

# **FEDERATED STEEL MILLS LIMITED**

**RC: 20344**

## **FINANCIAL STATEMENTS**

**For the year ended 29th February 2020**



**BOARD OF DIRECTORS AND CORPORATE INFORMATION**

**DIRECTORS:**

Mr. Abhay Nath Jha	-	Indian
Mr. Anup Kumar Drolia	-	Indian
Mr. Anil Kumar Naidu	-	Indian (Resigned with effect from 27/12/2019)
Mr. Rakesh Kumar Agrawal	-	Indian (Appointed with effect from 27/12/2019)

**REGISTERED OFFICE:**

Block XI, Plot 3-10  
Otta Industrial Estate  
Otta, Ogun State  
Nigeria.

**SECRETARIES:**

Chucks Mbonu & Co.  
46 Pastor Elabiyi Street  
Off Governor's Road, Ikotun  
P. O. Box 6272  
Surulere  
Lagos.

**AUDITORS:**

AdedolapoFayomi & Co.  
(Chartered Accountants)  
Block B, 7 Sule Aboye Street  
Off Oba Ogunnusi Road  
Ojodu, Ikeja  
Lagos.

**BANKERS:**

Access Bank Plc  
Coronation Merchant Bank Limited  
First City Monument Bank Limited  
Guaranty Trust Bank Plc  
Polaris Bank Limited  
United Bank for Africa Plc  
Zenith Bank Plc



***FINANCIAL HIGHLIGHTS***  
***YEAR ENDED 29TH FEBRUARY 2020***

	<b><u>2020</u></b> <b>=N='000</b>	<b><u>2019</u></b> <b>=N='000</b>
Revenue	1,664,029	249,870
Profit before taxation	11,426	43,170
Taxation	(41,506)	(63,619)
Loss for the year	(30,080)	(20,449)
Other comprehensive income for the year	-	-
Total comprehensive loss for the year	(30,080)	(20,449)
Capital expenditure	445,328	1,404,351
Total equity	512,878	542,958
No. of issued and fully paid-up ordinary shares of =N=1.00 each	900,000	900,000
<b><i>Per Share Data:</i></b>		
Basic earnings / (loss) per share (kobo)	(3)	(2)
Net assets per share (kobo)	57	60



**FEDERATED STEEL MILLS LIMITED****STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 29TH FEBRUARY 2020**

In accordance with the provisions of the Companies and Allied Matters Act, the Directors are responsible for the preparation of annual financial statements, which give a true and fair view of the financial position of the Company and of the profit or loss for the reporting period.

The responsibilities include ensuring that:

- Appropriate internal controls are established both to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.
- The Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which ensure the financial statements comply with the requirements of the Companies and Allied Matters Act.
- The Company has used suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all applicable accounting standards have been followed and
- the going concern basis is used, unless it is inappropriate to presume that the Company will continue in business.



Director



Director





# Adedolapo Fayomi & Co.

(Chartered Accountants)

Block B, 7 Sule Abore Street, Off Oba Ogunnusi Road, Ojodu, Ikeja, Lagos.

P.O. Box 3090, Surulere Lagos.

Tel: 07088565020, E-mail: adedolapofayomi1@gmail.com

Our Ref: \_\_\_\_\_

Your Ref: \_\_\_\_\_

Date: \_\_\_\_\_ 20\_\_\_\_

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FEDERATED STEEL MILLS LIMITED

5.

### Report on the audit of the Financial Statements

#### Our Opinion

In our opinion, the Financial Statements of Federated Steel Mills Limited give a true and fair view of the Financial Position of the Company as at 29th February 2020 and of its Financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies and Allied Matters Act and the Financial Reporting Council of Nigeria Act.

#### What we have audited:

The Financial Statements of Federated Steel Mills Limited comprise:

- The Statement of Financial Position as at 29th February 2020;
- 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 Institute of Chartered Accountants of Nigeria (ICAN) Professional Code of Conduct and Guide for Accountants, which is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with these requirements.

#### Other information

The Directors are responsible for the other information. The other information comprise the Directors' Report, Statement of Directors' Responsibilities, Statement of Value Added and Five-Year Financial Summary. It does not include the Financial Statements and the auditor's report thereon.

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



**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF FEDERATED STEEL MILLS LIMITED (CONT'D)**

**6.**

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

Based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, if 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 and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards, the Companies and Allied Matters Act and the Financial Reporting Council of Nigeria Act, and for such internal control as they 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 and/or to cease operations, or has 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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF FEDERATED STEEL MILLS LIMITED (CONT'D)**

7.

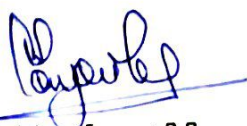
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies 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 Requirements**

In accordance with Schedule 6 of the Companies and Allied Matters Act, we hereby confirm that:

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) The Company has kept proper books of account, so far as appears from our examination of those books;
- iii) The Company's Statement of Financial Position and the Statement of Comprehensive Income are in agreement with the books of account.



For: Adedolapo Fayomi & Co.  
Chartered Accountants  
Lagos, Nigeria

27 June 2020

Engagement Partner: Mrs. Adedolapo M. Fayomi  
FRC/2013/ICAN/00000005590



**FEDERATED STEEL MILLS LIMITED****8.****STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 29TH FEBRUARY 2020**

	<u>Notes</u>	<u>2020</u> <u>=N=</u>	<u>2019</u> <u>=N=</u>
Revenue	4	1,664,029,198	249,870,026
Cost of sales		<u>(1,447,673,293)</u>	<u>(171,395,023)</u>
Gross profit		216,355,905	78,475,003
Other income	5	(17,955,979)	1,644,809
Administration expenses		<u>(174,045,332)</u>	<u>(35,954,989)</u>
Operating profit		24,354,595	44,164,823
Finance costs	6	<u>(12,928,634)</u>	<u>(995,115)</u>
Profit before taxation	7	11,425,961	43,169,708
Taxation	8	<u>(41,505,672)</u>	<u>(63,618,525)</u>
Loss for the year		<b>(30,079,711)</b>	<b>(20,448,817)</b>
Other comprehensive income for the year		<u>-</u>	<u>-</u>
Total comprehensive loss for the year		<b><u>(30,079,711)</u></b>	<b><u>(20,448,817)</u></b>

The accompanying notes on pages 13 to 24 are an integral part of these financial statements



**FEDERATED STEEL MILLS LIMITED**

9.

**STATEMENT OF FINANCIAL POSITION  
AS AT 29TH FEBRUARY 2020**

	<u>NOTES</u>	<u>2020</u> <u>=N=</u>	<u>2019</u> <u>=N=</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	2,030,388,974	1,711,987,152
Intangible asset	10	413,910	551,880
Deferred tax asset	16	52,405,302	93,910,974
		<u>2,083,208,186</u>	<u>1,806,450,006</u>
<b>Current assets</b>			
Inventories	11	2,838,131,048	922,123,428
Trade and other receivables	12	110,749,711	136,643,144
Cash and cash equivalents	13	1,022,552,353	162,593,084
		<u>3,971,433,112</u>	<u>1,221,359,656</u>
<b>Total assets</b>		<u><b>6,054,641,298</b></u>	<u><b>3,027,809,662</b></u>
<b>EQUITY AND LIABILITIES</b>			
Share capital	14	900,000,000	900,000,000
Share premium		13,200,000	13,200,000
Retained earnings		(400,321,666)	(370,241,955)
<b>Total equity</b>		<u><b>512,878,334</b></u>	<u><b>542,958,045</b></u>
<b>Non-current liabilities</b>			
Borrowings	15	-	45,000,000
		<u>-</u>	<u>45,000,000</u>
<b>Current liabilities</b>			
Trade and other payables	17	4,662,920,050	2,341,363,193
Borrowings	15	877,705,319	96,283,800
Current tax liabilities	8	1,137,595	2,204,625
Dividend payable	18	-	-
		<u>5,541,762,964</u>	<u>2,439,851,618</u>
<b>Total liabilities</b>		<u><b>5,541,762,964</b></u>	<u><b>2,484,851,618</b></u>
<b>Total equity and liabilities</b>		<u><b>6,054,641,298</b></u>	<u><b>3,027,809,663</b></u>

These financial statements were approved and authorised for issue by the Board of Directors on 27th June, 2020. They were signed on its behalf by:

  
.....  
Director

  
.....  
Director

The accompanying notes on pages 13 to 24 are an integral part of these financial statements



**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 29TH FEBRUARY 2020**

	<b>Share capital</b>	<b>Share premium</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>=N=</b>	<b>=N=</b>	<b>=N=</b>	<b>=N=</b>
At 28th February 2018	900,000,000	13,200,000	(349,793,138)	563,406,862
Loss for the year	-	-	(20,448,817)	(20,448,817)
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(20,448,817)	(20,448,817)
At 28th February 2019	<b>900,000,000</b>	<b>13,200,000</b>	<b>(370,241,955)</b>	<b>542,958,045</b>
At 1st March 2019	900,000,000	13,200,000	(370,241,955)	542,958,045
Loss for the year	-	-	(30,079,711)	(30,079,711)
Total other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(30,079,711)	(30,079,711)
At 29th February 2020	<b>900,000,000</b>	<b>13,200,000</b>	<b>(400,321,666)</b>	<b>512,878,334</b>

The accompanying notes on pages 13 to 24 are an integral part of these financial statements



# FEDERATED STEEL MILLS LIMITED

11.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 29TH FEBRUARY 2020

	2020	2019
	=N=	=N=
<b>Operating activities:</b>		
Profit before taxation	11,425,961	43,169,708
<b>Adjustments for non-cash items:</b>		
Depreciation of property, plant and equipment	126,926,278	10,181,805
Amortisation of intangible asset	137,970	137,970
	127,064,248	10,319,775
<b>Changes in:</b>		
Inventories	(1,916,007,617)	(289,565,124)
Trade and other receivables	25,893,435	41,495,629
Trade and other payables	2,321,556,857	1,520,910,912
	431,442,675	1,272,841,417
<b>Cash generated from operations</b>	<b>569,932,884</b>	<b>1,326,330,900</b>
Finance costs	12,928,632	995,115
Payment of Tax	(1,067,029)	-
<b>Net cash from operating activities</b>	<b>581,794,487</b>	<b>1,327,326,015</b>
<b>Investing activities:</b>		
Purchase of property, plant and equipment	(445,328,099)	(1,404,351,471)
Purchase of intangible asset	-	-
<b>Net cash used in investing activities</b>	<b>(445,328,099)</b>	<b>(1,404,351,471)</b>
<b>Financing activities:</b>		
Other short-term facilities	832,705,307	(60,000,000)
Repayment of term loan	(60,000,000)	-
Payment of dividend	-	(995,115)
Finance costs	(12,928,632)	-
<b>Net cash from / (used in) financing activities</b>	<b>759,776,675</b>	<b>(60,995,115)</b>
Net increase / (decrease) in cash and cash equivalents	896,243,062	(138,020,571)
Cash and cash equivalents at beginning of the year:	126,309,285	264,329,856
<b>Cash and cash equivalents at end of the year:</b>	<b>1,022,552,347</b>	<b>126,309,285</b>
<b>Cash and cash equivalents at end of the year:</b>		
Cash and bank balances	1,022,552,347	162,593,084
Bank overdrafts	-	(36,283,800)
	<b>1,022,552,347</b>	<b>126,309,284</b>

The accompanying notes on pages 13 to 24 are an integral part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

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**NOTES TO THE FINANCIAL STATEMENTS**

**1 Reporting entity**

Federated Steel Mills Limited is a private limited liability company, incorporated in Nigeria. It is principally engaged in the manufacture and sale of reinforcing rods and electrodes of different kinds and sizes.

The address of the Company's registered office is Block X1, Plot 3-10, Ota Industrial Estate, Ota, Ogun State, Nigeria.

**2 Basis of preparation**

**(a) Statement of compliance**

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

**(b) Basis of measurement**

The Financial Statements have been prepared on the historical cost basis, except for items measured at fair value.

**(c) Functional and presentation currency**

These financial statements are presented in the Nigerian Naira, which is the Company's functional currency. All financial information has been rounded to the nearest naira.

**(d) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or the period of the revision and future periods, if the revision affects both current and future period.

**(e) Comparatives**

Except when a reporting standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation for the current year.



**NOTES TO THE FINANCIAL STATEMENTS****3 Significant accounting policies**

The following are the significant accounting policies adopted by the Company in the preparation of these financial statements.

**(a) Foreign currencies transactions**

All transactions in foreign currencies are recorded in Naira at the rate of exchange ruling at the dates of the transactions. Monetary items are converted to Naira at the rates of exchange ruling at the reporting date. All differences arising there from are taken to profit or loss.

**(b) Revenue**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced with customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the company. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense.

**Sale of goods:** Revenue from the sale of goods is recognised when the goods are delivered, titles have passed and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue represents the net invoice value of sales to third parties and it is recognised when significant risks and rewards of ownership of the goods have been transferred to the buyer.

**Rendering of services:** Revenue from rendering of services is recognised in the period the services are rendered. Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the company.

**(c) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Property, plant and equipment under construction are disclosed as capital work-in-progress. The cost of self-constructed asset includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use including, where applicable, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

**Subsequent costs**

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

**Derecognition / Disposal**

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Gains or losses on disposal or de-recognition are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized in income statement.



**NOTES TO THE FINANCIAL STATEMENTS****Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives for the current and comparative periods are as follows:

Leasehold land	lease period
Building	10 years
Plant, machinery and tools	10 years
Motor vehicles	4 years
Furniture, fixtures and equipment	10 years

Capital work-in-progress is not depreciated. The cost of each asset is transferred to the relevant asset category immediately the asset is available for use and depreciated accordingly.

Pre-production expenses is the capitalised portion of incurred expenses relating to capital work-in-progress. It is not depreciated. It will be proportionately transferred to the cost of each relevant asset category immediately the assets are available for use and depreciated accordingly.

**(d) Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined using average cost on a FIFO (First-in First-out) basis. Net realizable value is the amount that can be realized from the sale of the inventory in the normal course of business after allowing for the costs of realization.

In addition to the cost of materials and direct labour, an appropriate proportion of production overhead is included in the inventory values. An allowance is recorded for defective and slow-moving inventory and obsolescence based on the lower of cost or net realizable value.

**(e) Financial instruments****i. Financial assets**

The Company has classified its financial assets as one of the following categories: Trade and accounts receivables and cash and cash equivalents.

**Trade and accounts receivables**

These include amounts recoverable from customers, suppliers and employees. They are recognised initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment if any.

The collectability of trade and other receivables is reviewed on an ongoing basis. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due, according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognized in profit or loss.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand; cash balances with banks and call deposits with original maturities of three months or less. Bank overdrafts are repayable on demand and form an integral part of the Company's cash management. They are included as a component of cash and cash equivalents for the purpose of statement of cash flows.



**NOTES TO THE FINANCIAL STATEMENTS****ii Financial liabilities**

These include:

**Borrowings**

Loans payable are recognized initially at fair value, net of transaction costs incurred. Any difference between the fair value and the proceeds received is recognized in profit and loss at initial recognition. In subsequent periods, they are stated at amortized cost using the effective interest method. Where applicable, the long-term portion of loans payable is included on the statement of financial position under non-current liabilities and the current portion under current liabilities.

**Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payments are due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Share capital**

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

Incremental costs directly attributed to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

**(f) Dividend**

Dividends on ordinary shares to shareholders are recognised in equity and as a liability in the period they are approved by the shareholders at the Annual General Meeting. Payments are also recognised directly in equity.

**(g) Employee benefits****i. Defined contribution scheme**

The Company operates a defined contribution plan which is funded by contributions from the Company and the employees. The Company's contribution is recognised as employee benefit expenses and charged to the income statement. The contributions of both the Company and the employees are paid on a monthly basis to a pension fund administrator. The Company has no legal or constructive obligation to pay further contributions if the pension fund administrator does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

**ii. Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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



**NOTES TO THE FINANCIAL STATEMENTS****(h) Provisions and contingent liabilities**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation and the amount has been reliably estimated. Provisions for restructuring costs are recognised when the Company has a detailed formal plan for the restructuring that has been communicated to affected parties. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be acquired to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

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

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

**(i) Taxation**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates statutorily enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in profit or loss account except to the extent that it relates to a transaction that is recognised directly in equity. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the amount will be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable company, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit (or loss).

**(j) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, they are carried at cost less any accumulated amortisation and accumulated impairment losses. Unless internally generated costs meet the criteria for development costs eligible for capitalisation in line with IAS 38, all internally generated intangible assets are expensed as incurred.

The useful lives of intangible assets are finite or indefinite. Intangible assets with finite lives are amortised over their useful lives and assessed for impairment when there is an indication that the asset may be impaired. The amortisation period and the method are reviewed at each financial year-end. Changes in the expected useful life or pattern of consumption of future benefits are accounted for prospectively.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment either individually or at the cash-generating level. The useful lives are also reviewed each period to determine whether the indefinite life assessment continues to be supportable. If not, the change in useful life assessment to a finite life is accounted for prospectively.



# FEDERATED STEEL MILLS LIMITED

18.

## NOTES TO THE FINANCIAL STATEMENTS

	2020 =N=	2019 =N=
<b>4 Revenue</b>		
Sale of reinforcing rods	1,310,816,051	-
Sale of electrodes	207,309,346	243,647,714
Sales Others	125,143	-
Sale of traded goods	145,778,658	6,222,312
	<u>1,664,029,198</u>	<u>249,870,026</u>
<b>5 Other income</b>		
Sundry income	29,000	1,046,499
Gain on foreign exchange	(17,985,781)	591,056
Bank interest received	802	7,254
	<u>(17,955,979)</u>	<u>1,644,809</u>
<b>6 Finance costs</b>		
Interest expense on borrowings	12,928,634	995,115
	<u>12,928,634</u>	<u>995,115</u>
<b>7 Profit before taxation</b>		
Profit before taxation is stated after charging:		
Directors' Fees	4,500,000	4,500,000
Audit Fees	126,926,278	10,181,805
Depreciation	12,928,634	995,115
Finance costs		



**NOTES TO THE FINANCIAL STATEMENTS**

	<b>2020</b>	<b>2019</b>
	<b>N</b>	<b>N</b>
<b>8 Taxation</b>		
<b>8.1 Income tax expense / (income)</b>		
The tax charge for the year has been computed after adjusting for certain items of expenditure and income, which are not deductible or chargeable for tax purposes, and comprises:		
<b>Current tax expense</b>		
Income tax	-	-
Education tax	-	1,067,030
	<u>-</u>	<u>1,067,030</u>
<b>Deferred tax expense / (income):</b>		
Increase / (decrease) in deferred tax liabilities	-	(3,515,644)
(Increase) / decrease in deferred tax assets	41,505,672	66,067,139
	<u>41,505,672</u>	<u>63,618,525</u>
<b>8.2 Reconciliation of income tax expense / (income) for the year to the accounting profit as per profit or loss:</b>		
Profit / (Loss) before tax	11,425,961	43,169,708
Income tax using statutory rate of 30%	3,427,788	12,950,912
Impact of tertiary education tax	-	1,067,030
Tax effects of items not deductible or chargeable for tax purposes	38,077,884	49,600,583
	<u>38,077,884</u>	<u>49,600,583</u>
<b>Income tax expense / (income) recognised in profit or loss</b>	<u>41,505,672</u>	<u>63,618,525</u>
<b>8.3 Current tax liabilities</b>		
At beginning of the year	2,204,625	1,137,595
Charge for the year	-	1,067,030
Payment during the year	(1,067,030)	-
<b>At end of the year</b>	<u>1,137,595</u>	<u>2,204,625</u>



## NOTES TO THE FINANCIAL STATEMENTS

## 9 Property, plant and equipment

	Leasehold land and buildings	Plant, machinery and tools	Motor vehicles	Furniture, fixtures and equipment	Capital Work in Progress	Pre-production expenses	Total
	=N=	=N=	=N=	=N=	=N=	=N=	=N=
<b>Cost</b>							
At 1st March 2019	141,750,697	1,397,110,442	251,485,736	30,778,788	1,257,588,138	242,139,906	3,320,853,707
Additions	-	-	500,000	4,639,508	200,209,570	239,979,023	445,328,101
Disposals	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	482,118,929	(482,118,929)	-
Reclassifications	17,617,305	1,852,243,308	-	-	(1,869,860,613)	-	-
At 29th February 2020	<b>159,368,002</b>	<b>3,249,353,750</b>	<b>251,985,736</b>	<b>35,418,296</b>	<b>70,056,023</b>	<b>-</b>	<b>3,766,181,807</b>
<b>Accumulated Depreciation</b>							
At 1st March 2019	140,685,974	1,189,017,848	249,218,509	29,944,224	-	-	1,608,866,555
Charge for the Year	1,475,520	123,898,059	862,499	690,200	-	-	126,926,278
At 29th February 2020	<b>142,161,494</b>	<b>1,312,915,907</b>	<b>250,081,008</b>	<b>30,634,424</b>	<b>-</b>	<b>-</b>	<b>1,735,792,833</b>
<b>Carrying amount</b>							
At 29th February 2020	<b>17,206,508</b>	<b>1,936,437,843</b>	<b>1,904,728</b>	<b>4,783,872</b>	<b>70,056,023</b>	<b>-</b>	<b>2,030,388,974</b>
At 28th February 2019	1,064,723	208,092,594	2,267,227	834,564	1,257,588,138	242,139,906	1,711,987,152

## 10 Intangible asset

<b>Cost</b>	
At 1st March 2019	689,850
At 28th February 2020	<b>689,850</b>
<b>Accumulated amortisation</b>	
At 1st March 2019	137,970
Charge for the year	137,970
At 28th February 2020	<b>275,940</b>
<b>Carrying amount</b>	
At 1st March 2019	551,880
At 28th February 2020	<b>413,910</b>

Intangible asset relates to computer software programme licence acquired by the Company. The cost is amortised to profit or loss using the straight-line method over the estimated useful live of 5 years. The amortised value is charged to "administrative expenses" in profit or loss.



NOTES TO THE FINANCIAL STATEMENTS

	<u>2020</u> =N=	<u>2019</u> =N=
<b>11 <u>Inventories</u></b>		
Raw materials	1,649,314,135	707,684,098
Work-in-progress	643,088,917	15,737,852
Finished goods	481,889,438	54,607,449
Spare Part	41,384,300	-
Traded goods	22,454,260	144,094,029
	<u>2,838,131,050</u>	<u>922,123,428</u>
<b>12 <u>Trade and other receivables</u></b>		
Trade receivables	67,201,918	80,068,074
Other receivables	-	49,397,519
Prepayments	10,011,326	638,332
Deposit for Cylinder	50,000	
Deposit -Far East	33,486,470	
Taxes receivable	-	6,539,219
	<u>110,749,714</u>	<u>136,643,144</u>
Taxes receivable are withholding tax credit notes issued by the Federal Inland Revenue Service (FIRS) which are yet to be utilised against companies income tax at the end of the year.		
	<u>2020</u> =N=	<u>2019</u> =N=
<b>13 <u>Cash and cash equivalents</u></b>		
These comprise of:		
Cash in hand	8,940,837	3,790,780
Bank balances	1,013,611,516	158,802,304
<b>Cash and cash equivalents</b>	<b>1,022,552,353</b>	<b>162,593,084</b>
Bank overdrafts	-	(36,283,800)
<b>Cash and cash equivalents per statement of cash flows</b>	<b><u>1,022,552,353</u></b>	<b><u>126,309,284</u></b>



**NOTES TO THE FINANCIAL STATEMENTS**

	<b><u>2020</u></b> <b>=N=</b>	<b><u>2019</u></b> <b>=N=</b>
<b>14 Share capital</b>		
<b>Authorised</b>		
900,000,000 Ordinary Shares of =N=1.00 each	<u>900,000,000</u>	<u>900,000,000</u>
<b>Issued and fully paid-up:</b>		
900,000,000 Ordinary Shares of =N=1.00 each	<u>900,000,000</u>	<u>900,000,000</u>
<b>15 Borrowings</b>		
These comprise of:		
Bank overdrafts	-	-
Other short-term facilities	832,705,307	36,283,800
Reclassified Non current Loan to current	45,000,000	-
Term loan (note 15a)	-	105,000,000
	<u>877,705,307</u>	<u>141,283,800</u>
Borrowings are analysed into short and non-current liabilities based on the time the repayment obligation falls due. Details are as follows:		
Non-current	-	45,000,000
Current	877,705,307	96,283,800
	<u>877,705,307</u>	<u>141,283,800</u>
<b>15a Term loan</b>		
This is the outstanding balance on the =N=600,000,000 loan granted to the company under the CBN Intervention Fund. The loan is repayable in forty quarterly instalments with effect from 19th January 2011.		
	<b><u>2020</u></b> <b>=N=</b>	<b><u>2019</u></b> <b>=N=</b>
<b>15c Movement in term loan</b>		
Balance at beginning of the year	105,000,000	165,000,000
Reclassified to Current	(45,000,000)	-
Repayments during the year	(60,000,000)	(60,000,000)
Balance at end of the year	<u>-</u>	<u>105,000,000</u>



## NOTES TO THE FINANCIAL STATEMENTS

16 Deferred tax liabilities16a Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
	<u>=N=</u>	<u>=N=</u>	<u>=N=</u>	<u>=N=</u>	<u>=N=</u>	<u>=N=</u>
Property, plant and equipment	-	-	(30,245,947)	(30,245,947)	(30,245,947)	(30,245,947)
Tax losses	82,651,249	124,156,921	-	-	82,651,249	124,156,921
Net deferred tax assets / (liabilities)	<u>82,651,249</u>	<u>124,156,921</u>	<u>(30,245,947)</u>	<u>(30,245,947)</u>	<u>52,405,302</u>	<u>93,910,974</u>

16b Movement in temporary differences during the year

	<u>01-Mar-19</u>	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>	<u>28-Feb-20</u>
	<u>=N=</u>	<u>=N=</u>	<u>=N=</u>	<u>=N=</u>
Property, plant and equipment	(30,245,947)	-	-	(30,245,947)
Tax losses	124,156,921	(41,505,672)	-	82,651,249
Net deferred tax assets / (liabilities)	<u>93,910,974</u>	<u>(41,505,672)</u>	<u>-</u>	<u>52,405,302</u>

There are no unrecognised deferred tax assets and liabilities in the current and preceeding year.



**NOTES TO THE FINANCIAL STATEMENTS**

	<b><u>2020</u></b>	<b><u>2019</u></b>
	<b>=N=</b>	<b>=N=</b>
<b>17 <u>Trade and other payables</u></b>		
Trade payables	4,469,998,258	402,997,776
Other payables and accruals	192,921,792	1,938,365,417
	<b><u>4,662,920,050</u></b>	<b><u>2,341,363,193</u></b>

**18** No dividend was proposed nor declared during the year.

**19 Contingent liabilities**

No provision has been recognised in these financial statements for contingent liability as the Company's Management has not assessed any contingent liability.

**20 Subsequent events**

There are no significant events after the end of the reporting period, which could have had a material effect on the state of affairs of the Company as at 29th February 2020, that have not been adequately provided for or disclosed in the financial statements.

**21 Approval of financial statements**

The financial statements for the year ended 29th February 2020 were approved by the Board of Directors and authorised for issue on 27th June, 2020



OTHER NATIONAL INFORMATION



**STATEMENT OF VALUE ADDED**  
**FOR THE YEAR ENDED 29TH FEBRUARY 2020**

	<u>2020</u>		<u>2019</u>	
	=N=	%	=N=	%
Revenue	1,664,029,198		249,870,026	
Other Income	(17,955,979)		1,644,809	
	<u>1,646,073,219</u>		<u>251,514,835</u>	
Bought-in materials and services	(1,230,382,972)		(149,922,751)	
Total value added	<u>415,690,247</u>	<u>100</u>	<u>101,592,084</u>	<u>100</u>
<b>APPLIED AS FOLLOWS:</b>				
<b>To Employees:</b>				
Salaries, wages and fringe benefits	264,409,374	63.6	47,245,456	46.5
<b>To Government:</b>				
Income tax	-	-	-	-
Education tax	-	-	1,067,030	1.1
Deferred tax	41,505,672	10.0	62,551,495	61.6
<b>To Providers of Finance:</b>				
Interest on borrowings	12,928,634	3.1	995,115	1.0
<b>For Maintenance of Assets and Development:</b>				
Depreciation	126,926,278	30.5	10,181,805	10.0
Loss for the year	(30,079,711)	(7.2)	(20,448,817)	(20.2)
	<u>415,690,247</u>	<u>100</u>	<u>101,592,084</u>	<u>100</u>



# FEDERATED STEEL MILLS LIMITED

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## FIVE-YEAR FINANCIAL SUMMARY FOR THE YEAR ENDED 29TH FEBRUARY 2020

	<u>2020</u> =N='000	<u>2019</u> =N='000	<u>2018</u> =N='000	<u>2017</u> =N='000	<u>2016</u> =N='000
<b><u>Statement of comprehensive income</u></b>					
Revenue	<u>1,664,029</u>	<u>249,870</u>	<u>1,668,176</u>	<u>3,011,316</u>	<u>3,422,128</u>
Profit / (Loss) before taxation	11,426	43,170	(341,293)	20,955	(521,336)
Taxation	<u>(41,506)</u>	<u>(63,619)</u>	<u>151,953</u>	<u>1,172</u>	<u>-</u>
Profit / (Loss) after taxation	<u>(30,080)</u>	<u>(20,449)</u>	<u>(189,340)</u>	<u>22,127</u>	<u>(521,336)</u>
Other comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total comprehensive income / (loss) for the year	<u>(30,080)</u>	<u>(20,449)</u>	<u>(189,340)</u>	<u>22,127</u>	<u>(521,336)</u>
<b><u>Statement of financial position</u></b>					
<b><u>Funds employed</u></b>					
Share capital	900,000	900,000	900,000	900,000	700,000
Share premium	13,200	13,200	13,200	13,200	13,200
Retained earnings / (loss)	(400,322)	(370,242)	(349,793)	(160,452)	116,021
Borrowings	-	45,000	105,000	165,000	285,000
Deferred tax liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,609</u>
	<u>512,878</u>	<u>587,958</u>	<u>668,407</u>	<u>917,748</u>	<u>1,149,830</u>
<b><u>Employment of funds</u></b>					
Property, plant and equipment	2,030,389	1,711,987	317,817	299,388	534,891
Intangible asset	414	552	690	-	-
Deferred tax assets	52,405	93,911	156,462	4,510	-
Net current assets	<u>(1,570,330)</u>	<u>(1,218,491)</u>	<u>193,438</u>	<u>613,850</u>	<u>614,939</u>
	<u>512,878</u>	<u>587,959</u>	<u>668,407</u>	<u>917,748</u>	<u>1,149,830</u>
<b><u>Other statistics</u></b>					
Earnings / (Loss) per share (Kobo)	(3)	(2)	(21)	2	(74)
No of issued ordinary shares of =N=1.00 each	900,000	900,000	900,000	900,000	700,000



**For Management use only**



# FEDERATED STEEL MILLS LIMITED

YEAR ENDED 29TH FEBRUARY 2020

SCH. I

## COST OF SALES

	<u>2020</u>	<u>2019</u>
	=N=	=N=
Raw Materials		
Opening Stock	707,684,098	587,555,152
Purchases	2,432,379,778	283,118,805
Closing Stock	3,140,063,876	870,673,957
	<u>(1,649,314,135)</u>	<u>(707,684,098)</u>
<b>Cost of Materials Consumed</b>	<b>1,490,749,741</b>	<b>162,989,859</b>
Letter Of Credit	7,815,277	-
Custom, Clearing and Freight	125,543,389	-
<b>Salaries, Wages and Labour Expenses</b>	<b>192,639,188</b>	<b>27,094,444</b>
<b>Indirect Expenses:</b>		
Consumables	8,546,114	-
Spare Parts and Consumable Stores	32,126,194	2,614,237
Diesel and Fuel	58,352,834	1,913,042
Rent and Rates	1,976,361	427,500
Electricity and Gas	319,221,963	9,309,277
Repairs and Maintenance	58,326,894	1,730,524
Environmental Cleaning Expenses	1,307,720	70,090
Depreciation	125,373,579	8,659,060
	<u>605,231,659</u>	<u>24,723,730</u>
	<b>2,421,979,254</b>	<b>214,808,033</b>
<b>Adjustment for Work-In-Progress:</b>		
Opening Stock	15,737,852	7,897,244
Closing Stock	<u>(643,088,917)</u>	<u>(15,737,852)</u>
	<b>(627,351,065)</b>	<b>(7,840,608)</b>
<b>Adjustment for Finished Goods:</b>		
Opening Stock	54,607,449	14,877,747
Closing Stock	<u>(481,889,438)</u>	<u>(54,607,449)</u>
	<b>(427,281,989)</b>	<b>(39,729,702)</b>
<b>Closing Stock Spare Part:</b>	<b>(41,384,300)</b>	
<b>Adjustment for Traded Goods:</b>		
Opening Stock	144,094,029	-
Purchases	71,624	148,251,329
Closing Stock	<u>(22,454,260)</u>	<u>(144,094,029)</u>
	<u>121,711,393</u>	<u>4,157,300</u>
	<b>1,447,673,293</b>	<b>171,395,023</b>



**FEDERATED STEEL MILLS LIMITED**

**YEAR ENDED 29TH FEBRUARY 2020**

**SCH. II**

**ADMINISTRATION EXPENSES**

	<b><u>2020</u></b> <b>=N=</b>	<b><u>2019</u></b> <b>=N=</b>
Directors' Remuneration	-	-
Salaries, Wages and Staff Welfare Expenses	71,770,186	20,151,012
Insurance	5,620,738	615,022
Communication Expenses	2,484,265	303,294
Transport, Travelling and Hotel Expenses	33,833,218	2,429,842
Legal and Professional Charges	2,958,366	986,300
Printing and Stationery	1,621,690	175,495
Repairs and Maintenance	2,522,404	197,488
Security and Industrial Safety	14,234,659	1,710,290
Maintenance of Staff Quarters	3,778,590	215,008
Motor Vehicle Running Expenses	21,956,264	1,261,084
Advertisement and Publicity	247,350	2,000
Audit Fees	4,500,000	4,500,000
Gifts, Donations and Subscriptions	495,000	42,125
Entertainment Expenses	390,858	52,686
Sundry Expenses	1,231,912	855,652
Bank Charges	4,709,163	796,976
Amortisation of intangible asset	137,970	137,970
Depreciation	1,552,699	1,522,745
	<b><u>174,045,332</u></b>	<b><u>35,954,989</u></b>