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NSIA/MD/PFI/HMOF/022/11/02

MD - MOFI

November 9, 2022

Mrs Zainab Shamsuna Ahmed
The Honorable Minister of Finance, Budget & Planning
Federal Ministry of Finance
Ahmadu Bello Way
Central Business District
Abuja, Nigeria.

Fna, pls

JA

PST Feb 20 23



Attn: Director, Ministry of Finance Incorporated (MOFI)

PFI-NPK LIMITED 2021 AUDITED FINANCIAL STATEMENTS

We present the warm compliments of the Nigeria Sovereign Investment Authority ("NSIA" or "The Authority").

2. We are by this letter submitting the 2021 Audited Financial Statements of PFI-NPK Limited, the entity set up to manage the Presidential Fertilizer Initiative (PFI) on behalf of the Government.

3. The 2021 Audited financial statements comprises of 5 primary statements namely:

- i. Statement of Comprehensive Income (SCI),
- ii. Statement of Financial Position (SFP),
- iii. Statement of Changes in Equity,
- iv. Statement of Cashflows and
- v. Notes to the Financial Statement.

4. We respectfully request the Honorable Minister to note:

- i. The enclosed copy of the 2021 Audited Financial Statements for PFI-NPK Limited.

5. The Authority remains grateful for your guidance and support over the period and please do accept the assurances of our esteemed regards.

Aminu Umar-Sadiq
Managing Director & Chief Executive Officer

Enclosure 1: (5 Copies) PFI-NPK Limited Annual report and financial statements for the year ended 31 December 2021.

PST
MD/CSO (MOFI)
JA per deal
13/2/23

Board of Directors

Chairman: Farouk Gumel

Managing Director: Aminu Umar-Sadiq (Chief Executive Officer)

Executive Director: Kolawole Owodunni (Chief Investment Officer); Bisi Makoju (Corporate Services & Operations)

Non-Executive Directors: Ikem Isiekwena; Ali Goni Kadugum; Kabir Oniyangi; Dr. Ogechi Paschal-Ejiogu; Sir Babatunde Sobamowo

PFI-NPK Limited

**Annual report financial statements
For the year ended 31 December 2021**

PFI-NPK Limited

**Annual report and financial statements
For the year ended 31 December 2021**

PFI-NPK Limited
Annual report and financial statements for the year ended 31 December 2021

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PFI-NPK Limited
Annual report and financial statements for the year ended 31 December 2021

General information

Directors	Mr. Alexander Musa Adeyemi Mr. Uche Orji Stella Ojekwe-Onyejeli	Appointed 08 July, 2021 Tenor expired 07 July, 2021 Tenor expired 07 July, 2021
Company secretary	Mrs. Ezinwa Okoroafor The Clan Place 4th Floor Plot 1386A, Tigris Crescent Maitama Abuja Lagos, Nigeria	
Registered office	The Clan Place 4th Floor Plot 1386A, Tigris Crescent Maitama Abuja Lagos, Nigeria	
Bankers	Central Bank of Nigeria United Bank for Africa Plc Union Bank of Nigeria Plc JP Morgan Chase & Co	
Auditors	PricewaterhouseCoopers Chartered Accountants Landmark Towers 5B Water Corporation Road Victoria Island Lagos	

PFI-NPK Limited

Annual report and financial statements for the year ended 31 December 2021

Directors' report

1 Financial statements

The Directors present their annual report on the affairs of PFI-NPK Limited ("the Company"), together with the audited financial statements and independent auditor's report for the year ended 31 December 2021.

2 Principal activities

PFI-NPK Limited (formerly known as NAIC-NPK Limited) was established to stimulate local production of NPK fertilizer by reviving the local blending fertilizer industry, making fertilizer available for Nigerian farmers at affordable prices, and ensuring NPK fertilizer is available for farmers in time for wet season farming. PFI-NPK Limited was set up by the Nigeria Sovereign Investment Authority of Nigeria (NSIA) through its subsidiaries NSIA Agricultural Investment Company Limited (NAIC) and NSIA Property Investment Company Limited. The Company is now fully (100% equity) owned by the Ministry of Finance Incorporated (MOFI), following the transfer of ownership to the Ministry of Finance Incorporated which became effective on 30 September 2021. The transfer of ownership necessitated the change of name from NAIC-NPK Limited to PFI-NPK Limited.

The principal activities of PFI-NPK for the year under review were sales of fertilizers, purchase, and sales of raw materials i.e., DAP, MOP, GAS, and urea.

3 Operating results

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

	31 December 2021	31 December 2020
	N'000	N'000
Revenue	174,425,807	86,974,424
Gross profit/(loss)	10,719,231	(11,794,089)
Operating profit/(loss)	3,772,449	(15,190,482)
Profit for the year	9,966,788	-
Total comprehensive income for the year	9,966,788	-

4 Directorate

The directors in office during the year and as at the date of this report are as follows:

Directors	Designation	Nationality	
Mr. Alexander Musa Adeyemi	Executive	Nigerian	Appointed 08 July, 2021
Mr. Uche Orji	Managing	Nigerian	Tenor expired 07 July, 2021
Mrs Stella Ojekwe-Onyejeli	Executive	Nigerian	Tenor expired 07 July, 2021

PFI-NPK Limited

Annual report and financial statements for the year ended 31 December 2021

Directors' report - continued

5 Directors' interests in contracts

For the purpose of Section 303 of the Companies and Allied Matters Act of Nigeria 2020, none of the Directors had direct or indirect interest in contracts or proposed contracts with the Company during the period.

6 Dividends

Total dividend of N5.03 billion was declared for the financial year ended 31 December 2021 (31 December 2020: Nil).

7 Auditors

The company's auditors, Messrs PricewaterhouseCoopers have expressed their willingness to continue in office as the Company's auditors in accordance with Section 401(2) of the Companies and Allied Matters Act of Nigeria 2020.

8 Employee information

The Company has no employees during the years ended 31 December 2021 and 31 December 2020, all Company's activities are undertaken by consultants. In 2021, The Company entered into a management agreement with the Nigeria Sovereign Investment Authority (NSIA) to help manage its activities. This agreement also covers the management activities provided by NSIA in the year 2020. Expenses incurred for services rendered by consultants and managers have been disclosed in Note 12.

9 Subsequent events

The Company obtained a loan of N20 billion Naiara from NSIA Investment Management Company Limited as a stop gap funding, pending the Central Bank of Nigeria (CBN) disbursement of the Real Sector Support Facility (RSSF) loan that was initiated by the Company, to facilitate its purchase of raw materials. The 12% interest loan is a bullet six-month tenured loan.



Mrs. Ezinwa Okoroafor
Company Secretary
FRCN/2016/NBA/00000015045

30 June
..... 2022

PFI-NPK Limited
Annual report and financial statements for the year ended 31 December 2021

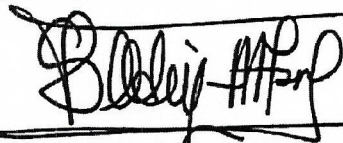
Corporate responsibility for financial reporting

In compliance with the requirements of section 405(1) the Companies and Allied Matters Act (CAMA), No. 3 of 2020, we hereby certify that the Directors have reviewed the audited Financial Statements for the year ended December 31, 2021 and to the best of their knowledge:

- (i) the audited Financial Statements do not contain any untrue statement of material fact or omit to state a material fact, which would make the statements misleading, in the light of the circumstances under which such statement was made;
- (ii) the audited Financial Statements and all other financial information included in the statements fairly present, in all material respects, the financial condition and results of operation of the Company as of and for the period covered by the audited Financial Statements;
- (iii) the Directors are responsible for establishing and maintaining internal controls and have designed such internal controls to ensure that material information relating to the Company are disclosed, particularly during the period in which the audited financial statement report is being prepared;
- (iv) the Directors have evaluated the effectiveness of the Company's internal controls within 90 days prior to the date of its audited Financial Statements, and certify that the Company's internal controls are effective as of that date;
- (v) the Directors have disclosed to the Company's auditors and audit committee;
- (vi) the Directors have indicated if there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The audited Financial Statements for the year ended December 31, 2021, were approved and authorised for issue by the Directors on, 2022.

Signed on behalf of the directors by:



Mr. Alexander Musa Adeyemi mni
Director
FRCN/2021/003/00000022813

PFI-NPK Limited
Annual report and financial statements for the year ended 31 December 2021

Statement of Directors' responsibilities

The Companies and Allied Matters Act 2020 (CAMA), requires the Directors to prepare annual report and financial statements for each financial year that give a true and fair view of the state of financial affairs of the Company at the end of the year and its profit or loss. The responsibilities include ensuring that the Company:

- i. Keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and comply with the requirements of the Companies and Allied Matters Act 2020 (CAMA);
- ii. Establishes adequate internal controls to safeguard its assets and to prevent and detect fraud and other irregularities; and
- iii. Prepares its financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates, that are consistently applied.

The Directors accept responsibility for the annual report and financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with the International Financial Reporting Standards as well as the requirements of the Companies and Allied Matters Act 2020 (CAMA) and the Financial Reporting Council of Nigeria Act.

The Directors are of the opinion that the annual report and financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit for the year. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of annual report and financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Directors by:



Mr. Alexander Musa Adeyemi mni
Director
FRCN/2021/003/00000022813

30 June
..... 2022



Independent auditor's report

To the Members of PFI-NPK Limited

Report on the audit of the financial statements

Our opinion

In our opinion, PFI-NPK Limited's ("the company's") financial statements give a true and fair view of the financial position of the company as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act and the Financial Reporting Council of Nigeria Act.

What we have audited

PFI-NPK Limited's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

The directors are responsible for the other information. The other information comprises the General information, Directors' report, Corporate responsibility for financial reporting, Statement of directors' responsibilities, *Statement of value added and Five-year financial summary*, but does not include the financial statements and our auditor's report thereon.

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

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

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



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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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



Report on other legal and regulatory requirements

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

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

Osere Alakhume

For: PricewaterhouseCoopers

Chartered Accountants
Lagos, Nigeria

Engagement Partner: Osere Alakhume
FRC/2013/ICAN/0000000647



18 October 2022

PFI-NPK Limited

Annual report and financial statements for the year ended 31 December 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	<i>Notes</i>	31 December 2021 N'000	31 December 2020 N'000
Revenue	7	174,425,807	86,974,424
Cost of sales	8	(163,706,576)	(98,768,513)
Gross profit/(loss)		<u>10,719,231</u>	<u>(11,794,089)</u>
Net foreign exchange loss	9	(2,657,021)	(2,516,083)
Impairment charge on financial assets	10	(627,103)	(711,711)
Administrative expenses	11	(3,662,658)	(168,599)
Operating profit/(loss)		<u>3,772,449</u>	<u>(15,190,482)</u>
Investment income	12	-	518,112
Other income	13	8,730,916	18,052,069
Interest expense	14	(2,507,182)	(3,379,699)
Profit before tax		<u>9,996,183</u>	-
Income tax expense	15.1	(29,395)	-
Profit for the year		<u>9,966,788</u>	-
Total comprehensive income for the year		<u>9,966,788</u>	-
Total comprehensive income for the year attributable to equity holders of the company		<u>9,966,788</u>	-

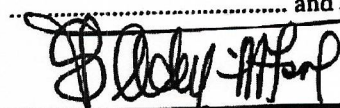
The accompanying notes on pages 13 to 50 form an integral part of these financial statements

PFI-NPK Limited
Annual report and financial statements for the year ended 31 December 2021

Statement of financial position
As at 31 December 2021

	Notes	31 December 2021 N'000	31 December 2020 N'000
Assets			
Current assets			
Cash and cash equivalents	16	50,206,439	34,886,799
Trade receivables	17	54,222,823	16,189,041
Other receivables	18	16,228,100	32,898,982
Inventories	19	9,636,203	10,516,884
Deferred tax asset	15.3	357,918	-
Total assets		130,651,483	94,491,706
Liabilities			
Non-current liabilities			
Other payables	22	-	9,264,159
Interest bearing borrowings	23	7,813,055	16,184,977
		7,813,055	25,449,136
Current liabilities			
Trade payables	21	630,274	15,140,301
Other payables	22	67,089,860	50,055,063
Interest bearing borrowings	23	5,697,139	3,846,206
Interest-bearing short-term borrowings	24	44,093,757	-
Current tax liabilities	15.2	387,313	-
		117,898,343	69,041,570
Total liabilities		125,711,398	94,490,706
Equity			
Share capital	25	1,000	1,000
Accumulated profit	26	4,939,085	-
Total equity		4,940,085	1,000
Total equity and liabilities		130,651,483	94,491,706

The financial statements on pages 10 to 53 were approved and authorised for issue by the Board of Directors on and signed on its behalf by:

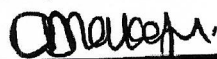


Mr. Alexander Musa Adeyemi mni

Director

FRC/2021/ICAN/00000022813

Additionally certified by:



Mrs. Olubisi Makoju

FRC/2014/ICAN/00000005765

Financial Controller, Nigeria Sovereign Investment Authority

The accompanying notes on pages 13 to 50 form an integral part of these financial statements

PFI-NPK Limited

Annual report and financial statements for the year ended 31 December 2021

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

	Share capital N'000	Accumulated Profit N'000	Total equity N'000
31 December 2021			
Balance at 1 January 2021	1,000	-	1,000
Profit for the year	-	9,966,788	9,966,788
Total comprehensive income for the year	-	9,966,788	9,966,788
Transactions with equity owners of the Company			
Dividends declared	-	(5,027,703)	(5,027,703)
Balance at 31 December 2021	1,000	4,939,085	4,940,085
31 December 2020			
Balance at 1 January 2020	1,000	-	1,000
Profit for the year	-	-	-
Total comprehensive income for the year	-	-	-
Balance at 31 December 2020	1,000	-	1,000

The accompanying notes on pages 13 to 50 form an integral part of these financial statements

PFI-NPK Limited

Annual report and financial statements for the year ended 31 December 2021

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	31 December 2021 N'000	31 December 2020 N'000
Cash flows from operating activities		9,996,183	-
Profit before tax			
Adjustments for:			
Net foreign exchange loss	9	2,657,021	2,516,083
Interest income	12	-	(518,112)
Interest expense	14	2,507,182	3,379,699
Benefit from below market loan	13	(2,664,749)	(2,453,484)
Movements in operating assets/liabilities			
Increase in trade receivables		(38,033,782)	(15,966,622)
Decrease/(increase) in other receivables		16,670,882	(16,291,676)
Decrease/(increase) in inventories		880,681	(5,901,237)
(Decrease)/increase in trade payables		(14,510,027)	14,928,408
Increase in other payables		2,742,935	25,321,206
Net cash (used in)/generated from operating activities		(19,753,674)	5,014,265
Cash flows from investing activities			
Decrease in investments	17	-	9,302,663
Interest received	13	-	518,112
Net cash generated from investing activities		-	9,820,775
Cash flows from financing activities			
Proceeds from short-term borrowings	24	44,093,757	-
Repayment of borrowings	23.1	(5,750,000)	(5,750,000)
Change in deferred income on RSSF borrowings		2,664,749	2,453,484
Interest paid	23.1	(3,278,171)	(731,898)
Net cash generated from/(used in) financing activities		37,730,335	(4,028,414)
Net cash movement for the year		17,976,661	10,806,626
Cash and cash equivalents at the beginning of the year		34,886,799	26,596,256
Effect of exchange rate movement		(2,657,021)	(2,516,083)
Total cash and cash equivalents at end of the year	16	50,206,439	34,886,799
Cash and cash equivalents comprise:			
Bank balance		50,206,439	34,886,799
		50,206,439	34,886,799

The accompanying notes on pages 13 to 50 form an integral part of these financial statements

PFI-NPK Limited

Annual report and financial statements for the year ended 31 December 2021

Notes to the financial statements

1 General information

PFI-NPK Limited (‘the Company’) is domiciled in Nigeria. PFI-NPK Limited was incorporated as NAIC-NPK Limited in Nigeria under the companies and allied matters Act (CAMA) CAP 20 Laws of the Federation of Nigeria, 2020. The Company’s registered address cum business address is the Clan Place, 4th floor, Plot 1386A, Tigris Crescent, Maitama, Abuja.

The Company was established to stimulate local production of NPK fertilisers by reviving the local fertiliser blending industry, so as to make fertilisers available to Nigerian farmers at affordable prices and to ensure NPK fertiliser is available to farmers in time for wet season farming. The Federal Government through the office of the Chief of Staff subsequently restructured the company’s business to include sales of fertilisers and special blends.

Following an approval issued by the Office of the Chief of Staff of the Federal Republic of Nigeria to restructure the Presidential Fertilizer Initiative for which NAIC-NPK was established. The business operations of NAIC-NPK, which is the sale and delivery of fertilizers to agro dealers, has been transferred to the Ministry of Finance Incorporated (MOFI). Consequently, the name of the entity changed to PFI-NPK Limited and is no longer a subsidiary of NSIA but is now wholly owned by MOFI effective 30th September 2021.

The principal activities of the Company for the year under review include sales of fertilisers, and sales of raw materials i.e., DAP, MOP, GAS, and urea.

2 Structure and contents of the financial statements

The financial statements comprise:

- (a) A statement of comprehensive income for the year;
- (b) A statement of financial position at the end of the year;
- (c) A statement of changes in equity for the year;
- (d) A statement of cash flows for the year;
- (e) Notes, comprising a summary of significant accounting policies and other explanatory information.

3 Basis of preparation

3.1 Statement of compliance

The financial statements of PFI-NPK have been prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) applicable to companies reporting under IFRS. Further standards may be issued by the International Accounting Standards Board (IASB) and may be subject to the Interpretations issued by the IFRIC.

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires the Company to exercise its judgement in the process of applying the Company’s accounting policies and making any estimates. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Company’s financial statements are fairly presented. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.16.

3.2 Basis of measurement

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

PHI-NPK Limited

Annual report and financial statements for the year ended 31 December 2021

Notes to the financial statements

3 Basis of preparation - continued

3.3 Foreign currency translation

i) Functional and presentation currency:

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The Company's functional currency is the Nigerian Naira. The financial statements are presented in Naira which is the Company's presentation currency.

All financial information presented in Naira have been rounded to the nearest thousands, except otherwise indicated.

ii) Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

3.4 Changes in accounting policy

The Company has consistently applied the accounting policies as set out in Note 4 to all periods presented in the financial statements.

The Company has adopted the following new standards and amendments including any consequential amendments to other standards.

3.5 New Standards, amendments and Interpretations

The Company has not applied new standards and amendments for the first time which are effective for annual periods beginning on or after 1 January 2021.

3.6 Standards and interpretations not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

3.6.1 Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

3.6 Standards and interpretations not yet effective - continued

3.6.2 Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

3.6.3 Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

3.6.4 IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

3.6.5 Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

3.6 Standards and interpretations not yet effective - continued

3.6.6 Definition of Accounting Estimates - Amendments to IAS 8 - continued

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Company.

3.6.7 Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

4 Significant accounting policies

The principal accounting policies applied in the preparation of these annual report and financial statements are set out below:

4.1 Revenue

Revenue is recognised when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to the customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Company determines whether a performance obligation is satisfied (and revenue is recognised) over time, or whether a performance obligation is satisfied (and revenue is recognised) at a point in time for all contracts. All revenue derived by the Company are recognised at a point in time because it has met all indicators of transfer of control which should be considered. This includes the following:

- The Company has a present right to payment for the asset
- The legal title of the asset has been transferred to the customer
- The customer has taken physical possession of the asset
- The customer has the significant risks and rewards of ownership of the asset and;
- The customer has accepted the asset

4.1 Revenue - continued

In order to meet the core principle of recognising revenue to depict the transfer of promised goods or services to customers in an amount that reflects the amount of consideration to which an entity expects to be entitled in exchange for those goods or services, a five-step model is adopted; this five steps are:

- Identify the contract with the customer;
- Identify the distinct goods or services;
- Determine the transaction price;
- Allocate the transaction price;
- Determine when to recognise revenue;

Sale of NPK fertilizers and special blends

Revenue is recognised when control of the goods has transferred, being when the goods are delivered to the offtaker at the blenders premises. Agro-dealers and state governments are the only customers.

There are no provision to deliver the fertilizers to the customers. A receivable is recognised by the Company when the goods have been made available for pick up to the agro-dealers and state government, as this represents the point in time at which the right to consideration becomes unconditional based on the contract of sale the company has with its customers, as only the passage of time is required before payment is due. No element of financing is deemed present as the sales are made with credit terms of 90 days which is consistent with market practice.

There are no return policies and warranties granted to customers under the contract. The goods are sold directly to customers, there is no form of intermediary.

The NPK fertilizers are sold on price concessions based on amounts agreed with the Federal Government of Nigeria. Revenue from these sales is recognised based on the price specified in the contract with the customers (agro dealers and state governments). Where the agreed price leads to a loss position for the company, the federal government reimburses the entity for selling below cost price.

Determining the transaction price for sales of fertilizers and special blends

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).

In determining the transaction price, the company considers the nature nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price. The Company considers the effects of all of the following, if applicable, when determining its transaction price :

- (a) variable consideration
- (b) constraining estimates of variable consideration
- (c) the existence of a significant financing component in the contract
- (d) non-cash consideration
- (e) consideration payable to a customer

4.2 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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4.2 Financial instruments - continued

4.2.1 Financial assets

A financial asset is initially measured at fair value plus, for an item not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to its acquisition or issue.

The Company initially recognises cash and bank balances, money market placements, investment securities, other financial assets, other liabilities and borrowings on the date on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

4.2.2 Classification

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

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

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. All financial assets currently recognised in the financial statements are classified as measured at amortised cost.

(i) Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management; the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realized.

(ii) Assessment whether contractual cash flows are solely payments of principal and interest

In this case, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

4.2 Financial instruments - continued

4.2.2 Classification - continued

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

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

Subsequent measurement

Subsequent measurement of financial instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Company classifies its financial instruments:

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

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4.2 Financial instruments - continued

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

4.2.3 Financial liabilities (borrowings and payables)

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include borrowings, trade payables, and other payables.

Financial liabilities of the Company are subsequently measured at amortised cost.

4.3 Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the company neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the company is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

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

4.4 Offsetting

Financial assets and liabilities are offset and the net amounts are presented in the statement of financial position when, and only when, the Company has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

4.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

4.6 Fair value measurement

Fair value is the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

4.6 Fair value measurement - continued

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price - i.e. the fair value of the consideration given or received. However, in some cases, the fair value of a financial instrument on initial recognition may be different from its transaction price. If such fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Subsequent to initial recognition, the fair values of financial instruments are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date from a financial asset with similar terms and conditions. Where pricing models are used, inputs are based on observable market indicators at the reporting date and profits or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

4.7 Cost of sales

Cost of sales is primarily comprised of direct materials consumed in the manufacture of product, as well as blending fees and direct overhead expense necessary to acquire and convert the purchased materials into finished product. Cost of sales also includes the cost of haulage.

4.8 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs. In the case of manufactured inventory and work in progress, cost includes an appropriate share of production overheads based on normal activity level. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling.

Impairment loss on inventories are recognised in cost of sales in the year in which they occur while subsequent recoveries on the impairment are recognised in other income in the year in which the recoveries are made.

4.9 Transaction costs

All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction costs are expensed in the income statement. They include fees and commissions paid to agents, custodians and advisers.

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4.10 Subsidies

Subsidies are form of financial aid or support extended to an economic sector (or institution, business, or individual) generally with the aim of promoting economic and social policy.

The Company receives subsidy from the Federal Government of Nigeria to augment the cost incurred by Company in the production of fertilizers under the Presidential Fertilizer Initiative .

Subsidy income is recognised when the likelihood that it will be received from the Federal Government has been confirmed.

4.11 Cash and cash equivalents

Cash and cash equivalents comprise cash, fixed deposits with banks, and highly liquid financial instruments with original maturities of less than three months from the acquisition date, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Cash and cash equivalents are measured at fair value on initial recognition and are subsequently measured at amortised cost.

4.12 Trade receivables

Trade receivable is recognised if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the receivables are recognised at fair value with the Day 1 gain or loss recognised in the income statement. Trade receivables are subsequently measured at amortised cost.

4.13 Other receivables

Other receivables comprise cash advances, prepayments, and amount receivables arising from transactions that are not within the scope of IFRS 15. Other receivables that qualify as financial assets are initially measured at their fair values and are subsequently measured at amortised cost.

4.14 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. As at the end of the financial year there were no financial assets or liabilities measured at fair value.

4.15 Share Capital

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

4.16 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, incomes and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting judgments in applying the Company's accounting policies

Critical accounting judgements made in applying the Company's accounting policies include:

4.16.1 Valuation of financial instruments

The Company's accounting policy on fair value measurements is discussed under Note 5.6. The Company measures fair values using the following fair value hierarchy that reflects the nature and process used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using inputs that are not based on observable market data. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs could have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

4.16.2 Financial assets and liabilities classification

The Company's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances; Details of the Company's classification of financial assets and liabilities are given in Note 5.2.

4.17 Recognition of revenue

Revenue from contracts with customers is recognised when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods/services. The Company has generally concluded that it is the principal in its revenue arrangements.

The company recognises revenue for goods that have been transferred in accordance to agreed upon specifications. Based on experience, control is deemed to be transferred when the goods are transferred in the required specification. This is supported by its experience in previous sales of goods that were transferred at the agreed upon specifications.

4.18 Below market borrowings (Government grants)

The Company benefits from the Central Bank of Nigeria's Real Sector Support Facility (RSSF) Scheme where the government/Central Bank of Nigeria, through some commercial banks, provide finance to companies in certain industries at subsidised interest rates. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

4.19 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.

Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

Expenditures for the asset have occurred;

Borrowing costs have been incurred; and

Activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

5 Financial risk management

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

5.1 Approach to risk management

With a global outlook, the Company's strategy for managing risks is to understand risk within the invested universe and the externalities that can affect this, with the aim of monitoring, controlling and mitigating against undesired events. The Company has adopted, wherever possible, recommended best practice in the identification, evaluation and cost effective control of risks to ensure, as far as possible, that they are eliminated or reduced to a level that is acceptable to the Company.

The Company's Risk Framework seeks to explain the Company's underlying approach to risk management, documents the roles and responsibilities of the Directors, risk management department and other key parties. It also outlines key aspects of the risk management process, and identifies the main reporting procedures.

5.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company. It arises principally from trade receivables and cash and cash equivalents.

The credit quality of trade receivables which are neither past due nor impaired is assessed by reference to historical information about counterparty default rates. The counterparties have historically not defaulted on past obligations and there is no expectation of default as at the end of the reporting period.

5.2.1 Management of credit risk

The Company's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting credit standards. Hence the Company only deals with counterparties that meet set credit ratings.

5.2.2 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure per credit rating. As at 31 December 2021 and 31 December 2020, all financial assets are neither past due nor impaired. The credit quality of these financial assets are disclosed in the table below:

(i) Cash and Cash equivalent	31 December 2021 N'000	31 December 2020 N'000
Counter parties with external credit ratings	1,567,729	140,368
A+ (S&P)	16,151,717	23,395,600
B- (S&P)	28,734,083	10,528,115
B (Fitch)	3,752,910	822,716
B- (Fitch)		
Total bank balance (Note 16)	50,206,439	34,886,799

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5 Financial risk management - continued

5.2.2 Exposure to credit risk - continued

(ii) Trade receivables	31 December 2021 N'000	31 December 2020 N'000
Counter parties without external credit ratings		
Trade receivables	55,468,639	16,758,542
Total trade receivables (Financial assets) (Note 17)	55,468,639	16,758,542
(iii) Other assets	31 December 2021 N'000	31 December 2020 N'000
Counter parties without external credit ratings		
Receivables from NSIA	16,427,725	-
Intercompany receivables	-	16,427,022
Total other assets (financial assets) (Note 18)	16,427,725	16,427,022

5.2.3 Concentration of risk of financial assets

Geographical sectors

The following table breaks down the Company's risk exposure at their carrying amounts, as categorised by geographical region as at 31 December 2021 and 31 December 2020. For this table, the Company has allocated exposures to regions based on the country of domicile of its counterparties.

31 December 2021	Nigeria N'000	Total N'000
Cash and cash equivalents	50,206,439	50,206,439
Trade receivables	55,468,639	55,468,639
Other receivables (excluding advances to suppliers and staff)	16,427,725	16,427,725
	122,102,803	122,102,803
31 December 2020	N'000	N'000
Cash and cash equivalents	34,886,799	34,886,799
Trade receivables	16,758,542	16,758,542
Other receivables (excluding advances to suppliers and staff)	16,427,022	16,427,022
Subsidy from Federal Government of Nigeria on cost differential on fertilizer sales	5,679,240	5,679,240
	73,751,603	73,751,603

5.2.4 Impairment of financial assets

The Company assesses on a forward looking basis the expected credit losses associated with its financial instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Company recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- other assets and receivables

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than other receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for other assets and receivables are always measured at an amount equal to lifetime ECL.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade' or it is a sovereign debt issued in the local currency e.g. Treasury bills and Bonds issued by the Nigerian Government.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Life time ECL are credit losses that result from all possible default events over the expected life of a financial instrument.

5.2.5 Measurement of ECL

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Default definition

Under IFRS 9, the Company will consider a financial asset to be in default when contractual payments are 90 days past due.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

5.2.6 Significant increase in credit risk

The Company has established a framework that considers qualitative, quantitative, and 'backstop' (90 days past due presumption) indicators to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Company's internal credit risk management process.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include backstop based on delinquency.

In determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Company will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Company's historical experience, expert credit assessment and forward-looking information.

The Company will primarily assess whether a significant increase in credit risk has occurred for an exposure in line with its staging criteria by comparing:

- the risk of default on the exposure as at the reporting date; with
- the risk of default on the exposure as at the date of initial recognition

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. Modifying the contractual terms of a financial instrument may also affect this assessment.

Details of the qualitative and quantitative factors used to determine the significant increase in credit risk are highlighted in the next sub-head.

5.2.7 Quantitative Criteria

The use of quantitative criteria requires the Company to refresh its quantitative metrics at least annually. The Company adopted the following quantitative criteria for the purpose of assessing Significant Increase in Credit Risk (SICR), vis-à-vis stage allocation:

i. External Rating Parameter:

The Company monitors changes in external ratings of obligors to assess significant increase/decrease in credit risk. Evidence of Significant Increase in Credit Risk (SICR) depends on rating at initial recognition and the extent of movement (number of notches downgrade/upgrade) as at reporting date.

The Company applies different notches movement across each rating grade as evidence of SICR. Generally, obligors with higher credit rating would require more notches downgrade to evidence SICR, when compared with obligors with lower credit rating. The logic is that PD exponentially increases with movement down the rating grades. For instance, while a one-notch movement is deemed significant for a financial instrument rated CCC at origination, a three-notch movement is deemed significant for an AAA rated financial instrument.

5.2.8 Qualitative Criteria

The Company uses a wide range of qualitative criteria for staging purposes, leveraging on IFRS 9 recommendations and a range of other factors.

The Company shall override the stage allocation using quantitative assessment if the financial instrument meets the qualitative criteria for a different impairment stage.

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5.2.8 Qualitative Criteria - continued

Expected credit loss for trade receivables

IFRS 9 states that an entity shall always measure the loss allowance at an amount equal to the lifetime expected credit losses for trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 and lease receivables that result from transactions in the scope of IFRS 16.

In line with this, PFI-NPK Limited shall use a loss default definition of 360 days and estimate the ECL for its trade receivables using the historical loss rate approach.

PFI-NPK Limited has segmented its trade receivables into delinquency buckets based on the days past due information as illustrated below:

S/N	Delinquency Buckets
1	Current - 29 days past due
2	30 - 59 days past due
3	60 - 89 days past due
4	90 - 119 days past due
5	120 - 149 days past due
6	150 - 179 days past due
7	180 - 209 days past due
8	210 - 239 days past due
9	240 - 269 days past due
10	270 - 299 days past due
11	300 - 329 days past due
12	330 - 359 days past due
13	360 days and above

For each bucket list, PFI-NPK shall estimate loss rates using its historical loss experience on facilities which have been booked at least 360 days prior to the reporting date.

In estimating the loss rates, PFI-NPK shall make adjustments to reflect information about current conditions, and reasonable and supportable forecasts of future economic conditions.

In the event that there is no sufficient historical data to estimate historical loss rate, PFI-NPK shall apply assumed loss rates for the different past due buckets as illustrated below:

Period	Rate
<30Days	1%
>30Days <90 Days	2%
>90Days <180 Days	2%
>180Days <270Days	7%
>270Days <365Days	17%
>365Days	100%

5.2.9 Credit-impaired financial asset

The Company considers a financial asset to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired.

5.2.10 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss Given Default (LGD) represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.
- LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the financial asset.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the financial asset amortised cost. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which depends on the contractual terms of the instrument.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by instrument type. Refer to the Forward-looking information incorporated in the ECL models" subhead for an explanation of forward-looking information and its inclusion in ECL calculations.

There have been no significant changes in estimation techniques or significant assumptions made during between when the model was adopted and the reporting period.

5.2.11 Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

IFRS 9 [B5.5.51] states that an entity need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available without undue cost or effort and that is relevant to the estimate of expected credit losses. In addition, an entity is not required to incorporate forecasts of future economic conditions over the entire life of a financial instrument. Rather, it suffices for an entity to extrapolate projections for periods that are far in the future from available information.

5.2.12 Incorporating Forward-looking information into Multi-year PD Estimation

The Company has financial instruments originating from different regions of the world, and as such, it may be impracticable to obtain information on future economic conditions for all the relevant regions. The Company has therefore incorporated FLI into multi-year PD estimation using a two-step approach:

Step 1:

Convert Through-the-Cycles (TTC) PDs to Point-in-Time (PIT) PDs using logistic regression with global historical default rates and global macroeconomic variables (i.e. global GDP growth rate, global inflation rate and oil price). This is based on the fact that external rating grades are comparable across industries and jurisdictions.

Step 2:

Incorporate the impact of local economic conditions by analysing the likelihood of change in the rating of each financial instrument based on obligor specific information. This analysis will be conducted at every reporting date by considering the following information:

- i. Rating outlook from external rating agencies for the obligor or the related sovereign
- ii. The expected impact of local macroeconomic forecasts (e.g. local GDP growth rate, exchange rate, inflation rate, unemployment rate etc.) on the obligor
- iii. Other obligor specific qualitative information that may provide an indication of future change in ratings.

5.2.13 Incorporating FLI into Multi-year EAD and LGD Estimation

Due to data constraints, the Company will manually adjust the base case EAD and LGD estimates for periods where these parameters are expected to be significantly different from their historical averages based on forward-looking macroeconomic information.

The rationale for arriving at the decision whether the forecast EADs and LGDs are expected to be significantly different from the base case or not, as well as the process for arriving at the adjustment factor must also be documented.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by instrument type. Refer to the Forward-looking information incorporated in the ECL models' subhead for an explanation of forward-looking information and its inclusion in ECL calculations.

There have been no significant changes in estimation techniques or significant assumptions made during between when the model was adopted and the reporting period.

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The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

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Step 2:

Incorporate the impact of local economic conditions by analysing the likelihood of change in the rating of each financial instrument based on obligor specific information. This analysis will be conducted at every reporting date by considering the following information:

- i. Rating outlook from external rating agencies for the obligor or the related sovereign
- ii. The expected impact of local macroeconomic forecasts (e.g. local GDP growth rate, exchange rate, inflation rate, unemployment rate etc.) on the obligor
- iii. Other obligor specific qualitative information that may provide an indication of future change in ratings.

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Due to data constraints, the Company will manually adjust the base case EAD and LGD estimates for periods where these parameters are expected to be significantly different from their historical averages based on forward-looking macroeconomic information.

The rationale for arriving at the decision whether the forecast EADs and LGDs are expected to be significantly different from the base case or not, as well as the process for arriving at the adjustment factor must also be documented.

5.2.14 Macro economic variable affecting the ECL allowance

The real historical gross domestic product (GDP) growth rate in Nigeria, inflation and crude oil price were identified as the key economic variables impacting the credit risk of the Company. Historical data on these variables for the last ten years were used to determine the three economic scenarios (base, optimistic and downturn) and their scenario weightings.

5.2.15 Economic variable assumptions

One of the most significant period-end assumptions used for the ECL estimate as at 31 December 2021 are set out below. The scenarios "best", "optimistic" and "downturn" were used for all portfolios.

		2022	2023	2024	2025	2026
a GDP growth rate(%)	Base	3%	3%	3%	3%	3%
	Optimistic	4%	4%	4%	4%	4%
	Downturn	3%	3%	3%	3%	3%
b Inflation rate (%)	Base	7%	7%	7%	7%	7%
	Optimistic	6%	5%	5%	5%	5%
	Downturn	13%	13%	13%	13%	13%
c Oil price (USD)	Base	71	66	66	66	66
	Optimistic	80	75	75	75	75
	Downturn	67	62	62	62	62

Sensitivity analysis on ECL Model

The most significant forward looking information with impact on the ECL allowance of the Group include:

- Growth rate
- Inflation rate
- Oil prices

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The table below demonstrates the sensitivity of the ECL allowance to movements in the significant forward looking indicators for financial assets, with all other variables held constant:

	2021		2020	
	ECL allowance	Net effect	ECL allowance	Net effect
	N'000	N'000	N'000	N'000
Growth rate				
10% increase	1,362,668	(151,408)	798,275	(88,697)
No change	1,514,075	-	886,972	-
10% decrease	1,665,483	151,408	975,669	88,697
Inflation rate				
1% increase	1,529,216	15,141	895,842	8,870
No change	1,514,075	-	886,972	-
1% decrease	1,498,934	(15,141)	878,102	(8,870)
Oil prices				
5% increase	1,438,371	(75,704)	842,623	(44,349)
No change	1,514,075	-	886,972	-
5% decrease	1,589,779	75,704	931,321	44,349

5.2.16 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;

• Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

• Impacts on the measurement of ECL due to changes made to models and assumptions;

• Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;

• Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and

There were no assets written off during the period.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix.

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<u>Days past due</u>	<u>Loss rate</u> %	<u>Total gross carrying amount</u> N '000	<u>Expected credit loss</u> N '000
0 - 29 days	0.99%	13,300,710	131,157
30 - 59 days	1.29%	11,060,571	142,616
60 - 89 days	1.62%	18,085,890	293,643
90 - 119 days	1.96%	3,399,445	66,730
120 - 149 days	2.70%	1,081,996	29,240
150 - 179 days	3.56%	26,666	950
180 - 209 days	4.28%	5,868,616	251,076
210 - 239 days	4.43%	124,343	5,503
240 - 269 days	7.68%	1,861,182	142,912
270 - 299 days	9.63%	-	-
300 - 329 days	23.51%	623,944	146,713
330 - 359 days	47.00%	-	-
<u>Above 360 days</u>	<u>100.00%</u>	<u>35,276</u>	<u>35,276</u>
Total		55,468,639	1,245,816

31 December 2020

<u>Days past due</u>	<u>Loss rate</u> %	<u>Total gross carrying amount</u> N '000	<u>Expected credit loss</u> N '000
0 - 29 days	1.17%	6,584,542	76,970
30 - 59 days	1.60%	135,801	2,172
60 - 89 days	1.89%	-	-
90 - 119 days	2.17%	2,293,025	49,798
120 - 149 days	3.27%	2,762,427	90,287
150 - 179 days	4.19%	2,499,930	104,758
180 - 209 days	4.19%	90,000	3,771
210 - 239 days	4.69%	-	-
240 - 269 days	9.67%	2,392,817	241,745
<u>Above 360 days</u>	<u>100.00%</u>	<u>-</u>	<u>-</u>
Total		16,758,542	569,501

5.2.17 Write-off policy

The Company writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery value of the collateral is such that there is no reasonable expectation of recovering in full.

The Company may write-off financial assets that are still subject to enforcement activity. Currently, there were no outstanding contractual amounts on such financial assets during the year ended 31 December 2021 (2020: nil).

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5-3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Company.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity categories based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

31 December 2021	Up to 6 Months	Between 6 months and 1 year	Between 1 and 2 years	Greater than 2 years	Total
	N'000	N'000	N'000	N'000	
Trade payables	630,274	-	-	-	630,274
Payables to NSIA	31,768,043	-	18,400,495	-	50,168,538
Other payables	9,716,450	-	-	-	9,716,450
Borrowings	3,747,517	3,148,295	7,190,798	1,526,299	15,612,909
Total liabilities	45,862,284	3,148,295	25,591,293	1,526,299	76,128,171

31 December 2020	Up to 6 Months	Between 6 months and 1 year	Between 1 and 2 years	Greater than 2 years	Total
	N'000	N'000	N'000	N'000	
Trade payables	15,140,301	-	-	-	15,140,301
Intercompany payables	28,608,007	-	16,673,512	-	45,281,519
Other payables	9,264,159	-	-	-	9,264,159
Borrowings	3,869,488	3,811,404	7,435,510	4,914,781	20,031,183
Total liabilities	56,881,955	3,811,404	24,109,022	4,914,781	89,717,162

5-4 Market risk

Market risk is the risk of loss from unfavorable changes in the fair values of financial instruments caused by adverse moves in market variables, such as foreign exchange rates, interest rates, equity prices, commodity prices, credit spreads and implied volatilities of the market rates. Market risk losses could result in a loss of earning and/or capital to the Company. The Company is exposed to market risk through its proprietary investments and can experience capital erosion from its own direct investments in the market.

Market risk - comprising equity, currency and interest rate risk.

5-4.1 Equities securities price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks. The company is not exposed to equity price risk.

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5-4.2 Currency exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency. The tables below shows the sensitivity of the Company's total comprehensive income to appreciation or depreciation of the naira in relation to other currencies.

Concentration of foreign currency exposure

31 December 2021	Naira	USD	Total
	N '000	N '000	N '000
Cash and cash equivalents	48,638,710	1,567,729	1,567,729
Total monetary financial assets	48,638,710	1,567,729	1,567,729
Trade payables	630,274	-	-
Other payables	9,716,450	-	-
Payables to NSIA	50,168,538	-	-
Total monetary financial liabilities	60,515,262	-	-
Net financial asset FCY exposure		1,567,729	1,567,729
Sensitivity at 5% appreciation		(78,386)	(78,386)
Sensitivity at 5% depreciation		78,386	78,386

Concentration of foreign currency exposure

31 December 2020	Naira	USD	Total
	N '000	N '000	N '000
Cash and cash equivalents	34,746,431	140,368	140,368
Total monetary financial assets	34,746,431	140,368	140,368
Trade payables	15,140,301	-	-
Other payables	9,264,159	-	-
Intercompany payables	45,281,519	-	-
Total monetary financial liabilities	69,685,979	-	-
Net financial asset FCY exposure		140,368	140,368
Sensitivity at 5% appreciation		(7,018)	(7,018)
Sensitivity at 5% depreciation		7,018	7,018

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5-4-3 Interest rate risk

Interest rate risk is the risk of loss to net interest income (Nil) arising from changes in market interest rates on rate sensitive assets and liabilities.

Net interest income sensitivity

There are two types of scenarios that give rise to interest rate risk. These are where the Company holds variable rate instruments susceptible to cash flow interest rate risk due to a change in market interest rates or the Company holds debts instruments measured at fair value which will be exposed to fair value interest rate risk. The Company does not hold debts instruments measured at fair value which are exposed to fair value interest rate risk.

5-4-4 Management of market risk

The Company manages market risk by actively controlling positions taken by investment managers in accordance

5-4-5 Non-trading assets Non-financial assets

Key performance measures are set and a robust monitoring and reporting framework is put in place to monitor performance of the Company's investment in alternative and unlisted securities. There were none of this type of investments as at the end of the financial year.

6 Fair value hierarchy

The Company classifies financial instruments measured at fair value in the investment portfolio according to the following hierarchy

Level	Fair value input description	Financial instrument
Level 1	Quoted prices (unadjusted) from active markets	Quoted instruments
Level 2	Inputs other than quoted prices included in Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).	Equity instruments quoted in over-the-counter (OTC) markets.
Level 3	Inputs that are not based on observable market data (that is, unobservable inputs).	Unquoted equity instruments and debt instruments.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices as at 31 December 2021. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Company, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

(b) Financial instruments in level 2

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. They include investments in equity securities that are not traded in an active market but for which a trading platform exists on which a price can be determined for which market participants would pay in order to purchase the asset as at the reporting date i.e. at the Over-the-Counter alternative markets.

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6 Fair value hierarchy - continued

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

(c) Financial instruments in level 3

Level 3 inputs are unobservable inputs that have been applied in valuing the respective asset or liability. The determination of what constitutes 'observable' requires significant judgment by the Company. The Company considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. There were no transfers between levels during the year.

6.1 Fair value hierarchy of financial assets and financial liabilities not measured at fair value

The following tables analyse within the fair value hierarchy the Company's financial assets (by class) measured at fair value at 31 December 2021. All fair value measurements disclosed are recurring fair value measurements.

31 December 2021 <i>In thousands of Naira</i>	Carrying value	level 1	level 2	level 3	Fair value
Financial assets					
Intercompany receivables	16,427,725	-	-	16,427,725	16,427,725
Trade receivables	55,468,639	-	-	55,468,639	55,468,639
	71,896,364	-	-	71,896,364	71,896,364

31 December 2021 <i>In thousands of Naira</i>	Carrying value	level 1	level 2	level 3	Fair value
Financial liabilities					
Payables to NSIA	50,168,538	-	-	50,168,538	50,168,538
Other payables	9,716,450	-	-	9,716,450	9,716,450
Borrowings	13,510,194	-	-	13,510,194	13,510,194
Trade payables	630,274	-	-	630,274	630,274
	74,025,456	-	-	74,025,456	74,025,456

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6.1 Fair value hierarchy of financial assets and financial liabilities not measured at fair value - continued

31 December 2020 In thousands of Naira	Carrying value	level 1	level 2	level 3	Fair value
Financial assets					
Trade receivable	16,758,542	-	-	16,758,542	16,758,542
Subsidy from Federal Government of Nigeria on cost differential on fertilizer sales (Note 14)	5,679,240	-	-	5,679,240	5,679,240
Intercompany receivables	16,427,022	-	-	16,427,022	16,427,022
	38,864,804	-	-	38,864,804	38,864,804
Financial liabilities					
Intercompany payables	45,281,519	-	-	45,281,519	45,281,519
Other payables	9,264,159	-	-	9,264,159	9,264,159
Borrowings	20,031,183	-	-	20,031,183	20,031,183
Trade payables	15,140,301	-	-	15,140,301	15,140,301
	89,717,162	-	-	89,717,162	89,717,162

7 Revenue

Sale of fertilizer
Sale of special blends

	31 December 2021 N'000	31 December 2020 N'000
	4,188,375	50,052,284
	170,237,432	36,922,140
	174,425,807	86,974,424

Revenue from sale of fertilizer represents proceeds from sale of finished and packaged fertilizer to Agro-dealers and State Governments while revenue from sale of special blends represents proceeds from sale of raw materials to fertilizer blending plants.

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8 Cost of sales	31 December 2021 N'000	31 December 2020 N'000
Fertilizers		
Raw materials consumed	3,165,652	43,274,710
Blending plants fees	489,292	8,812,429
Direct trucking and logistics	2,412,313	15,259,039
Fertilizer clearing and testing expense	-	11,106
Inventory loss	-	401,973
	6,067,257	67,759,257
Special blends		
Raw materials consumed-special blends	141,745,367	28,071,319
Restacking and rebagging	77,392	82,774
Direct trucking and logistics-special blends	15,816,560	2,855,163
	157,639,319	31,009,256
	163,706,576	98,768,513

9 Net foreign exchange loss	31 December 2021 N'000	31 December 2020 N'000
Net foreign exchange loss	(2,657,021)	(2,516,083)
	(2,657,021)	(2,516,083)

10 Impairment loss on financial assets	31 December 2021 N'000	31 December 2020 N'000
Impairment charge on financial assets	627,103	711,711
	627,103	711,711

10.1 The following tables explain the changes in the loss allowance of financial assets between the beginning and the end of the annual period:

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL	
2021	N'000	N'000	N'000	N'000
Trade receivables (Note 17.1)	676,315	-	-	676,315
Other receivables (Note 18)	(49,212)	-	-	(49,212)
Total impairment loss	627,103	-	-	627,103

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10.1 Impairment loss on financial assets - continued

	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	ECL	ECL	ECL	
2020	N '000	N '000	N '000	N '000
Trade receivables (Note 17.1)	404,603	-	-	404,603
Other receivables (Note 18)	307,108	-	-	307,108
Total impairment loss	711,711	-	-	711,711

	31 December	31 December
	2021	2020
	N'000	N'000
11 Administrative expenses		
Audit fees	28,500	25,000
Advertisement and publicity	7,500	15,533
Bank charges	12,279	20,155
Custody fees	-	3,816
Consulting and professional fees	5,594	52,609
Travel expenses	33,633	47,987
Operations management expense	3,000,462	3,499
Monitoring expense	574,690	-
	3,662,658	168,599

Operations management expense comprises cost incurred for managing the business operations of PFI-NPK.

The Company did not incur staff cost during the financial year ended 31 December 2021 (31 December 2020: Nil). Its operational and administrative activities are undertaken by consultants. The professional and consulting fees paid to consultants is disclosed above.

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12 Investment income

	31 December 2021 N'000	31 December 2020 N'000
Interest income from treasury bill investment	-	518,112
	-	518,112

Investment income relates to income earned on treasury bill.

13 Other income

	31 December 2021 N'000	31 December 2020 N'000
Benefit from below market rate loan (13.1)	2,664,749	2,453,484
Recovery on inventory loss (13.2)	599,158	394,196
Income from rebagging	-	61,200
Others	13,820	17,683
Discount received on purchase of raw materials	1,304,542	-
Subsidy from Federal Government of Nigeria on cost differential on fertilizer sales (13.3)	4,148,647	15,125,506
	8,730,916	18,052,069

13.1 Benefit from below market rate loan arose from the unwinding effect in relation to straight line amortisation of the fair value of the benefit over the tenor of the borrowing. See Note 24 for additional information.

13.2 Recovery on inventory loss comprises N599,158 million (2020: N394,196 million) payments received from Bejafa Group Nigeria Limited (Bejafa) and Bauchi Fertiliser & Company.

13.3 Subsidy relates to approved disbursement by the Federal Government of Nigeria for cost differential on the sales of fertilizer by the Company. The subsidy of N4.15 billion (2020: N15.13 billion) was granted by the Federal Government to the Company as settlement of the shortfalls incurred on the 2021 and 2020 Presidential Fertilizer Initiative (PFI).

14 Interest expense

	31 December 2021 N'000	31 December 2020 N'000
Interest expense on borrowings	2,507,182	3,379,699
	2,507,182	3,379,699

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15. **Income tax**
 The major components of income tax expense for the years ended 31 December 2021 and 2020 are:
- 15.1 **Statement of profit or loss**

	31 December 2021 N'000	31 December 2020 N'000
Current income tax:		
Company income tax	357,516	-
Education tax	29,793	-
Police trust fund levy	4	-
Deferred tax:	387,313	-
Relating to origination of temporary differences		
Income tax expense reported in the statement of profit or loss	(357,918)	-
	29,395	-

As disclosed in the director's report, the Company is now fully (100% equity) owned by the Ministry of Finance Incorporated (MOFI), following the transfer of ownership to the Ministry of Finance Incorporated which became effective on 30 September 2021. Consequently, section 57 of the Act establishing the Nigeria Sovereign Investment Authority of Nigeria (NSIA) which exempts the NSIA and its subsidiaries from taxes ceased to apply.

- 15.2 **Statement of financial position**

Income tax payable		
At the beginning of the year:	-	-
Current income tax for the year	387,313	-
Tax paid	-	-
At the end of the year:	387,313	-

Reconciliation of tax expense and the accounting profit multiplied by PFI-NPK's tax rate for 2021 and 2020.

	31 December 2021 N'000	31 December 2020 N'000
Accounting profit before tax	88,140	-
At Nigeria's statutory income tax rate of 30% (2020:Nil)	26,442	-
Police trust fund levy	4	-
Non-deductible expenses in determining taxable profit	331,074	-
Education tax	29,793	-
Deferred tax	(357,918)	-
Total tax in statement of comprehensive income	29,395	-

- 15.3 **Deferred tax balances**

Deferred tax attributable to the following recognised in statement of profit or loss:

Provisions	203,809	-
Unrealised exchange loss	154,109	-
	357,918	-

Reflected in the statement of financial position as follows:

Deferred tax assets	357,918	-
Deferred tax asset	357,918	-

The analysis of deferred tax assets is as follows:

To be recovered after more than 12 months	-	-
To be recovered within 12 months	357,918	-

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16 Cash and cash equivalents

	31 December 2021 N'000	31 December 2020 N'000
Bank balances	50,206,439	34,886,799
Maturity analysis:		
Current	50,206,439	34,886,799
	<u>50,206,439</u>	<u>34,886,799</u>

17 Trade receivables

	31 December 2021 N'000	31 December 2020 N'000
Trade receivables	55,468,639	16,758,542
ECL allowance on trade receivables receivables (17.1)	(1,245,816)	(569,501)
	<u>54,222,823</u>	<u>16,189,041</u>

The Company's trade receivables are current in nature.

17.1 A reconciliation of changes in gross carrying amount and corresponding allowance for ECL on trade receivables using the simplified approach (lifetime ECL) is shown below.

	2021 Simplified approach		2020 Simplified approach	
	Gross carrying amount N'000	ECL N'000	Gross carrying amount N'000	ECL N'000
As at 1 January	16,758,542	569,501	387,317	164,898
New asset originated during the year	38,710,097	676,315	16,371,225	404,603
As at 31 December	<u>55,468,639</u>	<u>1,245,816</u>	<u>16,758,542</u>	<u>569,501</u>

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18 Other receivables

	31 December 2021 N'000	31 December 2020 N'000
Financial assets at amortised cost:		
Receivables from NSIA	16,427,725	-
Intercompany receivables	-	16,427,022
Subsidy from Federal Government of Nigeria on cost differential on fertilizer sales	-	5,679,240
Total financial assets before impairment	16,427,725	22,106,262
ECL allowance on other receivables	(268,259)	(317,471)
Non-financial assets:	16,159,466	21,788,791
Staff advance	4,500	1,500
Advance for supply of raw materials (Note 18.1)	64,134	11,108,691
	16,228,100	32,898,982
Maturity analysis:		
Current	16,228,100	32,898,982
	16,228,100	32,898,982

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL on other receivables using the general approach is shown below.

	2021 Stage 1		2020 Stage 1	
	Gross carrying amount N'000	ECL N'000	Gross carrying amount N'000	ECL N'000
As at 1 January	22,106,262	317,471	14,143,038	10,363
New asset originated	-	-	7,963,224	307,108
Asset derecognised/repaid	(5,678,537)	(49,212)	-	-
As at 31 December	16,427,725	268,259	22,106,262	317,471

18.1 Advance for supply of raw materials refers to amount prepaid to the manufacturers of the raw materials.

19 Inventory

	31 December 2021 N'000	31 December 2020 N'000
Raw materials	9,598,692	7,065,202
Finished goods	37,511	3,451,682
	9,636,203	10,516,884
Maturity analysis:		
Current	9,636,203	10,516,884
	9,636,203	10,516,884

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19 Inventory - continued

There was no inventory written-off in the year (2020: N0.41 billion) and raw materials consumed of N3.17 billion (2020: 43.27 billion) per Note 8. There is no inventory balance pledged as security for liabilities at both year ends.

20 Contingent assets

The company expects to receive some cash in relation to inventory loss per Note 8. The company has assessed the receipts of the inflow to be probable and have therefore disclosed them as contingent assets. Below are the amounts of inflow the company expects to receive and the counterparties from which inflow is expected as at 31 December 2021.

Counterparty

Whitefield Ventures Limited
Bauchi Fertiliser Company
Bejafta Group Nigeria Limited
Total contingent assets

Expected amount	
31 December 2021 N'000	31 December 2020 N'000
199,724	251,631
-	438,680
689,603	798,174
889,327	1,488,485

21 Trade payables

Financial liability:
Trade payables

Maturity analysis:
Current

31 December 2021 N'000	31 December 2020 N'000
630,274	15,140,301
630,274	15,140,301
630,274	15,140,301
630,274	15,140,301

22 Other payables

Financial liability:
Payables to NSIA
Intercompany payables
Other payables
Deferred income on RSSF borrowing (Note 22.1)
Dividends payable

Non financial liability:
Accruals

31 December 2021 N'000	31 December 2020 N'000
50,168,538	-
-	45,281,519
9,716,450	9,264,159
1,989,806	3,904,814
5,027,703	-
187,363	868,730
67,089,860	59,319,222

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22 Other payables - continued

Maturity analysis:

Non-current

Current

-	9,264,159
<u>67,089,860</u>	<u>50,055,063</u>
<u>67,089,860</u>	<u>59,319,222</u>

22.1 Deferred income on Real Sector Support Facility (RSSF) borrowing relates to the deferred income on below the market rate loan obtained from Union Bank of Nigeria Plc and United Bank for Africa Plc. The loan was secured for the Federal Government of Nigeria's Presidential Fertilizer Initiative Scheme under the Central Bank of Nigeria's Real Sector Support Facility (RSSF) scheme.

The fair value of the loan was recognised initially on the grant date and subsequently amortized on a straight line basis over the tenor of the loan. There were no unfulfilled conditions relating to the borrowing as at the reporting date. The total amount drawn down to date is N35 billion. Interest expense of N2.51 billion (2020: N3.38 billion) relating to this facility has been disclosed in the statement of comprehensive income. See notes 13.1 and 14 for additional details.

23 Interest bearing borrowings

	31 December 2021 N'000	31 December 2020 N'000
Real sector support facility loan	<u>13,510,194</u>	<u>20,031,183</u>
	<u>13,510,194</u>	<u>20,031,183</u>
Maturity analysis:		
Non-current	7,813,055	16,184,977
Current	5,697,139	3,846,206
	<u>13,510,194</u>	<u>20,031,183</u>

23.1 Movement in interest bearing borrowings

	31 December 2021 N'000	31 December 2020 N'000
Opening balance		
Interest expense (Note 14)	20,031,183	23,133,382
Repayment of interest during the year	2,507,182	3,379,699
Repayment of capital during the year	(3,278,171)	(731,898)
Closing balance	<u>(5,750,000)</u>	<u>(5,750,000)</u>
	<u>13,510,194</u>	<u>20,031,183</u>

23.2 Total amount of N35 billion was approved as borrowings, and the Company has drawn down the N35 billion at the end of the reporting period. The tenor of the loan is 6 years inclusive of 1 year moratorium of principal only. The interest rate paid on the facility by the Company ranges between 3.5% and 5%. The benefit on the facility as a result of the below-market rate of interest granted to the Company on the borrowings accumulates to the deferred income portion of the facility, which is amortised over the life of the facility. The deferred income element of N1.99 billion (2020: N3.90 billion) is shown in Note 22.

Repayments of the principal and interest portion of the loan are made quarterly and repayment is from proceeds from the sale of fertilizer and raw materials.

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24 Interest-bearing short-term borrowings

	31 December 2021 N'000	31 December 2020 N'000
Short-term borrowings	44,093,757	-
	44,093,757	-

Short-term borrowings comprise letters of credit (LCs) obtained from the Central Bank of Nigeria. These facilities have maturities of 60 days to 90 days.

25 Share capital

	31 December 2021 N'000	31 December 2020 N'000
Authorised share capital: 1 million ordinary shares at N1.00 each	1,000	1,000
	1,000	1,000
Issued but not paid 1 million ordinary shares at N1.00 each	1,000	1,000
	1,000	1,000

26 Accumulated profit

	31 December 2021 N'000	31 December 2020 N'000
Opening balance	-	-
Profit for the year	9,966,788	-
Dividends declared	(5,027,703)	-
	4,939,085	-

27 Capital management

The company manages its capital with the objective to sustain development for the business and maximise shareholders' value. Management monitors the return on capital by reviewing monthly performance of its operations.

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 payables to counterparties and other obligations, less cash and cash equivalents. Adjusted equity comprises all components of equity.

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The Company's adjusted net debt to equity ratio at 31 December 2021 was as follows:

	31 December 2021 N '000	31 December 2020 N '000
Cash and cash equivalents	50,206,439	34,886,799
Less: Total liabilities	(125,711,398)	(94,490,706)
Net deficit	(75,504,959)	(59,603,907)
Total equity	4,940,085	1,000
Adjusted equity	4,940,085	1,000
Net deficit to adjusted equity ratio	(15.28)	(59,603.91)

28 Related parties

There were no related party transactions recorded by the company during the year. Related parties transactions and balances.

Related party

Nigeria Sovereign Investment Authority (NSIA)

Relationship

**Ultimate parent company

Related party balances

	2021 N'000	2020 N'000
Receivable - Intercompany receivable		
Nigeria Sovereign Investment Authority (NSIA)	-	16,427,022
	-	16,427,022

Payable - Intercompany payable

Nigeria Sovereign Investment Authority (NSIA)

	2021 N'000	2020 N'000
	-	45,281,519
	-	45,281,519

**The Company is no longer a subsidiary of Nigeria Sovereign Investment Authority, following the transfer of ownership of the Company to the Ministry of Finance Incorporated (MOFI). See Note 1.

The receivable of N16.4 billion due from NSIA arose from receipts of proceeds on sales of fertilizer by NSIA on behalf of the Company.

The payable to NSIA relates to the stop gap funding provided to the Company by NSIA to kick-off the Presidential Fertilizer Initiative program and other expenses incurred on behalf of the Company.

Related party transactions

The following transactions occurred between the Company and related parties during the financial period:

Related party	Transaction type	2021 NGN '000	2020 NGN '000
Nigeria Sovereign Investment Authority (NSIA)	Receipts for sale of fertilizer by NSIA on behalf of the company.	-	7,542,433
Nigeria Sovereign Investment Authority (NSIA)	Payment for operating expenses by NSIA (Consultancy fees, travel expenses)	-	39,862