

Azura Power West Africa Limited

Annual Report

31 December 2017

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Corporate information

Registration Number: RC. 916450

Directors:

David Ladipo - Managing Director
Sundeep Bahanda - Chairman
Opuiyo Oforiokuma
Olusola Lawson
Sean MacDonald
Crispin Holliday
Adrian Mucalov
Alan Muir

Company Secretary:

ALSEC Nominees Limited
St. Nicholas House
10th Floor, Catholic Mission Street
Lagos
Nigeria

Solicitors:

Trinity International LLP
Dashwood House
69 Old Broad Street
London
United Kingdom

Templars (Barristers & Solicitors)
13A, A.J. Marinho Drive
Victoria Island Annexe
Lagos
Nigeria

Registered Office:

St. Nicholas House
10th Floor, Catholic Mission Street
Lagos
Nigeria

Auditors:

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

Principal Bankers:

First City Monument Bank Plc
Standard Chartered Bank Nigeria Limited
Standard Chartered Bank UK
Zenith Bank Plc

Directors' report

For the year ended 31 December 2017

The Directors present their report on the affairs of Azura Power West Africa Limited, together with the financial statements and auditor's report for the year ended 31 December 2017.

Principal Activity and Business Review

Azura Power West Africa Limited ("the Company" or "APWAL") was incorporated in Nigeria on 14 October 2010 as a limited liability company to generate power in Nigeria.

On 4 January 2016, the Company commenced the construction of the Azura-Edo Independent Power Plant (IPP) project upon achieving financial close on 28 December 2015. Construction of the power plant is being executed under a fully wrapped, turnkey, engineering, procurement, and construction ("EPC") contract (signed on 29 April 2014) by a consortium comprised of Siemens AG, Siemens Nigeria Limited and Julius Berger Nigeria Plc. The Azura-Edo IPP is located in Edo State and will comprise 3 gas powered turbines with heavy-duty E-class Open Cycle Gas Turbines (OCGTs). Siemens will also be performing the long-term maintenance service under a Long-term maintenance Agreement.

The Contractor mobilised to site on 4 January 2016 and the period of construction is estimated to be completed 31 May 2018. Upon commercial operations at the end of the construction period, the Company will sell power under a 20-year Power Purchase Agreement (PPA) to the Nigerian Bulk Electricity Trading PLC ("NBET"). The PPA was signed on 22 April 2013 (subsequently amended on 1 December 2014 and 25 November 2015).

The Company will source gas from nearby fields through a long-term Gas Sales Purchase Agreement (GSPA) signed on 14 April 2014 (subsequently amended on 1 December 2014 and 24 November 2015) with Seplat Petroleum Development Company PLC (Seplat), an indigenous independent oil and gas company and Nigerian Petroleum Development Company (NPDC). Seplat is the operator of the Oben Gas Plant located about 50km from the Project site. The gas will be transported by the Nigerian Gas Company (NGC) under a gas transportation agreement signed on 22 July 2014 (subsequently amended on 28 September 2015).

On 20 December 2017, the Company fired its first turbine as part of the testing required for the plant to be commissioned. During this test period, the Company successfully sold power to the grid (See Note 21(b) to these financial statements).

The Company incurred a loss before tax of ₦12.18 billion for the year ended 31 December 2017 (2016 : ₦ billion). The loss comprises mainly of interest expense on loans not attributable to construction of the IPP and costs incurred on lender fees, professional fees, training and development, as well as insurance premium on the Company's various insurance policies.

Funding Arrangements

The Azura-Edo IPP funding structure is comprised of both equity and debt. The debt holders comprise fifteen (15) international and local lending institutions as well as shareholders. During the year under review, the Company drew down, in six disbursements, a total amount of ₦36.39 billion (\$114.58 million) from Senior Loans, and ₦5.53 billion (\$17.38 million) from its Local Loan Facility. These exclude the amount of \$65m in Mezzanine Loans that were fully drawn down at financial close in the 2015. The amounts drawn down during the year were primarily used to pay for project costs consisting of EPC contractor milestone payments, financing costs, lender fees, professional fees, and operating costs.

Directors' report (cont'd)

Based on the project plan, the Directors expect the Company to commence generation of power by 31 May 2018.

Operating Results

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

	2017	2016
	₦'000	₦'000
Revenue	-	-
Loss before taxation	(12,177,671)	(4,802,418)
Taxation	5,276,392	-
Loss after taxation	(6,901,279)	(4,802,418)

No dividend has been recommended by the Directors (2016:Nil).

Directors and their Interests

The Directors who served during the year were as follows:

Name of Director	Nationality	Date (Resigned)/Appointed
David Ladipo - Managing Director	Nigerian	
Philip Ihenacho	Nigerian	(15 February 2017)
Sundeep Bahanda- Chairman	British	
Opuiyo Oforiokuma	Nigerian	
Olusola Lawson	Nigerian	
Sean MacDonald	British	
Crispin Holliday	British	
Adrian Mucalov	British	
Alan Muir	British	1 March 2017

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

For the purpose of Section 277 of the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004, none of the Directors has notified the Company of any declarable interests in the contracts with the Company except as disclosed in Note 24 to the financial statements.

Directors' report (cont'd)

Material Agreements

The Company has entered into the following material agreements:

1 *Gas Sales and Purchase Agreement (GSPA)*

The Company entered into an agreement with Seplat Petroleum Development Company Plc (Seplat) and Nigerian Petroleum Development Company Ltd (NPDC) on 14 April 2014 (subsequently amended on 1 December 2014 and 24 November 2015) for the supply of gas from nearby fields. The tenure of the GSPA is fifteen (15) years commencing from the date Seplat starts gas deliveries to the Company, with an option for a five year renewal after the initial tenor. The GSPA contains take or pay minimum quantities of gas off-take. The Company has an obligation to provide a \$55 million irrevocable letter of credit (LC) as a security for its payment obligations which has been provided. See Note 11 to these financial statements for further information about the LC. The gas will be transported to the power plant under the Gas Transportation Agreement (GTA) signed on 22 July 2014 with the Nigerian Gas Company Limited.

2 *Engineering, Procurement and Construction (EPC) Contract*

Construction of the Power Plant will be executed under a fully wrapped, turnkey, engineering, procurement and construction ("EPC") contract by a consortium comprising Siemens AG, Siemens Nigeria Limited and Julius Berger Nigeria Plc. The EPC contract was signed on 30 April 2014 and subsequently amended on 15 December 2014 and 19 November 2015. The EPC contract is active and activities are ongoing.

3 *Power Purchase Agreement (PPA)*

The Company entered into a 20-year Power Purchase Agreement (PPA) with the Nigerian Bulk Electricity Trading Plc (NBET) in April 2013 (as subsequently amended on 1 December 2014 and 25 November 2015) to sell electric power (capacity and energy) generated from its planned Power Plant in Edo State at an agreed upon pricing model and contract capacity. This agreement underlies the Company's revenue stream as it contains the terms upon which the Company's sole customer (NBET) will buy and pay for the electric energy generated from the plant after construction. It is fundamental to the project finance structure of the Company, since, without it, the Company could not have secured the requisite financing to construct the Plant. NBET is wholly owned by the Federal Government of Nigeria (FGN) and was established as part of the ongoing Nigeria power sector reforms.

NBET's obligation to pay the Company is supported by the Federal Government with underlying support which has been provided by the World Bank in the form of a Partial Risk Guarantee (PRG) and liquidity support. Multilateral Investment Guarantee Agency (MIGA) is also providing termination support to both debt and equity investors.

4 *Put Call Option Agreement (PCOA)*

The Put Call Option Agreement (PCOA) was executed on 22 October 2014 with the Company, Azura-Edo Limited, the Federal Government of Nigeria ("FGN"), and Nigerian Bulk Electricity Trading Plc ("NBET"). Should the PPA ever have to be terminated, the PCOA sets out the terms and conditions under which the FGN and/or NBET will have a right or an obligation (or both) to purchase the shares or the assets of the Company from its owners (Azura-Edo Limited); and in each case, the price that must be paid therefore.

Directors' report (cont'd)

5 Common Terms Agreement and Loan Financing Agreements

The Common Terms Agreement (CTA) was executed on 27 November 2014 and provides a common framework of understanding for the lender consortium. The CTA was amended and restated on 9 December 2015 principally to align the contractual timelines surrounding disbursements, interest payments and principal repayments with the realities in view of the unforeseen delay to financial close.

The lender consortium comprises CDC Group Plc; DEG – Deutsche Investitions – Und Entwicklungsgesellschaft Mbh; ICF Debt Pool LLP; International Finance Corporation; Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.; Société De Promotion et de Participation pour la Coopération Économique S.A.; Swedfund International AB; Overseas Private Investment Corporation; The Emerging Africa Infrastructure Fund Ltd; Firstrand Bank Limited (Acting through its Rand Merchant Bank Division); Siemens Bank GMBH; The Standard Bank of South Africa Limited; Standard Chartered Bank; and First City Monument Bank Limited.

Fifteen (15) individual loan financing agreements between the Company and the above suite of lenders were also executed between 25-27 November 2014 and contain specific payment requirements and account funding requirements that are customary for power project financing transactions of this nature. Lenders will be providing \$566.5 million and ₦24 billion of long-tenor senior and mezzanine financing for the project as follows:

- \$501.5 million of offshore senior debt facilities, which includes a \$55 million of a GSPA Letter of Credit facility.
- \$65 million of offshore USD mezzanine debt facilities, which is funded by Development Finance Institutions (DFIs).
- ₦24 billion of an Onshore Senior Debt Facility, provided through the Bank of Industry (BOI) Power and Airline Intervention Fund (PAIF) concessional window.

6 Maintenance Contracts

The maintenance contracts include the Operation and Maintenance Agreement signed on 5 May 2014 (as amended), which appoints PIC Group to operate and maintain the power plant. The Long Term Maintenance Contract (LTMC) was also executed on 24 July 2014 (as amended) between the Company, Siemens Nigeria Limited and Siemens AG. The LTMC sets out the terms for long term maintenance services comprising parts, repairs, and scheduled outages. These agreements became effective on 31 December 2015.

7 Grid Connection and Ancillary Services Agreements

On 24 June 2014, the Company entered into two agreements with the Transmission Company of Nigeria (TCN) Plc; Grid Connection Agreement which provides the terms and conditions for connection of the power plant with the Transmission Network System of TCN and Ancillary Services Agreement that provides for additional services.

Directors' report (cont'd)

As part of the Company's corporate governance activities, the Company set up the Board Audit and Risk Committee (BARC) on 13 May 2016. BARC is mainly responsible for the financial reporting matters of the Company which includes the review of the audited financial statements, review of the Company's budgets and recommendation of the financial statements to the Company's board of directors for approval, among others.

Members of the BARC are as follows:

- a. Opuiyo Oforiokuma
- b. Sean MacDonald

Shareholding Structure

The shareholding structure of the Company is as follows:

	Ordinary Shares of ₦1 each			
	2017	%	2016	%
	Number		Number	
Azura-Edo Limited	3,777,564	97.5	3,777,564	97.5
Edo State Government	96,860	2.5	96,860	2.5
	3,874,424	100	3,874,424	100

Azura-Edo Limited has charged all its shares in the Company in favor of the Company's external lenders until all obligations to the lenders have been fully discharged.

Charitable Donations

During the year, the Company in pursuance of its corporate social responsibility, incurred expenses on capacity building and enhancement of mobility of stake holders in the Nigerian power sector. Total amount spent was \$314,350 (₦106.3 million) ((2016: \$334,421 (₦105.3 million)). This was included in profit or loss as part of training and professional development costs. See Note 5(a) in these financial statements. The Company did not make any donation to any political association, or for any political purpose in the course of the year (2016: Nil).

Employment and Employees

(a) Employee Consultation and Training

The Company places considerable value on the involvement of its employees in major policy matters and keeps them informed on matters affecting them as employees and on various factors affecting the performance of the Company. This is achieved through regular meetings with employees and consultations with their representatives.

(b) Dissemination of Information

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

Directors' report (cont'd)

(c) Employment of Physically Challenged

The Company has no physically challenged persons in its employment (2016:Nil). However, the Company's employment policy does not discriminate against any individual for reason of his/her infirmity as each employment case is purely treated on merit.

(d) Employee Health, Safety and Welfare

The Company places a high premium on the health, safety and welfare of its employees in their place of work. In order to protect staff and other persons against risk to health and safety hazards arising out of or in connection with the Company's planned construction activities, the Company has established an Environmental, Health, and Safety (EH&S) management system. The Company has also put in place various forms of insurance policies, including workmen compensation insurance and life insurance to adequately secure and protect its employees.

Property, Plant and Equipment

Information relating to changes in property, plant and equipment is disclosed in Note 9 to these financial statements.

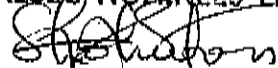
Events after the reporting date

See Note 29 to these financial statements.

Independent Auditor

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

Lagos, Nigeria
27 March 2018

BY ORDER OF THE BOARD
ALSEC NOMINEES LIMITED

ALSEC Nominees Limited.....
Company Secretaries

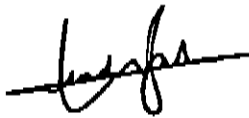
Statement of directors' responsibilities in relation to the financial statements for the year ended 31 December 2017

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

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

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS BY:



Signature

Sundeep Bahanda
FRC/2014/IODN/00000007525

27 March 2018

Date



Signature

David Ladipo
FRC/2014/IODN/00000007487

27 March 2018

Date



KPMG Professional Services
KPMG Tower
Bishop Aboyade Cole Street
Victoria Island
PMB 40014, Falomo
Lagos

Telephone 234 (1) 271 8955
234 (1) 271 8599
Internet www.kpmg.com/ng

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **Azura Power West Africa Limited**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Azura Power West Africa Limited** ("the Company") which comprise the statement of financial position as at 31 December 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 12 to 55.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 and the Financial Reporting Council of Nigeria Act, 2011.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Directors are responsible for the other information. The other information obtained at the date of this auditor's report are the Corporate information, Directors' report, Statement of directors' responsibilities and Other national disclosures, but does not include the financial statements and our audit report thereon.

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

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



Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs and in the manner required by the Companies and Allied Matters Act, Cap C.20, Laws of the Federation of Nigeria, 2004 Nigeria and the Financial Reporting Council of Nigeria Act, 2011, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



Report on Other Legal and Regulatory Requirements

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

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

Signed:

Ayodele A. Soyinka, FCA
FRC/2012/ICAN/00000000405
For: KPMG Professional Services
Chartered Accountants
27 March 2018
Lagos, Nigeria





Statement of financial position

As at:

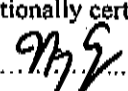
	Note	31 December 2017	31 December 2016
		₦'000	₦'000
ASSETS			
Property, plant and equipment	9	164,259,680	93,258,270
Intangible assets	10	83,303	71,190
Trade and other receivables	11	-	6,066,270
Prepayments	13	-	10,185,210
Deferred tax assets	8(e)	6,068,952	-
Non-current assets		170,411,935	109,580,940
Trade and other receivables	11	12,271,483	9,105,390
Inventory	12	9,234	-
Prepayments	13	9,244,509	605,745
Cash and cash equivalents	14	7,889,448	32,994,360
Current assets		29,414,674	42,705,495
Total assets		199,826,609	152,286,435
EQUITY			
Share capital	15	3,874	3,874
Share premium	16	33,998	33,998
Retained earnings		(10,758,955)	(3,857,676)
Hedging reserve	17(a)	(260,006)	(1,114,701)
Translation reserve	17(b)	(2,358,077)	(784,320)
Total equity		(13,339,166)	(5,718,825)
LIABILITIES			
Interest rate swaps	22(a)	1,188,191	1,786,680
Loans and borrowings	18(a)	187,836,747	122,956,971
Deferred income	19	11,612,282	7,731,360
Non-current liabilities		200,637,220	132,475,011
Loans and borrowings	18(a)	11,171,721	4,992,564
Provisions	20	98,773	218,610
Trade and other payables	21	1,258,061	20,319,075
Current liabilities		12,528,555	25,530,249
Total liabilities		213,165,775	158,005,260
Total equity and liabilities		199,826,609	152,286,435

These financial statements were approved by the Board of Directors on 27 March 2018 and signed on its behalf by:

.....  Managing Director
FRC/2014//IODN/00000007487

.....  Director
FRC/2014//IODN/00000007525

Additionally certified by:

.....  Chief Finance Officer
FRC/2014/MULTI/00000007486

The notes on pages 16 to 55 are an integral part of these financial statements.

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

	Notes	2017 ₦000	2016 ₦000
Other income	5(b)	5,870	-
Administrative expenses	5(a)	(3,163,130)	(1,567,883)
Operating loss		(3,157,260)	(1,567,883)
Finance income		1,894,942	2,819,320
Finance costs		(10,915,353)	(6,053,855)
Net finance costs	6	(9,020,411)	(3,234,535)
Loss before income tax	7	(12,177,671)	(4,802,418)
Income tax credit	8(a)	5,276,392	-
Loss for the year		(6,901,279)	(4,802,418)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Foreign currency translation difference		(1,573,757)	(784,320)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Cash flow hedges- effective portion of changes in fair value	22	751,917	61,448
Tax on other comprehensive income	8(b)	102,778	-
Total other comprehensive income for the year, net of tax		(719,062)	(722,872)
Total comprehensive income for the year		(7,620,341)	(5,525,290)

The notes on pages 16 to 55 are an integral part of these financial statements.

Statement of changes in equity

	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Total equity
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Balance at 1 January 2017	3,874	33,998	(3,857,676)	(1,114,701)	(784,320)	(5,718,825)
Total comprehensive income:						
Loss for the year	-	-	(6,901,279)	-	-	(6,901,279)
Other comprehensive income	-	-	-	854,695	(1,573,757)	(719,062)
Total comprehensive income for the year	-	-	(6,901,279)	854,695	(1,573,757)	(7,620,341)
Transactions with owners of the Company						
<i>Contributions and Distributions</i>						
Issue of ordinary shares	-	-	-	-	-	-
Total transactions with owners of the Company	-	-	-	-	-	-
Balance at 31 December 2017	3,874	33,998	(10,758,955)	(260,006)	(2,358,077)	(13,339,166)
	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Total equity
	₦'000	₦'000	₦'000	₦'000	₦'000	₦'000
Balance at 1 January 2016	3,874	33,998	944,742	(1,176,149)	-	(193,535)
Total comprehensive income:						
Loss for the year	-	-	(4,802,418)	-	-	(4,802,418)
Other comprehensive income	-	-	-	61,448	(784,320)	(722,872)
Total comprehensive income for the year	-	-	(4,802,418)	61,448	(784,320)	(5,525,290)
Transactions with owners of the Company						
<i>Contributions and Distributions</i>						
Issue of ordinary shares	-	-	-	-	-	-
Total transactions with owners of the Company	-	-	-	-	-	-
Balance at 31 December 2016	3,874	33,998	(3,857,676)	(1,114,701)	(784,320)	(5,718,825)

The notes on pages 16 to 55 are an integral part of these financial statements.

Statement of cash flows
For the year 31 December

	Notes	2017 ₦'000	2016 ₦'000
Cash flows from operating activities			
Loss for the year		(6,901,279)	(4,802,418)
Adjustments for:			
- Net finance costs		9,829,516	1,398,486
- Write-off of property, plant and equipment	5	3,819	-
- Deferred tax credit	8	(5,276,392)	-
- Depreciation	9(a)	81,775	29,796
- Amortisation	5(a)	6,635	5,794
		<u>(2,255,926)</u>	<u>(3,368,342)</u>
Changes in:			
- Trade and other receivables		4,448,436	528,329
- Prepayments		2,706,609	1,411,177
- Inventory		(8,273)	-
- Trade and other payables		<u>(227,513)</u>	<u>(1,420,006)</u>
		4,663,333	(2,848,842)
Resettlement costs paid	20(a)	(133,326)	(1,283,716)
Out of court settlement paid		-	(13,795)
		<u>4,530,007</u>	<u>(4,146,353)</u>
Net cash generated from/ (used in) operating activities			
Cash flows from investing activities:			
Acquisition of property, plant and equipment	9(c)	(53,723,680)	(30,316,174)
Acquisition of intangible assets	10	(8,273)	-
Net cash used in investing activities		<u>(53,731,953)</u>	<u>(30,316,174)</u>
Cash flows from financing activities:			
Proceeds from loans and borrowings	18(b)	41,917,759	48,838,600
Interest paid	18(b)	(6,838,754)	(1,875,224)
Transaction costs related to loans and borrowings	18(b)	<u>(4,211,695)</u>	<u>(2,812,267)</u>
Net cash generated from financing activities		<u>30,867,310</u>	<u>44,151,109</u>
Net increase in cash and cash equivalents		(18,334,636)	9,688,582
Cash and cash equivalents at 1 January		32,994,360	14,392,996
Effects of exchange rate fluctuation on cash held		(6,770,276)	8,912,782
Cash and cash equivalents at 31 December	14	<u>7,889,448</u>	<u>32,994,360</u>

The notes on pages 16 to 55 are an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

Azura Power West Africa Limited (“the Company”) was incorporated in Nigeria on 14 October 2010 as a limited liability company to generate power in Nigeria. The Company is a subsidiary of Azura-Edo Limited, a Company registered and domiciled in Mauritius.

The Company is domiciled in Nigeria. The Company's registered office is at St Nicholas House, 10th Floor, Catholic Mission Street, Lagos.

2. Basis for preparation

(a) Basis of measurement and accounting

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

They have been prepared on the historical cost basis except for certain items of financial instruments that are measured at fair value (See Note 23(f) to these financial statements). These financial statements were authorised for issue by the Company's Board of Directors on 27 March 2017.

Details of the Company's significant accounting policies are included in Note 4 and the methods used to determine fair values for initial recognition and disclosure purposes are discussed further in Note 3(iii).

(b) Functional and presentation currency

As a result of the ruling by the Financial Reporting Council of Nigeria stating that the presentation currency of entities operating in Nigeria is the Nigerian Naira, the Company has retained its presentation currency for its statutory financial statements as Nigerian Naira (₦). All financial information presented in Naira have been rounded to the nearest thousand (₦'000), except where otherwise indicated.

Translation to the presentation currency

The Company's functional currency (US Dollar) is different from the presentation currency (Nigerian Naira). The results and financial position of the Company are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement presenting profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- cash flows are translated at average exchange rate;
- All resulting exchange differences are recognised as a separate component of equity through other comprehensive income.

Notes to the financial statements

3. Use of estimates and judgments

In preparing these financial statements, the directors have made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(i) Judgements

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

- Note 4(g)(iv) – Determination of borrowing costs eligible for capitalisation

(ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2017 is included in the following notes:

- Notes 20 and 27: Recognition and measurement of provisions and contingencies: Key assumptions about the likelihood and magnitude of an outflow of resources.
- Notes 18(a) (i)(iii) and 18(c) : Loans and borrowings: Estimated commercial operations date used to estimate timing of repayment of the loans.

(iii) Measurement of fair values

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

The Company has an established control framework with respect to the measurement of fair values. The Chief Financial Officer (CFO) has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Board of Directors.

The Chief Financial Officer (CFO) regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the CFO assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Board of Directors.

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

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

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

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

Further information about the assumptions made in measuring fair values is included in the following

- Note 23 (f)- Fair values

Notes to the financial statements

4. Significant accounting policies

The Company has consistently applied the following accounting policies to all years presented in these financial statements.

(a) Finance income and finance costs

The Company's finance income and finance costs include:

- foreign currency gain or loss on financial assets and financial liabilities;
- interest expense on borrowings;
- unwinding of the discount on provisions and contingent settlements.

Except borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset which are capitalised as part of the related assets, finance costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movement are in a net gain or net loss position.

(b) Foreign currency transactions

Transactions in foreign currencies are translated into the US Dollar at the exchange rates at dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss except where they are regarded as an adjustment to borrowing costs and as such capitalised as part of property, plant and equipment.

However, foreign currency differences arising from the translation of the following items are recognised in other comprehensive income:

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedges are effective.

When there is a change in the Company's functional currency, the Company applies the translation procedures applicable to the new functional currency prospectively from the date of the change. The comparatives are translated into the new functional currency using the amounts determined under the new functional currency as at the date of change. Therefore, all comparative information are translated at the exchange rate as at that date.

(c) Financial Instruments

The Company classifies non-derivative financial assets as loans and receivables and classifies non-derivative financial liabilities into the other financial liabilities category.

(i) Non-derivative financial assets and financial liabilities - recognition and derecognition

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets and liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Notes to the financial statements

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

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

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

(ii) Non-derivative financial assets- measurement

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(iii) Non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method. The Company has the following non-derivative financial liabilities: loans and borrowings, trade and other payables.

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

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less, otherwise, they are presented as non current liabilities.

Loans and borrowings

Loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Loans and borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. Otherwise, the fee is deferred until the draw down occurs. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is recognised in profit or loss in the period it became probable that some or all of the facility will not be drawn down. Recurring and periodic service fees are not included as part of transaction costs capitalised and are generally recognised in profit or loss in the period they relate to.

Notes to the financial statements

Loans and borrowings are removed 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 (other than those arising from shareholder transactions) that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Gains or losses on extinguishment or transfer of a financial liability arising from shareholder transaction are accounted for directly in equity.

Loans and 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.

(iv) Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its interest rate risk exposures. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The Company designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in interest rates and certain derivatives.

At inception of designated hedging relationships, the Company documents the risk management objective and strategy for undertaking the hedge. The Company also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

Cash flow hedges

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

The amount accumulated in equity is retained in OCI and reclassified to profit or loss in the same period or periods during which the hedged forecast cash flows affect profit or loss or the hedged item affects profit or loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

(d) 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 in share capital at their par value. The excess of the issue price is recorded in the share premium reserve.

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

Notes to the financial statements

(e) Impairment

(i) Non-derivative financial assets

Financial assets not classified as fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

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

Financial assets measured at amortised cost

The Company considers evidence of impairment for these assets at both an individual asset and collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the Company uses historical information on timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospect of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

(ii) Non-financial assets

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

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash Generating Units (CGU).

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

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its estimated recoverable amount.

Notes to the financial statements

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

(f) Taxation

Income tax expense comprises current tax- company income tax and tertiary education tax, and deferred tax. Current and deferred tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Tertiary education tax is assessed at 2% of assessable profit.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

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

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

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

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

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

Notes to the financial statements

(g) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and accumulated impairment losses.

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

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

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Company.

(iii) Depreciation

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

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

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

Type of Asset		Basis
Motor vehicles	-	4 years
Furniture and fittings	-	4 years
Computer equipment	-	3 years
Office equipment	-	4 years
Plant and machinery	-	4 years

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

Property, plant and equipment under construction is not depreciated. The attributable cost of each asset is transferred to the relevant asset category immediately the asset is available for use and depreciated accordingly.

(iv) Capitalisation of borrowing costs

Borrowing costs from specific and general borrowings as well as foreign exchange differences on foreign currency borrowings that are regarded as an adjustment to interest costs and are attributable to the construction of qualifying assets are capitalised as part of the cost of the qualifying assets over the period of construction, until the asset is substantially ready for its intended use, to the extent that there are qualifying assets and borrowing costs have been incurred.

(h) Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

The Company's intangible assets with finite useful lives comprise power generation licence cost and software.

Notes to the financial statements

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific intangible asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation of intangible assets

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for acquired power generation licence and software are 15 years and 4 years respectively. Amortisation of the licence will commence on the power generation date till the date of expiry of the licence.

(i) Leases

(i) *Determining whether an arrangement contains a lease*

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

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

(ii) *Leased assets*

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

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

(iii) *Leased payments*

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability.

The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Notes to the financial statements

(j) Provisions and contingent liabilities

Provisions

Provisions are recognised 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 can be reliably estimated. Provisions are not recognised 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 recognised 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 management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised 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 recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

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

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

(k) Employee benefits

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan (pension fund) under which the Company pays fixed contributions into a separate entity. 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. Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

In line with the provisions of the Pension Reform Act 2014, the Company has instituted a defined contribution pension scheme for its employees. Staff contributions to the scheme are funded through payroll deductions while the Company's contribution is recognised in profit or loss as employee benefit expense in the periods during which services are rendered by employees. Employees contribute 8% each of their Basic salary, Transport and Housing Allowances to the Fund on a monthly basis. The Company's contribution is 10 % of each employee's Basic salary, Transport and Housing Allowances.

Notes to the financial statements

(ii) *Termination benefits*

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

(iii) *Short-term employee benefits*

Short-term employee benefit obligations are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(l) **Government grants**

Gains on loans at an interest rate lower than the market rate (the difference between the fair value and face value of the loans) is recognised as government grants. Government grants are initially recognised as deferred income at fair value if there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant, they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset they relate to.

(m) **Statement of cash flows**

The statement of cash flows is prepared using the indirect method. Changes in statement of financial position items that have not resulted in cash flows have been eliminated for the purpose of preparing the statement. Finance cost paid, including interest paid relating to property, plant and equipment, is included in financing activities while finance income received is included in investing activities.

(n) **Inventory**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition and is based on:

Product type	Cost basis
Natural gas	Purchase cost on a weighted average basis

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Notes to the financial statements

5 Expenses and other income

(a) Expenses by nature

Expenses by nature comprise:

	2017	2016
	₦'000	₦'000
Bank charges	133,507	3,035
Transport and travel	161,927	161,672
Professional fees	68,889	37,797
Audit fees	40,000	40,004
Insurance**	2,027,397	908,781
Employee benefit expense (Note 7(b)(i))	128,071	92,975
Depreciation (Note 9(a))	81,775	29,796
Amortisation (Note 10)	6,635	5,794
Community and public relations	125,475	72,007
Security expenses	98,625	24,002
Rent	29,263	14,070
Donations*	117,401	92,260
Write-off of property, plant and equipment	3,819	-
Repairs and maintenance	18,111	19,313
Telephone and internet	20,769	12,967
Training and professional development	28,320	3,198
Other tax expenses	2,205	-
Registration charges	-	7,725
Office expenses	70,941	42,487
Total administrative expenses	3,163,130	1,567,883

*Included in current year donations is an amount of \$165,567 (₦59.36 million) (2016:\$334,421 (₦92.26 million)) spent on capacity building in the Nigerian power sector. Also, Included in donations is an amount of \$148,783 (₦46.94 million) (2016:Nil) spent on purchase of two motor vehicles to enhance mobility of stakeholders in the Nigerian power sector.

**Included in insurance is the guarantee premium for Partial Risk Guarantee (PRG) and Multilateral Investment Guarantee Agency (MIGA) of \$6.32 million (₦2.01 billion) (2016: \$3.29 million (₦907.68 million)) paid on the amounts drawn down as of the year end on the PRG and MIGA covered loan facility.

(b) Other income

Other income represents proceeds from insurance claim during the year (2016:Nil).

6 Net finance costs

	2017	2016
	₦'000	₦'000
Finance income		
Net foreign exchange gain	(1,894,942)	(2,819,320)
	<u>(1,894,942)</u>	<u>(2,819,320)</u>
Finance costs		
	2017	2016
	₦'000	₦'000
Interest expense	8,663,323	3,364,203
Other financing fees (Note 6(a))	2,252,030	2,689,652
	<u>10,915,353</u>	<u>6,053,855</u>
Net finance costs	9,020,411	3,234,535

Notes to the financial statements

- (a) Other financing fees represent costs incurred on commitment fees, monitoring fees, agency fees and other lender related fees paid during the year as servicing fees for the Company's external loan facilities.

7 Loss before income tax

- (a) (i) Loss before income tax is stated after charging/(crediting):

	2017	2016
	₦000	₦000
Depreciation of property, plant and equipment	81,775	29,796
Auditors' fees (Note 7(a)(ii))	40,000	40,004
Employee benefit expense (Note 7(b)(i))	128,071	92,975
Foreign currency exchange gain	(1,894,942)	(2,819,320)

(ii) *Auditor's remuneration*

	2017	2016
	₦000	₦000
Audit fees	40,000	40,004
Non-audit fees	-	-
	40,000	40,004

- (b) Directors and employees

- (i) the year comprise:

	2017	2016
	₦000	₦000
Salaries and allowances	117,857	84,698
Employer's pension contribution	10,214	8,277
	128,071	92,975

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

	2017	2016
	Number	Number
Finance	4	4
Commercial	2	-
Legal & Compliance	1	1
Community Relations	4	4
Administration	11	14
	22	23

- (iii) Number of 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:

	2017	2016
₦	Number	Number
0 - 1,000,000	-	9
1,000,001 - 3,000,000	10	4
3,000,001 - 5,000,000	4	4
5,000,001 - 7,000,000	2	1
7,000,001 - 9,000,000	2	3
9,000,001 - 11,000,000	2	1
Above 11,000,000	2	1
	22	23

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

Notes to the financial statements

8 Income taxes

Income tax expense

(a) Amounts recognised in profit or loss

The Company earned no revenue and was in a tax loss position based on computations using applicable tax rules and after adjusting for certain items of expenditure and income, which are not deductible or chargeable for tax purposes. In addition, the Company is not subject to minimum tax as more than 25% of its paid up capital is imported equity.

	2017	2016
	₦000	₦000
Current tax expense		
Income tax	-	-
Tertiary education tax	-	-
Charge for the year	-	-
Deferred tax expense		
Origination and reversal of temporary differences	(3,413,331)	-
Recognition of previously unrecognised tax losses	(2,651,242)	-
Recognition of previously unrecognised taxable difference	788,181	-
	(5,276,392)	-

(b) Tax recognised in other comprehensive income includes deferred tax arising on:

	2017	2016
	₦000	₦000
Cashflow hedges	(102,778)	-
	(102,778)	-

(c) Reconciliation of effective tax rates

	%	2017	%	2016
		₦000		₦000
Loss before income tax		(12,177,671)		(4,802,418)
Income tax using the statutory tax rate	30	(3,653,301)	30	(1,440,725)
Tertiary education tax at 2%	2	(243,553)	-	-
Effect of:				
Tax incentives	-	(318)	-	-
Tax-exempt income	-	(636)	-	-
Non deductible expenses	(2)	329,195	(2)	104,697
Changes in estimates related to prior year	(1)	155,282	(2)	91,988
Recognition of previously unrecognised tax losses	22	(2,651,242)	-	-
Recognition of previously unrecognised taxable temporary differences	(6)	788,181	-	-
Movement in unrecognised deferred tax asset	-	-	(26)	1,244,040
Total income tax expense in income statement	45	(5,276,392)	-	-

Notes to the financial statements (cont'd)

(d) Unrecognised deferred tax assets

In prior years, deferred tax assets were not recognised in respect of the following items, because it was not probable that future taxable profit would be available against which the Company could use the benefits therefrom in the foreseeable future.

	2017	2016
	R'000	R'000
Property, plant and equipment	-	18132
Unrelieved losses (will never expire)	-	2,624,642
Foreign exchange difference	-	(798,404)
	-	1,844,370
Derivatives	-	356,704
	-	2,201,074

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

The previously unrecognised tax losses have been recognised following the Company's generation of test power upon reaching the commissioning phase of the Azura Edo IPP. The Directors consider it probable that future taxable profits would be available against which such losses can be used.

	Net balance at 1 January 2017	Recognised in profit or loss	Recognised in OCI	Translation difference	Deferred tax assets at 31 December 2017	Deferred tax liabilities at 31 December 2017	Net deferred tax at 31 December 2017
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Property, plant and equipment	-	23,865	-	3,066	23,865	-	26,931
Unrelieved losses (will never exp	-	6,013,661	-	770,994	6,013,661	-	6,784,655
Foreign exchange difference	-	(761,134)	-	(97,591)	-	(761,134)	(858,725)
Derivatives	-	-	102,778	13,313	102,778	-	116,091
	-	5,276,392	102,778	689,782	6,140,304	(761,134)	6,068,952

Notes to the financial statements

9 Property, plant and equipment

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

	Motor vehicles ₦'000	Office equipment ₦'000	Furniture & fittings ₦'000	Computer equipment ₦'000	Plant & machinery ₦'000	Land ₦'000	Power plant under construction ₦'000	Total ₦'000
Cost								
Balance at 1 January 2016	9,595	17,730	28,676	3,160	7,067	1,498,706	16,831,464	18,396,398
Additions	69,800	828	28,141	3,587	-	-	56,202,380	56,304,736
Translation Differences	15,420	10,422	20,673	2,388	3,958	867,574	17,711,671	18,632,106
Balance at 31 December 2016	94,815	28,980	77,490	9,135	11,025	2,366,280	90,745,515	93,333,240
Balance at 1 January 2017	94,815	28,980	77,490	9,135	11,025	2,366,280	90,745,515	93,333,240
Additions	52,821	-	-	5,728	6,046	-	51,406,875	51,471,470
Effect of change in cash flows (N)	-	-	-	-	-	-	-	-
Write off during the year	(14,001)	-	-	-	-	-	-	(14,001)
Translation Difference	18,450	4,149	10,528	1,926	2,293	330,641	19,267,014	19,635,001
Balance at 31 December 2017	152,085	33,129	88,018	16,789	19,364	2,696,921	161,419,404	164,425,710
Depreciation								
Balance at 1 January 2016	8,211	5,115	7,978	1,182	3,519	-	-	26,005
Charge for the year	10,208	4,966	11,311	1,656	1,655	-	-	29,796
Translation Differences	6,151	3,779	6,226	627	2,386	-	-	19,169
Balance at 31 December 2016	24,570	13,860	25,515	3,465	7,560	-	-	74,970
Balance at 1 January 2017	24,570	13,860	25,515	3,465	7,560	-	-	74,970
Charge for the year	45,168	7,876	20,635	4,570	3,526	-	-	81,775
Write off during the year	(10,182)	-	-	-	-	-	-	(10,182)
Translation Difference	7,563	2,810	6,040	1,407	1,647	-	-	19,467
Balance at 31 December 2017	67,119	24,546	52,190	9,442	12,733	-	-	166,030
Carrying amounts								
At 1 January 2016	1,384	12,615	20,698	1,978	3,548	1,498,706	16,831,464	18,370,393
At 31 December 2016	70,245	15,120	51,975	5,670	3,465	2,366,280	90,745,515	93,258,270
At 31 December 2017	84,966	8,583	35,828	7,347	6,631	2,696,921	161,419,404	164,259,680

Notes to the financial statements

(b) Power plant under construction

	2017	2016
	₦000	₦000
Development costs*	12,735,135	12,735,135
Borrowing costs capitalised	26,313,038	12,015,045
Construction costs (including engineering, procurement and construction (EPC) contract costs)	117,926,452	65,995,335
Net commissioning cost (Note 21(b))	4,444,779	-
	<u>161,419,404</u>	<u>90,745,515</u>

*Development costs are costs incurred on professional, consultancy, advisory and legal services in connection with the design, development and procurement of the Company's power plant. The Company commenced the construction of its power plant on 4 January 2016, hence, all development activities ceased. As such, there were no movements in this account during the year.

(c) Reconciliation of additions to property, plant and equipment to statement of cash flows

	2017	2016
	₦000	₦000
Additions per movement in Note 9(a)	51,471,470	56,304,736
Construction costs not paid	(619,535)	(17,169,738)
Prior year construction costs paid during the year	17,169,738	-
Additions to capitalised borrowing costs (Note 18(b))	(14,297,993)	(8,818,824)
Cash paid for additions during the year	<u>53,723,680</u>	<u>30,316,174</u>

(d) Collateral on loan security

The Company has funding arrangements with fifteen (15) international and local lending institutions for a total facility amounting to \$566.5 million and ₦24 billion (\$120.3 million) under the Common Terms and Agreement. The Company has granted charge over its assets and claims as security for its obligation under the agreement. This arrangement continues until all obligations to the these lenders have been fully discharged by the Company. See Note 18(a)(ii).

10 Intangible assets

Cost	Software under			Total
	Licence costs	development	Software	
	₦000	₦000	₦000	₦000
Balance at 1 January 2016	32,715	16,640	-	49,355
Additions	-	-	-	-
Reclasses	-	(16,640)	16,640	-
Translation Difference	18,945	-	9,505	28,450
Balance at 31 December 2016	<u>51,660</u>	<u>-</u>	<u>26,145</u>	<u>77,805</u>
Balance at 1 January 2017	51,660	-	26,145	77,805
Additions	-	-	8,273	8,273
Reclasses	-	-	-	-
Translation Difference	7,211	-	4,985	12,196
Balance at 31 December 2017	<u>58,871</u>	<u>-</u>	<u>39,403</u>	<u>98,274</u>
Amortisation				
Balance at 1 January 2017	-	-	6,615	6,615
Charge for the year	-	-	6,635	6,635
Translation Difference	-	-	1,721	1,721
Balance at 31 December 2017	<u>-</u>	<u>-</u>	<u>14,971</u>	<u>14,971</u>
Carrying amounts				
At 31 December 2016	<u>51,660</u>	<u>-</u>	<u>19,530</u>	<u>71,190</u>
At 31 December 2017	<u>58,871</u>	<u>-</u>	<u>24,432</u>	<u>83,303</u>

Notes to the financial statements

- (a) Licence costs represents costs incurred in obtaining a power generation licence from the Nigerian Electricity Regulatory Commission (NERC) for on-grid electricity generation. The licence was originally valid for 10 years (until November 2021). In 2012, the Company obtained an extension of the licence for additional 5 years i.e. until November 2026. In accordance with the Company's policy, no amortization was charged on the licence as the Company is yet to commence power generation. Amortisation will commence on the power generation date till the date of expiry of the licence.

11 Trade and other receivables

	2017	2016
	₦'000	₦'000
Trade receivables (Note 21(b))	37,517	-
Gas Sales and Purchase Agreement (GSPA) L/C (in favour of Seplat)*	6,914,231	10,512,810
Gas Transportation Agreement (GTA) L/C (in favour of Nigerian Gas Company)**	3,514,251	3,083,535
Power Purchase Agreement L/C (in favour of Nigerian Bulk Electricity Trading Company Plc)**	1,795,000	1,575,000
Employee receivables	648	315
Due from related parties (Note 11(a))	1,774	-
Sundry receivables	8,062	-
	<u>12,271,483</u>	<u>15,171,660</u>
Current	12,271,483	9,105,390
Non-current portion (GSPA L/C)*	-	6,066,270
	<u>12,271,483</u>	<u>15,171,660</u>

- (b) Amount due from related parties comprises:

	2017	2016
	₦'000	₦'000
Azura Power Holdings Limited (APHL) (Note 24(c))	1,774	-
	<u>1,774</u>	<u>-</u>

*Amount represents balance on an initial deposit of \$55 million paid in 2015 to collateralise an irrevocable letter of credit (LC) issued in favour of Seplat Petroleum Development Company Plc (Seplat), the gas supplier under the Gas Sales and Purchase Agreement (GSPA). The deposit would be released to the Company over a period of 36 months, with the final release scheduled for November 2018. As such, none of the amounts was classified as non-current as at year end.

** These amounts represent cash deposits used to collateralise irrevocable standby letters of credit (L/C) issued in favour of the Nigerian Gas Company (NGC) and the Nigerian Bulk Electricity Trading Company Plc (NBET). The letters of credit were issued by a Nigerian commercial bank and are renewable annually. As such, the amounts have been classified as current.

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

Notes to the financial statements

12 Inventory

Inventory relates to gas purchased under the Gas Sales and Purchase Agreement (GSPA) during the Company's first fire which was unutilised as at year end. Inventory consumed included as part of the power plant under construction amounted to \$0.111 million (₦39.8 million) (2016: Nil).

13 Prepayments

	2017	2016
	₦000	₦000
Rentals	14,001	24,570
Insurance	382,467	570,465
Transaction costs*	6,371,813	9,761,220
Registration charges	2,154	10,080
Advances to contractors	2,474,074	424,620
	<u>9,244,509</u>	<u>10,790,955</u>
Current	9,244,509	605,745
Non-current portion	-	10,185,210
	<u>9,244,509</u>	<u>10,790,955</u>

*These are prepaid commitment fees, facility fees, monitoring fees and upfront fees that relate to the undisbursed loan facilities amounting to ₦73.16 billion (\$203.79 million) (2016: ₦96.5 billion (\$306.4 million)) at 31 December 2017. In the directors' view, there is a reasonable assurance that the undisbursed loan facilities will be fully drawdown by the Company within 12 months from the year end.

14 Cash and cash equivalents

	2017	2016
	₦000	₦000
Bank balances	7,886,350	32,993,415
Cash in hand	3,098	945
	<u>7,889,448</u>	<u>32,994,360</u>

Included in the Company's cash and cash equivalents is an amount of \$0.29 million (₦103.55 million) set aside in a separate bank account for the purpose of paying compensation to the former occupants of the land transferred to the Company by the Edo State Government. The Company cannot make payments from this balance for any purpose other than payment of compensations. See Note 20 to these financial statements.

15 Share capital

Share capital comprises:

	2017	2016
	₦000	₦000
Authorised share capital:		
10,000,000 ordinary shares of ₦1 each converted at ₦199.5/\$1	<u>10,000</u>	<u>10,000</u>
Allotted and called-up share capital paid:		
Ordinary shares of ₦1 each	<u>3,874</u>	<u>3,874</u>

Notes to the financial statements

Ordinary shares

All shares rank equally. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Azura-Edo Limited (the Company's parent) has charged all its shares in the Company in favor of the Company's external lenders until all obligations to the lenders have been fully discharged (Note 18(a)(ii)).

The Company is restricted from paying dividends until certain conditions agreed in the Common Terms Agreement (CTA) with the external lenders have been fully satisfied.

16 Share premium

Share premium reserve represents the excess paid by shareholders over the nominal value of the ordinary share capital.

17 Nature and purpose of reserves

(a) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows or items affect profit or loss.

(b) Translation reserve

Translation reserve comprises all foreign currency differences arising from the translation of the financial statements prepared in the Company's functional currency (US Dollar) into these financial statements prepared in the Company's presentation currency (Nigerian Naira).

18 Loans and borrowings

(a) Loans and borrowings comprise loans as shown below:

	2017	2016
	₦000	₦000
Azura-Edo Limited (Note 18(a)(i))	61,492,758	46,201,995
Foreign Loan (Senior) (Note 18(a)(ii))	96,317,321	51,753,870
Foreign Loan (Mezzanine) (Note 18(a)(ii))	29,098,628	22,003,380
Local Loan (PAIF) (Note 18(a)(ii))	10,842,310	7,095,690
Promissory Notes (Note 18(a)(iii))	1,257,451	894,600
	<u>199,008,468</u>	<u>127,949,535</u>

Loans and borrowings are analysed into current and non-current liabilities based on the timing of repayment obligation as follows:

	2017	2016
	₦000	₦000
Non-current liabilities	187,836,747	122,956,971
Current liabilities	11,171,721	4,992,564
	<u>199,008,468</u>	<u>127,949,535</u>

Notes to the financial statements

The profile of the Company's loans and borrowings as at year-end is as follows:

	<u>Currency</u>	<u>Remaining Tenor as at 31 December 2017</u>	<u>Nominal Interest Rate %</u>	<u>Carrying amounts</u>	
				2017	2016
				₦'000	₦'000
<u>Fixed contractual cash flows:</u>					
Project finance (Power and Airline Intervention Fund (PAIF))	₦	7.38 years	7.0%	10,842,310	7,095,401
Project finance (Azura- Edo Limited)	US\$	6 years	20.2%	61,492,758	46,202,198
Project finance (Promissory notes)	US\$	6 years	20.2%	1,257,451	894,915
<i>Total fixed contractual cash flows</i>				73,592,519	54,192,514
<u>Variable contractual cash flows:</u>					
Project finance (International Bank for Reconstruction and Development (IBRD) Covered Loans)	US\$	9.88 years	5.25%+ 6 months USD-LIBOR	12,635,364	6,852,195
Project finance (Multilateral Investment Guarantee Agency (MIGA) Covered Loans)	US\$	9.88 years	5.25%+ 6 months USD-LIBOR	24,299,633	13,120,781
Project finance (Mezzanine loans (Proparco and the Emerging Africa Infrastructure Fund Ltd)	US\$	12 years	12.25%+ 6 months USD-LIBOR	8,876,993	6,726,195
Project finance (Mezzanine loans (Overseas Private Investment Corporation (OPIC))	US\$	13 years	12.25%+ OPIC cost of fund**	6,866,593	5,138,910
Project finance (Mezzanine loans and International Finance Corporation (IFC))	US\$	13 years	12.25%+ 6 months USD-LIBOR	13,355,159	10,137,645
Project finance (Development Finance Institutions)	US\$	13 years	5.95%+ 6 months USD-LIBOR	25,887,131	13,900,320

Notes to the financial statements
Variable contractual cash flows (cont'd)

Variable contractual cash flows:

	<u>Currency</u>	<u>Remaining Tenor as at 31 December 2017</u>	<u>Nominal Interest Rate %</u>	<u>Carrying amounts</u>	
				2017	2016
				¥000	¥000
Project finance (OPIC)	US\$	13 years	5.95%+ OPIC cost of fund**	7,811,498	4,167,135
Project finance (Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V (FMO))	US\$	13 years	5.95%+ Predetermined rate*	8,981,103	4,788,315
Project finance (ICF Debt Pool LLP (ICF))	US\$	13 years	5.95%+ Predetermined rate*	5,578,860	2,976,435
Project finance (IFC)	US\$	13 years	5.95%+ 6 months USD-LIBOR	11,123,615	5,949,090
Total variable contractual cash flows				125,415,949	73,757,021
Total Loans				199,008,468	127,949,535

* Predetermined rates are rates set by FMO and notified to the Company.

** OPIC Cost of funds are fixed rates of interest determined in accordance with the monthly average" U.S. Treasury Constant Maturity Yields" for relevant calendar month as published in statistical release of the Board of Governors of the Federal Reserve System.

Notes to the financial statements

- (i) On 1 December 2014, the Company entered into a seven year shareholder loan agreement with Azura-Edo Limited (which extinguished the Development Cost Loan Agreement (DCLA) entered in 2013, as amended), with a facility amount of \$118.71 million.

On 20 December 2015, the seven (7) year term loan of \$118.71 million was extinguished and replaced by an eight (8) year term loan facility of \$129.73 million. Based on the new loan agreement, interest shall accrue on the entire loan from date of the loan agreement up to the final repayment date. Interest is set at 20.02% from loan agreement date to Commercial Operation Date (COD) and 15% from COD to final repayment date. In prior year, the directors, based on information available estimated COD to be 31 December 2018 and have used this in calculating the cash flows of the loan. During the year, the directors reassessed the Commercial Operation Date (COD) to be May 2018 based on the most recent project plan. A significant change in the COD materially affects the carrying amount of the loan (See Note 18(c)). This loan is subordinated in favour of loans from the external lenders (Note 18(a)(ii)) and is unsecured. Total interest and principal repayments would be made at the end of the eighth anniversary.

During the year, the total interest accrued on the loan amounted to \$24.62 million (₦7.83 billion) (2016: \$25.5 million (₦7.0 billion)). There were no drawdowns on the loan during the year as the total facility amount was fully drawdown in 2015.

- (ii) On 9 December 2015, the Company entered into an amended and restated Common Terms Agreement (CTA) between the Borrower (the Company), the DFI Lenders, Original IBRD Covered Lenders, the Original MIGA Covered Lenders, the Original Local Lender (PAIF), the Mezzanine Lenders, the Global Mandated Lead Arranger and Structuring Bank, the Joint Mandated Lead Arranger, the Co-Lead DFI Arrangers, the Local Loan Arranger, the IBRD Facility Agent, the MIGA Facility Agent, the Local Facility Agent, the Intercreditor Agent and the Hedging Banks. Under the Senior Loan Agreements, Mezzanine Loan Agreements and the Local Loan Agreement, the amount committed by the various lenders are \$501.5 million, \$65 million and \$150 million respectively. The Company has granted charge over its assets and claims as security for its obligation under the CTA and this arrangement continues until all obligations to these lenders have been fully discharged by the Company. Also, Azura-Edo Limited has charged all its shares in the Company in favor of these external lenders until all obligations to the lenders have been fully discharged.

As at year end, total interest accrued in the current year amounted to \$37.1 million (₦11.81 billion (2016: \$18.9 million)). During the year, \$131.7 million (₦41.9 billion) was drawn down on the loan (2016: \$177.02 million (₦47.5)) and total amount of \$13.2 million (₦4.21 billion) was capitalised as transaction costs incurred on these loans (2016: \$10.2 million (₦2.8 billion)). As at year end, undisbursed loan facilities available to the Company amounted to \$156.41 million.

The PAIF loan was initially recognised at fair value, being the present value of the expected future cash flows discounted at market-related interest rates. The difference between the fair value and face value of the loan amounting to ₦5.5 billion (\$17.1 million) has been recorded as a government grant (deferred income) (2015: ₦7.7 billion (\$24.5 million)) (Note 19). As at year end, undisbursed loan facilities available to the Company amounted to ₦5.62 billion (\$15.66 million).

- (iii) On 23 December 2015, the Company issued a promissory note to Edo State Government with a nominal value of \$3.33 million in accordance with the subscription agreement with the Company.

The amounts owed pursuant to this promissory note are unsecured. Interest shall accrue on this promissory note at 20.02% from the date of the promissory note up to the Commercial Operation Date (COD) and 15% from COD to final repayment date. In prior years, the directors have, based on information available estimated COD to be 31 December 2018 and have used this in calculating the cash flows of the loan. During the year, the directors reassessed the Commercial Operation Date (COD) to be May 2018 based on the project plan. A significant change in the COD materially affects the carrying amount of the loan (See Note 18(c)).

Notes to the financial statements

Total interest and principal repayments would be paid at the end of the eighth anniversary.

As at the year end, the carrying value of the promissory note was \$3.5 million (₦1.3 billion) (2016: \$2.8 million (₦894.91 million)). Total interest accrued on the promissory note in the current year amounted to \$0.7 million (₦210.8 million) (2016: \$0.6 million (₦174.7 million)).

(b) The movement in loans during the year was as follows:

	2017	2016
	₦000	₦000
Balance at 1 January	127,949,535	45,036,647
Proceeds from loan drawn down during the year	41,917,759	48,838,600
Transaction costs on loans and borrowings	(4,211,695)	(2,812,267)
Accrued interest	19,848,680	12,404,014
Interest paid	(6,838,754)	(1,875,224)
Fair value gain recognised as deferred income (Note 19)	(2,482,915)	(3,589,329)
Net foreign exchange difference	(1,091,107)	(3,184,046)
Translation Difference	23,916,965	33,131,140
Balance at 31 December	<u>199,008,468</u>	<u>127,949,535</u>

*Total borrowing costs arising from loans and borrowings capitalised as additions to plant under construction during the year was \$35.15 million (₦14.30 billion) (2016: \$31.96 million (₦8.82 billion)) (see note 9(c)).

(c) **Change in estimate**

During the year, the directors reassessed the Commercial Operation Date (COD) from 31 December 2018 to May 2018 based on the project plan. As a result, interest on the shareholder loan and promissory note would accrue at 20.02% from the date of the shareholder loan and promissory note respectively up to the Commercial Operation Date (COD) while interest would accrue at 15% from COD to final repayment date. The effect of these changes on actual and expected interest costs, included in 'borrowing costs', was as follows:

	2018	2019	2020	Later
	₦000	₦000	₦000	₦000
Decrease in borrowing costs for shareholder loan	(3,416,244)	538,859	(397,054)	(631,122)
Decrease in interest expense for promissory note	(87,596)	(11,808)	(10,052)	(16,155)

Information about the Company's exposure to interest rate, foreign currency and liquidity risks is included in Note 23.

19 Deferred income

In 2015, the Company obtained a Naira denominated long term loan amounting to ₦7.9 billion (\$33.4 million) from the Bank of Industry (BOI) through a commercial bank in Nigeria and facilitated by the CBN PAIF concessional window. The loan is to be repaid over a period of 10 years. Interest will be payable on outstanding loan balances at the rate of 7% per annum. The loan is secured on the independent power plant project of the Company and was obtained exclusively to finance the Company's independent power plant project. During the year, additional drawdowns amounting to ₦5.5 billion (\$17.1 million) were obtained by the Company through this window.

Notes to the financial statements

These loans were initially recognised at fair value, being the present value of the expected future cash flows discounted at the obtainable market-related interest rates on the drawdown dates ranging between 22% and 25%. The difference between the fair value and face value of the loans has been recorded as a government grant (deferred income). See Note 18(b) to these financial statements. The grant would be amortized over the economic useful life of the plant when the Company commences depreciation of the plant.

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

	2017	2016
	₦'000	₦'000
Balance as at 1 January	7,731,360	2,300,960
Additions (Note 18(b))	2,482,915	3,589,329
Translation Differences	1,398,007	1,841,071
Balance as at 31 December	<u>11,612,282</u>	<u>7,731,360</u>

20 Provisions

Provisions comprise:

	2017	2016
	₦'000	₦'000
Resettlement costs (Note 20(a))	98,773	218,610
	<u>98,773</u>	<u>218,610</u>

(a) Provisions of ₦98.77 million (\$0.275 million) represents the Company's estimate of remaining costs that would be incurred to resettle the outstanding occupants of the land transferred from the Edo State Government in order to make it fully accessible to the Company for the construction of the power plant. The provision was computed in conformity with the requirements of the World Bank, pertaining to involuntary land acquisition and compensation processes. As the amounts represent costs relating to making the land available for use, the provisions have been included as part of PPE (Note 9).

The Directors have set aside adequate funds to fully resettle and pay-off the remaining occupants (Note 14). The provision has been classified as current in these financial statements.

The movement in provisions during the year is as follows:

	2017	2016
	₦'000	₦'000
Balance at 1 January	218,610	1,066,732
Payments made during the year	(133,326)	(1,283,716)
Translation Difference	13,489	435,594
Balance at 31 December	<u>98,773</u>	<u>218,610</u>

21 Trade and other payables

	2017	2016
	₦'000	₦'000
Accrued expenses	272,563	315,000
Trade payables (Note 21(b))	51,881	-
Amount due to related parties (Note 21(a))	44,393	171,045
Other payables	646,973	19,569,690
	<u>1,015,810</u>	<u>20,055,735</u>
Statutory deductions	242,251	263,340
	<u>1,258,061</u>	<u>20,319,075</u>

Notes to the financial statements

(a) Amount due to related parties comprises:

	2017	2016
	₦000	₦000
Aldwych Azura Operations Ltd (Note 24(a))	44,393	33,705
Azura Power Holdings Limited (APHL) (Note 24(c))	-	137,340
	44,393	171,045

(b) First fire

During the year, on 18 December 2017, the Company commenced the commissioning phase of the power plant marked by the test firing of the plant. As a result, the Company incurred expenses on the cost of gas used for the first fire. The first fire gas was supplied to the Company in accordance with the Gas Sales and Purchase Agreement (GSPA) and the Gas Transport Agreement (GTA). \$0.15 million (₦51.81 million) outstanding at year end with respect to the first fire gas has been included in trade payables.

Power generated from the first fire was supplied to the national grid in accordance with the Power Purchase Agreement (PPA). In accordance with the PPA, the Company invoiced NBET for the power generated and delivered to the national grid. The billing to NBET amounting to \$0.11 million (₦37.51 million) was still outstanding as at year end and was included in trade receivables. See Note 11.

The net commissioning costs amounting to \$12,381 (₦4.44 million) arising from the first fire was recorded as additions to plant under construction (See Note 9(b)).

22 Interest rate swaps

(a) Interest rate swaps

The Company held an interest rate swap derivative liability instrument for risk management purposes. The Company entered into interest rate swap contracts with three counterparties, International Finance Corporation (IFC), Standard Chartered Bank (SCB) and Rand Merchant Bank (RMB) with an initial notional amount of \$259.88 million with effect from 29 December 2015, whereby the Company pays a fixed rate of interest of 2.509% and receives a variable rate equal to 6 months USD-LIBOR-BBA.

The derivative instrument was designated as an hedging instrument in qualifying hedging relationships. Based on the procedures performed, the reasonable fair values of the financial instruments have been established as \$3.31 million (₦1.19 billion) (2016:\$5.67 million (₦1.79 billion)) and the hedge has been determined to be effective as at 31 December 2017, hence, the effective portion of changes in the fair value of the derivative \$2.36 million (₦751.92 million) (2016: \$223,000 (₦61.45 million)) was recognised in other comprehensive income and accumulated in the hedging reserve.

(b) Cash flow hedges of US Dollar loans

The Company uses interest rate swaps to hedge the interest rate risks in respect of the benchmark interest rate (mainly LIBOR) from its floating-rate loans denominated in the US Dollar.

The Company's approach to managing market risk, including interest rate risk, is discussed in Note 23(c). The Company determines the amount of the exposure to which it applies hedge accounting by assessing the potential impact of changes in interest rates on the future cash flows from its floating-rate loans. This assessment is performed using analytical techniques, such as cash flow sensitivity analysis.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk of the derivative counterparties, which is not offset by the hedged items. The Company minimises counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties with good credit ratings and a history of strong financial performance.

Notes to the financial statements

The Company assesses whether the derivative designated in each hedging relationship is expected to be and has been highly effective in offsetting changes in cash flows of the hedged item(prospectively and retrospectively) using the Dollar Offset Method (Sensitivity Analysis Approach) and the regression analysis.

The Dollar offset method involves comparing the ratio of the change in the fair value or present value of future expected cash flows of the hedging instrument with the change in the fair value or present value of future expected cash flows of the hedged item attributable to the hedged risk.

Under the Company's policy, in order to conclude that a hedge relationship is effective, all of the following criteria should be met.

Prospective effectiveness test

For the hedge relationship to be considered highly effective, the dollar offset ratio should be within the range of negative 80% to 125% (the negative indicating the offset). Being a prospective hedge effectiveness test, simulation analysis will be used to demonstrate that the dollar offset ratio is expected to be effective under a series of reasonably likely/possible changes in the hedged risk. When the cumulative dollar offset ratio is within negative 80% and 125% under all scenarios, the relationship is considered to be highly effective on a prospective basis. Based on the procedures performed, the reasonable fair values of the financial instruments have been established (Note 23) and the hedge has been determined to be effective as at 31 December 2017.

Retrospective Effectiveness Test

The Company will perform a retrospective effectiveness test on an ongoing basis for the purpose of determination of the continuance of cash flow hedge accounting designation and application or potential de-designation due to test failure. The test will be performed using the dollar offset method and the regression detailed above in the Prospective Effectiveness Test.

Information relating to the amount and timing of future cash flows of the hedging instrument has been disclosed in Note 23(d) of these financial statements.

23 Financial risk management and financial instruments

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

As part of the Company's corporate governance activities, the Company has a Board Audit and Risk Committee (BARC). BARC is mainly responsible for the integrity of the Company's financial statements and budgets, and for monitoring the effectiveness and objectivity of the external auditors, as well as to ensure compliance with laws and regulations, and to ensure that risks affecting the Company are effectively managed. The Company's board audit and risk committee also oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Notes to the financial statements

(a) Credit risk

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

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<i>Note</i>	2017	2016
		₦000	₦000
Trade receivables	<i>11</i>	37,517	-
Other receivables		12,233,966	15,171,660
Cash and cash equivalents (excluding cash in hand)		7,886,350	32,993,415
		20,157,833	48,165,075

Trade receivables

The Company's exposure to credit risk is influenced mainly by the ability of Nigerian Bulk Electricity Trading Plc (NBET) to enforce payments from the distribution companies. Payments by NBET to the Company under the PPA are secured by a letter of credit amounting to \$120 million issued in favour of the Company by an international bank. In addition, the Company entered into a Partial Risk Guarantee contract (PRG) with International Bank for Reconstruction and Development (IBRD) under which IBRD provides additional guarantee on the letter of credit issued by the international bank in favour of the Company. On the basis of this, the directors believe that credit risk has been reduced to the barest minimum. At the reporting date, the trade receivables were not past due.

Other receivables

Other receivables represent cash deposits used to collateralise irrevocable standby letters of credit (L/C) issued in favour of Seplat Petroleum Development Company Plc (Seplat), Nigerian Gas Company (NGC) and the Nigerian Bulk Electricity Trading Company Plc (NBET). These letters of credit are held by banks and financial institutions in Nigeria. In the directors' view, all amounts are collectible. No impairment was recorded with respect to this amount in the current year as they are considered fully recoverable and thus have minimal credit risk (2016: Nil).

Cash and cash equivalents

The Company held cash and cash equivalents of \$21.97million (₦7.88 billion) (excluding cash in hand) as at year end (2016: \$104.74 million (₦32.99 billion)) which represents its maximum credit exposure on these assets. The cash and cash equivalents (with the exception of \$9,000 (₦3.1 million) held as cash by the Company) are held by banks and financial institutions. The Company mitigates the credit risk exposure of its bank balances by selecting banks with good credit ratings and a history of strong financial performance.

Notes to the financial statements

(b) Liquidity risk

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

The Company has a clear focus on ensuring sufficient access to capital to finance growth. As a part of the liquidity management process, the Company has various credit arrangements with various financial institutions and its shareholders which can be utilised to meet its cash settlement requirements (See Note 18 to these financial statements).

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

31 December 2017	Note	Carrying amount R'000	Total R'000	2 months or less R'000	Contractual cash flows					
					2-12 months R'000	1-2 Years R'000	2-5 Years R'000	More than 5 Years R'000		
<i>Non-derivative financial liabilities</i>										
Trade and other payables*	21	1,015,810	1,015,810	1,015,810	-	-	-	-	-	-
Loans and borrowings	18	199,008,468	378,555,448	2,218,261	8,953,460	74,781,495	139,964,766	152,637,466	152,637,466	152,637,466
		200,024,278	379,571,258	3,234,071	8,953,460	74,781,495	139,964,766	152,637,466	152,637,466	152,637,466
<i>Derivative financial liabilities</i>										
Interest rate swaps used for hedging										
	22	1,188,191	1,231,011	221,144	277,148	537,782	196,014	(1,077)	(1,077)	(1,077)
		1,188,191	1,231,011	221,144	277,148	537,782	196,014	(1,077)	(1,077)	(1,077)
31 December 2016										
<i>Trade and other payables*</i>										
Loans and borrowings	18	20,055,735	20,055,735	19,569,690	486,045	-	-	-	-	-
		127,949,535	274,511,085	1,067,662	3,924,901	44,013,188	105,082,028	120,423,305	120,423,305	120,423,305
		148,005,270	294,566,820	20,637,352	4,410,946	44,013,188	105,082,028	120,423,305	120,423,305	120,423,305
<i>Derivative financial liabilities</i>										
Interest rate swaps used for hedging										
	22	1,786,680	1,810,884	148,610	341,271	928,272	600,631	(207,900)	(207,900)	(207,900)
		1,786,680	1,810,884	148,610	341,271	928,272	600,631	(207,900)	(207,900)	(207,900)

*Excluding statute based deductions.

The interest payments on variable interest rate loans in the table above reflect market forward interest rates at the reporting date and these amounts may change as market interest rates change.

Notes to the financial statements

(c) Market risk

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

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

The Company uses derivatives to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. Generally, the Company seeks to apply hedge accounting to manage volatility in profit or loss.

Currency risk

The Company is exposed to currency risk on borrowings and certain contingent settlement obligations that are denominated in a currency other than the functional currency of the Company, which is the US Dollars (USD). The currency in which these transactions primarily are denominated is the Nigerian Naira. The currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates.

In managing currency risk, the Company aims to reduce the impact of short-term fluctuations on earnings.

Although the Company has various measures to mitigate exposure to foreign exchange rate movement, over the longer term, permanent changes in exchange rates would have an impact on profit. The Company monitors the movement in the currency rates on an ongoing basis.

Exposure to currency risk

The Company's transactional exposure to the Nigerian Naira was based on notional amounts as follows:

	2017	2016
	₦000	₦000
Financial assets		
Cash and cash equivalents	438,084	1,324,080
Other financial liabilities		
Loans and borrowings	(10,842,310)	(7,095,401)
Trade and other payables	(681,205)	(2,649,532)
Net exposure	(11,085,431)	(8,420,853)

Sensitivity analysis

A strengthening of the USD, as indicated below against the Naira at 31 December would have affected profit or loss and equity by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period and has no impact on equity. The analysis assumes that all other variables, in particular interest rates, remain constant.

The analysis is performed on the same basis for 2016, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below:

Notes to the financial statements

	Increase in profit or loss and equity
	₦'000
31 December 2017	
USD (30 percent strengthening)	9,264
31 December 2016	
USD (30 percent strengthening)	8,020

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

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
	\$	\$	\$	\$
NGN	0.003143	0.003625	0.002786	0.003175

Hedge accounting

Interest rate risk

The Company adopts a policy of ensuring that over 75% of its interest rate risk exposure is at a fixed rate. This is achieved partly by entering into fixed-rate instruments and partly by borrowing at a floating rate and using interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

The Company determines the existence of an economic relationship between the hedging instrument and hedged item based on the reference interest rates, tenors, repricing dates and maturities and the notional or par amounts.

The Company assesses whether the derivative designated in each hedging relationship is expected to be effective in offsetting changes in cash flows of the hedged item using the Dollar Offset Method (Sensitivity Analysis Approach).

In these hedge relationships, the main sources of ineffectiveness are:

- the effect of the counterparty and the Company's own credit risk on the fair value of the swaps, which is not reflected in the change in the fair value of the hedged cash flows attributable to the change in interest rates; and
- differences in repricing dates between the swaps and the borrowings.

Exposure to interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments of the Company is as follows:

	Carrying amount	
	2017	2016
	₦'000	₦'000
Fixed rate instruments		
Financial liabilities	(73,592,519)	(54,192,514)
	(73,592,519)	(54,192,514)
Effect of interest rate swaps	-	-
	(73,592,519)	(172,040)

Notes to the financial statements

	Carrying amount	
	2017	2016
	₦'000	₦'000
Variable-rate instruments		
Financial liabilities	(125,415,949)	(73,757,021)
	(125,415,949)	(73,757,021)
Effect of interest rate swaps	(1,188,191)	(1,786,680)
	<u>(126,604,140)</u>	<u>(75,543,701)</u>

Fair value sensitivity analysis for fixed rate instruments.

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

Cash flow sensitivity analysis for variable-rate instruments

A reasonably possible change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit or Loss	
	100 bp increase	100 bp decrease
	₦'000	₦'000
31 December 2017		
Variable-rate instruments	(1,254,159)	1,254,159
Interest rate swaps	(11,882)	11,882
Cash flow sensitivity	<u>(1,266,041)</u>	<u>1,266,041</u>
31 December 2016		
Variable-rate instruments	(737,570)	737,570
Interest rate swaps	(17,867)	17,867
Cash flow sensitivity	<u>(755,437)</u>	<u>755,437</u>

In managing interest rate risk, the Company aims to reduce the impact of short-term fluctuations in earnings. Dividend pay-out practices seek a balance between giving good returns to shareholders on one hand and maintaining a solid debt/equity ratio on the other hand.

(d) Derivative liabilities designated as cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the carrying amounts of the related hedging instruments.

	Expected cash flows			
	Carrying amount	Total	12 months or less	More than one year
	₦'000	₦'000	₦'000	₦'000
31 December 2017				
<i>Interest rate swaps</i>				
Liabilities	1,188,191	1,231,011	498,292	732,719
	<u>1,188,191</u>	<u>1,231,011</u>	<u>498,292</u>	<u>732,719</u>

Notes to the financial statements

31 December 2016 <i>Interest rate swaps</i>	Expected cash flows			
	Carrying amount	Total	12 months or less	More than one year
Liabilities	1,786,680	1,810,884	489,881	1,321,003
	<u>1,786,680</u>	<u>1,810,884</u>	<u>489,881</u>	<u>1,321,003</u>

(e) **Capital risk management**

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company monitors capital using a ratio of 'adjusted net debt' to 'adjusted equity'. For this purpose, adjusted net debt is defined as total liabilities, comprising interest-bearing loans and borrowings, less cash and cash equivalents. Adjusted equity comprises all components of equity other than amounts accumulated in the hedging reserve.

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

	2017	2016
	₦000	₦000
Total liabilities	213,165,775	158,005,260
Less: Cash and cash equivalents	(7,889,448)	(32,994,360)
Adjusted net debt	<u>205,276,327</u>	<u>125,010,900</u>
Total equity	(13,339,166)	(5,718,825)
Adjust for: Hedging reserve	260,006	1,114,701
Adjusted equity	<u>(13,079,160)</u>	<u>(4,604,124)</u>
Adjusted net debt to adjusted equity ratio	<u>(15.69)</u>	<u>(27.15)</u>

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

(f) **Fair values**

(i) *Accounting classification and fair value*

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

	Loans and receivables	Fair value -hedging instruments	Other financial liabilities	Total
	₦000	₦000	₦000	₦000
31 December 2017				
Financial assets not measured at fair value				
Trade and other receivables	12,271,483	-	-	12,271,483
Cash and cash equivalents (excluding cash in hand)	7,886,350	-	-	7,886,350
	<u>20,157,833</u>	-	-	<u>20,157,833</u>
Financial liabilities measured at fair value				
Interest rate swaps used for hedging	-	1,188,191	-	1,188,191
	-	-	-	-
	-	<u>1,188,191</u>	-	<u>1,188,191</u>

Notes to the financial statements

	Loans and receivables	Fair value -hedging instruments	Other financial liabilities	Total
	₦'000	₦'000	₦'000	₦'000
Financial liabilities not measured at fair value				
Trade and other payables	-	-	1,015,810	1,015,810
Loans and borrowings	-	-	199,008,468	199,008,468
	-	-	200,024,278	200,024,278
	₦'000	₦'000	₦'000	₦'000
31 December 2016				
Financial assets not measured at fair value				
Other receivables	15,171,660	-	-	15,171,660
Cash and cash equivalents	104,741	-	-	104,741
	15,276,401	-	-	15,276,401
Financial liabilities measured at fair value				
Interest rate swaps used for hedging	-	1,786,680	-	1,786,680
	-	1,786,680	-	1,786,680
Financial liabilities not measured at fair value				
Trade and other payables	-	-	20,055,735	20,055,735
Loans and borrowings	-	-	127,949,535	127,949,535
	-	-	148,005,270	148,005,270

Financial instruments measured at fair value – Fair value hierarchy

This section explains the judgments and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Company has classified interest rate swap into Level 2. An explanation of level 2 follows underneath the table.

	Note	Level 1	Level 2	Level 3	Total
		₦'000	₦'000	₦'000	₦'000
31 December 2017					
Derivatives used for hedging					
Interest rate swap	22	-	1,188,191	-	1,188,191
		-	1,188,191	-	1,188,191

Notes to the financial statements

	Note	Level 1	Level 2	Level 3	Total
31 December 2016		₦'000	₦'000	₦'000	₦'000
Derivatives used for hedging					
Interest rate swap	22	-	1,786,680	-	1,786,680
		-	1,786,680	-	1,786,680

Recognised fair value measurements

There were no transfers among levels 1,2 and 3 for recurring fair value measurements during the year. Level 2 includes the fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data 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.

Valuation techniques used to determine fair values

The fair value of interest rate swaps is calculated as the present value of the estimated future cashflows based on observable interest rate points along the yield curve.

24 Related party relationships and transactions

Parent and ultimate controlling party

The parent company of Azura Power West Africa Limited is Azura-Edo Limited incorporated in Mauritius. Azura-Edo Limited owns 97.5% of the issued share capital of Azura Power West Africa Limited, while 2.5% is held by Edo State Government. The ultimate parent Company, is Actis Energy Bedrock Mauritius Limited.

The Company had the following transactions with the under-listed related parties during the year:

(a) Aldwych Azura Operations Ltd

Aldwych Azura Operations Ltd ("AAOL") is a company incorporated under the laws of England and Wales with its registered office at 30 King Street, London, United Kingdom. AAOL is an affiliate of Aldwych Azura Limited, a project sponsor to the Azura Edo-IPP Project and one of the key shareholders of Azura-Edo Limited. The Company has a Technical Services Agreement (TSA) with AAOL (as the Service Provider) for the provision of technical services to the Company in relation to its power plant project. AAOL provided technical services to the Company amounting to \$1.60 million (₦509.1million) during the year (2016: \$0.65 million (₦202.77million)). The Company made payment for services and reimbursements of \$2.24 million (₦712.8 million) to AAOL (2016:\$0.55 million (₦168.75 million)). As at year end, the Company had an outstanding balance owed to AAOL of \$0.12 million (₦44.39 million) (2016: \$0.11 million(₦33.70 million)). See Note 21(a).

Notes to the financial statements

(b) Azura-Edo Limited (AEL)

AEL is a subsidiary of Azura Power Holding Limited (APHL) and the immediate parent of the Company. On 1 December 2014, the Company entered into a seven year shareholder loan agreement with Azura-Edo Limited (which extinguished the Development Cost Loan Agreement (DCLA) entered in 2013, as amended, with a facility amount of \$118.71 million).

On 1 December 2014, the Company entered into a seven year shareholder loan agreement with Azura-Edo Limited (which extinguished the Development Cost Loan Agreement (DCLA) entered in 2013, as amended). See Note 18(a)(i).

(c) Azura Power Holdings Limited (APHL)

APHL is a global business company organised and existing under the laws of Mauritius. It is an indirect parent of the Company. As part of the management structure of the Azura-Edo IPP Project, APHL provides integrated services to the Company under the Integration Services Agreement (ISA). The ISA amended and restated Management Services Agreement executed between the parties prior to financial close. During the year, ISA costs amounting to \$1.29 million (₦410.48 million) (2016: \$1.06 million (₦292.44 million)) were incurred and have been capitalised as part of construction costs. No amount was due to APHL as at year end in relation to the services rendered under the ISA contract (2016: \$0.44 million (₦137.03 million)).

During the year, the Company incurred certain costs on behalf of APHL. Balance due from APHL as at year end amounted to \$6,000 (₦1.8 million) (2016: Nil).

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director of the Company. Crispin Holliday is an Aldwych-nominated director on the board of the Company. Aldwych Azura Operations Ltd provided technical services to the Company. See Note 24(a). David Ladipo is the Managing Director of the Company and a key person seconded by APHL under the ISA (See Note 24(c)). He is an indirect shareholder in APHL and a Director in the Company.

25 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following standards are expected to have a material impact on the Company's financial statements in the period of initial application.

(a) Estimated impact of the adoption of IFRS 9 and IFRS 15

The Company is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Company has assessed the estimated impact that the initial application of IFRS 9 (see (b)) and IFRS 15 (see (c)) will have on its financial statements. The estimated impact of the adoption of these standards on the Company's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impacts of adopting the standards at 1 January 2018 may change because the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

Notes to the financial statements

(b) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

(i) *Classification – Financial assets*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Company does not believe that the new classification requirements will have a material impact on its accounting for trade receivables. Consequently, no impairment losses will be recognised in profit or loss.

(ii) *Impairment – Financial assets and contract assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. The Company has not designated any financial asset at amortised cost or FVOCI and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial asset at 1 January 2018.

(iii) *Classification – Financial liabilities*

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities at 1 January 2018.

(iv) *Hedge accounting*

When initially applying IFRS 9, the Company may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Company has chosen to continue to apply the requirements of IAS 39.

(v) *Disclosures*

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

Notes to the financial statements

(vi) *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

-The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

-The new hedge accounting requirements should generally be applied prospectively.

-The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

(a) The determination of the business model within which a financial asset is held.

(b) The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

(c) The designation of certain investments in equity instruments not held for trading as at FVOCI.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

(c) **IFRS 15- Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

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

This new standard will most likely have a significant impact on the Company, which will include a possible change in the timing of when revenue is recognised and the amount of revenue recognised.

The Company is yet to commence generation of power as its plant is still under construction as at year end. The Company is expected to commence generation of power at COD. Based on the Company's assessment, the Company does not expect the application of IFRS 15 to have a significant impact on its financial statements.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

(d) **IFRS 16- Leases**

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 includes a single model for lessees which will result in almost all leases being included in the Statement of Financial Position. No significant changes have been included for lessors. IFRS 16 also includes extensive new disclosure requirements for both lessees and lessors.

Notes to the financial statements

The Company has begun assessing the potential impact of IFRS 16 on the financial statements.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Company has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Company's borrowing rate at 1 January 2019, the composition of the Company's lease portfolio at that date, the Company's latest assessment of whether it will exercise any lease renewal options and the extent to which the Company chooses to use practical expedients and recognition exemptions.

Based on the Company's assessment, the Company does not expect the application of IFRS 16 to have a significant impact on its financial statements.

(i) *Determining whether an arrangement contains a lease*

On transition to IFRS 16, the Company can choose whether to:

- apply the IFRS 16 definition of a lease to all its contracts; or
- apply a practical expedient and not reassess whether a contract is, or contains, a lease.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

(ii) *Transition*

As a lessee, the Company can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Company is assessing the potential impact of using these practical expedients.

The Company is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

(e) **IFRIC 22 Foreign currency transactions and advance consideration**

The amendments provide guidance on the transaction date to be used in determining the exchange rate for translation of foreign currency transactions involving an advance payment or receipt.

The amendments clarifies that the transaction date is the date on which the Company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The interpretation applies when a Company:

- pays or receives consideration in a foreign currency; and
- recognises a non-monetary asset or liability – e.g. non-refundable advance consideration – before recognising the related item.

The Company will adopt the amendments for the year ending 31 December 2018.

Notes to the financial statements

26 Capital commitments

The Company has total capital expenditure commitments of ₦76.32 billion (\$212.60 million) (2016: ₦116.59 billion (\$370.13 million)) relating to its independent power plant project as at 31 December 2017.

27 Contingencies

Pending litigation and claims

There are no pending litigations and outstanding claims as at year end.

28 Going Concern

The Company incurred a loss after taxation of ₦6.90 billion (\$21.67 million) for the year ended 31 December 2017 (2016: ₦4.80 billion (\$17.41 million)) and as at that date, the Company's total liabilities exceeded its total assets by ₦13.34 billion (\$37.16 million) (2016: ₦5.72 billion (\$18.16 million)). The loss position is due to the fact that the Company is yet to commence commercial operations, as construction of its power plant commenced on 4 January 2016; as such, only expenses and capital expenditure have been incurred to date without any resultant revenue.

To bridge funding gaps, the Company has long term funding arrangements with its parent company, Azura-Edo Limited (AEL) for a total facility amount of \$129.73 million and with a consortium of lenders for a total facility amount of \$566.5 million and ₦24 billion. As at year end, undisbursed loan facilities available to the Company amounted to \$156.41 million and ₦5.62 billion (See Note 18). Principal repayment on the loans from the consortium of lenders will commence in May 2019. The directors of the parent company (AEL) have undertaken to subordinate the amount due to AEL as at 31 December 2017 in favor of the other creditors of the Company and will not call back the loan(s) until such a time that the Company is in a position to make repayment in the normal course of business, without prejudice to the rights of other creditors.

The ability of the Company to continue as a going concern is dependent on the completion and the profitability of the power plant project. For the company to start earning revenue from operations, the construction and commissioning phase of the power plant has to be successfully completed. The power plant is substantially completed and has been connected to the national grid, with the Company successfully testing one of the turbines on the 20th of December 2017. Consequently, the board of directors have a reasonable expectation that the Company will reach its commercial operations date, estimated to be 31 May 2018.

The Company has relevant contracts in place to commence sale of energy and capacity once construction is complete. In addition, the Company has access to adequate financing and facilities to be able to complete the construction of the power plant, realize its assets and discharge its liabilities in the normal course of business. Accordingly, these financial statements have been prepared on the basis of accounting policies applicable to a going concern.

29 Events after the reporting date

Subsequent to year end, the Company was joined as a defendant with NBET and three other defendants in a case brought against them by four successor Gencos. The plaintiffs sought to restrain NBET, CBN and the FG from applying or utilizing funds from the Payment Assurance Facilities (PAF) towards settling the Company's invoices to NBET. The case has not been heard as at the date of finalization of these financial statements. The Directors, based on independent legal advice from an external legal counsel, are of the view that the outcome of the case will have little or no impact on the Company as the transactions with the NBET are strictly based on the PPA signed with NBET.

Other National Disclosures

Other National Disclosures

Value added statement

For the year ended 31 December

	<u>2017</u>	%	<u>2016</u>	%
	₦'000		₦'000	
Revenue	-		-	
Brought in materials and services				
- Local	(2,946,649)		(1,439,318)	
- Foreign	-		-	
	<u>(2,946,649)</u>		<u>(1,439,318)</u>	
Finance income	1,894,942		2,819,320	
Other income	5,870		-	
Value added	<u>(1,045,837)</u>	100	<u>1,380,002</u>	100

Distribution of Value Added:

To Government as:

Taxes and duties	(5,276,392)	505	-	-
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To Employees:

Salaries and wages	128,071	(13)	92,975	7
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To Providers of finance:

Finance costs	10,915,353	(1,044)	6,053,855	439
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Retained in the Business

To maintain and replace:

- Property, plant and equipment	81,775	(8)	29,796	3
- Intangible assets	6,635	-	5,794	-

To deplete retained earnings

	<u>(6,901,279)</u>	<u>660</u>	<u>(4,802,418)</u>	<u>(349)</u>
	<u>(1,045,837)</u>	<u>100</u>	<u>1,380,002</u>	<u>100</u>

Other National Disclosures

Five Year Financial summary

Statement of profit or loss and other comprehensive income

	2017	2016	2015	2014	2013
	₦'000	₦'000	₦'000	₦'000	₦'000
Revenue	-	-	-	-	-
Results from operating activities	(3,157,260)	(1,567,883)	(253,790)	(325,906)	(120,242)
Loss before income tax	(12,177,671)	(4,802,418)	(458,976)	(357,674)	(512,450)
Loss for the year	(6,901,279)	(4,802,418)	(458,976)	(357,674)	(512,450)

Statement of financial position

	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
	₦'000	₦'000	₦'000	₦'000	₦'000
Employment of Funds					
Property, plant and equipment	164,259,680	93,258,270	18,370,393	1,491,845	1,680,151
Intangible assets	83,303	71,190	49,355	49,355	28,058
Deferred tax asset	6,068,952	-	-	-	-
Trade and other receivables	-	6,066,270	6,616,038	-	-
Prepayments	-	10,185,210	7,840,850	462,029	-
Net current assets/ (liabilities)	16,886,119	17,175,246	15,443,585	(873,522)	(2,362,001)
Non-current liabilities	(200,637,220)	(132,475,011)	(48,513,756)	(2,337,312)	-
Net liabilities	(13,339,166)	(5,718,825)	(193,535)	(1,207,605)	(653,792)
Funds Employed					
Share capital	3,874	3,874	3,874	5,096	5,000
Share premium	33,998	33,998	33,998	866	-
Other reserves	-	-	-	438,015	438,015
Hedging reserves	(260,006)	(1,114,701)	(1,176,149)	-	-
Translation reserve	(2,358,077)	(784,320)	-	-	-
Retained earnings	(10,758,955)	(3,857,676)	944,742	(1,651,582)	(1,096,807)
	(13,339,166)	(5,718,825)	(193,535)	(1,207,605)	(653,792)