385,940)	(360,923)	444,583	752,754	(254,280)
Non-current liabilities	(9,412,520)	(9,262,278)	(9,249,768)	(8,918,045)	(8,943,554)
	19,997,102	**24,496,147**	**25,919,570**	**26,967,988**	**26,867,229**
Funds employed					
Share capital	5,000	5,000	5,000	5,000	5,000
Retained earnings	15,718,835	20,217,880	21,641,303	22,689,721	23,098,860
Other reserve	4,273,267	4,273,267	4,273,267	4,273,267	3,763,369
	3,763	**24,496,147**	**25,919,570**	**26,967,988**	**26,867,229**