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IKEJA ELECTRIC PLC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Table of Contents

Corporate information.....	i
Financial highlights.....	ii
Statement of Directors' responsibilities.....	iii
Independent Auditors' report	1
Statement of profit or loss and other comprehensive income.....	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows.....	9
Notes to the financial statements	10
Statement of value added	44
Five year financial summary	45

IKEJA ELECTRIC PLC*Financial statements**For the year ended 31 December 2016***CORPORATE INFORMATION**

		Nationality	Designation
Directors	Mr. Temitope Shonubi	Nigerian	Chairman
	Mr. Adedeji Odunsi	Nigerian	Director
	Mr. Kola Adesina	Nigerian	Director
	Mr. James Ogungbemi	Nigerian	Director
	Mr. Tonye Cole	Nigerian	Director
	Mr. Alex Okoh (Appointed 13th April 2017)	Nigerian	Director
	Mr. Yeom Gyoo-Chull (Resigned 13th April 2017)	Korean	Director
	Dr. Benjamin Dikki (Resigned 13th April 2017)	Nigerian	Director
Registered Office	Ikeja Electric Plc 77, Obafemi Awolowo Way Aluasa, Ikeja Lagos State, Nigeria		
Registration Number	RC 638695		
Company Secretary	Ejiro Gray 77, Obafemi Awolowo Way Ikeja Lagos State, Nigeria		
Bankers	Citi Bank Nigeria Limited Ecobank Nigeria Plc Fidelity Bank Plc First City Monument Bank Limited Keystone Bank Limited Sterling Bank Plc Union Bank of Nigeria Plc United Bank for Africa Plc Zenith Bank Plc.		
Solicitors	Udo Udoma & Belo-Osagie 10th/13th Floor St. Nicholas House CMS, Lagos Island, Lagos Law Guild Legal Practitioners & Arbitrator Investment House, 8th Floor, Broad Street, Lagos. Adetunji Adedeji & Company Sahadatu Plaza. 70D Allen Avenue, Ikeja Lagos.		
Independent Auditor	Akintola Williams Deloitte Civic Towers Plot GA 1 Ozumba Mbadiwe Road Victoria Island Lagos, Nigeria		

IKEJA ELECTRIC PLC*Financial statements**For the year ended 31 December 2016***FINANCIAL HIGHLIGHTS**

Results	31 Dec 2016	31 Dec 2015	Change	
	N'000	N'000		%
Revenue	64,497,695	62,636,720	▲	3%
Operating Loss	(84,939,100)	(27,181,558)	▼	212%
Loss for the year	(65,636,304)	(28,616,172)	▼	129%
Total Comprehensive loss	(7,450,742)	(28,616,172)	▲	(74%)
Total Equity	38,977,825	46,413,567	▼	(16%)
Data per ₦1.00k shares				
Loss per share - Basic (Naira)	(2,625)	(2,862)	▲	(8%)
Net assets per share	1,559	4,641	▼	(66%)

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS**

The Directors of Ikeja Electric Plc ("the Company") are responsible for the preparation of the financial statements that give a true and fair view of the financial position of the Company as at 31 December 2016, and the results of its operations, cash flows and changes in equity for the year ended 31 December 2016, in compliance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies and Allied Matters Act of Nigeria, the Financial Reporting Council of Nigeria Act, 2011.

In preparing the financial statements, the Directors are responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company and Company's financial position and financial performance; and
- making an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation of Nigeria and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- preventing and detecting fraud and other irregularities.

Going concern:

The Directors of Ikeja Electric Plc, having evaluated the considerations as disclosed in Note 1.3, believe that the use of the going concern basis is appropriate for the preparation of the 2016 financial statements. The Directors are positive that the Company will achieve adequate resources to continue operations into the foreseeable future with proposed reforms in the sector.

The financial statements of the Company for the year ended 31 December 2016 were approved by the Board on 18th October 2017

On behalf of the Directors of the Company

James Ogungbemi
Director

FRC/2013/NIM/00000004313



Ade Odunsi
Director

FRC/2013/ICAN/00000005046

**Independent Auditors' Report
To the Shareholders of Ikeja Electric Plc.
Report on the Audit of the Financial Statements**

Opinion

We have audited the accompanying financial statements of Ikeja Electric Plc ("The Company") which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of **Ikeja Electric Plc** as at 31 December 2016 and the financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards, the Companies and Allied Matters Act Cap C20 LFN 2004 and the Financial Reporting Council of Nigeria Act, 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the requirements of the Institute of Chartered Accountants of Nigeria Professional Code of Conduct and Guide for Accountants (ICAN Code) and other independence requirements applicable to performing audits of financial statements in Nigeria. We have fulfilled our other ethical responsibilities in accordance with the ICAN Code and in accordance with other ethical requirements applicable to performing audits in Nigeria. The ICAN Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

We draw attention to Note 1.3 to the financial statements, which indicates that the Company had working capital deficiency of N90.53 billion (2015: N36.82 billion) and losses of N65.64 billion (2015: N28.62 billion). This is in part due to structural inadequacies in the pricing model of the MYTO issued by the Regulator for the Nigeria electricity industry.

The going concern of the Company is therefore primarily dependent on the continued support of the shareholders through advances for funding of the Company's working capital. The going concern assumption is also dependent on the continued action of the Market Operator in not demanding for full payment for its invoices from Distribution companies pending the issuance of a full "Cost Reflective Tariff Order" and a "Regulatory Asset statement" or other funding solution from the government for the current tariff deficit as contemplated for the Industry by the Nigeria Electricity Regulatory Commission.

These events or conditions, along with other matters as set forth in Note 1.3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Independent Auditors' Report
To the Shareholders of Ikeja Electric Plc.
Report on the Audit of the Financial Statements**

Opinion

We have audited the accompanying financial statements of Ikeja Electric Plc ("The Company") which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of **Ikeja Electric Plc** as at 31 December 2016 and the financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards, the Companies and Allied Matters Act Cap C20 LFN 2004 and the Financial Reporting Council of Nigeria Act, 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the requirements of the Institute of Chartered Accountants of Nigeria Professional Code of Conduct and Guide for Accountants (ICAN Code) and other independence requirements applicable to performing audits of financial statements in Nigeria. We have fulfilled our other ethical responsibilities in accordance with the ICAN Code and in accordance with other ethical requirements applicable to performing audits in Nigeria. The ICAN Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

We draw attention to Note 1.3 to the financial statements, which indicates that the Company had working capital deficiency of N90.53 billion (2015: N36.82 billion) and losses of N65.64 billion (2015: N28.62 billion). This is in part due to structural inadequacies in the pricing model of the MYTO issued by the Regulator for the Nigeria electricity industry.

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These events or conditions, along with other matters as set forth in Note 1.3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
<p>Provision for doubtful debts</p> <p>The Company bills its customers at rates determined by the Multi Year tariff order (MYTO) depending on what tariff class each customer falls. Customers are broadly divided into post-paid and prepaid customers.</p> <p>The risk of non-collection of amounts billed lies with the Company's post-paid customers as not all customers billed for energy actually make payments as at when due as disclosed in Note 12. The Company therefore reviews the receivables for impairment in two ways:</p> <ol style="list-style-type: none"> 1. Specific provisioning for certain customers because of circumstances which may have arisen in the period and which denote that amounts may be irrecoverable from the customer. 2. Provisioning due to the nature of the Company's operations, receivable ageing and collection cycle. <p>The Directors have made specific provision for Ministries, Department & Agencies (MDA's) of the Federal Government of Nigeria debts between November 2013 and December 2014 as this debt are currently in dispute with less probability of being settled. Provision has also been made for Non MDA debts in line with the company's provisioning policy consistent with previous years.</p> <p>This account balance is subject to management bias due to significant amount of estimates and judgement involved.</p>	<p>We focused our test on the recoverability of the trade receivable balance. Our audit procedures included:</p> <ul style="list-style-type: none"> • Validating the specific provision made for MDA debts by reviewing the report of the Advisory Power Team, office of the Vice President. • Evaluating the model used by management in computing the provision at year end. • Validating the inputs used to calculate the provision and recalculated the provision. • Evaluating the consistency of management policy on provision with previous years. <p>We found management estimate of provision stated in note 12 to be reasonable for the year and this has been adequately disclosed in the financial statements.</p>

Key Audit Matter	How the matter was addressed in the audit
<p>Impairment of Distribution Assets</p> <p>Distribution Asset represent a significant portion of the Company's total assets as disclosed in note 11a</p> <p>As required by the applicable accounting standards, management conducts an annual impairment assessment to determine the existence of an impairment trigger and assesses the recoverability of the carrying value of the Property Plant and Equipment balance. This is performed using discounted cash flow models</p> <p>During the year, management identified an impairment trigger resulting from the poor operating performance of the company which showed a gross loss performance in 2016; The official devaluation of the local currency contributing materially to the non-cost reflective tariff currently in effect.</p> <p>Furthermore, effective May 2016, there has been a significant increase in the percentage difference between Energy received and Energy billed with an average energy of 31% unbilled between May – December 2016. This further worsened the operating loss suffered during the year.</p> <p>Management has made a number of key judgments in determining the inputs into the impairment model in line with the Multi Year tariff order (MYTO):</p> <ul style="list-style-type: none"> • Expected Unit (Gwh) of energy to be delivered to Ikeja Electric; • Average tariff to be paid by customers • Cost per unit of electricity delivered; • Forecasted technical & commercial losses. • Recovery of tariff shortfall. • The discount rates applied to the projected cash flows. <p>Accordingly, the impairment test of these asset is considered to be a key audit matter. The Directors have performed a detailed analysis of the net present value of cash flows that may arise up to 2026.</p>	<p>We focused our testing of the impairment assessment on the key assumptions made by management.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> • Evaluating the appropriateness and the reasonableness of the model and inputs used by management and also to ascertain whether it complies with the requirements of IAS 36 Impairment of Assets. • Challenging the assumptions used by management regarding future development and fiscal matters. • Analysing the future projected cash flows used in the models to determine whether they are reasonable and consistent with the current operating environment. <p>We have reviewed the assumption of management impairment assessment and going by the historical performance of the government in not fully implementing its obligations under previous MYTO, an impairment loss of NGN33.97 billion was recognised in the books during the year in other to equate the recoverable value of the asset to its carrying value. We are satisfied with the assumptions used in the model and we found the impairment loss booked to be appropriate.</p>

Key Audit Matter	How the matter was addressed in the audit
Revaluation of Distribution Assets	
<p>The Company performed a revaluation of its core (distribution) assets in 2016.</p> <p>An independent expert was engaged to perform a revaluation of all the core assets of Ikeja Electric Plc in order to estimate the actual carrying value of the assets as at year end. Appraisal and Valuation Consultants (AVC) Ltd valued core assets (substations, transformers, overhead and underground lines and customer meters) using the replacement cost method.</p> <p>IAS 16:39-40 mentions that if an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.</p> <p>The revaluation by management through an expert resulted in a significant increase in the carrying value of distribution assets.</p>	<p>We focused our testing on the management expert report:</p> <ul style="list-style-type: none"> • Evaluated the competence, capabilities and objectivity of the management expert. • Obtained and reviewed the expert report and basis of revaluation carried out (replacement cost basis) • Recomputed the revaluation surplus following management revaluation and compared our expectation to management computations. • Also performed an analysis of the revaluation adjustments to distribution assets cost and accumulated depreciation. <p>We found the expert revaluation to be appropriate and revaluation surplus properly recognised. Adequate disclosure has also been made in note 11(a) to the financial statements on the revaluation.</p>

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act CAP C20 LFN 2004, Financial Reporting Council Act, 2011 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of Financial Statements

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

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with the Sixth Schedule of Companies and Allied Matters Act CAP C20 LFN 2004 we expressly state that:

- i) We have obtained all the information and explanation which to the best of our knowledge and belief were necessary for the purpose of our audit.
- ii) The Company has kept proper books of account, so far as appears from our examination of those books.
- iii) The Company's financial position and its statement of profit or loss and other comprehensive income are in agreement with the books of account and returns.

Olufemi Abegunde, FCA

FRC/2013/ICAN/000000004507

For: Akintola Williams Deloitte

Chartered Accountants

Lagos, Nigeria

18th October 2017



IKEJA ELECTRIC PLC

Financial statements

For the year ended 31 December 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	31 Dec 2016 N'000	31 Dec 2015 N'000
Revenue	5	64,497,695	62,636,720
Operating costs	6	<u>(76,104,047)</u>	<u>(58,160,854)</u>
Gross (loss)/profit		(11,606,352)	4,475,866
Other income	7	464,615	139,433
Administrative costs	8	(39,824,643)	(31,796,857)
Impairment loss	11(a)	<u>(33,972,720)</u>	<u>-</u>
Operating loss		(84,939,100)	(27,181,558)
Finance income	9(a)	183	4,863
Finance costs	9(b)	<u>(5,357,239)</u>	<u>(1,134,052)</u>
Net finance cost		(5,357,056)	(1,129,189)
Loss before taxation		(90,296,156)	(28,310,747)
Taxation	10	<u>24,659,852</u>	<u>(305,425)</u>
Loss for the year		(65,636,304)	(28,616,172)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to income statement</i>			
Gain on Revaluation	11(a)	83,122,234	-
Deferred tax on revaluation surplus	10	<u>(24,936,672)</u>	<u>-</u>
Total comprehensive loss for the year		<u>(7,450,742)</u>	<u>(28,616,172)</u>
Loss per share - Basic - Naira	20	<u>(2,625.45)</u>	<u>(2,861.62)</u>

The explanatory notes on pages 10 to 43 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION


	Note	31 Dec 2016 N'000	31 Dec 2015 Restated* N'000
ASSETS			
Non-current assets			
Property, plant and equipment	11(a)	134,757,675	83,212,906
Intangible asset	11(b)	14,168	19,097
Deferred tax asset	10	35,568,703	10,632,031
Total non-current assets		170,340,546	93,864,034
Current assets			
Inventories	13	232,622	118,678
Trade and other receivables	12	9,187,291	9,738,422
Cash and bank balances	14	4,194,555	5,099,728
Prepaid expenses		236,913	117,587
Total current assets		13,851,381	15,074,415
TOTAL ASSETS		184,191,927	108,938,449
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	25,000	10,000
Revaluation reserve		82,993,635	24,808,073
Retained earnings		(175,433,660)	(109,797,356)
Other reserve		131,392,850	131,392,850
Total Equity		38,977,825	46,413,567
Non-current liabilities			
Loans and borrowings	15	5,263,340	-
Deferred tax liabilities	10	35,568,703	10,632,031
Total non-current liabilities		40,832,043	10,632,031
Current liabilities			
Trade and other payables	16	102,543,183	50,817,691
Loans and borrowings	15	486,896	-
Current tax liabilities	10	1,351,980	1,075,160
Total current liabilities		104,382,059	51,892,851
TOTAL LIABILITIES		145,214,102	62,524,882
TOTAL EQUITY AND LIABILITIES		184,191,927	108,938,449


* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 3.1.

The financial statements on pages 6 to 45 were approved by the Board of Directors of the Company on 18th October 2017. They were signed on its behalf by:


Anthony Youdeowei
Chief Executive Officer (CEO)
FRC/2015/IODN/00000008875


Olubunmi Olukojun
Chief Financial Officer
FRC/2017/ICAN/00000007483


Ade Odunsi
Director
FRC/2014/ICAN/00000005046


James Ogungbemi
Director
FRC/2013/NIM/00000004313

The explanatory notes on pages 10 to 43 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Note	Share Capital Restated*	Retained Earnings	PPE Revaluation Reserves	Other Reserves	Total Equity
		N'000	N'000	N'000	N'000	N'000
Balance as at 1 January 2015		5,000	(81,181,184)	24,808,073	131,392,850	75,024,739
Increase in share capital		5,000	-	-	-	5,000
Loss for the year - 2015		-	(28,616,172)	-	-	(28,616,172)
Balance as at 1 January 2016		10,000	(109,797,356)	24,808,073	131,392,850	46,413,567
Property revaluation reserves		-	-	83,122,234	-	83,122,234
Deferred tax on revaluation of Fixed Assets		-	-	(24,936,672)	-	(24,936,672)
Increase in share capital		15,000	-	-	-	15,000
Loss for the year - 2016		-	(65,636,304)	-	-	(65,636,304)
Balance as at 31 December 2016		25,000	(175,433,660)	82,993,635	131,392,850	38,977,825

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 3.1.

The explanatory notes on pages 10 to 43 form an integral part of the financial statements.

IKEJA ELECTRIC PLC*Financial statements**For the year ended 31 December 2016***STATEMENT OF CASH FLOWS**

Cash flow from operating Activities	Note	31 Dec 2016	31 Dec 2015
		N'000	Restated*
			N'000
Loss for the year		(65,636,304)	(28,616,172)
Adjustments for:			
Depreciation on distribution assets	11(a)	8,882,829	8,064,984
Depreciation on non-distribution assets	11(a)	253,655	210,446
Amortisation of intangible assets	11(b)	10,155	9,548
Impairment loss recognised on fixed assets	11(a)	33,972,720	-
Provision for doubtful debts	12.1	22,405,315	16,949,788
Finance income	9(a)	(183)	(4,863)
Finance costs	9(b)	5,357,239	1,134,052
Deferred tax	10	(24,936,672)	-
Income tax expense	10	276,820	305,425
		46,221,878	26,669,380
Movements in working capital			
Increase in trade and other receivables	12	(21,839,184)	(20,305,042)
(Increase)/Decrease in inventory	13	(113,944)	35,196
Increase in prepaid assets		(119,326)	(5,322)
Increase in trade and other payables	16	51,725,492	27,264,427
Total adjustments and movements		29,653,038	6,984,259
Total adjustment and movements		75,874,916	33,658,639
Net cash generated from operating activities		10,238,612	5,042,467
Cash flow from investing activities			
Additions to other PPE	11(a)	(11,531,739)	(662,116)
Additions to intangible assets	11(b)	(5,226)	(28,645)
Interest received	9(a)	183	4,863
Finance cost	9(b)	(5,357,239)	(1,134,052)
Net cash (used in) from investing activities		(16,894,021)	(1,819,950)
Cash flow from financing activities			
Borrowing	15	5,750,236	-
Net cash from financing activities		5,750,236	-
Net increase/(decrease) in cash and cash equivalents		(905,173)	3,222,517
Cash and cash equivalents at beginning of the year		5,099,728	1,877,211
Cash and cash equivalents at end of the year	14	4,194,555	5,099,728

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 3.1.

The explanatory notes on pages 10 to 43 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 The Company

Ikeja Electric Plc ("the Company"), was one of the unbundled companies from the defunct Power Holdings Company of Nigeria (PHCN). The Company was in the distribution sector of the PHCN which was a state-owned Electric Power Company. However, it was sold to the consortium of New Electricity Distribution Company (NEDC) and Korean Electric Power Company (KEPCO) in 2007 as part of the privatization of the electric power sector. The sale was authorized by the Bureau of Public Enterprises (BPE). Effective from 1 November 2013 (referred to as the handover date), the Federal Government of Nigeria (FGN) handed over the Company and other unbundled assets to their new owners.

The Company has 25,000,000 units of N1.00k each per ordinary shares, with New Electricity Distribution Company Ltd holding 15,000,000 units, Bureau of Public Enterprises holding 8,000,000 units and Ministry of Finance Incorporated holding 2,000,000 units.

1.1 Shareholding structure	2016	2015	
The shareholding structure of the Company is as follows:	N'000	N'000	%
<i>New Electricity Distribution Company Ltd - NEDC</i>			
15,000,000 ordinary shares of N1.00k each	15,000	6,000	60
<i>Bureau of Public Enterprises - BPE</i>			
8,000,000 ordinary shares of N1.00k each	8,000	3,200	32
<i>Ministry of Finance Incorporated</i>			
2,000,000 ordinary shares of N1.00k each	2,000	800	8
<i>Total issued ordinary shares</i>	25,000	10,000	100

1.2 Increase in Authorised Share Capital

At the Extra-ordinary general meeting of Ikeja Electric Plc duly convened and held on the 24th day of November, 2016 at its registered office, resolutions were proposed and duly passed that the Authorized Share Capital of Ikeja Electric Plc be increased from N10 million to N100 million by the creation of 90,000,000 ordinary shares of N1.00 each such new shares to rank in pari passu with the existing ordinary shares of the company.

1.3 Going concern consideration

As at the reporting date, the Company had working capital deficiency of N90.53 billion (2015: N36.82 billion) and losses of N65.64 billion (2015: N28.62 billion). This is in part due to structural inadequacies in the pricing model of the MYTO issued by the Regulator for the Nigeria electricity industry.

The going concern of the Company is therefore primarily dependent on the continued support of the shareholders through advances for funding of the Company's working capital. The going concern assumption is also dependent on the continued action of the Market Operator in not demanding for full payment for its invoices from Distribution companies pending the issuance of a full "Cost Reflective Tariff Order" and a "Regulatory Asset statement" or other funding solution from the government for the current tariff deficit as contemplated for the Industry by the Nigeria Electricity Regulatory Commission.

NOTES TO THE FINANCIAL STATEMENTS**1.3 Going concern consideration (Cont'd)**

The Directors have assessed Going Concern status of the business through specific – Areas for Review, and have put in place appropriate mitigations to off-set the risks.

Areas for Review and Mitigations to off-set the risk are shared below:

a) Regulatory and Legal Conditions

Compliance with all its statutory requirements and has ensure there are no pending legal or regulatory proceedings which can result in loss of license and other significant risk.

b) Financial Conditions

1. Recoup of investment/recovery of historical losses through tariff sculpting in MYTO, a strategy which allows for under recovery of revenue and significant initial investments in the earlier years and full recovery in subsequent years. This prevents "tariff shock" and ensures that the tariff is always generally affordable and acceptable to power users.

2. Power Sector Recovery Plan (PSRP)/Path to tariff short fall recovery put in place by the government will help to mitigate financial risks.

3. Operational cash flow/Working Capital management – Within the foreseeable future, the company will have positive operational cash flow

4. Ownership – Due to the strategic importance of the company to the nation's economy, the Federal Government retained 40% ownership of the company. As a result of the government active involvement, it is guaranteed that the company will continue to operate.

c) Operating Conditions

The Company has properly documented processes and arrangements for the structured identification and evaluation of strategic and operational objectives and risks. Key controls are also in place to manage these potential risks and identification of gaps in processes, with action plans to address these. These help to eliminate "Key man risk" in the business.

The Directors of Ikeja Electricity Plc having evaluated the above, believe that the use of the going concern is appropriate for the preparation of the 2016 financial statements. The Company remain committed to its loss reduction strategies, network strengthening and expansion plan. This can also be seen in the amount expended on capex in 2016 and subsequently.

The Directors are positive that the Company will achieve adequate resources to continue operations into the foreseeable future with proposed reforms in the sector.

1.4 Principal activities

The Company is primarily involved in the distribution of electricity. This includes activities such as billing, metering and maintenance of energy to its customers and all other related services within its franchise network.

1.5 Financial period

These financial statements cover the financial year from 1 January 2016 to 31 December 2016, with comparative figures for the financial year from 1 January 2015 to 31 December 2015.

NOTES TO THE FINANCIAL STATEMENTS**1.6 Composition of IFRS financial statements**

The financial statements are drawn up in Nigerian Naira (₦), the functional currency of Ikeja Electric Plc, in accordance with IFRS accounting presentation. The financial statements comprise:

- (i) Statement of profit or loss and other comprehensive income
- (ii) Statement of financial position
- (iii) Statement of changes in equity
- (iv) Statement of cash flows
- (v) Notes to the financial statements

Additional information provided by management includes:

- (i) Statement of value added
- (ii) Five-year financial summary

2 Application of new and revised International Financial Reporting Standards (IFRSs)**2.1 Amendments to IFRSs that are mandatorily effective for the current year**

The following amendments to the existing standards issued by the International Accounting Standards Board are effective for the current year:

Amendments to IFRS 10, IFRS12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the Company's financial statements as the Company is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies as an investment entity."

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The application of these amendments has had no impact on the Company's financial statements as the Company did not have any such transactions in the current year.

NOTES TO THE FINANCIAL STATEMENTS**2.1 Amendments to IFRSs that are mandatorily effective for the current year****Amendments to IAS 1 Disclosure Initiative**

The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Company, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the Company.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. The presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Company already uses straight-line method for depreciation of its property, plant and equipment, the application of these amendments have had no impact on the Company's financial statements."

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The application of these amendments has had no impact on the Company's financial statements as the Company is not engaged in agricultural activities."

NOTES TO THE FINANCIAL STATEMENTS**2.1 Amendments to IFRSs that are mandatorily effective for the current year****Annual Improvements to IFRSs 2012-2014 Cycle**

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS**2.2 New and revised IFRSs in issue but not yet effective**

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Pronouncement	Nature of Change	Effective date
IFRS 9: Financial Instruments	<p>IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets.</p> <p>IFRS 9 was subsequently amended in October 2010 to introduce requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting.</p> <p>Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.</p>	Effective for annual periods beginning on or after 1 January 2018.
IFRS 15: Revenue from Contracts with Customers	<p>IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.</p> <p>The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p>	Effective for annual periods beginning on or after 1 January 2018.
IFRS 16: Leases	<p>IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.</p> <p>IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.</p>	Effective for annual periods beginning on or after 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS

2.2 New and revised IFRSs in issue but not yet effective (Cont'd)

Pronouncement	Nature of Change	Effective date
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	<p>The amendments clarify the following:</p> <p>1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.</p> <p>2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.</p> <p>3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:</p> <p>i) the original liability is derecognised;</p> <p>ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date and the amount recognised in equity should be recognised in profit or loss immediately.</p>	Effective for annual periods beginning on or after 1 January 2018.
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains or losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.	Effective for annual periods beginning on or after a date to be determined by the IASB.

NOTES TO THE FINANCIAL STATEMENTS

2.2 New and revised IFRSs in issue but not yet effective (Cont'd)

Pronouncement	Nature of Change	Effective date
Amendments to IAS 7: Disclosure Initiative	The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	Effective for annual periods beginning on or after 1 January 2017.
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	<p>The amendments clarify the following:</p> <ol style="list-style-type: none"> 1. Decreases below cost in the carrying amount of a fixed-rate debt instrument measured at fair value for which the tax base remains at cost give rise to a deductible temporary difference, irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, or whether it is probable that the issuer will pay all the contractual cash flows; 2. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, and the tax law restricts the utilisation of losses to deduction against income of a specific type (e.g. capital losses can only be set off against capital gains), an entity assesses a deductible temporary difference in combination with other deductible temporary differences of that type, but separately from other types of deductible temporary differences; 3. The estimate of probable future taxable profit may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; and 4. In evaluating whether sufficient future taxable profits are available, an entity should compare the deductible temporary differences with future taxable profits excluding tax deductions resulting from the reversal of those deductible temporary differences. 	Effective for annual periods beginning on or after 1 January 2017.

NOTES TO THE FINANCIAL STATEMENTS

3. Basis of preparation

Basis of preparation of the accounts

This financial statements have been prepared in accordance with International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRSs") and International Financial Reporting Interpretations Committee ("IFRIC") Interpretations (collectively referred to as IFRS), the Companies and Allied Matters Act (CAMA) and the Financial Reporting Council of Nigeria (FRC) Act as at 31 December 2015.

The financial statements have been prepared in a historical cost basis except for the fixed assets account balance which has been recognized on a revaluation model basis. The historical cost is generally based on the fair value of the consideration given in exchange for the assets while the revaluation model refers to the replacement costs of the fixed assets.

The financial statements have been prepared in accordance with the Company's accounting policies approved by the Board of Directors of the Company.

A. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and can be reliably measured. Revenue is measured at fair value of the consideration received/receivable, excluding Value Added Tax (VAT). Revenue from the sale of electricity to postpaid and prepaid customers is the value of the volume of energy units supplied to the customers in line with the applicable tariff framework. Prices charged by the Company for electricity distribution are regulated. The Company does not recognise an asset or liability, as the case may be, on account of under recovery or over recovery except where it is obligated to provide future services at a loss in which case a provision is recognized

B. Property, plant and equipment

1. Distribution network assets

The Company's distribution network assets are stated at fair value using the revaluation model less accumulated depreciation and accumulated impairment losses and is generally depreciated over the estimated operating capacity/ useful life of the assets. Operating assets includes the core assets which the Company uses in carrying out its normal course of business; distributing power to high network and other customers. They include the overhead lines and cables, underground cables, plant and Machinery (transformers, feeder pillars), meters, towers and substation buildings.

Assets under construction are stated at cost which includes cost of material and direct labour and any costs incurred in bringing it to its present location and condition

2. Non distribution assets

The Company's non-distribution assets are stated at fair value using the revaluation model less accumulated depreciation and accumulated impairment losses. Depreciation is on a straight line method over the estimated useful lives of the assets. Non-operating assets includes land, administrative office building, furniture and fittings, motor vehicles, etc. Land is not depreciated.

In line with IAS 16, subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. The carrying amount of the replaced component is derecognized.

NOTES TO THE FINANCIAL STATEMENTS

3 Basis of preparation (Cont'd)

B. Property, plant and equipment (Cont'd)

3. Depreciation

The main depreciation rate and basis used by the Company for its assets are as set out below:

Asset Class	Useful life (yrs.)	Basis
Distribution assets		
Distribution Network Assets	15-50	Estimated useful life

Non distribution assets

Land	Nil	N/A
Buildings	50	Estimated Useful life
Office equipment	5	Estimated Useful life
Furniture and fittings	5	Estimated Useful life
Computer Software's	3	Estimated Useful life
Motor Vehicles	4	Estimated Useful life
Work-in-Progress	Nil	N/A

C. Impairment of property, plant and equipment

The carrying amounts of the Company's long-term assets are reviewed at each reporting date to determine whether there is any indication of impairment. If an indication of impairment exists, then the asset's recoverable amount is estimated. Operating assets are assessed for impairment when they are reclassified to property, plant and equipment (PP&E), and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the asset is considered impaired and is written down to its recoverable amount through the statement of profit or loss and other comprehensive income.

For the purpose of impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell ("FVLCTS").

Value in use is determined by estimating the present value of the pre-tax future net cash flows expected to be derived from the continued use of the asset. FVLCTS is based on available market information, where applicable. The Company generally estimates fair value less costs to sell using a discounted cash flow model which has a significant number of assumptions. The model uses expected cash flows from capacity of electricity distribution forecast, energy unit sales price in force and other operational cost parameters. The discount rate applied to the cash flows is also subject to management's judgment and will affect the recoverable amount calculated. The Company monitors internal and external indicators of impairment relating to its distribution and non-distribution assets.

NOTES TO THE FINANCIAL STATEMENTS

3 Basis of preparation (Cont'd)

D. Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, as derivatives or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus (in the case of investments not at fair value through profit or loss) directly attributable transaction costs. The Company's financial assets include cash and short-term deposits, trade and other receivables and loan.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in finance income or finance costs (as appropriate) in statement of profit or loss. Financial assets designated upon initial recognition at fair value through profit or loss are designated at the initial recognition date and only if the criteria set out in IAS 39 are satisfied. The Company evaluates its financial assets as held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When, in rare circumstances, the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets. The reclassification to loans and receivables, available for sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition. Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in statement of profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

NOTES TO THE FINANCIAL STATEMENTS

3 Basis of preparation (Cont'd)

D. Financial instruments (Cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in statement of profit or loss. The losses arising from impairment are recognised in statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less, but exclude any restricted cash which is not available for use by the Company and therefore is not considered highly liquid. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Derecognition

A financial asset (or, where an applicable part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- The right to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS**3 Basis of preparation (Cont'd)****D. Financial instruments (Cont'd)****Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in statement of profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in statement of profit or loss.

Financial liabilities**Initial recognition and measurement**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. The Company's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

NOTES TO THE FINANCIAL STATEMENTS**3 Basis of preparation (Cont'd)****D. Financial instruments (Cont'd)****Subsequent measurement**

The measurement of financial liabilities depends on their classification as described below.

Financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss should be designated at the initial recognition date and only if the criteria set out in IAS 39 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss."

Interest-bearing loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in statement of profit or loss when the liabilities are derecognised, as well as through the EIR method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are integral part of the EIR. The EIR amortisation is included in finance cost in statement of profit or loss.

Derecognition

A financial liability is derecognised when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in statement of profit or loss.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include: using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

NOTES TO THE FINANCIAL STATEMENTS**3 Basis of preparation (Cont'd)****D. Financial instruments (Cont'd)****Creditors and accruals**

Creditors and accruals are the financial obligations due to third parties and are falling due within one year. The outstanding balances are not interest bearing and are stated at their nominal value.

E. Finance income and expense

Finance expense comprises interest expense on borrowings, accretion on decommissioning liabilities, evaluation of derivative financial liabilities and impairment losses recognized on financial assets. Finance income comprises interest earned on cash and cash equivalents, short-term investments and financial instruments through profit or loss.

F. Retirement benefit costs

The Company maintains a Defined Contribution Pension Scheme in accordance with the Pension Reform Act, 2014. The contribution by the employer and employee are 10% and 8% on the employees' monthly basic salary, transport, and housing allowances respectively. Contribution by the employer to defined contribution retirement benefit plans are recognised as an expense in the income statement.

Short-term employee benefits

Short-term employee benefits are rewards such as wages, salaries, paid annual leave, and bonuses (if payable within twelve months of the end of the year) and non-monetary benefits (such as medical care, housing, cars, etc.)

Medical Insurance Scheme

The Company subscribes to a medical insurance plan on behalf of its employees, paying a gross premium to a health management organization based on the level of the employee. This premium is treated as a prepayment and charged to staff costs on a monthly basis.

G. Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

H. Operating Leases

Rental payable under operating lease are charged to income on a straight line basis over the term of the relevant lease.

I. Inventories

Inventories are stated at the lower of cost and net realizable value. Inventories represent small parts and other consumables, the majority of which is consumed by our projects in provision of their services within one financial year. Cost comprises; direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

NOTES TO THE FINANCIAL STATEMENTS**3 Basis of preparation (Cont'd)****I. Inventories (Cont'd)**

Specific identification entails assigning cost of inventories of items that are not ordinarily interchangeable, and of goods or services produced and segregated for specific projects. The method is appropriate when items of inventory are produced for specific projects or when other items of inventory held could not be substituted for those items.

Cost is determined by the First in, First Out (FIFO) method.

Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Estimates are based on the most reliable evidence available and take into consideration fluctuations in price or cost directly relating to events occurring after the reporting period to the extent that such events confirm conditions existing at the end of the reporting period.

J. Provisions**General**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost in statement of comprehensive income.

K. Foreign currencies

The functional currency of the Company is the Nigerian Naira ("NGN"), which represents the currency of the primary economic environment in which the Company operates. Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transactions. Assets and liabilities denominated in foreign currencies at the statement of financial position date are reported at the foreign exchange rate prevailing at that date. Any gains or losses arising from changes in exchange rates subsequent to the date of transaction are included as an exchange gain or loss in the statement of comprehensive income.

L. Taxation**1. Company Income Tax**

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current income tax, education tax and deferred tax.

Current income tax is the amount of income tax payable on the taxable profit of the year determined in accordance with the Company Income Tax ACT, CAP C21 LFN 2004 (as amended). Education tax is assessed at 2% of the assessable profit in line with Tertiary Education Trust Fund Act CAP 2011.

NOTES TO THE FINANCIAL STATEMENTS**3 Basis of preparation (Cont'd)****L. Taxation (Cont'd)****2. Deferred tax**

In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws enacted or substantively enacted by the reporting date and expected to apply when the deferred tax asset or liability is settled. This is determined through the liability method.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are presented as non-current assets or liabilities respectively.

M. Intangible assets**Computer software**

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. If software is integral to the functionality of related property, plant and equipment (PPE), then it is capitalised as part of the PPE. Costs that are directly associated with the development of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets and amortised as above. Costs include employee costs incurred as a result of developing software, borrowing costs if relevant and an appropriate portion of relevant overheads. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Expenditure on internally developed software is capitalised when the expenditure qualifies as development activities, otherwise it is recognised in profit or loss when incurred.

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Computer software are amortised on a straight-line basis over their estimated useful lives, from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of the SAGE X3 ERP and other computer software is 3 years.

N. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available for a short term out of money borrowed specifically to finance a project, the income generated from the temporary investment of amounts is also capitalised and deducted from the total capitalised borrowing cost. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recognised in the statement of profit or loss in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS**3.1 Restatement and Reclassification**

During the current year it was noted that the company increased the share capital from N5 million to N10 million divided into Ten million (10,000,000) ordinary shares of N1.00k each by the creation of additional 5,000,000 ordinary shares of N1.00k each. This was registered with the Corporate Affairs Commission, Abuja, on 5th March 2015 and was not reflected in the year 2015 financial statements.

The creation of additional 5,000,000 ordinary shares resulted in an increase in equity by N5,000,000 on the statement of financial position and increase in the current assets of N5,000,000 as at 31st December, 2015.

In addition to the above, the presentation of finance cost of N1.13 billion on the statement of profit or loss and other comprehensive income and the statement of cash flows is reclassified to reflect the interest on outstanding balances due to Nigerian Bulk Electricity Trading plc (NBET) in year 2015. The presentation had a net-nil impact on the financial statements.

4 Critical accounting judgements and key sources of estimation uncertainty

In determining and applying accounting policies, judgment is often required in respect of items where the choice of specific policy to be followed could materially affect the reported amounts of revenues, expenses, assets and liabilities of the company should it later be determined that a different choice would be more appropriate. In addition, in preparing the accounts in conformity with IFRS, the company is required to make estimates and assumptions that impact on the reported amounts of revenues, expenses, assets, and liabilities of the company. Actual results may differ from these estimates. These are discussed in more details below. These critical accounting judgments and key sources of estimation uncertainty should be read in conjunction with the full statement of Accounting Policies at Note 3.

Critical accounting judgements**4.1 Revenue**

The nature of the energy industry in the Nigerian market in which the company operates is such that revenue recognition is subject to a degree of estimation and is dependent on reconciled energy volumes distributed to consumers' vis a vis the energy report received from the market operator on a monthly basis.

Billed revenue comprises variable charges which is dependent on the consumption class the recipients of energy volumes fall into and is valued based on the Multi-Year Tariff Order (MYTO) structure. This is recognised in the Statement of profit or loss and statement of financial position as Revenue and Trade Receivables respectively based on the value of capacity and energy charge the Company distributes.

Revenue from the sales of electricity to postpaid customers is the value of energy volume in units supplied during the year including an estimate of the volume of units supplied to these customers. In the case of prepaid meter customers, a fair estimate is made based on average consumer behaviour for unearned revenue at year end. This is included in the statement of financial position as deferred revenue.

NOTES TO THE FINANCIAL STATEMENTS**Key sources of estimation uncertainty****4.2 Impairment of Trade Receivables**

Trade receivables are stated net of allowance for impairment of doubtful debts and adjustments on the confirmed revenue arising from reconciled distributed energy units. The company estimates its provision for impairment taking into account future cash flows, based on prior experience, ageing analysis and an assessment of the current economic environment within which the company operates. Such estimates involve a significant degree of judgment.

4.3 Impairment of Property, plant and equipment

Impairment of Property, plant and equipment is conducted at every reporting period in line with the provisions of IAS 36. However, in certain circumstances if there are impairment indicators, Property, plant and equipment are required to be reviewed for impairment. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on the company's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. Estimates of cash flows involve a significant degree of judgment and are consistent with management's plans and forecasts.

4.4 Contingencies

Appropriate recognition and disclosure of contingent liabilities is made regarding litigation, tax matters, and environmental issues, among others. Accounting for contingencies requires significant judgment by management regarding the estimated probabilities and ranges of exposure to potential loss. The evaluation of these contingencies is performed by specialists either externally contracted or internal personnel. The Company's assessment of its exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact the Company's results and financial position. The Company has used its best judgment in applying IAS 37 'Provisions, Contingent liabilities and Contingent assets' to these matters during the year.

4.5 Estimated useful economic lives of assets

Management of the Company reviews the estimated useful lives of items of property, plant and equipment at each reporting date. In assessing the useful lives of property, plant and equipment, management considers, amongst other things, the expected usage of the assets by the Company and the terms of relevant sales and purchase agreements. Any changes in estimates of the remaining useful lives of fixed assets will result in a higher or lower of depreciation expense in future periods.

4.6 Provision for obsolete inventory

The Company reviews its inventory to assess loss on account of obsolescence on a regular basis. In determining whether provision for obsolescence should be recorded in profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is any future saleability of the product and the net realizable value for such product. Accordingly, provision for impairment, if any, is made where the net realizable value is less than cost based on best estimates by the management. Inventory items prior to acquisition of the Company of which information in respect of the prices and usage are not available were fully provided for.

NOTES TO THE FINANCIAL STATEMENTS
4.7 Recoverability of deferred tax amounts

Judgement is required to determine whether deferred income tax assets should be recognized in the statement of financial position. Deferred income taxes, including those arising from unutilized losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods, in order to utilize deferred income tax assets. Assumptions about future taxable profits depends on management's estimate of future cash flows. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred income taxes recorded at the reporting date could be impacted.

In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

	31-Dec-16	31-Dec-15
	N'000	N'000
5 Revenue		
Residential	28,091,047	29,356,983
Industrial	18,076,512	15,298,268
Commercial	16,406,346	16,266,935
Other electricity sales	1,918,201	1,711,191
Street lighting	5,589	3,343
	64,497,695	62,636,720

Revenue recorded represents the total value of billed energy distributed to customers for the year, in line with the multi year tariff order (MYTO) structure.

	31-Dec-16	31-Dec-15
	N'000	N'000
6 Operating costs		
Direct costs		
Cost of Energy	66,165,552	48,761,664
Depreciation expense (Note 11)	8,882,829	8,064,984
Salaries and wages - Core technical	565,920	411,934
Repairs and maintenance	489,746	922,272
	76,104,047	58,160,854

7 Other income		
Other non-operating income	94,917	62,322
Reconnection fees and other income	369,698	77,111
	464,615	139,433

8 Administrative and Selling expenses		
Provision for trade receivables (Note 12.1)	22,405,315	16,949,788
Salaries and wages - Non technical	5,400,626	5,153,573
Operations and maintenance expenses	4,793,602	5,087,902
Other administrative costs	4,071,697	1,905,270
Other staff costs	1,089,567	1,065,906
Data and Information Technology connectivity	1,549,480	1,262,921
Depreciation and Amortisation (Note 11)	263,810	219,994
Repairs and Maintenance	195,546	106,503
Audit fees	55,000	45,000
	39,824,643	31,796,857

NOTES TO THE FINANCIAL STATEMENTS

	31-Dec-16 N'000	31-Dec-15 N'000
9 Finance income and finance costs		
Net finance cost		
(a) Interest income on bank deposits	183	4,863
Finance income	183	4,863
(b) 1. Interest expense on CBN-NEMSF intervention (Note 15)	(285,246)	-
2. Accrued interest on NBET outstanding balance	(5,071,993)	(1,134,052)
Finance costs	(5,357,239)	(1,134,052)
Net finance cost	(5,357,056)	(1,129,189)
 Profit before taxation		
This is stated after charging:		
Auditor's remuneration	55,000	45,000
Depreciation and amortisation	9,146,639	8,284,978
Other income	464,615	139,433
 10 Taxation		
10.1 Income tax expenses recognised in profit or loss		
 10.2 Current tax		
Income tax	276,820	305,425
Education tax	-	-
Current tax expenses for the current year	276,820	305,425
Deferred tax	(24,936,672)	-
Total income tax expenses recognised in profit and loss in the current year for continuing operations	(24,659,852)	305,425
Deferred tax charge recognised in other comprehensive income	24,936,672	-

Company Income tax is calculated at 30% (2015: 30%) of the estimated taxable profit for the year. The charge for taxation is based on the provisions of the Companies Income Tax Act CAP C21 LFN 2004, as amended to date.

The charge for Tertiary Education Tax of 2% (2015: 2%) is based on the Tertiary Education Trust Fund Act 2011

The tax charge for the year has not been reconciled to the results per the Company's statement of profit or loss and other comprehensive income. This is because the Company did not have taxable profits in the year and has therefore, recognized minimum tax in line with the provisions of the Companies Income Tax Act CAP C21 LFN 2004.

NOTES TO THE FINANCIAL STATEMENTS

	31-Dec-16 N'000	31-Dec-15 N'000
10.3 Current tax		
At 1 January	1,075,160	769,735
Tax charged for the year (Note 10.2) (Minimum tax)	276,820	305,425
Payment during the year	-	-
At 31 December	<u>1,351,980</u>	<u>1,075,160</u>

The charge for taxation in these financial statements is based on the provision of the Companies Income Tax (CAP C21, LFN 2004) and Tertiary Education Trust Fund Act, 2011.

	31-Dec-16 N'000	31-Dec-15 N'000
10.4 Deferred tax Liability		
At 1 January	(10,632,031)	(10,632,031)
Recognised in income statement	(24,936,672)	-
At 31 December	<u>(35,568,703)</u>	<u>(10,632,031)</u>
10.5 Deferred tax Assets		
At 1 January	10,632,031	10,632,031
Recognised in income statement	24,936,672	-
At 31 December	<u>35,568,703</u>	<u>10,632,031</u>

The Company has an estimated deferred tax asset of N57.94 billion (2015: N29.11 billion) primarily relating to unutilised capital allowance and unutilised tax losses. The company only recognised deferred tax asset to the extent that this can be offset against deferred tax liability of N35.57 billion in the books. The remaining amount of N22.37 billion (2015: N18.45 billion) has not been recognised because there is uncertainty about timing of creation of sufficient future taxable profit to offset the deferred tax amount against.

NOTES TO THE FINANCIAL STATEMENTS

1. Property, plant and equipment

	DISTRIBUTION ASSETS		NON DISTRIBUTION ASSETS				Total
	Plant and machinery N'000	CWIP N'000	Computer, Equipment, Furniture & fittings N'000	Motor vehicles N'000	Buildings N'000	Capital work-in-progress N'000	
Cost or valuation							
At 1 January 2015	133,350,212	-	85,607	240,190	3,948,465	-	137,624,474
Additions for the year	492,256	-	156,102	13,344	414	-	662,116
Transfers							
At 1 January 2016	133,842,468	-	241,709	253,534	3,948,879	-	138,286,590
Revaluation adjustment	122,376,172	-	-	-	-	-	122,376,172
Additions for the year	11,086,623	-	258,772	103,747	33,216	49,381	11,531,739
Transfers							
At 31 December 2016	267,305,263	-	500,481	357,281	3,982,095	49,381	272,194,501
Accumulated depreciation and impairment							
At 1 January 2015	43,083,063	-	85,607	125,155	3,504,429	-	46,798,254
Charge for the year	8,064,984	-	48,342	63,383	98,721	-	8,275,430
At 1 January 2016	51,148,047	-	133,949	188,538	3,603,150	-	55,073,684
Revaluation adjustment	39,253,938	-	-	-	-	-	39,253,938
Impairment loss	33,972,720	-	-	-	-	-	33,972,720
Charge for the year	8,882,829	-	75,437	79,321	98,897	-	9,136,484
At 31 December 2016	133,257,534	-	209,386	267,859	3,702,047	-	137,436,826
Carrying amount							
At 31 December 2015	82,694,421	-	107,760	64,996	345,729	-	83,212,906
At 31 December 2016	134,047,729	-	291,095	89,422	280,048	49,381	134,757,675

Valuation surplus represents excess of the carrying amount of distribution and non-distribution assets of the entity based on the revaluation exercise carried out by Management through independent valuers (Appraisal & Valuation Consultant Ltd (AVC)); a UK Company in 2016. The distribution assets were revalued using the depreciated replacement cost method. This excess has been reflected in the respective assets account for distribution assets and also as a separate line item in the equity section of the statement of financial position as "PPE revaluation reserves" in line with IAS 16.

Company's fixed asset impairment assessment has been performed by the Directors using the underlying assumptions contained in the Multi Year Tariff Order (MYTO) 2015 Minor Review which resulted in the recognition of an impairment loss. The impairment loss was necessitated by the historical performance of the Government in not fully implementing its obligations under previous MYTO through the implementation of a cost reflective tariff as contained in MYTO and ability of the company to fully recover previous tariff shortfall within the current tariff order.

Directors believes that the estimates and assumptions made are reasonable and based on best available information for both planning and operational purposes. The Directors acknowledges sensitivity fluctuations may exist in the future based on macro-economic indices and company specific factors due to the continuing restructuring and regulations in the power industry expects that any fluctuation which may impact on the carrying amount of the distribution network assets will be accounted for prospectively, if any exists in the applicable reporting period.

NOTES TO THE FINANCIAL STATEMENTS

11.b Intangible asset

	Computer Software	Total
	N'000	N'000
Cost or valuation		
At 1 January 2015	-	-
Additions	28,645	28,645
Transfer	-	-
31 December 2015	28,645	28,645
Additions	5,226	5,226
Transfer	-	-
At 31 December 2016	33,871	33,871
Amortisation		
At 1 January 2015	-	-
Charge for the year	9,548	9,548
Impairment	-	-
31 December 2015	9,548	9,548
Charge for the year	10,155	10,155
Impairment	-	-
At 31 December 2016	19,703	19,703
Carrying amount		
31 December 2015	19,097	19,097
31 December 2016	14,168	14,168

This is Sage X3 ERP software and other computer software purchased during the year and it is measured at cost less accumulated amortisation and impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

	31-Dec-16	31-Dec-15
	N'000	Restated* N'000
12 Trade and other receivables		
Energy customers	62,824,025	40,801,343
Related Party receivables (Note 16.1)	-	180,932
Receivables from other Disco	41,717	41,717
Other debtors	11,636	10,805
Unpaid share capital	20,000	5,000
Staff loans and advances	3,663	7,060
	62,901,041	41,046,857
Provision for doubtful debt (Note 12.1)	(53,713,750)	(31,308,435)
Net trade and other receivables	9,187,291	9,738,422

The net trade debtors disclosed above are amounts due at the end of the reporting period after provision for those considered doubtful of recovery. There has not been a significant change in credit quality and the amounts outstanding are still considered recoverable.

The ageing of trade receivables from Energy customers at the end of the reporting period that were not impaired was as follows:

	31-Dec-16	31-Dec-15
	N'000	N'000
Past due nor impaired		
1-30 days	4,827,556	1,695,896
31 - 90 days	2,328,753	3,940,711
90 + days	2,030,982	4,101,815
	9,187,291	9,738,422

12.1 Movement in allowance for doubtful debt

Balance at the beginning of the year	31,308,435	14,358,647
Doubtful debts recognized during the year	22,405,315	16,949,788
Balance at the end of the year	53,713,750	31,308,435

In determining the recoverability of a trade receivable the entity considers changes in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The directors are in discussions with its customers on the recovery of these receivables. Customers make payments on accounts. Hence management makes full provisions to cover for non-current bills (>90days). The Company does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Company to the counterparty. The average age of these receivables is 45 days. The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 3.1.

IKEJA ELECTRIC PLC*Financial statements**For the year ended 31 December 2016***NOTES TO THE FINANCIAL STATEMENTS**

12.2 Ageing of doubtful debts	31-Dec-16	31-Dec-15
	N'000	N'000
1-30 days	73,460	79,006
31 - 60 days	278,249	363,584
60 - 90 days	1,165,468	845,621
Above 90 days	52,196,573	30,020,224
	<u>53,713,750</u>	<u>31,308,435</u>
13 Inventories		
Distribution stores	203,194	94,886
General stores	27,936	23,785
Stationery	1,492	7
	<u>232,622</u>	<u>118,678</u>
14 Cash and bank balances	31-Dec-16	31-Dec-15
	N'000	N'000
Cash in hand	2,438	1,501
Cash at bank	4,192,117	5,098,227
Cash and cash equivalents at end of the year	<u>4,194,555</u>	<u>5,099,728</u>
15 Loans and borrowings	31-Dec-16	31-Dec-15
	N'000	N'000
CBN-NEMSF (Secured loan)	5,750,236	-
	<u>5,750,236</u>	<u>-</u>
Non-current	5,263,340	-
Current	486,896	-
	<u>5,750,236</u>	<u>-</u>

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

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

The entire fund disbursed during the year by CBN on behalf of Ikeja Electric Plc, was directly to generation companies and gas suppliers, to settle electricity market debt.

IKEJA ELECTRIC PLC*Financial statements**For the year ended 31 December 2016***NOTES TO THE FINANCIAL STATEMENTS****15 Loans and borrowings**

The balance of ₦5.75 billion stated on note 15 represents the net balance of loan and borrowing after deducting the principal and interest repayment in line with the repayment arrangement.

The Central Bank Nigeria-Nigerian Electricity Market Stabilization Facility ("CBN-NEMSF") is secured on disco's collections from the sale of energy as first line charge. Interest rate charged on the facility is at 10% per annum.

Movement in loans and borrowings	31-Dec-16 N'000	31-Dec-15 N'000
Opening Balance	-	-
Amount disbursed during the year by CBN	5,993,084	-
Interest on outstanding balance	285,246	-
Repayment by Ikeja Electric Plc	(528,094)	-
	5,750,236	-

16 Trade and other payables

Direct Trade Creditors (Energy Market)	71,201,443	41,065,256
Amount due to related parties (Energy Market - Note 16.1)	5,465,172	-
Other creditors and accrued expenses	19,495,527	9,283,710
Deferred revenue	239,400	463,538
Amount due to related parties (others Note 16.1)	6,141,641	5,187
	102,543,183	50,817,691

16.1 Related party transactions

During the year, the Company entered into transactions with related parties. The amounts are unsecured and will be settled in the normal course of business. The amount due to/ from related parties are not interest bearing. The intercompany payables have no fixed repayment period. Total amount due to and from related parties by nature of the transactions are shown below:

Amounts due from related companies	31-Dec-16 N'000	31-Dec-15 N'000
Wade Multi Trading Company	-	180,932
	-	180,932
Amounts due to related companies		
Commercio Electricity Exchange Limited	5,465,172	-
Korean Electricity Power Corporation	122,088	-
Centrum Properties Limited	3,081	-
Sahara Group Limited	20,000	-
Sahara Power Group Limited	7,859	4,773
Rak Unity Petroleum Plc	3,740	414
Wade Multi Trading Company	5,984,873	-
	11,606,813	5,187

NOTES TO THE FINANCIAL STATEMENTS

17 Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from prior year. The capital structure of the Company consists of cash and cash equivalents as disclosed in Note 18, debts as shown in Note 18 and the reserves in the statement of changes in equity.

The Company is not subject to any externally imposed capital requirements.

Gearing ratio

	31-Dec-16 N'000	31-Dec-15 N'000
The gearing ratio is as follows:		
Debt	5,263,340	-
Less: Cash and cash equivalents	<u>(4,194,555)</u>	<u>(5,099,728)</u>
Net debt	<u>1,068,785</u>	<u>(5,099,728)</u>
Equity	<u>38,977,825</u>	<u>46,413,567</u>
Net debt to equity ratio	<u>0.027</u>	<u>-</u>

Debt is defined as all forms of borrowing excluding derivatives and financial guarantee contracts.

Equity comprises capital of the Company that is managed as capital.

18 Financial instruments

18.1 Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in Note 3.

18.2 Categories of financial instruments

The following table summarizes the Company's financial instruments:

	31-Dec-16 N'000	31-Dec-15 Restated* N'000
18.2.1 Financial assets (Loans and receivables)		
Cash and cash equivalents	4,194,555	5,099,728
Trade and other receivables	<u>9,187,291</u>	<u>9,738,422</u>
	<u>13,381,846</u>	<u>14,838,150</u>
18.2.2 Financial liabilities		
Financial liabilities at amortised cost		
Trade and other payables (Note 16)	<u>102,543,183</u>	<u>50,817,691</u>

NOTES TO THE FINANCIAL STATEMENTS

18.2.3 Fair value of financial instruments

In the opinion of the Directors, the carrying amounts of financial instruments as stated above approximate their fair values.

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 3.1.

18.3 Financial risk management objectives

The Company monitors and manages financial risks relating to its operations through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk.

Risk management policies and systems are reviewed regularly to reflect the changes in market conditions and the Company's activities. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

18.4 Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. The Company's exposure to the risk of changes in foreign exchange rates is determined not to be material.

The impact of a 1% change in the Nigerian Naira to US dollar exchange rate was material in 2016.

18.5 Credit risk management

The company is exposed to both settlement risk defined as the risk of a counterparty failing to pay for energy and/or services which have been delivered. Credit risk is mitigated by active engagement and reconciliation of energy supplied to the customers and promotion of compliance with the MYTO agreement. Credit risk is an activity managed by the Directors with all relevant stakeholders to ensure reduced impact on provisioning policy. The allowance for doubtful debts is analyzed at each reporting date and this is estimated by management taking into account future cash flows, prior experience, ageing analysis and an assessment of the current economic climate within which the company operates. The maximum exposure to credit risk in respect of trade receivables is the carrying value of the trade receivables at the reporting date. The carrying value of trade receivables is stated net of the allowance for recoverability provision.

The credit risk on liquid funds and non-derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and related companies.

NOTES TO THE FINANCIAL STATEMENTS

18.5 Credit risk management (Cont'd)

The carrying amount of financial assets represents the Company's maximum exposure, which as at the reporting date, was as follows:

	31-Dec-16	31-Dec-15
	N'000	Restated*
	N'000	N'000
Cash and cash equivalents	4,194,555	5,099,728
Trade and other receivables	9,187,291	9,738,422
	<u>13,381,846</u>	<u>14,838,150</u>

Collateral held as security and other credit enhancements

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk as no collateral or other credit enhancements are held.

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 3.1.

18.6 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built a liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company maintains adequate liquid reserves, by monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivity run for different scenarios including, but not limited to, changes in Energy Tariff and changes in distribution class and status of customers. On this basis, the company's forecasts, taking into account reasonably possible changes as described above and further in the going concern section of the financial statements, shows that the company will be able to operate within its current debt facilities and has sufficient financial headroom based on interventions by the Federal Government as well as a non-immediate demand for payment from the Market operators.

The Company's cash reserves are held in Nigeria. All of the Company's cash and cash equivalents are currently held within reputable and well known commercial institution.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities. The amounts are based on undiscounted cash flows and the earliest date on which the Company can be required to pay.

	31-Dec-16	31-Dec-15
	N'000	N'000
30 days	17,446,776	6,574,225
60 days	9,665,436	2,469,835
90 days	4,055,422	3,074,751
> 90 days	71,375,549	38,698,880
	<u>102,543,183</u>	<u>50,817,691</u>

NOTES TO THE FINANCIAL STATEMENTS

18.7 Energy market risk

The company is exposed to market risk associated with fluctuations in the market price of electricity within the framework of the Multi Year Tariff Order (MYTO) and confirmation by the market operator and volumetric loss risk of power distributed caused by unplanned changes in the load, volume of power received from generating companies, capacity of distribution assets and demand by customers. The risk management policies are implemented at the business level with the oversight of the Company's board, technical partner, and management teams.

18.8 Treasury risk

Treasury risk is comprised of liquidity and market risk. The company's cash management and short-term financing activity.

(i) Treasury liquidity risk

Liquidity risk, the risk that the company will have insufficient funds to meet its financial liabilities. This is mitigated through active assessment of funding requirements by the finance operation team and decision by the board. The Company adopts a mix of funding arrangements to limit its exposures but enhance operations through loans and related parties, financial institutions and when required long term debt to finance core expansion projects.

(ii) Treasury market risk

Market risk is the risk that results from changes in market rates such as foreign exchange rate, interest rates and equity prices will affect the Company's income or the value of its holding of financial instruments. The Company is exposed to foreign currency fluctuation primarily between the Naira and US Dollar due to continuing devaluation weakening of the Naira which is the functional currency. Exchange risk exposures are mitigated where possible through local purchases or denomination of capital expenses in Naira where feasible.

(iii) Interest Rate Risk

The Company's interest rate exposures are subject to the commercial fluctuations in the financial market in which the loan is being sourced. Exposures are limited by funding foreign currency purchases with foreign currency loans and local purchases with local finance. Also, the Company adequately and routinely assesses its working capital and excess funds are utilised for other long term funding obligations.

19 Share capital

Authorised

100,000,000 ordinary shares of N1.00k each (2015: 10,000,000 ordinary shares of N1.00k each).

Issued and fully paid

25,000,000 ordinary shares of N1.00k each (2015: 10,000,000 ordinary shares of N1.00k each)

Shareholders

New Electricity Distribution Company Ltd - NEDC
Bureau of Public Enterprises - BPE
Ministry of Finance Incorporated

Percentage (%) Distribution

New Electricity Distribution Company Ltd - NEDC
Bureau of Public Enterprises - BPE
Ministry of Finance Incorporated

	31-Dec-16 N'000	31-Dec-15 Restated* N'000
Authorised	100,000	10,000
Issued and fully paid	25,000	10,000
Shareholders	Unit	Unit
New Electricity Distribution Company Ltd - NEDC	15,000,000	6,000,000
Bureau of Public Enterprises - BPE	8,000,000	3,200,000
Ministry of Finance Incorporated	2,000,000	800,000
	25,000,000	10,000,000
Percentage (%) Distribution	%	%
New Electricity Distribution Company Ltd - NEDC	60	60
Bureau of Public Enterprises - BPE	32	32
Ministry of Finance Incorporated	8	8
	100	100

NOTES TO THE FINANCIAL STATEMENTS

19 Share capital (Cont'd)

On the 5th March 2015, the Company changed the nominal value of its 10,000,000 ordinary shares from N0.50k to N1 per share. This increased the share capital of the Company from the initial N5 million to N10 million.

On the 11th November 2016, the Company registered a change in share capital with CAC by increasing share capital from ₦10,000,000 to ₦100,000,000 through the creation of 90,000,000 ordinary shares of ₦1.00k each such that each shares to rank in pari passu with the existing ordinary shares of the company.

Following the increase in authorised share capital of the Company from ₦10,000,000 to ₦100,000,000 shares, on the 24th of November, 2016, the Board through a special resolution increased the issued Share capital from 10,000,000 to 25,000,000 ordinary share and approved the allotment of the additional shares to the existing shareholders. The allotment was accepted as follow:

New Electricity Distribution Company Ltd - 9,000,000 units,
Bureau of Public Enterprises - 4,800,000 units and
Ministry of Finance Incorporated - 1,200,000 units.

The increase in authorised share capital and subsequent allotment were registered and filled with the Corporate Affairs Commission (CAC) on the 20th April 2017.

20 Loss per share	31-Dec-16 N'000	31-Dec-15 N'000
Loss per share		
Loss for the purpose of basic earnings per share is based on net profit or loss attributable to equity holders of the Company.	<u>(65,636,304)</u>	<u>(28,616,172)</u>
Number of shares	31-Dec-16 Number	31-Dec-15 Number
Number of ordinary shares for the purpose of basic (loss)/earnings per share	<u>25,000,000</u>	<u>10,000,000</u>
	N'000	N'000
Loss per share - Basic	<u>(2,625.45)</u>	<u>(2,861.62)</u>

21 Information regarding directors and employees

21.1 Directors	31-Dec-16 N'000	31-Dec-15 N'000
Directors' emoluments (provided for) comprise:		
Fees	36,320	-
Expenses	23,657	37,240
	<u>59,977</u>	<u>37,240</u>

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 3.1.

NOTES TO THE FINANCIAL STATEMENTS

21.1 Directors (Cont'd)

The number of Directors including the Chairman whose emoluments were within the bands stated below were:

	31-Dec-16 Number	31-Dec-15 Number
Up to NGN 150,000	<u>7</u>	<u>7</u>

21.2 Employees

Total number of employees as at year-end:

	31-Dec-16 Number	31-Dec-15 Number
Management	20	20
Senior	1,451	1,700
Junior	1,188	775
	<u>2,659</u>	<u>2,495</u>

Aggregate staff costs:

	N'000	N'000
Salaries and wages	5,966,546	5,565,507
Pension contributions	367,982	348,850
Medical expenses	322,538	322,314
Other staff costs	399,047	372,985
	<u>7,056,113</u>	<u>6,609,656</u>

The number of paid employees with gross emoluments within the bands stated below were:

	31-Dec-16 Number	31-Dec-15 Number
N500,000-N1,000,000	875	681
N1,000,000 - N1,500,000	267	341
N1,500,001 - N2,000,000	394	272
N2,000,001 - N2,500,000	228	239
N2,500,001 and above	895	962
	<u>2,659</u>	<u>2,495</u>

22 Contingent liabilities

The Company has contingent liabilities in respect of pending litigation and claims separately and jointly amounting to N20.53 billion as at the date of approval of these financial statements in the normal course of business and contingent assets in respect of suit it instituted of N500million. The Directors, on the advice of the solicitors are confident that the Company will suffer no material loss as the suits are likely to be decided in their favour. Consequently, no provisions have been made in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

23 Financial commitments

There were no capital commitments contracted by the Company or approved by the Board which had not been provided for as at the reporting date (2015: Nil)

24 Subsequent Events

There were no other significant events after the reporting date that could have a material effect on the state of affairs of the Company as at 31 December 2016, or on the net results for the year which have not been adequately provided for or disclosed in these financial statements.

25 Certain prior year balances have been reclassified to conform with the current year's presentation.

STATEMENT OF VALUE ADDED

	31-Dec-16		31-Dec-15	
	N'000	%	N'000	%
Revenue	64,497,695		62,636,720	
Bought in materials and services				
- Imported	-		-	
- Local	(20,698,202)		(50,354,659)	
Value consumed	<u>43,799,493</u>	<u>100</u>	<u>12,282,061</u>	<u>100</u>
<i>Distributed as follows:</i>				
To Government				
Taxation	(276,820)	(1)	(305,425)	(2)
To Employees				
Salaries, wages and allowances	(7,056,113)	(16)	(6,609,656)	(54)
To Providers of Finance				
Finance cost	(5,357,239)	(12)	(1,134,052)	(9)
Maintenance of assets and future expansion				
For replacement of assets	(9,146,639)	(21)	(8,284,978)	(67)
Loss for the year	65,636,304	150	28,616,172	232
Value consumed	<u>43,799,493</u>	<u>100</u>	<u>12,282,061</u>	<u>100</u>

Value consumed represents the change in the Company's wealth through its operations and those of its employees. This statement shows the allocation of that wealth among employees, the government and the portion consumed for the future creation of wealth.

FIVE YEAR FINANCIAL SUMMARY

	31 Dec 2016	31 Dec 2015 Restated*	31 Dec 2014	31 Dec 2013	31 Dec 2012
	N'000 (IFRS)	N'000 (IFRS)	N'000 (IFRS)	N'000 (IFRS)	N'000 (NGAAP)
Statement of financial position					
Assets					
Property, plant and equipment	134,757,675	83,212,906	90,826,220	63,788,661	67,346,307
Intangible assets	14,168	19,097	-	-	-
Deferred tax asset	35,568,703	10,632,031	10,632,031	-	-
Current assets	13,851,381	15,074,415	8,521,518	5,067,215	42,715,058
	184,191,927	108,938,449	109,979,769	68,855,876	110,061,365
Capital and Liabilities					
Non-current liabilities	40,832,043	10,632,031	10,632,031	-	-
Current liabilities	104,382,059	51,892,851	24,322,999	6,529,502	62,744,997
Share capital	25,000	10,000	5,000	5,000	5,000
Revaluation reserves	82,993,635	24,808,073	24,808,073	-	-
Accumulated reserves/(deficits)	(175,433,660)	(109,797,356)	(81,181,184)	(69,071,476)	(62,219,094)
Federal government funding	-	-	-	-	4,834,147
Other reserves	131,392,850	131,392,850	131,392,850	131,392,850	104,696,315
Total equity and Liabilities	184,191,927	108,938,449	109,979,769	68,855,876	110,061,365
Statement of profit or loss and other comprehensive income					
Revenue	64,497,695	62,636,720	54,436,806	50,685,937	45,131,734
Loss before taxation	(90,296,156)	(28,310,747)	(22,297,174)	(6,527,212)	(13,610,120)
Taxation	24,659,852	(305,425)	10,187,466	(325,170)	3,264,821
Loss for the year	(65,636,304)	(28,616,172)	(12,109,708)	(6,852,382)	(10,345,299)
Other comprehensive income	58,185,562	-	24,808,073	21,862,388	-
Total comprehensive loss	(7,450,742)	(28,616,172)	12,698,365	15,010,006	(10,345,299)
Loss per share - Basic (Naira)	(2,625.45)	(2,861.62)	(1,210.97)	(685.24)	(1,034.53)
Net assets per share	1,559.11	4,641.36	7,502.47	6,232.64	4,731.64

Notes

Loss per share is based on the loss for the year and it is computed on the basis of the number of ordinary shares in issue as at the end of the respective statement of financial position date.

Net assets/ liabilities per share is based on the net assets/liabilities and the number of ordinary shares in issue as at the end of the respective statement of financial position date

* Certain amounts shown here do not correspond to the 2015 financial statements and reflect adjustments made, refer to Note 3.1.