

Port Harcourt Electricity Distribution Plc.
Annual Report and Financial Statements
For the Year Ended 31 December 2020

Port Harcourt Electricity Distribution Plc.

Financial Statements For the Year Ended 31 December 2020

Contents

Corporate information	3
Report of the directors	4
Statement of directors' responsibilities	6
Statement of corporate responsibility	7
Independent auditor's report	8
Statement of profit or loss and other comprehensive income	12
Statement of financial position	13
Statement of changes in equity	14
Statement of cash flows	15
Notes to the financial statements	16
Other national disclosures:	
Value added statement	60
Five-year financial summary	61

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Corporate Information

Company registration number

RC 638702

Directors

Dr. Ransome Egim Owan

Mr. Ogheneruemu Dickens Sanomi

Mr. Naveen Kapoor

Dr. Henry Ajagbawa

HRM Amalate Johnnie Turner

Mr. Matthew Oghenechuko Edevbie

Dr. Abdul Wahab Adebayo Ibraheem

Mr. Alex Ayoola Okoh

Mr. Sani Mohammed Usman

Mr. Abdullahi Ibrahim Halilu

Chairman

Vice Chairman

Managing Director

Managing Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

Non-Executive Director

(Resigned 6 January 2020)

(Appointed 27 February 2020)

Corporate office

1, Moscow Road

Port Harcourt

Rivers State

Company secretary

Sterling Law Alliance

11 Iribe Street

D-Line

Port Harcourt

Rivers State

Principal bankers

Ecobank Plc.

First Bank of Nigeria Limited

Polaris Bank Limited

United Bank for Africa Plc.

Zenith Bank Plc.

Independent auditor

PricewaterhouseCoopers

Chartered Accountants

Landmark Towers

5b Water Corporation Road

Victoria Island

Lagos

Port Harcourt Electricity Distribution Plc
Financial Statements
For the Year Ended 31 December 2020
Report of the Directors

The directors submit their report together with the audited financial statements for the year ended 31 December 2020, to the members of Port Harcourt Electricity Distribution Plc, ("the Company"). This report discloses the financial performance and state of affairs of the Company.

Incorporation and address

Port Harcourt Electricity Distribution Plc. was incorporated in Nigeria under the Companies and Allied Matters Act as a Public Limited Company on 8 November 2005. The Company is domiciled in Nigeria. The registered business address is:

1, Moscow Road
 Port Harcourt
 Rivers State

Principal activities

The Company is in the business of distribution and marketing of electric power to customers in the following states in Nigeria: Akwa Ibom, Bayelsa, Cross River and Rivers states.

State of affairs

In the opinion of the directors, the state of the Company's affairs is satisfactory and there has been no material change since the reporting date which would affect the financial statements as presented.

Results for the year

The Company's results for the year are set out on page 12. The profit for the year of ₦0.2 million (2019: loss of ₦8.8 billion) has been absorbed in accumulated deficit.

Economic and business performance review

The Company had the following:

	2020	2019
Total number of customers	522,224	461,546
Total energy received (in thousand of kilowatts)	2,020,709	1,976,059
Total cash collections (in thousands of Naira)	29,553,354	27,045,444

Property, plant and equipment

Information relating to movement in property, plant and equipment is as shown in note 13 to the financial statements. In the opinion of the directors, the market value of the Company's property, plant and equipment is not materially different from the carrying value shown in the financial statements.

Directors' interest in shares

Pursuant to Section 303 of the Companies and Allied Matters Act, none of the directors has any direct interest in the shares of the Company as notified by them and recorded in the Register.

Directors' interests in contracts

None of the directors has notified the Company for the purpose of Section 303 of the Companies and Allied Matters Act of their direct or indirect interest in contracts or proposed contracts with the Company during the year apart from disclosures made in note 25.

Shareholdings

As of 31 December 2020 and 31 December 2019, the shares of the Company were held as follows:

	2020		2019	
	No. of shares	Percentage	No. of shares	Percentage
4Power Consortium Limited	6,000,000	60%	6,000,000	60%
Bureau of Public Enterprises	3,200,000	32%	3,200,000	32%
Ministry of Finance	800,000	8%	800,000	8%
	10,000,000	100%	10,000,000	100%

Port Harcourt Electricity Distribution Plc
Financial Statements
For the Year Ended 31 December 2020
Report of the Directors

Equal employment opportunity

The Company pursues an equal employment opportunity policy. It does not discriminate against any person on the ground of race, religion, colour or physical disability.

Employment of disabled persons

The Company has a policy of fair consideration of job applications by disabled persons having regard to their abilities and aptitude. The Company's policy prohibits discrimination of disabled persons in the recruitment, training and career development of its employees.

However, no disabled person was employed by the Company in the year. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and that the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should as far as possible be identical with that of other employees.

Employee health, safety and welfare

Health and safety regulations are in force within the Company's premises and employees are aware of existing regulations. Careful attention is given to employees' health with Health Maintenance Organizations.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Company's premises. Field staff are also provided with Personal Protective Equipment.

Dividend

The directors are not recommending the payment of dividends to its shareholders in respect of the year ended 31 December 2020 (2019: nil).

Donations

The Company made donations amounting to ₦37.1 million (2019: ₦1.0 million) during the year.

Auditors

Messrs. PricewaterhouseCoopers, having satisfied the relevant corporate governance guidelines, have indicated their willingness to continue in office as the auditors in accordance with Section 401(2) of the Companies and Allied Matters Act (CAMA).

By order of the Board

~~STERLING LAW ALLIANCE~~

Eni Akpodiete

Company Secretary

FRC/2017/NBA/00000016008

11 NOVEMBER 2021

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Statement of Directors' Responsibilities

The Companies and Allied Matters Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Company at the end of the year and of its profit or loss. The responsibilities include:

- a) ensuring that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and comply with the requirements of the Companies and Allied Matters Act and Financial reporting council of Nigeria Act;
- b) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; and
- c) preparing the Company's financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates that are consistently applied.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act and Financial reporting council of Nigeria Act.

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

See note 28 to these financial statements for more details.



Dr. Henry Ajagbawa
Managing Director/CEO
FRC/2020/003/00000022386

11 NOVEMBER2021



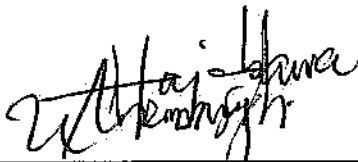
Dr. Ramon Owan
Chairman
FRC/2019/IODN/000000197

NOV/12/20212021

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Statement of Corporate Responsibility

In line with the provision of Section 405 of the Companies and Allied Matters Act 2020, the Chief Executive Officer and Chief Financial Officer certify that the Directors have reviewed the audited financial statements and based on the officer's knowledge confirm the following:

- a) We have reviewed the financial statements, and based on our
- i) audited financial statements do not contain any untrue statement of material fact or omit to state a material fact, which would make the statements misleading, in the light of the circumstances under which such statement was made, and
 - ii) audited financial statements and all other financial information included in the statements fairly present, in all material respects, the financial condition and results of operation of the Company as of and for, the periods covered by the audited financial statements;
- b) We certify that we:
- i) are responsible for establishing and maintaining internal controls and have designed such internal controls to ensure that material information relating to the Company and its subsidiaries is made known to us by other officers of the Companies, particularly during the period in which the audited financial statement report is being prepared,
 - ii) have evaluated the effectiveness of the Company's internal controls within 90 days prior to the date of its audited financial statements, and
 - iii) certify that the Company's internal controls are effective as of that date;
- c) We disclosed to the Company's auditors:
- i) all significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarise and report financial data, and have identified for the Company's auditors any material weaknesses in internal controls, and
 - ii) whether or not, there is any fraud that involves management or other employees who have a significant role in the Company's internal control; and
- d) We have indicated in the report, whether or not, there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

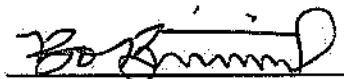


Dr. Henry Kjagbawa

Managing Director/ CEO

FRC/2020/003/00000022386

11 NOVEMBER 2021



Boboeye Brisibe

Acting Chief Financial Officer

FRC/2021/001/00000024802

11 NOVEMBER 2021



Independent auditor's report

To the Members of Port Harcourt Electricity Company Plc.

Report on the audit of the financial statements

Our opinion

In our opinion, Port Harcourt Electricity Company Plc.'s ("the company's") financial statements give a true and fair view of the financial position of the company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act and the Financial Reporting Council of Nigeria Act.

What we have audited

Port Harcourt Electricity Company Plc.'s financial statements comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 December 2020;
 - the statement of financial position as at 31 December 2020;
 - the statement of changes in equity for the year then ended;
 - the statement of cash flows for the year then ended; and
 - the notes to the financial statements, which include a summary of significant accounting policies.
-

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), i.e. the IESBA Code issued by the International Ethics Standards Board for Accountants. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Material uncertainty relating to going concern

We draw attention to Note 28 in the financial statements, which indicates that the company had net current liabilities of ₦45.9 billion as at 31 December 2020 and, as of that date, the company had an accumulated deficit of ₦11.7 billion. As stated in Note 28, these events or conditions, along with other matters as set forth in Note 28 indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In addition to the matter described in the Material Uncertainty Relating to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment of trade receivables (₦158.5 billion)</i> <i>Refer to notes 2.9, 3.1.2, 4.2, 17.1 and 17.3 of the financial statements</i></p> <p>The company bills its customers monthly using the Multi-Year Tariff Order (MYTO). Customers are classified based on their payment pattern as prepaid and post-paid. The risk of impairment to trade receivables relates to only post-paid customers because some customers do not make payment as and when due on the bills.</p> <p>We focused on this area due to the materiality of the trade receivable of ₦167 billion and resulting impairment of ₦158.5 billion and because it requires significant judgement both for timing of recognition of impairment and estimation of the amount of such impairment.</p> <p>The expected credit loss (ECL) model requires significant judgement in measuring ECL especially incorporating forward looking information in building the economic scenarios used in the ECL model.</p> <p>The company utilised the “simplified approach’ model in determining the provision for impairment for the trade receivables. Under the simplified approach, the provision combines the historical loss rate with forward looking assumptions (forecast inflation and Gross Domestic Product (GDP)) which takes management’s view of the future of the customer into account.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> • We obtained an understanding of the company’s process for classification of its customers based on tariff bands and estimating the expected credit loss (ECL) for these customers; • We tested the calculation of the historical loss rate across the aging buckets; • We challenged management regarding the forward-looking assumptions (forecast inflation and Gross Domestic Product) and compared those assumptions against publicly available information; and • We reviewed the IFRS 9 disclosures for reasonableness.
<p><i>Recognition of tariff shortfall (₦186.2 billion)</i> <i>Refer to notes 7 and 17.2 of the financial statements</i></p> <p>The Nigerian Electricity Regulatory Commission (NERC) regulates electricity tariffs in the Nigerian electricity supply industry through the periodic issuance of tariff orders known as the Multi-Year Tariff Order (MYTO). The MYTO ensures prices charged by licensees are fair to consumers and are sufficient to allow licensees recover the cost of energy purchased from the Nigerian Bulk Electricity Trading Plc. (NBET), including a reasonable return on the capital invested in the business.</p> <p>NERC implemented MYTO reviews in 2020 which had a material and immediate impact on end-user tariffs payables by all classes of electricity customers in the country. Prior to this review, there existed a wide tariff gap due to the absence of cost-reflective tariffs which has not been completely eliminated. As a result, the company is not able to pass on the full cost of energy purchased to end users leading to both</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> • We examined the NERC orders to obtain an understanding of the considerations for recognition; • We checked that the tariff shortfall amount recognised by the company was in line with the NERC orders; • We involved our accounting technical specialists in evaluating the appropriateness of the accounting treatment of these transactions by management; and



<p>tariff (due from customers to Discos) and market (due from Discos to Nigeria Bulk Electricity Trading Plc (NBET)) shortfalls.</p> <p>Based on the orders, the company recognised a tariff shortfall of ₦186.2 billion for 2015 – 2020.</p> <p>We focused on this area due to the significance of the transaction and the materiality of tariff shortfall recognised.</p>	<ul style="list-style-type: none">• We evaluated the adequacy of the disclosures in the financial statements.
---	---

Other information

The directors are responsible for the other information. The other information comprises the Corporate information, Report of the directors, Statement of directors' responsibilities, Statement of corporate responsibility, Value added statement and Five-year financial summary, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of the 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, the Financial Reporting Council of Nigeria Act, 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.

Those charged with governance are responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The Companies and Allied Matters Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) the company has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us;
- iii) the company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account and returns.

Akinyemi Akingbade

For: **PricewaterhouseCoopers**
Chartered Accountants
Lagos, Nigeria

Engagement Partner: Akinyemi Akingbade
FRC/2013/ICAN/0000004012



26 November 2021

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Statement of Profit or Loss and Other Comprehensive Income

	Notes	31 December 2020 ₦'000	31 December 2019 ₦'000
Revenue from contracts with customers	5	57,144,010	49,884,008
Cost of sales	6	(63,453,081)	(57,979,518)
Gross loss		(6,309,071)	(8,095,510)
Other income	7	48,066,486	45,381,895
Administrative expenses	8	(7,301,723)	(9,769,472)
Net impairment losses on financial assets	9	(23,570,810)	(28,739,563)
Operating profit/(loss)		10,884,882	(1,222,650)
Finance income	10	110,380	130,461
Finance costs	10	(10,543,556)	(7,719,854)
Finance costs - net		(10,433,176)	(7,589,393)
Profit/ (loss) before income tax		451,706	(8,812,043)
Income tax expense	11	(451,474)	-
Profit/(loss) for the year		232	(8,812,043)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		232	(8,812,043)
Earnings/(loss) per share in Naira (basic & diluted)	12	0.02	(881.20)

The statement of accounting policies and notes on pages 16 to 59 are an integral part of these financial statements.

Port Harcourt Electricity Distribution Plc.
Financial Statements
As at 31 December 2020
Statement of Financial Position

	Notes	31 December 2020 N'000	31 December 2019 N'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	63,955,145	63,421,578
Right-of-use assets	15.1.1	288,974	1,785,356
Intangible assets	14	193,138	168,848
Total non-current assets		64,437,257	65,375,782
Current assets			
Cash and cash equivalents	16	10,416,839	3,596,710
Trade receivables	17	8,439,794	14,746
Other receivables	17	183,601,689	197,854,121
Inventories	18	634,316	870,974
Total current assets		203,092,638	202,336,551
Total assets		267,529,895	267,712,633
LIABILITIES			
Non-current liabilities			
Borrowings	20	7,879,052	8,031,641
Lease liabilities	15.1.2	102,909	1,004,271
Government grants	21	4,987,080	4,282,777
Total non-current liabilities		12,969,041	13,318,689
Current liabilities			
Trade and other payables	19	238,618,649	241,220,000
Borrowings	20	4,605,219	3,043,811
Lease liabilities	15.1.2	255,161	1,240,000
Government grants	21	954,525	552,000
Contract liabilities	22	3,047,194	1,591,000
Current tax liabilities	11.3	1,487,090	832,000
Total current liabilities		248,967,838	248,781,711
Total liabilities		261,936,879	262,110,400
EQUITY			
Share capital	23.1	5,000	5,000
Accumulated deficit	23.2	(11,723,821)	(12,229,308)
Revaluation reserve	23.3	17,311,837	17,817,092
Total equity		5,593,016	5,592,784
Total equity and liabilities		267,529,895	267,712,633

The statement of accounting policies and notes on pages 17 to 59 are an integral part of these financial statements.

The financial statements on pages 12 to 59 were approved and authorized for issue by the board of directors on

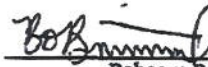
11 NOVEMBER 2021 and were signed on its behalf by:



Dr. Henry Njagbawa
 Managing Director/CEO
 FRC/2020/003/00000022386



Dr. Ransome Egan Owan
 Chairman
 FRC/2019/IODN/00000019757



Boboeye Brisibe
 Acting Chief Financial Officer
 FRC/2021/001/00000024802

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Statement of Changes in Equity

	Share capital	Accumulated deficit	Revaluation reserve	Total equity
	₦'000	₦'000	₦'000	₦'000
Balance at 1 January 2019	5,000	(4,201,857)	18,601,684	14,404,827
Loss for the year	-	(8,812,043)	-	(8,812,043)
Other comprehensive income	-	-	-	-
Total comprehensive loss	-	(8,812,043)	-	(8,812,043)
Amortisation of revaluation surplus	-	784,592	(784,592)	-
Balance at 31 December 2019	5,000	(12,229,308)	17,817,092	5,592,784
Balance at 1 January 2020	5,000	(12,229,308)	17,817,092	5,592,784
Profit for the year	-	232	-	232
Other comprehensive income	-	-	-	-
Total comprehensive income	-	232	-	232
Amortisation of revaluation surplus	-	505,255	(505,255)	-
Balance at 31 December 2020	5,000	(11,723,821)	17,311,837	5,593,016

The statement of accounting policies and notes on pages 16 to 59 are an integral part of these financial statements.

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Statement of Cash Flows

		31 December 2020 ₦'000	31 December 2019 ₦'000
	Notes		
Cash flows from operating activities			
Cash generated from operations	24	9,817,976	5,555,066
Income tax paid	11.3	(60,027)	(27,000)
VAT paid		(911,072)	(1,027,080)
Net cash inflow from operating activities		8,846,877	4,500,986
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(2,866,056)	(1,154,270)
Interest received	10	110,380	130,461
Purchase of intangible assets	14	(73,690)	(4,679)
Net cash outflow from investing activities		(2,829,366)	(1,028,488)
Cash flows from financing activities			
Proceeds from borrowings	20	4,705,187	980,430
Principal elements of lease payments	15.3	(160,585)	(746,813)
Interest paid on borrowings	20	(1,331,808)	(1,478,434)
Repayment of borrowings	20	(2,228,831)	(1,975,007)
Net cash inflow/(outflow) from financing activities		983,963	(3,219,824)
Net increase in cash and cash equivalents		7,001,474	252,674
Cash and cash equivalents at the beginning of the year		3,090,613	2,837,939
Cash and cash equivalents at the end of the year	16	10,092,087	3,090,613

The statement of accounting policies and notes on pages 16 to 59 are an integral part of these financial statements.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

1 General information

Port Harcourt Electricity Distribution Plc. ('the Company') is one of the eleven (11) electricity distribution companies in Nigeria. The Company was licensed in 2006 by the Nigeria Electricity Regulatory Commission (NERC) to distribute and market electricity to consumers in four states in the South-South region of Nigeria: Akwa Ibom, Bayelsa, Cross River and Rivers States.

The Company currently services about 522,224 customers.

Business Transition

In 1999, the Federal Government of Nigeria set up the Electric Power Sector Implementation Committee (EPIC) to undertake a comprehensive study of the electricity power industry. The EPIC created Power Holding Company of Nigeria (PHCN), a company registered under the Companies and Allied Matters Act, to assume the assets, liabilities and employees of the former Federal Government parastatal - National Electric Power Authority ("NEPA") that was in charge of electricity generation, transmission and distribution in Nigeria. PHCN was set up to achieve greater operational autonomy. The shares of PHCN were fully owned by the Federal Government of Nigeria.

In 2005, PHCN was unbundled to form 6 electricity generation, 1 electricity transmission and 11 electricity distribution companies with the intent of sale of shares in these companies to private investors. PHED is one of the electricity distribution companies. The Federal Government also set up a special purpose agency, Nigeria Electricity Liability Management Company Limited (NELMCO) to take over some assets and liabilities of these companies in order to sell the shares of the companies carrying only core assets and liabilities to intending investors.

On 1 November 2013, 4Power Consortium Limited bought 60% shares in PHED from the Federal Government.

All electricity companies are regulated by Nigerian Electricity Regulatory Commission (NERC), a Federal Government regulatory body that ensures efficiency, stability and reliability in the supply of electricity in Nigeria. On 1 November 2013, NERC set up interim rules that will regulate the electricity generation, transmission and distribution companies in Nigeria that were privatized from PHCN. These rules will be in force until such a time as determined by NERC when market forces and operations will determine prices and operations in the power sector. These rules include pricing of electricity, distribution areas, etc.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

2.1 Basis of preparation

a) Compliance with IFRS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB), the requirements of the Companies and Allied Matters Act (CAMA) and the Financial Reporting Council of Nigeria Act (FRC).

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires directors to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

b) Basis of measurement

The financial statements have been prepared on a historical cost basis except for buildings, motor vehicles, sub-transmission and distribution equipment classified as property, plant and equipment, government grants, borrowings and other financial assets and liabilities which have been measured at fair value. The financial statements are presented in Naira. All values are rounded to the nearest thousand (N'000), except where otherwise indicated.

2.1.1 Going concern

The financial statements have been prepared on a going concern basis. The directors have no doubt that the Company would remain in existence into the foreseeable future and for at least twelve (12) months from the date of the approval of the financial statements. Refer to note 28 for further information on going concern.

2.1.2 Changes in accounting policies and disclosures

a) New standards and interpretations adopted by the Company

In the current year, the Company adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IFRS 3: Definition of a business

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. The amendments could also be relevant in other areas of IFRS (e.g., they may be relevant where a parent loses control of a subsidiary and has early adopted Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)). Based on management's assessment, there is no significant impact.

Amendments to IAS 1 and IAS 8: Definition of material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments insist be applied prospectively. Based on management's assessment, there is no significant impact.

Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39

The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries. Based on management's assessment, there is no significant impact.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

New standards and interpretations adopted by the Company (continued)

Conceptual framework for financial reporting

The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting;
- reinstating prudence as a component of neutrality;
- defining a reporting entity, which may be a legal entity, or a portion of an entity;
- revising the definitions of an asset and a liability;
- removing the probability threshold for recognition and adding guidance on derecognition;
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

Based on management's assessment, there is no significant impact.

There are no other new standards and interpretation adopted by the Company.

b) New standards, amendments and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below.

Classification of liabilities as current or non-current - Amendment to IAS 1 (effective 1 January 2023)

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current. If this right is subject to conditions imposed on the entity, then the right only exists and at the end of the reporting period, the entity has complied with those conditions. In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances. The effective date of the amendment is for years beginning on or after 1 January 2023. The Company expects to adopt the amendment for the first time in its 2023 financial statements. The Company is yet to assess as at the reporting date.

Property, plant and equipment – Proceeds before intended use - Amendments to IAS 16 (effective 1 January 2022)

The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The Company does not intend to adopt the amendment before its effective date. The Company is yet to assess as at the reporting date.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

New standards and interpretations not yet adopted by the Company (continued)

Onerous contracts — Cost of fulfilling a contract - Amendments to IAS 37 (effective 1 January 2022)

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The Company does not intend to adopt the amendment before its effective date. The Company is yet to assess as at the reporting date.

Reference to the Conceptual Framework -Amendments to IFRS 3 (effective 1 January 2022)

IFRS 3 originally required an entity to refer to the version of the Conceptual Framework that existed when IFRS 3 was developed. The amendment requires entities to refer to a later version of the Conceptual Framework issued in March 2018. The amendment also includes an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

The Company does not intend to adopt the amendment before its effective date. The Company is yet to assess as at the reporting date.

Annual improvements to IFRS Standards 2018–2020 affecting IFRS 1, IFRS 9, and IFRS 16 (effective 1 January 2022)

The annual improvements make amendments to the following standards:

- IFRS 1 (First-time adoption of international financial reporting standards) - the amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.

- IFRS 9 (Financial instruments) - The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

- IFRS 16 (Leases) - The amendment to illustrative example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

The Company does not intend to adopt the amendment before its effective date. The Company is yet to assess as at the reporting date.

There are no other standards that are not effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions. Management intends to adopt these standards on the effective date.

2.2 Functional currency and translation of foreign currencies

a) Functional and presentation currency

Items included in the financial statements of the entity are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Naira (₦), which is the Company's functional and presentational currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in profit or loss.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Functional currency and translation of foreign currencies (continued)

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss within finance costs.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary financial assets, such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as at fair value through other comprehensive income are recognized in other comprehensive income.

2.3 Revenue recognition

The Company recognizes revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those services. A valid contract is recognized as revenue after:

- The contract is approved by the parties;
- Rights and obligations are recognized;
- Collectability is probable;
- The contract has commercial substance; and
- The payment terms and consideration are identifiable.

Sale and distribution of electricity

The Company derives its revenue from the supply of power to customers. Revenue from power supply is based on amount of energy supplied to the customers as recorded at the meters or estimated. This is computed using the Multi-Year Tariff Order (MYTO) tariff per customer class as regulated by Nigerian Electricity Regulatory Commission. Revenue from the supply of power is recognized overtime. However, the Company has elected to use the practical expedient of right to invoice to recognize revenue on the date electricity bills are sent to customers for postpaid customers. The Company does not give rebates or discounts to customers. Payment of the transaction price is due immediately when the bills are sent to the customers and trade receivable is recognized thereafter.

For prepaid customers, the Company recognizes revenue over the earlier of 90 days and the time the customer makes the next purchase.

The Company has disaggregated its revenue based on the customer tariff class and customer payment type.

2.4 Property, plant and equipment

Property, plant and equipment are initially stated at cost. After recognition as an asset, they are carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses for all classes of property, plant and equipment except land. Valuations are performed every five years with sufficient regularity to ensure that the carrying amount of a revalued asset does not differ materially from its fair value at the reporting date.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of assets are recognized, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognized in profit or loss, the increase is first recognized in profit or loss. Decreases that reverse previous increases of the same asset are first recognized in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from property, plant and equipment revaluation surplus to retained earnings.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Property, plant and equipment (continued)

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Asset class	Depreciation rate	Useful life
Building	2% - 3%	33 - 50 years
Plant and machinery	2.85%- 5%	20 - 35 years
Computer equipment	10%	10 years
Furniture and fittings	10%	10 years
Motor vehicles	20%	5 years

Where the cost of a part of an item of property, plant and equipment is significant when compared to the total cost, that part is depreciated separately based on the pattern which reflects how economic benefits are consumed.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance reporting date. An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are included in profit or loss. When revalued assets are sold, it is the Company's policy to transfer any amounts included in revaluation reserve in respect of those assets to retained earnings.

Transfer of assets from customers

When electricity distribution items such as transformers, are purchased by or transferred by customers, the Company assesses whether such assets are being transferred to the Company and if the items meet the definition of an asset, that is, if the Company has control, if the cost can be reliably measured and if it is probable that economic benefit will flow to the Company from the use of the items. If this is met, such items would be recognized at fair value on initial recognition in property, plant and equipment with an increase in other income in the period when the assets are transferred from customers.

Work in progress

Work in progress is stated at cost, which includes cost of construction, plant and equipment and other direct costs. Work in progress is not depreciated until such time that the relevant assets are substantially completed and available for their intended use.

Major spare parts and stand-by equipment qualify as property, plant and equipment when the Company expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment under work in progress.

2.5 Impairment of assets

Goodwill and intangible assets, with a definite useful life, are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.6 Intangible assets

Software

Software, not integral to the related hardware acquired by the Company, is stated at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated using the straight-line method to allocate the cost of software over its estimated useful life.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Intangible assets (continued)

The estimated useful life is ten (10) years and the amortisation is recognized in profit or loss.

The expected useful life is reviewed on an annual basis and, if necessary, changes in useful life is accounted for prospectively.

2.7 Financial instruments

Investments and other financial assets

a) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

c) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), and impairment expenses are presented as separate line item in the statement of profit or loss.

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

Financial instruments: Debt instruments (continued)

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

d) Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables and for other receivables, the Company applies the IFRS 9 general model for measuring their expected credit losses (ECL).

2.8 Inventory

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of first in, first out (FIFO) principle. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completions and the estimated costs necessary to make the sale.

Plant and machinery equipment such as meters and transformers in inventories are reclassified to property, plant and equipment when they are issued and put to use.

2.9 Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method less loss allowance. The Company holds the trade receivables with the objective to collect contractual cash flows and therefore measures them subsequently at amortised costs using the effective interest method. Information about the impairment of trade receivables and the Company's exposure to credit risk and interest rate risk can be found in note 3.

2.10 Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are initially recognized at their fair value and subsequently measured at amortised cost using the effective interest method.

2.11 Share capital

The Company has only one class of shares; ordinary shares. Ordinary shares are classified as equity. When new shares are issued, they are recorded as share capital at their par value. The excess of the issue price over the par value is recorded in the share premium reserve.

2.12 Cash and cash equivalents

For the purpose of presentation in the statement of cashflows, cash and cash equivalents includes cash in hand, deposits held at call with financial institutions, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

2.13 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for Nigeria adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.14 Leases

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

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly. If the supplier has a substantive substitution right, then the asset is not identified;
 - the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

- the Company has the right to operate the asset; or
- the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The Company primarily leases vehicles and buildings (used as office space and residential use). The lease terms are typically for fixed periods ranging from 1 year to 3 years but may have extension options as described below. On renewal of a lease, the terms may be renegotiated.

Contracts may contain both lease and non-lease components. The Company has elected not to separate lease and non-lease components. Lease terms are negotiated on an individual basis and contain different terms and conditions, including extension and termination options. The lease agreements do not impose any covenants, however, leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, the Company's property and motor vehicle leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

Leases (continued)

From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Leases in which the Company is a lessee

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities

At the commencement date of a lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

The lease payments are discounted using the Company's incremental borrowing rate (IBR) as the rate implicit in the lease cannot be readily determined. The IBR represents the rate that PHED would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company has used a one-year commercial lending rate as a starting point and adjusts it against a risk-free interest rate to derive a spread. The spread is then applied on Federal Government of Nigeria bonds' interest rates with the same maturity period as the lease term.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced by the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset where applicable.

The Company presents lease liabilities separately from other liabilities in the statement of financial position.

2.14.1 Right-of-use assets

Right-of-use assets are initially measured at cost, comprising of the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Company presents right-of-use assets separately from property, plant and equipment in the statement of financial position.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Leases (continued)

Short-term leases and leases of low-value assets

Short-term leases are those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Low-value assets are assets that have values less than ₦1,000,000 when new, e.g., small IT equipment and small items of office furniture, and depends on the nature of the asset. Lease payments on short-term leases and leases of low-value assets would be recognized as expenses in profit or loss on a straight-line basis over the lease term.

2.14.2 Extension and termination options

Extension and termination options are included in the Company's lease arrangements. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. Most of the extension options are subject to mutual agreement by the lessee and lessor and some of the termination options held are exercisable only by the Company.

2.15 Employee benefits

2.15.1 Wages, salaries and annual leave

Wages, salaries, bonuses, other contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the Company.

2.15.2 Defined contribution plan

The Company operates a defined contribution scheme for its employees in line with the Pension Reform Act 2014. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company contributes 10% while employees contribute 8% of basic, housing and transport allowances towards the scheme. Staff contributions are funded through payroll deductions while the Company's contribution is charged to the profit or loss account in the year in which they relate. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of all schemes are held in separate trustee administered funds, which are funded by contributions from both the Company and employees. The Company's contributions to the defined contribution schemes are charged to profit or loss account in the year to which they relate.

2.16 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Contingent liabilities

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

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

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

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

2.17 Government grants

The Company benefits from Federal Government intervention in the power sector through funds provided to ensure liquidity in the industry and assets granted to power sector participants. The Federal Government of Nigeria, through the Central Bank of Nigeria, provides finance to these power sector participants at subsidised interest rates.

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognized in the statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between the proceeds received and the fair value of the loan based on prevailing market interest rates.

2.18 Statement of cash flows

The statement of cash flows shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities.

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by non-cash items, such as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated.

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposit held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.19 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognized in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

Borrowings are eliminated from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss as other income or finance costs. Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

2.20 Cost of sales

Cost of sales includes the cost of energy, depreciation of distribution assets, staff cost of distribution (technical) staff and other direct costs for the distribution of energy.

Cost of energy refers to all costs incurred in the purchase of energy from suppliers. This comprises cost of electricity purchased from the Nigerian Bulk Electricity Trading Company (NBET) and service charges from the Market Operator (MO).

2.21 Interest income

Interest income is accrued on a time basis in the profit or loss by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.22 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing:

- the profit/(loss) attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

2.23 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

3 Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on its financial and operational performance.

The Company has a risk management function that manages the financial risks relating to the Company's operations under the policies approved by the Board of directors. The Company's liquidity, credit, foreign currency, interest rate and price risks are continuously monitored. The Board approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk and credit risk.

3.1.1 Market risk

a) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recorded assets and liabilities are denominated in a currency that is not the entity's functional currency e.g., foreign denominated loans, purchases & sales transactions, etc. The Company did not have any material balance denominated in foreign currency as at 31 December 2020 as a result, no foreign currency sensitivity analysis is provided.

b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Borrowings obtained at variable rates give rise to interest rate risk. The Company does not have any short term loans with variable interest and as such is not exposed to interest rate risk. The Company's long term borrowings have fixed interest rate.

c) Price risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. There are no financial instruments exposed to other price risk.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Market risk (continued)

3.1.2 Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers including outstanding receivables. The Company has policies in place to ensure that credit limits are set for commercial customers taking into consideration the customers' tariff class, past trading relationship, credit history and other factors. When customers default in paying bills on due date, the Company disconnects supply to such customers and charges a fee on reconnection.

Management monitors the aging analysis of receivables on a periodic basis. The analysis of neither past due nor impaired, past due but not impaired and impaired financial instruments is as follows:

Financial instruments exposed to credit risk

	Notes	Maximum exposure	
		31 December 2020 ₦'000	31 December 2019 ₦'000
Cash and cash equivalents	16	10,416,839	3,596,710
Trade receivables (gross)	17.1	166,985,023	135,738,203
Other receivables (gross)*	17.2	187,079,446	200,601,538
Gross amount		364,481,308	339,936,451
Impairment	17.3,17.5	(162,108,796)	(138,537,986)
Net amount		202,372,512	201,398,465

*Other receivables exclude prepayments, staff loans and advances, as these are not financial instruments

These financial assets are further broken into the following:

	Cash & cash equivalents ₦'000	Trade receivables ₦'000	Other receivables ₦'000	Total ₦'000
31 December 2020				
Neither past due nor impaired	10,416,839	15,114,946	187,079,446	212,611,231
Past due but not impaired	-	36,430,185	-	36,430,185
Impaired	-	115,439,892	-	115,439,892
Gross	10,416,839	166,985,023	187,079,446	364,481,308
Impairment allowance	-	(158,545,229)	(3,563,567)	(162,108,796)
Net	10,416,839	8,439,794	183,515,879	202,372,512
31 December 2019				
Neither past due nor impaired	3,596,710	4,643,527	200,601,538	208,841,775
Past due but not impaired	-	20,721,868	-	20,721,868
Impaired	-	110,372,808	-	110,372,808
Gross	3,596,710	135,738,203	200,601,538	339,936,451
Impairment allowance	-	(135,723,457)	(2,814,529)	(138,537,986)
Net	3,596,710	14,746	197,787,009	201,398,465

Impaired trade receivables relate to amount due from customers which has been outstanding beyond the contractual credit terms of 90 days and there is objective evidence that the Company may not be able to collect all the amounts due according to the original terms of receivables. All receivables are carried at their estimated recoverable value.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Sensitivity analysis

The tables below show information on the sensitivity of the carrying amounts of the Company's financial assets to the methods, assumptions and estimates used in calculating impairment losses on the financial assets at the end of the reporting period. These methods, assumptions and estimates have a significant risk of causing material adjustments to the carrying amounts of the Company's financial assets.

Simplified approach:

Expected cash flow recoverable from trade receivables:

The table below demonstrates the sensitivity to a 10% change in the expected cash flows from trade receivables:

	31 December 2020 ₦'000
Effect on loss before tax	
<i>Increase/(decrease) in estimated cash flows by:</i>	
10%	(843,979)
(10%)	843,979

A 10% increase in the estimated cash flows would decrease loss before tax by ₦844 million while a corresponding 10% decrease in the estimated cash flows will increase the loss before tax by ₦844 million.

The table below shows the sensitivity of the expected credit loss on trade receivables to an inverse and positive change in the forward looking macroeconomic variables:

	31 December 2020 ₦'000
Effect on ECL to change in inflation rate	
<i>Increase/decrease</i>	
10%	128,788
(10%)	(128,922)
Effect on ECL to change in GDP growth rate	
<i>Increase/decrease</i>	
10%	-
(10%)	-

The above shows the effect of 10% changes (increase/decrease) in the forward looking macroeconomic variables incorporated in the ECL model on the profit before tax.

General approach:

The table below demonstrates the sensitivity of the Company's loss before tax to movements in the probability of default (PD) and loss given default (LGD) for other receivables, with all other variables held constant:

	31 December 2020 ₦'000
Effect on loss before tax	
<i>Increase/decrease in LGD and PD</i>	
10%	(451,486)
(10%)	451,486

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	31 December 2020 N'000	31 December 2019 N'000
Cash and cash equivalents		
AA	-	424,512
AA-	-	1,658
BBB	-	16,213
B-	2,383,198	-
B	448,570	2,794,815
Not rated	7,585,071	359,512
	10,416,839	3,596,710

Fitch - National long-term rating

This is based on Fitch national long-term rating. National credit ratings are an assessment of credit quality relative to the rating of the lowest credit risk in a country. This lowest risk will normally, although not always, be assigned to all financial commitments issued or guaranteed by the sovereign state.

National ratings are not intended to be internationally comparable and are denoted by a special identifier for the country concerned. The performance of National ratings will also not be strictly comparable over time, given the moving calibration of the entire scale to the entity or entities with the lowest credit risk in a country, whose creditworthiness relative to other entities internationally may change significantly over time.

These above ratings are explained as follows:

'AA' National ratings denote expectations of very low default risk relative to other issuers or obligations in the same country. The default risk inherent differs only slightly from that of the country's highest rated issuers or obligations.

'A' National ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category.

'BBB' National ratings denote a moderate default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions are more likely to affect the capacity for timely repayment than is the case for financial commitments denoted by a higher rated category.

'BB' National ratings denote an elevated default risk relative to other issuers or obligations in the same country. Within the context of the country, payment is uncertain to some degree and capacity for timely repayment remains more vulnerable to adverse economic change over time.

'B' National ratings denote that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

Non rated' are banks or cash in hand that are not rated by Fitch.

"+" or "-" are used with a rating symbol to indicate the relative position of a credit within the rating category.

This is based on Fitch national long-term rating.

		31 December 2020 N'000	31 December 2019 N'000
Other receivables			
Counter parties without external credit rating:			
Group 2	17.2	187,165,256	200,668,950

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

3.1.3 Liquidity risk

Management of liquidity risk

Cash flow forecasting is performed by the finance department. The finance department monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs. Prudent liquidity risk management implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, the Company's finance department maintains flexibility in funding. Management monitors rolling forecasts of the Company's liquidity reserve comprising cash and cash equivalents on the basis of expected cash flow.

Maturity analysis

The table below analyses financial liabilities of the Company into relevant maturity periods based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year N'000	Between 1 and 2 years N'000	Between 2 and 5 years N'000	Beyond 5 years N'000
At 31 December 2020				
Trade and other payables*	226,903,636	-	-	-
Borrowings	3,451,348	3,054,026	7,841,334	2,914,325
At 31 December 2019				
Trade and other payables*	232,970,209	-	-	-
Borrowings	3,129,696	2,456,438	9,023,200	291,153

*Trade and other payables exclude value added tax (VAT) payable, Withholding tax (WHT), security deposit and payroll related accruals as these are non-financial instruments.

3.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

Various financial ratios and internal targets are assessed and reported to the board of directors on a quarterly basis to monitor and support the key objectives set out above. These ratios and targets include:

- Earnings Before Interest Tax Depreciation and Amortization (EBITDA);
- Current asset ratio;
- Interest cover; and
- Gearing ratio.

The Company's objective is to maintain these financial ratios in excess of any debt covenant restrictions and use them as a performance measurement and hurdle rate. The failure of a covenant test could render the facilities in default and repayable on demand at the option of the lender.

Total capital is calculated as equity plus net debt. The gearing ratios as at the end of December 2020 and December 2019 are as follows:

	Notes	31 December 2020 N'000	31 December 2019 N'000
Total borrowing	20	12,484,271	11,095,536
Total trade and other payables	19	238,618,649	241,220,640
Less: cash and cash equivalents	16	(10,416,839)	(3,596,710)
Net debt		240,686,081	248,719,466
Total equity		5,593,016	5,592,784
Total capital		246,279,097	254,312,250
Gearing ratio		98%	98%

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

3.3 Fair value estimation

The table below analyses financial instruments whose fair values have been disclosed by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of the Company's borrowings as at 31 December 2020 is as follows: This fall within level 2.

	31 December 2020
	₦'000
Liabilities	
Borrowing	12,484,271

The fair value of the borrowings for disclosure was determined by a discounted cash flow of the expected future cash outflows at the statement of financial position date using the maximum prime lending rate in Nigeria as at the statement of financial position date for a similar tenure and amount.

The fair value amounts disclosed above are all recurring fair value measurements. There were no non-recurring fair value measurements as at 31 December 2020 and 31 December 2019.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

None of the Company's assets and liabilities fall within level 1 or 3.

a Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in Level 1 comprise primarily Nigerian Stock Exchange (NSE) listed instruments classified as trading securities or available for sale instruments.

b Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

c Financial instrument in level 3

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Techniques, such as discounted cash flow analysis, are used to determine fair value for the financial instruments included in level 3.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Financial instruments by category

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of profit or loss or other comprehensive income.

These categories are at amortized cost for both assets and liabilities. The following table shows the carrying values of assets and liabilities for each of these categories at 31 December 2020 and 31 December 2019:

	31 December 2020 N'000	31 December 2019 N'000
Assets		
Amortized cost:		
Cash and cash equivalents	10,416,839	3,596,710
Trade and other receivables*	191,955,673	197,801,755
	202,372,512	201,398,465
Liabilities		
Amortized cost:		
Trade and other payables**	226,903,636	232,970,209
Borrowings	12,484,271	11,095,536
	239,387,907	244,065,745

*Trade and other receivables exclude prepayments, withholding tax and staff loans and advances, as these are not financial instruments.

**Trade and other payables exclude value added tax (VAT) payable, Withholding tax (WHT), security deposit and payroll related accruals as these are non-financial instruments. The fair value of the financial assets and liabilities approximate their carrying amount.

Fair valuation methods and assumptions

i Trade and other receivables

Trade and other receivables are carried at amortized cost. The estimated fair value of loans and receivables represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine the fair value. These fall under level 3 in the fair value hierarchy.

ii Trade and other payables

Trade and other payables are carried at amortized cost net of impairment charge. The estimated fair value of the payables represent the discounted amount of estimated future cash flows expected to be paid. These are short term hence the fair value is the carrying amount as the impact of discounting is not material. These fall under level 3 in the fair value hierarchy.

4 Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future. Estimates and other judgments are continuously evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances.

4.1 Useful lives and residual value of property, plant and equipment

The residual values, depreciation methods and useful lives of property, plant and equipment are reviewed for reasonableness at least annually. The review is based on the current market situation. The review of useful lives did not significantly impact depreciation.

The residual value of the Company's property, plant and equipment is estimated as follows:

Asset class	Percentage
Building	1%
Plant and machinery	1%
Computer equipment	1%
Furniture and fittings	1%
Motor vehicles	1%

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

4.2 Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default, expected loss rates and maximum contractual period. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 29.

4.3 Deferred taxation

The Company has a deferred tax asset of ₦56.5 billion (2019: ₦46.4 billion) arising from tax losses, accelerated capital deductions and provisions. Management is of the view that there are no sufficient profits against which the deferred tax asset would be offset. These deferred tax assets have not been recognized in the financial statement.

Tax estimates are based on the position taken in the tax returns with respect to situations in which the applicable tax legislation is subject to interpretation.

4.4 Impairment assessment of non-financial assets

The Company has substantial investments in tangible long-lived assets comprising mainly of network distribution assets, land and building. The Company conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the value in use, which requires the Company to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Company operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the expected cash flows are less than the asset's carrying amount, an impairment loss may arise. After reviewing the business environment as well as the Company's objectives and past performance management has concluded that, there is no impairment.

4.5 Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is typically reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors, including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the control of the lessee.

During the financial year, there were several revised lease terms and these have been accounted for as modifications adjustments in note 15.

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

	31 December 2020 N'000	31 December 2019 N'000
5 Revenue from contracts with customers		
Electricity distribution	<u>57,144,010</u>	<u>49,884,008</u>
Revenue represents charges on the power distributed to customers. The Company's revenue is analysed based on the customer categories as follows:		
By customer payment type:		
Postpaid customer	51,268,471	45,461,034
Prepaid customers	5,875,539	4,422,974
	<u>57,144,010</u>	<u>49,884,008</u>
By customer tariff class:		
Residential	36,119,132	31,622,662
Commercial	14,292,147	12,731,394
Industrial	2,939,719	1,988,685
Government and others	3,793,012	3,541,267
	<u>57,144,010</u>	<u>49,884,008</u>

During the year, total energy billed amounted to ₦57.1 billion (2019: ₦49.9 billion), while total receipts within the year amounted to ₦29.6 billion (2019: ₦27 billion).

Revenue recognised in the reporting period that was included in the contract liability at the beginning of the period is ₦14.4 million (2019: nil).

There was no revenue recognised in the current reporting period that relates to carried-forward contract liabilities or performance obligations that were satisfied in a prior year (2019: nil).

6 Cost of sales

Cost of energy	56,724,533	52,832,978
Depreciation of plant and machinery (note 13)	2,164,239	2,106,560
Staff cost	1,994,695	1,831,168
Distribution maintenance costs	1,219,946	309,573
Other electricity distribution cost	1,349,668	899,239
	<u>63,453,081</u>	<u>57,979,518</u>

Total cost of energy during the year amounted to ₦56.7 billion (2019: ₦52.8 billion) while total payments for energy during the year amounted to ₦18.9 billion (2019: ₦11.8 billion). During the year, inventories amounting to ₦546.7 million (2019: ₦123.5 million) was recognised as an expense and included in cost of sales.

Other electricity distribution cost relates to costs incurred in the distribution of power to customers other than those itemized above.

7 Other income

Tariff shortfall*	37,972,183	44,240,000
Reconnection fee	208,267	178,978
Miscellaneous income**	5,658,772	-
Lease modification gain (note 15.1)	3,228,597	-
Other charges on customers***	31,133	25,845
	47,098,952	44,444,823
Amortization of grant:		
On borrowings (note 21)****	967,534	937,072
Other income - net	<u>48,066,486</u>	<u>45,381,895</u>

*Tariff shortfall relates to the differential between the revenue tariff approved by Nigerian Electricity Regulatory Commission (NERC), the independent regulatory body with authority for the regulation of the electric power industry in Nigeria, and the actual end-user tariff charged to the customers which is expected to be paid by the Federal Government of Nigeria.

**Miscellaneous income relates to NBET credit notes and reversals to offset previous overbilling.

***Other charges on customers relates to penalties for meter tampering or theft of electricity.

****Government grants have been received based on the CBN- NEMSF and CBN-NMMP loans obtained from the NESI- Stabilisation Strategy Limited at below market rate. There are no unfulfilled conditions or contingencies attached to these grants.

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

	31 December 2020 N'000	31 December 2019 N'000
8 Expenses by nature		
<i>Included in administrative expenses:</i>		
Depreciation on property, plant and equipment (note 13)	142,478	106,388
Depreciation charge on right of use assets (note 15.2)	189,892	868,369
Amortization of intangible asset (note 14)	49,400	8,670
Staff cost	969,675	971,505
Other staff related expenses	671,397	448,987
Advertising	18,181	109,534
Audit fee	24,000	20,000
Billing related expenses	1,160,932	1,129,048
Consultancy	16,577	71,643
Directors fee	150,260	168,483
Donations	37,093	996
Insurance expenses	87,233	135,860
Legal fees	156,086	93,769
Loss on disposal of PPE	25,324	965
Management support fees*	1,004,237	1,151,768
Minimum tax levy	262,988	135,157
Outsourced services	23,233	27,698
Printing, stationery, internet and software expenses	117,152	210,902
Professional body subscription	151,093	54,009
Provision for legal cases	27,084	-
Short term rent	198,564	95,391
Security expenses	149,055	157,339
Transport and travelling expenses	980,733	634,086
Other operating expenses**	689,056	3,168,905
	7,301,723	9,769,472

*Management support fees relates to cost incurred for the provision of technical service assistance by Income Electrix Limited to the Company.

**Other operating expenses relates to other regulatory and ancillary running costs of the business.

9 Impairment losses on financial assets

Impairment losses on trade receivables (note 17.3)	22,821,772	25,925,034
Impairment losses on other receivables (note 17.5)	749,038	2,814,529
Net impairment losses on financial assets	23,570,810	28,739,563

10 Finance income and cost

Finance cost

*Interest on electricity market payable	(7,899,650)	(4,709,899)
Lease interest expense (note 15.1.2)	(85,866)	(401,804)
Interest on CBN-NEMSF loan (note 20.3.2)	(2,385,962)	(2,568,989)
Interest on CBN-NMMP loan (note 20.3.3)	(26,188)	-
Interest on intercompany loans (note 20.2)	(60,984)	-
Interest on bank loans (note 20.3.1)	(26,230)	-
Interest on bank overdrafts	(58,676)	(39,162)
	(10,543,556)	(7,719,854)

Finance income

Interest income**	110,380	130,461
Finance cost - net	(10,433,176)	(7,589,393)

*Interest on electricity market payable relates to interest charged on unpaid NBET invoices.

**Interest income relates to the interest received by the Company on its fixed deposits with financial institutions in Nigeria.

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

11 Company income and deferred tax	31 December 2020 ₦000	31 December 2019 ₦000
11.1 Current income tax		
Education tax	451,474	-
Company income tax	-	-
	451,474	-
Deferred income tax	-	-
Total tax in statement of comprehensive income	451,474	-

The Company is liable to pay minimum tax of ₦263.0 million (2019: ₦135.2 million). This has been recognised within operating expenses in line with IFRIC 21 "levies".

11.2 Reconciliation of effective tax to statutory tax

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

Profit/(loss) before tax	451,706	(8,812,043)
Tax calculated at statutory tax rate of 30%	135,512	(2,643,612)
Effect of permanent differences	(214,695)	(11,274,850)
Effect of deferred tax asset on tax losses not recognised	79,183	13,918,462
Impact of minimum tax rule	262,988	135,157
Companies income tax	262,988	135,157

	31 December 2020 ₦000	%
Profit before tax	451,706	100
Tax calculated at statutory tax rate of 30%	135,512	30
Companies income tax	-	-
Minimum tax	262,988	58
Deferred tax (income statement)	-	-
Effective tax rate	398,500	88
Less adjustments for:		
Effect of deferred tax asset on tax losses not recognised	79,183	(18)
Effects of permanent difference	(214,695)	48
Company income tax statutory rate	262,988	30

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Company income and deferred tax (continued)

Income tax is calculated at thirty (30) per cent of the estimated taxable profit for the year. The charge for taxation in these financial statements is based on the provisions of the Companies Income Tax Act, CAP C21, LFN, 2004 as amended.

The charge for education tax of two (2) per cent is based on the provisions of the Education Tax Act, CAP E4, LFN, 2004.

	31 December 2020 ₦'000	31 December 2019 ₦'000
11.3 Current income tax liability		
Balance at 1 January	832,655	724,498
Charge for the year:		
Income tax expense	-	-
Education tax	451,474	-
Minimum income tax	262,988	135,157
	<u>1,547,117</u>	<u>859,655</u>
Tax paid during the year:		
WHT notes utilised	-	-
Payment during the year	(60,027)	(27,000)
	<u>1,487,090</u>	<u>832,655</u>
At 31 December		

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets of ₦56.5 billion for the Company have not been recognised as at 31 December 2020 (2019: ₦46.4 billion) because it is not probable that future taxable profits will be available against which they can be utilised.

12 Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the attributable profit/(loss) to equity holders of the Company by the weighted average number of common shares outstanding during the year. The basic earnings/(loss) per share is calculated using the number of shares in issue as at the statement of financial position date.

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. There were no potential dilutive shares at the reporting date (2019: nil), thus the basic earnings/(loss) per share and diluted earnings/(loss) per share have the same value.

	31 December 2020	31 December 2019
Profit/(loss) attributable to equity holders of the Company (₦'000)	232	(8,812,043)
Weighted average number of shares in issue (thousands)	10,000	10,000
Basic and diluted earnings/(loss) per share (₦)	<u>0.02</u>	<u>(881.20)</u>

Diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share as there are no potential securities convertible to ordinary shares.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

13 Property, plant and equipment	Furniture & fittings and computer equipment							Total ₦'000
	Land ₦'000	Building ₦'000	Plant and machinery ₦'000	Motor Vehicles ₦'000	computer equipment ₦'000	Asset under construction ₦'000		
At 31 January 2019								
Cost	3,986,650	1,245,029	64,075,227	168,784	327,270	133,910	69,936,870	
Accumulated depreciation	-	(143,543)	(5,113,481)	(152,428)	(112,052)	-	(5,521,504)	
	3,986,650	1,101,486	58,961,746	16,356	215,218	133,910	64,415,366	
Year ended 31 December 2019								
Opening net book value	3,986,650	1,101,486	58,961,746	16,356	215,218	133,910	64,415,366	
Addition	-	6,248	965,616	-	65,524	116,882	1,154,270	
Disposal (Cost)	-	-	-	(96,510)	-	-	(96,510)	
Other adjustment (Cost)*	(18,221)	12,464	188,638	1	(56)	(2,739)	180,087	
Transfer**	-	(31,127)	(2,106,560)	(18,062)	(57,199)	(128,683)	(2,212,948)	
Depreciation	-	-	-	95,545	-	-	95,545	
Disposal (Accumulated depreciation)	-	-	-	2,670	7,062	-	14,451	
Other adjustment (Accumulated depreciation)*	-	63,346	(58,627)	-	-	-	-	
	3,968,429	1,152,417	57,950,813	-	230,549	119,370	63,421,578	
At 31 December 2019								
Cost	3,968,429	1,263,741	65,229,481	72,275	392,738	119,370	71,046,034	
Accumulated depreciation	-	(111,324)	(7,278,668)	(72,275)	(162,189)	-	(7,624,456)	
	3,968,429	1,152,417	57,950,813	-	230,549	119,370	63,421,578	
Year ended 31 December 2020								
Opening net book value	3,968,429	1,152,417	57,950,813	-	230,549	119,370	63,421,578	
Addition	-	17,148	1,925,748	641,696	73,441	208,023	2,866,056	
Disposal (Cost)	-	-	(29,837)	-	-	-	(29,837)	
Other adjustment (Cost)*	-	-	(448)	-	-	-	(448)	
Transfer***	-	-	38,700	-	-	(38,700)	-	
Depreciation	-	(30,734)	(2,164,239)	(50,873)	(60,871)	-	(2,306,717)	
Disposal (Accumulated depreciation)	-	-	4,513	-	-	-	4,513	
	3,968,429	1,138,831	57,725,250	590,823	243,119	288,693	63,955,145	
At 31 December 2020								
Cost	3,968,429	1,280,889	67,163,644	713,971	466,179	288,693	73,881,805	
Accumulated depreciation	-	(142,058)	(9,438,394)	(123,148)	(223,060)	-	(9,926,660)	
Net book value	3,968,429	1,138,831	57,725,250	590,823	243,119	288,693	63,955,145	
At 31 December 2020								
At 31 December 2019								

*Other adjustment relates to amount booked to correctly state the cost and accumulated depreciation of PPE to reflect the fixed asset register balances.

**Transfer of ₦128.7 million relates to the cost of designing the company's new billing software which has been transferred to intangible asset in note 14.

***Transfer of ₦38.7 million in current year relates to the cost of plant and machinery which has been transferred from asset under construction.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Property, plant and equipment (continued)

13.1 Assets pledged as security

None of the Company's assets have been pledged as security.

13.2 Depreciation

Depreciation expense of ₦142.5 million (2019: ₦106.4 million) has been charged to administrative expenses and ₦2.2 billion (2019: ₦2.1 billion) has been charged to cost of sales.

13.3 Carrying amounts that would have been recognised if property, plant and equipment were stated at cost.

If the Company's property, plant and equipment were stated on the historical cost basis, the amount would be as follows:

	Land ₦'000	Building ₦'000	Plant and machinery ₦'000	Motor vehicle ₦'000	Furniture & fittings and computer equipment ₦'000	Total ₦'000
2020						
Cost	1,895,371	599,022	43,826,864	631,393	786,941	47,739,591
Accumulated depreciation	-	(259,101)	(10,157,586)	(411,179)	(42,387)	(10,870,253)
Net book amount	1,895,371	339,921	33,669,278	220,214	744,554	36,869,338
2019						
Cost	1,895,371	580,313	42,926,325	844,276	565,925	46,830,430
Accumulated depreciation	-	(246,548)	(8,828,062)	(106,545)	(317,803)	(9,498,958)
Net book amount	1,895,371	333,765	34,098,263	737,731	248,122	37,331,472

iv Method of measurement

Property, plant and equipment of the Company are recognised at fair value based on 5-year periodic valuations by external independent valuers, less subsequent depreciation for all classes of property, plant and equipment except land. A revaluation surplus is credited to revaluation surplus in shareholder's equity.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over the estimated useful lives.

Asset class	Depreciation rate	Useful life
Building	2% - 3%	33 - 50 years
Plant and machinery	2.85% - 5%	20 - 35 years
Computer equipment	10%	10 years
Furniture and fittings	10%	10 years
Motor vehicles	20%	5 years

The Company engaged accredited independent valuers - Messrs. Ekere & Associates and Ubosi Eleh & Company Limited (with FRCN number FRC/2014/00000002836 and FRC/2014/00000003997 respectively) to determine the fair value of its property, plant and equipment. The date of the most recent revaluation was 1 June 2016.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

	Software
	₦'000
14 Intangible assets	
At 1 January 2019	
Cost	63,569
Accumulated amortisation	(19,413)
Net book amount	44,156
Year ended 31 December 2019	
Opening net book amount	44,156
Additions	4,679
Transfers*	128,683
Amortisation charge	(8,670)
Closing net book amount	168,848
At 1 January 2020	
Cost	196,931
Accumulated amortisation	(28,083)
Net book amount	168,848
Year ended 31 December 2020	
Opening net book amount	168,848
Additions	73,690
Amortisation charge	(49,400)
Closing net book amount	193,138
At 31 December 2019	
Cost	270,621
Accumulated amortisation	(77,483)
Net book amount	193,138

*Transfer of ₦128.7 million relates to the cost of designing the company's new billing software which was transferred from Property, plant and equipment in 2019.

Intangibles assets mainly represents the cost of information technology software in the Company's operations. This asset has a 10 year useful life.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

15 Leases

15.1 Amounts recognised in the statement of financial position

15.1.1 Right-of-use assets

	Motor vehicle ₦'000	Building ₦'000	Total ₦'000
At 1 January 2019			
Cost	-	-	-
IFRS 16 transition adjustment	2,146,728	287,474	2,434,202
Accumulated amortisation	-	-	-
Net book amount	2,146,728	287,474	2,434,202
Year ended 31 December 2019			
Opening net book amount	2,146,728	287,474	2,434,202
Additions	-	219,523	219,523
Depreciation charge	(715,576)	(152,793)	(868,369)
Closing net book amount	1,431,152	354,204	1,785,356
At 1 January 2020			
Cost	2,146,728	506,997	2,653,725
Accumulated amortisation	(715,576)	(152,793)	(868,369)
Net book amount	1,431,152	354,204	1,785,356
Year ended 31 December 2020			
Opening net book amount	1,431,152	354,204	1,785,356
Additions	-	71,701	71,701
Modification adjustment*	(1,363,116)	(15,075)	(1,378,191)
Depreciation charge	(68,036)	(121,856)	(189,892)
Closing net book amount	-	288,974	288,974
At 31 December 2020			
Cost	783,612	563,623	1,347,235
Accumulated amortisation	(783,612)	(274,649)	(1,058,261)
Net book amount	-	288,974	288,974

*Modification adjustment relates to the termination of some office space lease contracts and derecognition of motor vehicle leases from right-of-use assets in the current year. The derecognition of the motor vehicle leases was due to the changes in terms of the motor vehicle lease contract due to management's operational objective of purchasing vehicles for the Company.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

15.1.2 Lease liabilities

	Motor vehicle N'000	Building N'000	Total N'000
At 1 January 2019	-	-	-
IFRS 16 transition adjustment	2,146,728	266,695	2,413,423
Additions	-	175,856	175,856
Interest expense	348,588	53,216	401,804
Payments made during the period	(683,722)	(63,091)	(746,813)
Closing balance as at 31 December 2019	1,811,594	432,676	2,244,270
At 1 January 2020	1,811,594	432,676	2,244,270
Additions	-	38,925	38,925
Interest expense	29,053	56,813	85,866
Modification adjustments*	(1,840,647)	(9,759)	(1,850,406)
Payments made during the period	-	(160,585)	(160,585)
Closing balance as at 31 December 2020	-	358,070	358,070

*Modification adjustment relates to the termination of some office space lease contracts and derecognition of motor vehicle leases from lease liabilities in the current year. The derecognition of the motor vehicle leases was due to the changes in terms of the motor vehicle lease contract due to management's operational objective of purchasing vehicles for the Company.

	2020 N'000	2019 N'000
Current lease liabilities	255,161	1,240,068
Non-current lease liabilities	102,909	1,004,202
	358,070	2,244,270

15.2 Amounts recognised in the statement of profit or loss

	Motor vehicle 2020 N'000	Building 2020 N'000	Total 2020 N'000
Depreciation charge on right-of-use assets	68,036	121,856	189,892
Interest expense (included in finance cost)	29,053	56,813	85,866
Expense relating to short term leases (included in administrative expenses)	-	112,285	112,285
	97,089	290,954	388,043

	Motor vehicle 2019 N'000	Building 2019 N'000	Total 2019 N'000
Depreciation charge on right-of-use assets	715,576	152,793	868,369
Interest expense (included in finance cost)	348,588	53,216	401,804
Expense relating to short term leases (included in administrative expenses)	192,393	6,171	198,564
	1,256,557	212,180	1,468,737

15.3 Amounts recognised in the statement of cash flows

	2020 N'000	2019 N'000
Financing activities - total cash outflow for leases	160,585	746,813

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

	31 December 2020 ₦'000	31 December 2019 ₦'000
15.4 Liquidity risk		
Maturity analysis – contractual undiscounted cash flows (Leases)		
Less than 1 year	314,846	746,813
1 - 2 years	127,578	1,401,616
2 - 5 years	-	954,319
Total undiscounted lease liabilities	442,424	3,102,748
16 Cash and cash equivalents		
Cash at bank	2,656,728	1,588,787
Short term fixed deposits	7,760,111	2,007,923
Cash at bank	10,416,839	3,596,710
For the purpose of the statement of cash flows, cash and cash equivalents comprise the following:		
Cash at bank	2,656,728	1,588,787
Short term fixed deposits	7,760,111	2,007,923
Bank overdrafts (see note 20.1)	(324,752)	(506,097)
Cash and cash equivalents	10,092,087	3,090,613
The Company has a bank guarantee of ₦173,081 (2019:nil) in respect of FIFL project.		
17 Trade and other receivables		
Trade receivables (note 17.1)	166,985,023	135,738,203
Loss allowance (note 17.3)	(158,545,229)	(135,723,457)
Net trade receivables	8,439,794	14,746
Other receivables (note 17.2)	187,165,256	200,668,950
Loss allowance (note 17.5)	(3,563,567)	(2,814,529)
Net other receivables	183,601,689	197,854,421
	192,041,483	197,869,167
17.1 Trade receivables relates to billed receivables from sales of electricity which consist of the following based on customer classification:		
Residential	125,935,946	104,867,192
Commercial	26,286,306	20,636,829
Industrial	3,862,001	1,201,417
Government and others	10,900,770	9,032,765
	166,985,023	135,738,203

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Trade and other receivables (continued)	31 December 2020 N'000	31 December 2019 N'000
17.2 Other receivables		
Staff loans and advances	76,131	57,309
Federal Government of Nigeria (FGN) treasury bills	96,963	99,228
Receivables from collection agents*	820,644	870,973
Tariff shortfall**	186,161,839	199,631,337
Prepayments (note 17.4)	9,679	10,103
	187,165,256	200,668,950
<p>*Receivables from collection agents relate to monies collected from customers not yet remitted to the Company by its collection agents (G-Pay, Easypay International Services Limited, Express Payments Solutions, Interswitch Limited and ITEX).</p> <p>**Tariff shortfall relates to the amount owed by the Federal Government of Nigeria (FGN) as a result of the tariff differential between the revenue tariff approved by Nigerian Electricity Regulatory Commission (NERC) and the actual end-user tariff charged to the customers of the Company.</p> <p>The Nigerian Electricity Regulatory Commission (NERC) regulates electricity tariffs in the Nigerian electricity supply industry through the periodic issuance of tariff orders known as the Multi-Year Tariff Order (MYTO). The MYTO ensures prices charged by licensees are fair to consumers and are sufficient to allow licensees recover the cost of energy purchased from the Nigerian Bulk Electricity Trading Plc. (NBET), including a reasonable return on the capital invested in the business.</p> <p>NERC implemented MYTO reviews in 2020 which had a material and immediate impact on end-user tariffs payable by all classes of electricity customers in the country. Prior to this review, there existed a wide tariff gap due to the absence of cost-reflective tariffs which has not been completely eliminated. As a result, the company is not able to pass on the full cost of energy purchased to end users leading to both tariff (due from customers to Discos) and market (due from Discos to the market) shortfalls. In 2019 and 2020, NERC issued regulatory orders implementing MYTO reviews for the years 2015 to 2020. It also ordered the elimination of interest on NBET outstanding payables above the minimum monthly remittance thresholds. These orders were issued to reflect the impact of changes in the minor review variables in determining cost-reflective tariff and market shortfalls. It was also issued to maintain the creditworthiness of the balance sheet of DisCos for the purpose of raising capital towards the improvement of electricity networks and service delivery.</p>		
17.3 Loss allowance (trade receivables)		
At 1 January	135,723,457	109,798,423
Increase in impairment loss for the year (note 9)	22,821,772	25,925,034
At 31 December	158,545,229	135,723,457
17.4 Prepayment		
Prepaid rent	-	-
Prepaid insurance	9,356	9,780
Prepaid meters	323	323
	9,679	10,103
17.5 Loss allowance (other receivables)		
At 1 January	2,814,529	-
Increase in impairment loss for the year (note 9)	749,038	2,814,529
At 31 December	3,563,567	2,814,529
18 Inventories		
Distribution materials	551,439	737,855
Meters	48,344	91,853
Stationeries	34,533	41,266
	634,316	870,974

Distribution materials relate to transformers, insulators and other electrical operating equipment. During the year, there was no write-down of inventory to net realisable value (2019:nil). None of the Company's inventories has been pledged as collateral to secure debt (2019:nil).

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

	31 December 2020 ₦'000	31 December 2019 ₦'000
19 Trade and other payables		
Trade payable (note 19.1)	226,404,972	232,561,592
Value added tax payable	10,252,600	7,048,714
Accrued expenses	286,023	168,577
Provision (note 19.4)	193,364	220,448
Security deposit*	838,089	722,949
Withholding tax payable	202,177	138,206
Payroll related accruals	422,147	340,562
Other payable	19,277	19,592
	238,618,649	241,220,640

*Security deposit represents deposits by customers at the point of registration as customers to cover for eventual default in settlement of electricity bills. The deposits per customer are determined by the Company and usually covers customers' estimated bills for 1 – 3 months.

19.1 Trade payables relate to amounts owed to Company vendors which is further classified as:

NBET and Market operator (note 26)*	203,391,261	228,758,500
Related parties (note 25)	2,491,341	1,385,270
Other vendors	20,522,370	2,417,822
	226,404,972	232,561,592

19.2 *Within payables due to NBET and market operator is an adjustment of ₦60.4 billion which relates to reversal of interest on tariff shortfall related NBET payables based on NERC order number NERC/196/2020 dated 28 January 2020. Per NERC order, the regulator ordered the elimination of interest on tariff related NBET payables.

19.3 The payables to the NBET and Market Operator (MO) are secured by a corporate guarantee of ₦5.9 billion from 4Power Consortium Limited (2019: ₦5.9 billion from 4Power Consortium Limited). ₦1.3 billion (2019: ₦1.3 billion) is the guarantee to the Market Operator while the guarantee to NBET is ₦4.6 billion (2019: ₦4.6 billion).

19.4 Provisions

Opening balance	220,448	220,448
Additions in the year	33,364	-
Utilisation in the year	(60,448)	-
Closing balance	193,364	220,448

Provisions relate to the estimates for obtaining Certificates of Occupancy for the Company's landed properties (2020: ₦160 million; 2019: ₦160 million) and the amount provided for legal claims based on the lawyers' best estimates of the most likely outcome of the legal cases (2020: ₦33.4 million; 2019: ₦60.4 million).

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

	31 December 2020 N'000	31 December 2019 N'000
20 Borrowings		
20.1 Bank Overdrafts (current)	324,752	506,097
<p>The bank overdraft represent Ecobank overdrawn balances on current accounts to enable the Company augment its working capital for the payment of operating expenses. The overdraft attracts an average interest rate of 18% and is secured by a promissory note by the Company and a corporate guarantee by 4Power Consortium Limited.</p>		
20.2 Intercompany loan (current)	460,984	400,000
<p>Intercompany loan relates to loan obtained by the Company from 4Power Consortium Limited in December 2019. The loan is for a period of 12 months and is repayable in monthly installments at an interest rate of 15% per annum. The loan was renegotiated in 2020 for another 12 months till 31 December 2021 at an interest rate of 15%.</p> <p>Movements on the borrowings are as follows:</p>		
As at 1 January	400,000	-
Additions	-	400,000
Interest during the period	60,984	-
Principal repayments	-	-
Interest paid	-	-
As at 31 December	460,984	400,000
20.3 Bank borrowings		
20.3.1 Keystone bank loan		
<p>Asset Finance Facility N520 million: This was obtained in August 2020 to part-finance the purchase of fifty (50) units of Nissan pickup motor vehicles. The loan is utilized solely for this purpose per the agreement. The facility has a tenor of 48 months with equal monthly rentals of principal and interest at 20% interest rate per annum.</p>		
Current		
Keystone bank loans	209,174	-
Non-current		
Keystone bank loans	310,444	-
	519,618	-
<p>Movements on the borrowings are as follows:</p>		
As at 1 January	-	-
Additions	520,300	-
Interest during the period	26,230	-
Principal repayments	-	-
Interest paid	(26,912)	-
As at 31 December	519,618	-

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

	31 December 2020 ₦'000	31 December 2019 ₦'000	
Borrowings (continued)			
20.3.2 CBN-NEMSF Loan			
Current			
CBN-NEMSF Loan	3,386,885	2,137,799	
Non-current			
CBN-NEMSF Loan	5,659,926	8,051,640	
	9,046,811	10,189,439	
Movements on the borrowings are as follows:			
As at 1 January	10,189,439	10,684,970	
Additions	-	580,430	
Interest during the period	2,385,962	2,568,989	
Principal repayments	(2,228,831)	(1,975,007)	
Interest paid	(1,299,759)	(1,478,434)	
Transferred to deferred intervention fund (note 21)	-	(191,509)	
As at 31 December	9,046,811	10,189,439	
20.3.3 CBN-NMMP Loan			
Current			
CBN-NMMP Loan	223,424	-	
Non-current			
CBN-NMMP Loan	1,908,682	-	
	2,132,106	-	
Movements on the borrowings are as follows:			
As at 1 January	-	-	
Additions	4,184,887	-	
Interest during the period	26,188	-	
Principal repayments	-	-	
Interest paid	(5,137)	-	
Transferred to deferred intervention fund (note 21)	(2,073,832)	-	
As at 31 December	2,132,106	-	
Details of the bank loan is shown below:			
Non-current	Tenure/ interest rate	Available facility ₦'000	Draw down to 2020 ₦'000
Loan type/ purpose			
Central Bank of Nigeria - Nigeria Electricity Market Stabilisation Facility (CBN - NEMSF)	10 years; 10%	19,882,765	19,882,765
Central Bank of Nigeria -National Mass Metering Programme Facility (CBN-NMMP)	10 years; 5% till 28 Feb. 2021 and 9% onwards	4,568,759	4,184,887

The Federal Government of Nigeria through the Central Bank of Nigeria ("CBN"), the Federal Ministry of Petroleum Resources, the Federal Ministry of Power and the Nigerian Electricity Regulatory Commission ("NERC") incorporated a special purpose vehicle - NESI Stabilization Strategy Limited to oversee the implementation and repayment of the CBN-Nigerian Electricity Market Stabilization Facility ("CBN-NEMSF" or "the facility"). The facility is aimed at settling the outstanding payment obligations due to the market participants during the Interim Rules Period ("IRP Debts") as well as the legacy gas debt of the PHCN generation companies owed to gas suppliers ("Legacy Gas Debt") which has been transferred to the Nigerian Electricity Liability Management Company Limited by Guarantee ("NELMCO").

Port Harcourt Electricity Distribution Company Plc. is one of the major beneficiaries of this facility. As at 31 December 2020, the sum of ₦19.88 billion has been disbursed of which ₦6.6 billion was received in cash in 2015 and the balance was applied to settle amount due to market participants over the years.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Borrowings (continued)

In 2020, the Federal Government established the National Mass Metering Program ("NMMP") while enables distribution companies to provide about six (6) million "free" meters over the next 18-36 months to unmetered consumers. This is provided via the CBN financing framework to provide financial support-via a loan facility-to the distribution companies and local meter manufacturers.

Repayment of the loan is secured against the regulator's reset of the Multi Year Tariff Order 2 (MYTO 2) by issuing the MYTO 2.1 and the approval of the distribution companies' tariff plan.

Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Company at the reporting date.

21 Government grants

Government grant relates to the loan obtained from the Federal Government of Nigeria through the Central Bank of Nigeria ('CBN') at a rate below the prevailing market as described in note 20. The fair value of the grant was recognized initially on the grant date and subsequently amortized on a straight line basis over the tenure of the loan. There were no unfulfilled conditions relating to the grant as at the reporting date.

In 2020, the Federal Government established the National Mass Metering Program ("NMMP") while enables distribution companies to provide about six (6) million "free" meters over the next 18-36 months to unmetered consumers. This is provided via the the CBN financing framework to provide financial support-via a loan facility-to the distributions companies and local meter manufacturers.

	31 December 2020 ₦'000	31 December 2019 ₦'000
Analysis of government grant		
As at 1 January	4,835,307	5,580,870
Additions in the period	2,073,832	191,509
Recognized in profit or loss (note 7)	(967,534)	(937,072)
As at 31 December	5,941,605	4,835,307
Current	954,525	552,539
Non - current	4,987,080	4,282,768
	5,941,605	4,835,307

22 Contract liabilities

CAPMI deposit*	1,443,264	1,443,264
MAP liability**	1,383,351	282,833
Payables to collection agents***	220,579	165,344
At 31 December	3,047,194	1,891,441

*CAPMI deposit relates to the liability as a result of the credit advance payment for meter installation (CAPMI) optional scheme which was designed to allow willing customers advance money in exchange for the installation of meters. Once meters have been installed under this scheme issued by Nigerian Electricity Regulatory Commission (NERC), customers are then refunded for the cost of the meter by way of monthly reductions on the variable energy charge element of their electricity bills over time. The CAPMI optional scheme was abolished by NERC with effect from 1 November 2016 and there were no further additions to the scheme after this date.

**The MAP liability is as a result of the Meter Asset Provider (MAP regulation) issued in 2018. On 5 April 2019, NERC in accordance with the MAP regulations issued permits to meter asset providers to supply, install, maintain and replace meters over its technical life on behalf of the DISCOs. The MAPs would assist, as investors, in closing the metering gap and thus eliminate estimated billing in the Nigerian Electricity Supply Industry (NESI). Once the meters have been installed, the customers pay the meter asset providers directly. The customers are then refunded for the cost of the meter by way of monthly reductions on the variable energy charge element of their electricity bills over time. Hence the liability recognised in the current year as about 50,000 customers have been metered in 2020 alone.

***Payables to collection agents relate to commission owed or money received from the collection agents to fund their energy wallets for which units of electricity are yet to be credited to the agent. The collection agents include Easypay International Services Limited, Express Payment Solutions Limited and Broad Shift Technologies Limited.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

	31 December 2020 N'000	31 December 2019 N'000
23 Equity		
23.1 Share capital		
Authorized:		
10 million ordinary shares of 50 kobo each	5,000	5,000
Issued and fully paid:		
10 million ordinary shares of 50 kobo each	5,000	5,000
23.2 Accumulated deficits		
At 1 January	(12,229,308)	(4,201,857)
Movement in the year	505,487	(8,027,451)
At 31 December	(11,723,821)	(12,229,308)
23.3 Revaluation reserve		
At 1 January	17,817,092	18,601,684
Movement in the year	(505,255)	(784,592)
	17,311,837	17,817,092

Revaluation reserve relates to the surplus on Property, Plant and Equipment (PPE) which arose as a result of the revaluation of the Company's assets in 2016. Movement in this account relates to the transfer of excess depreciation charged in current year from the revaluation reserve to accumulated deficits.

24 Cash generated from operations

Reconciliation of loss before income tax to cash generated from operations:

Profit/(loss) before income tax	451,706	(8,812,043)
Adjustments for:		
Depreciation charge on property, plant and equipment (note 13)	2,306,717	2,212,948
Depreciation charge on right of use assets (note 15.1.1)	189,892	868,369
Amortization of intangible asset (note 14)	49,400	8,670
Other adjustment to property, plant and equipment (note 13)	448	(194,538)
Lease modification adjustments (note 15.1)	(504,991)	-
Lease interest expense (note 15.1.2)	85,866	401,804
Interest expense (note 10)	2,499,364	2,568,989
Interest income (note 10)	(110,380)	(130,461)
Other income (grant) (note 7)	(967,534)	(937,072)
Minimum tax levy (note 11)	262,988	135,157
Loss on disposal of property, plant and equipment (note 8)	25,324	965
Adjustments for movement in working capital:		
Increase in trade receivables	(8,425,048)	(186,388,228)
Decrease/(increase) in other receivables	14,252,732	(9,823,745)
Decrease/(increase) in inventory	236,658	(316,196)
Increase in contract liabilities	1,155,753	417,100
(Decrease)/increase in trade and other payables*	(1,690,919)	205,543,347
	9,817,976	5,555,066

*Movement in trade and other payables excludes VAT paid within the year.

24.1 Reconciliation of 2020 trade and other payables

	N'000
Balance as at 31 December 2020	238,618,649
Balance as at 31 December 2019	241,220,640
Movement in the year	(2,601,991)
VAT paid	911,072
Net movement in the year	(1,690,919)

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

24.2 Reconciliation of 2019 trade and other payables

	N'000
Balance as at 31 December 2019	241,220,640
Balance as at 31 December 2018	36,677,167
Movement in the year	204,543,473
VAT paid	1,027,080
Less accrual recognised on transition to IFRS 16	(27,206)
Net movement in the year	205,543,347

25 Related party transactions

Related party transactions for the year ended 31 December 2020:

a Parent entity

Name	Type	Ownership interest	
		2020	2019
4Power Consortium	Parent entity	60%	60%

4Power Consortium is made up of nine equity companies including Bayelsa Electricity Company Limited, First Independent Power Company Limited, Taleveras Group of Companies Limited, Lilleker Brothers (Nigeria), Income Electrix Limited/CESC Limited Joint Venture, Skyview Power Technologies Limited, Akwa Ibom Investment Corporation (AKICORP), Paradise Power Nigeria Limited and CESC.

	1 January 2020 N'000	Additions N'000	Payments N'000	31 December 2020 N'000
4Power Consortium				
Vehicle Lease	58,602	77,478	(69,401)	66,679
Loan payable	400,000	60,984	-	460,984
	458,602	138,462	(69,401)	527,663

b Operations and management agreement

In November 2013, the Company entered into an operations and management contract with Income Electrix Limited (as a local technical partner) for the provision of technical service assistance including extensive services on IT, procurement, integration, strategic personnel support and turnaround strategies.

	1 January 2020 N'000	Additions N'000	Payments N'000	31 December 2020 N'000
Operations and maintenance	28,638	1,004,237	(678,453)	354,422
Secondment fee	35,057	197,224	(189,576)	42,705
	63,695	1,201,461	(868,029)	397,127

c Metering contract with related parties

In 2016, the Company entered into a metering supply contract with five related parties valued at ₦1.8 billion. In April 2017, the Company also entered into meter installation contract valued at ₦739.5 million with Kilowatt Engineering Services to install meters. In 2020, Armese Ltd. renewed its metering contract with the Company for ₦3.0 billion for the supply of 71,194 meters under the Metering Asset Program (MAP).

The following table provides the amount owed to each of these related parties for the relevant years:

	1 January 2020 N'000	Additions N'000	Payments N'000	31 December 2020 N'000
Armese Limited	720,726	2,735,103	(2,029,542)	1,426,287
Leighton Energy Synergy	53,217	-	-	53,217
Invotec Limited	500	-	-	500
Kilowatt Engineering Limited	365,958	-	-	365,958
	1,140,401	2,735,103	(2,029,542)	1,845,962

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Related party transactions (continued)

d Bill distribution and Distribution Substation operations contract related parties

In 1 December 2016, the Company entered into a bill distribution contract with Invotec Limited and Tegwa - Tegwa Nigeria.

The following table provides the payments to these companies in the financial year:

	1 January 2020 N'000	Additions N'000	Payments N'000	31 December 2020 N'000
Invotec Limited	6,330	-	(6,330)	-
Tegwa-Tegwa Nigeria Limited	7,281	-	(7,281)	-
	13,611	-	(13,611)	-

e Procurement, construction and commissioning of 33KV Commercial Feeder

In September 2018, the Company entered into a contract with Modev Nigeria Limited for the procurement, construction and commissioning of a 33 KVA commercial feeder in the University of Port Harcourt's teaching hospital (UPTH) valued at thirty million naira (₦30 million).

	1 January 2020 N'000	Additions N'000	Payments N'000	31 December 2020 N'000
Modev Nigeria Limited	6,617	-	-	6,617

f Ancillary services performed by related parties

Ancillary services performed by related parties are shown below:

	1 January 2020 N'000	Additions N'000	Payments N'000	31 December 2020 N'000
Tegwa-Tegwa: Weeding of injection sub station	145	-	(145)	-
Chakel Security Services: Security services	5,284	62,548	(61,284)	6,548
Kilowatt Engineering: Transformer maintenance and repairs	96,915	169,232	(97,739)	168,408
	102,344	231,780	(159,168)	174,956

g Payment collection and energy vending services performed by related parties

In 25 February 2019, the Company entered into a payment collection and energy vending agreement with Easypay International Services Limited. The energy vending agreement brings about the contract liability as outlined in notes 22. The collection agreement brings about a receivable which represents the monies collected on behalf of the Company which is yet to be remitted as at 31 December 2020.

	1 January 2020 N'000	Additions N'000	Payments N'000	31 December 2020 N'000
Related party receivable				
Easypay International Services Limited	21,356	522,347	(522,347)	21,356

The companies disclosed in notes 25b - 25g have key management personnel in common with Port Harcourt Electricity Distribution Plc. and are therefore, related parties of the Company.

Port Harcourt Electricity Distribution Plc.
Financial Statements
For the Year Ended 31 December 2020
Notes to the Financial Statements

h Key management compensation

Key management includes the directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown below:

	31 December 2020 N'000	31 December 2019 N'000
Remuneration paid to the Company's directors was:		
Salaries and wages	180,000	63,219
Other short term benefits	150,260	168,483
	330,260	231,702
Other short term benefits relates to director's fees and board expenses.		
Fees and other emoluments disclosed above includes amount paid to:		
Highest paid director	180,000	49,719

There was no other compensation paid during the period. There were no loans to key management personnel.

The number of directors who received fees and other emoluments (excluding pension contributions) in the following ranges was:

	31 December 2020 Number	31 December 2019 Number
Below N10,000,000	-	-
N10,000,001 - N20,000,000	8	8
N20,000,001 - N30,000,000	-	-
Above N30,000,000	1	1
	9	9

i Employees information

The average number of persons employed by the Company during the period is as follows:

	31 December 2020 Number	31 December 2019 Number
Senior Management	16	30
Management	104	26
Senior staff	661	683
Junior staff	1,336	397
	2,117	1,136
	31 December 2020 N'000	31 December 2019 N'000
Staff cost for employees and contractors		
Salaries and allowances (including the executive directors emoluments)	2,964,370	2,802,674
Pension costs- defined contribution plans	127,945	121,289
	3,092,315	2,923,963

Of this amount, N2.0 billion representing direct staff costs was reclassified to cost of sales (2019: N1.8 billion).

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Other-paid employees of the Company, other than directors, whose duties were wholly or mainly discharged in Nigeria received remuneration (excluding pension contributions) in the following ranges:

	31 December 2020 Number	31 December 2019 Number
Below ₦1,000,000	1,123	376
₦1,000,000 - ₦2,000,000	610	366
₦2,000,000 - ₦3,000,000	218	211
₦3,000,000 - ₦4,000,000	103	102
₦4,000,000 - ₦5,000,000	21	29
Above ₦5,000,000	42	52
	2,117	1,136

j Transactions with key management personnel

There were no transactions with key management personnel or their close family members (2019:nil).

k Loans to directors

The Company did not lend money to any of its directors during the year under review (2019:nil).

l Payments on behalf of key management personnel

There were no payments on behalf of key management personnel during the year under review (2019:nil).

m Terms and conditions

All related party transactions were made on normal commercial terms and conditions and market rates. The outstanding related party balances are unsecured and are repayable in cash.

26 Nigerian Bulk Electricity Trading Plc (NBET) and Operator of the Nigerian Electricity Market (Market Operator)

The Nigerian Bulk Electricity Trading Plc (NBET) is a government owned public liability company. It is an electricity trading licensee that engages in the purchase of electric power from independent power producers and generation companies and responsible for the subsequent resale to distribution companies and eligible consumers.

The Operator of the Nigerian Electricity Market, an operational arm of the Transmission Company of Nigeria (TCN) is responsible for the operations of the electricity market and the administration of metering systems among generation, transmission and distribution companies.

	31 December 2019 ₦'000	*Adjustment ₦'000	Additions ₦'000	Payments ₦'000	31 December 2020 ₦'000
NBET	203,810,097	(63,300,760)	63,147,767	(27,914,617)	175,742,487
Market Operators	24,948,403	-	9,646,824	(6,946,453)	27,648,774
	228,758,500	(63,300,760)	72,794,591	(34,861,070)	203,391,261

*Adjustment relates to the credit notes issued to PHED by NBET of ₦2.9 billion which discounts the February 2015 - December 2018 invoices based on the recovered fuel premium rate charged on gas and ₦60.4 billion which relates to reversal of interest on tariff shortfall related NBET payables based on NERC order number NERC/196/2020 dated 28 January 2020. Per NERC order, the regulator ordered the elimination of interest on tariff shortfall related NBET payables.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

27 Capital commitments and contingent liabilities

a Capital commitments

The Company had no capital commitments as of the balance sheet date (2019:nil).

b Contingent liabilities

A contingent liability is a potential liability that may occur depending on the outcome of an uncertain future event. At the balance sheet date, the Company had pending court cases where the plaintiff's claim in total is to the tune of ₦2.2 billion (2019: nil). The Company's lawyer has expressed optimism that the incidence of liability against the Company will be minimal.

Transfer of pre-takeover liabilities and receivables

As part of the privatisation process, the Company through the Bureau of Public Enterprise (BPE) signed a deed of assignment of the pre-takeover liabilities and trade receivables with Nigerian Electricity Liability Management Company (NELMCO) effective 31 October 2013. The directors, based on independent legal advice obtained as well as their understanding of the Share Sale Agreement between 4Power Consortium, BPE and Ministry of Finance Incorporated, are of the opinion that all pre-takeover trade receivables and liabilities (crystallized or contingent) as at 31 October 2013 have been effectively transferred to NELMCO. Therefore, the Company believes that it will neither realise those receivables nor settle any liability existing as at 31 October 2013 and no recognition of impairment is required.

28 Going concern

The Company is in a net current liabilities position of ₦45.9 billion (2019: ₦46.4 billion) at the end of the year. In addition, the company had an accumulated deficit of ₦11.7 billion (2019: ₦12.2 billion) as at 31 December 2020.

The dynamics of Transitional Electricity Market (TEM) is that the distribution companies would pay the full price of energy purchased from Nigeria Bulk Electricity Trading Plc (NBET) and reflect same in the charges passed on to end users. However, the distribution companies (DisCos) have not been able to pass on those full charges due to lack of implementation of a cost reflective tariff by the Nigerian Electricity Regulatory Commission (NERC) despite having to pay the full amount of energy purchased from NBET. Accordingly, they continue to make losses.

These conditions indicate that there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The directors have undertaken the following steps to address the situation:

- a** The directors have implemented action plans necessary to reduce the Aggregate Technical, Commercial & Collection (ATC&C) losses. These actions include:
 - i** increased rate of prepaid metering of customers.
 - ii** increased rate of customer enumeration to ensure effective customer billing.
 - iii** increased infrastructure investment to strengthen the distribution network among other initiatives.
- b** The directors are also engaging in high level discussions with the Nigerian Electricity Regulatory Commission (NERC). Highlighted below are recent NERC orders impacting the Company.
 - i** The Nigerian Electricity Regulatory Commission (NERC) has ordered the elimination of interest on NBET outstanding payables above the minimum monthly remittance thresholds for each DisCo. The minimum monthly remittance thresholds are minimum thresholds of NBET's invoice expected to be remitted by the DisCos on a monthly basis and within a stipulated time frame.
 - ii** Also, NERC has ordered the write off of unpaid tariff related portion of the NBET invoice (the unpaid tariff related portion of the NBET invoice relates to portion of invoice above the minimum monthly remittance threshold) which shall be temporarily in the books of the distribution Companies ('DisCos') when same is paid to generation companies ('GenCos') from the payment assurance facility ('PAF') or other funding sources in the Power Sector Reform Program (PSRP) financing plan.

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

Going concern (continued)

- iii NERC has also affirmed FGN tariff support during the transitional period to full revenue recovery ending June 2021 based on the under recovery of the revenue requirement determined by NERC but only within the context of funding available under the PSRP financing plan.
- iv NERC has required DisCos to disaggregate their respective service areas and/or customers in accordance with quality of service and supported by a proposal for 'service reflective' tariff classes that shall be graduated by quality of service. This NERC order would ensure reduction in ATC&C losses via increased revenue and increased collections. This NERC order is currently being implemented by the Company.

The directors are hopeful that the steps taken will have a successful outcome and result in significant improvement in the Company's operating results and financial position.

The directors conclude that they have a reasonable expectation that the Company can continue in operational existence for the foreseeable future. For these reasons the Company continues to adopt the going concern basis in preparing its financial statements.

29 Impairment of financial assets

The following are the Company's financial assets that are subject to IFRS 9's expected credit loss model:

- Trade receivable
- Other receivables*
- Cash and cash equivalents

*Other receivables exclude withholding tax recoverable, prepayment and value added tax (VAT) receivables as these are non-financial instruments.

a Trade receivables

The Company applies the simplified approach in measuring the expected credit losses (ECL) which recognises a lifetime expected loss allowance for all trade receivables. Trade receivables represent the amount of receivable from third-party customers for the supply of power. The expected credit loss rate for this receivable is determined using a provision matrix approach.

The provision matrix approach is based on the historical credit losses experienced within four (4) years before 1 January 2020 and 31 December 2020. The historical loss rates are adjusted to reflect forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the Gross Domestic product (GDP) and inflation rate of Nigeria (being the country in which it provides its services) to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at 31 December 2020 in accordance with IFRS 9 was determined as follows:

Age of trade receivables	0 - 3 months	4 - 6 months	7 - 9 months	10 - 12 months	Above 12 months	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Gross carrying amount	15,114,946	13,627,131	12,809,114	9,993,940	115,439,892	166,985,023
Default rate	76.27%	84.52%	85.13%	91.61%	100.00%	94.95%
Lifetime ECL	(11,527,869)	(11,517,659)	(10,903,891)	(9,155,918)	(115,439,892)	(158,545,229)
Net carrying amount	3,587,077	2,109,472	1,905,223	838,022	-	8,439,794

On that basis, the loss allowance as at 31 December 2019 in accordance with IFRS 9 was determined as follows:

Age of trade receivables	0 - 3 months	4 - 6 months	7 - 9 months	10 - 12 months	Above 12 months	Total
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Gross carrying amount	4,643,527	5,360,635	5,453,221	9,908,012	110,372,808	135,738,203
Default rate	99.82%	99.88%	100.00%	100.00%	100.00%	99.99%
Lifetime ECL	(4,635,282)	(5,354,134)	(5,453,221)	(9,908,012)	(110,372,808)	(135,723,457)
Net carrying amount	8,245	6,501	-	-	-	14,746

Port Harcourt Electricity Distribution Plc.

Financial Statements

For the Year Ended 31 December 2020

Notes to the Financial Statements

b Other receivables

For presentation purposes, this has been classified into two categories;

Category 1: FGN treasury bills

Category 2: Receivables from collection agents and receivables from the Federal Government of Nigeria as a result of the revenue tariff shortfall.

For both categories, the Company applied the IFRS 9 general model for measuring their expected credit losses (ECL). This requires a three-stage approach in recognising the expected loss allowance. A day one provision will now be required on these instruments. The three-stage model will require monitoring of credit risk to determine when there has been a significant increase. The ECL has been calculated using the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The three (3) stage model also incorporates forward looking estimates. The ECL recognised for the period is a probability-weighted estimate of credit losses discounted at the effective interest rate of the financial asset. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

For category 1, which was assessed to be in stage 1, the identified expected losses as at 1 January 2020 and 31 December 2020 was determined to be insignificant and therefore no adjustments were made.

For category 2, which was assessed to be in stage 2 and stage 3, the identified expected losses as at 31 December 2020 are as follows:

	Stage 1	Stage 2	Stage 3	Total
	₦'000	₦'000	₦'000	₦'000
Gross carrying amount	3,368,242	182,976,598	810,737	187,155,577
Default rate	0.5%	1.5%	100.0%	1.9%
Lifetime ECL	(15,629)	(2,737,201)	(810,737)	(3,563,567)
Net carrying amount	3,352,613	180,239,397	-	183,592,010

c Cash and cash equivalents

The Company applied the IFRS 9 general model for measuring expected credit losses (ECL) to cash and cash equivalents. This requires a three-stage approach in recognising the expected loss allowance. A day one provision will now be required on these instruments. The three stage model will require monitoring of credit risk to determine when there has been a significant increase. The ECL has been calculated using the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The three (3) stage model also incorporate forward looking estimates.

The ECL recognised for the period is a probability-weighted estimate of credit losses discounted at the effective interest rate of the financial asset. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive).

The Company assessed the cash and cash equivalents to determine their expected credit losses. Based on this assessment, they identified the expected losses as at 1 January 2020 and 31 December 2020 to be insignificant. The assets are assessed to be in stage 1.

The Company considers both quantitative and qualitative indicators in classifying these financial assets into the relevant stages for impairment calculation. Impairment provision is recognised in three stages based on days past due.

Using the criteria stated, a worst case staging is assigned to every receivable.

Stage 1: This stage includes financial assets that are less than 30 days past due (performing).

Stage 2: This stage includes financial assets that have been assessed to have experienced a significant increase in credit risk using the days past due criteria (i.e., the outstanding receivables amounts are more than 30 days past due but less than 90 days past due) and other qualitative indicators such as external credit rating (as far as available) and actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the counterparty's ability to meet its obligations.

Stage 3: This stage includes financial assets that have been assessed as being in default. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Port Harcourt Electricity Distribution Plc.

Other National Disclosures

For the Year Ended 31 December 2020

Value Added Statement

	Notes	31 December 2020 ₦'000	%	31 December 2019 ₦'000	%
Revenue from contracts with customers	5	57,144,010	345	49,884,008	1,226
Other income	7	48,066,486	290	45,381,895	1,115
Bought in materials and services		(88,631,759)	(535)	(91,198,644)	(2,241)
Value added		16,578,737	100	4,067,259	100
Distributed as follows:					
Employees					
Salaries and wages	6,8	2,964,370	18	2,802,673	69
Providers of capital					
Interest on borrowings	10	10,543,556	64	7,719,854	190
Maintenance of assets					
Depreciation	13	2,306,717	14	2,212,948	54
Amortization	14	49,400	1	8,670	1
Government					
Taxation	8, 11.1	714,462	4	135,157	3
Retained for growth and expansion					
Loss attributable to members		232	(1)	(8,812,043)	(217)
Value added		16,578,737	100	4,067,259	100

The value added statement is presented in these financial statements for the purpose of complying with the Companies and Allied Matters Act disclosure requirements.

Port Harcourt Electricity Distribution Plc.

Other National Disclosures

For the Year Ended 31 December 2020

Five-Year Financial Summary

STATEMENT OF FINANCIAL POSITION

	31 December 2020 ₦'000	31 December 2019 ₦'000	31 December 2018 ₦'000	31 December 2017 (Restated) ₦'000	31 December 2016 (Restated) ₦'000
ASSETS EMPLOYED					
Non-current assets	64,437,257	65,375,782	64,459,522	63,771,382	63,116,678
Current assets	203,092,638	202,336,851	5,087,151	48,008,539	37,881,320
Current liabilities	(248,967,838)	(248,781,239)	(41,731,355)	(31,041,968)	(17,967,632)
Non-current liabilities	(12,969,041)	(13,338,610)	(13,410,491)	(10,554,162)	(13,477,399)
	5,593,016	5,592,784	14,404,827	70,183,791	69,552,967
CAPITAL AND RESERVES					
Share capital	5,000	5,000	5,000	5,000	5,000
(Accumulated deficit)/retained earnings	(11,723,821)	(12,229,308)	(4,201,857)	50,855,855	49,435,278
Revaluation reserve	17,311,837	17,817,092	18,601,684	19,322,936	20,112,689
	5,593,016	5,592,784	14,404,827	70,183,791	69,552,967

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2020 ₦'000	2019 ₦'000	2018 ₦'000	2017 (Restated) ₦'000	2016 (Restated) ₦'000
Revenue from contracts with customers	57,144,010	49,884,008	48,608,452	78,827,376	49,940,546
Profit/(loss) before income tax	451,706	(8,812,043)	(14,553,222)	630,824	(21,422,395)
Income tax (expense)/credit	(451,474)	-	-	-	8,773,428
Total comprehensive profit/(loss)	232	(8,812,043)	(14,553,222)	630,824	(12,648,967)
Basic earnings/(loss) per share (₦)	0.02	(881.20)	(1,455.00)	63.08	(1,264.90)

The five-year financial summary is presented in these financial statements for the purpose of complying with the Companies and Allied Matters Act disclosure requirements.