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AUDIT SERVICES
CORPORATION

ETHIOPIAN ELECTRIC UTILITY
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
7 JULY 2019

ETHIOPIAN ELECTRIC UTILITY
IFRS Financial Statements
FOR THE YEAR ENDED 7 JULY 2019
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**ETHIOPIAN ELECTRIC UTILITY
IFRS FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019**

Management Board and executive management

Management Board

Dr. Eng. Getahun Mekuria	Board Chairperson	Appointed	December 09, 2016
Dr. Eng. Negede Abate	Board Member	Appointed	December 09, 2016
Ato Bogale Feleke	Board Member	Appointed	December 09, 2016
Ato Beyene G/Meskel	Board Member	Appointed	December 09, 2016
Dr. Ambachew Mekonen	Board Member	Appointed	December 09, 2016
		Replaced	September 12, 2019
Ato Admasu Wondmageng	Board Member	Appointed	January 2017
		Replaced	March 10, 2021
Ato Sahele Tameru	Board Member	Appointed	March 10, 2018
		Replaced	September 12, 2019
Ato Mengesha Dessie	Board Member	Appointed	March 25, 2019
W/t Tsegereda Atenafu	Board Member	Appointed	September 12, 2019
W/ro Lelese Neme	Board Member	Appointed	September 12, 2019
Ato Negusu Tilahun	Board Member	Appointed	September 12, 2019
Ato Hayelu Zewede	Board Member	Appointed	March 10, 2021

Executive Management

Ato Shiferaw Tellila	Chief Executive Officer
Ato Demeke Robi	Executive, Automation & Energy Management
Ato Bizuwork Demisie	Executive, Distribution System
Dr. Gebeyehu Likasa	Executive, Addis Ababa Region
Ato Getu Geremew	Executive, Oromiya Region
Ato Kinife Negash	Executive, SNNP Region
Ato Mesfin G/Medihen	Executive, Tigray Region
Ato Solomon Tasew	Executive, Amhara Region
Ato Fikiremariam Alemayehu	Executive, Dire Dawa Region
Ato Ferid Abdulselam	Executive, Hariri Region
Ato Kasahun Kebede	Executive, Beneshangul Gumz Region
Ato Bikila Wakejera	Executive, Gambela Region
Ato Kalid Teha	Executive, Somale Region
Ato Yasin Ali	Executive, Afar Region
Ato Esayas Denedir	Director, Procurement, Logistic, Property & Facility
W/ro Meaza Alemayehu	Director, Finance & Investment
W/ro Zeritu Fikire	Director, Human Resouce
W/ro Lemlem Misganaw	Director, Portfolio Projects Management
Ato Solomon G/Medhin	Director, Planning & Reporting
Ato Abebe Tesfa	Director, Legal Service
Ato Getachew Baheru	Director, Internal Audit
Ato Chala Aman	Director, Engineering & Quality
Ato Esubalew Tenaw	Director, Change Management
W/ro Dagimhiwot Fantahun	Director, Environment & Safety
W/ro Meazagenet Tsegaye	Director, Women & Children Affair
Ato Melaku Taye	Director, Communication
Ato Heberework Yemenu	Director, Ethics & Anticorruption

Corporate Office
Degaulle Square
Electric Building
P.O.Box 1223
Addis Ababa, Ethiopia

Independent Auditor
Audit Service Corporation
Addis Ababa
Ethiopia

Principal Banker
Commerical Bank of Ethiopia
Addis Ababa
Ethiopia

ETHIOPIAN ELECTRIC UTILITY
IFRS financial statements
For the year ended July 07, 2019
Report of the Management Board

The management board members submit their report together with the financial statements for the period ended July 07, 2019 to the Public Enterprises Holding and Administration Agency (PEHAA).

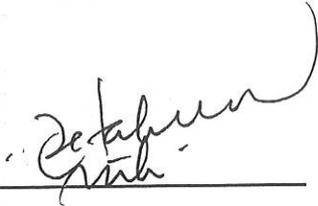
Ethiopian Electric Utility (EEU) is a public enterprise established on October 2013 by Council of Minister's Regulation No. 303/2013 as amended by Regulation No. 382/2016 following the split of Ethiopian Electric Power Corporation (EEPCo).

The principal activity of the Utility is to construct & administer electric distribution networks, to purchase bulk electric power & sale electric energy to the public.

The Utility's results for the year ended July 07, 2019 are set out on page 9.

Management Board

The Management board members who held office during the year and to the date of this report are set out on page 1.



Getahun Mekuria
(D.r Engineer)
Chairperson Management Board

Getahun Mekuria
(D.r Engineer)
Chairman Management Board

ETHIOPIAN ELECTRIC UTILITY
IFRS financial statements
For the year ended July 07, 2019
Statement of management board's responsibilities

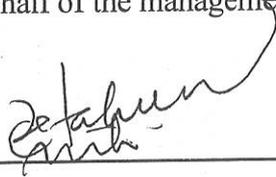
In accordance with the Financial Reporting Proclamation No. 847/2014, the Utility is required to prepare its financial statements with International Financial Reporting Standards (IFRSs).

The Utility's management board is responsible for ensuring proper books of accounts are kept.

To enable the management board to meet this responsibility, the management board & executive management implement system of internal control, accounting and information systems aimed at providing reasonable assurance that assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures and adequate segregation of duties.

Nothing has come to the attention of the management board to indicate that the Utility will not remain a going concern for atleast twelve months from the date of this statement.

Signed on behalf of the management board by:



Getahun Mekuria
(D.r Engineer)
Chairperson Management Board

Getahun Mekuria
(D.r Engineer)
Chairman Management Board



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Office of the Federal Auditor General
Audit Service Corporation

**INDEPENDENT AUDITOR'S REPORT
TO THE SUPERVISING AUTHORITY OF
ETHIOPIAN ELECTRIC UTILITY**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ethiopian Electric Utility (the Entity), which comprise the statement of financial position as at 7 July 2019, and the statement of profit or loss and other comprehensive income, statement of cash flow, and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at 7 July 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Matter

We were previously engaged to audit financial statements of the Entity comprising its financial position as at 7 July 2019, and its financial performance and its cash flows for the year then ended in accordance with generally accepted accounting principles and in the manner required by the Commercial Code of Ethiopia of 1960. We issued a report on that engagement dated 4 March 2020, but we did not express an opinion on those financial statements.

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**INDEPENDENT AUDITOR'S REPORT
TO THE SUPERVISING AUTHORITY OF
ETHIOPIAN ELECTRIC UTILITY (continued)**

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

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

A. First time adoption of IFRS

As was required by Financial Reporting Proclamation No. 847/2014, the Entity has prepared financial statements in accordance with IFRS issued by IASB. This required a long process including restatements of the statement of financial position as at 7 July 2017 and of the financial statements for the year ended 7 July 2018. Not only was it necessary for the Entity to ensure that the restated financial statements complied with all applicable Standards, but it was also essential to discover information that was not previously needed when preparing previous financial reports. The possibilities for omissions and clerical errors were many. Therefore, we checked compliance with IFRS, as to measurement and disclosure requirements, in detail; we also checked how crucial information was obtained and we verified significant calculations exhaustively. Our audit procedures did not identify significant errors in compliance with IFRS or in related calculations.

B. Restatement of financial statements

The Entity had previously prepared financial statements as at 7 July 2019 in accordance with generally accepted accounting principles and in the manner required by the Commercial Code of Ethiopia of 1960. Mainly resulting from an inadequate accounting system, those statements contained numerous errors and uncertainties. In order to have a basis for restating the amounts included therein, an extensive revision of the accounting records was carried out by the Entity. Therefore, we checked the amendments extensively, including the methodology used to perform that work. The additional audit procedures we used did not identify significant errors or material misstatements arising from the Entity's accounting adjustments.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



**INDEPENDENT AUDITOR'S REPORT
TO THE SUPERVISING AUTHORITY OF
ETHIOPIAN ELECTRIC UTILITY (continued)**

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

In preparing the financial statements, management is responsible for assessing the Entity'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 management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



**INDEPENDENT AUDITOR'S REPORT
TO THE SUPERVISING AUTHORITY OF
ETHIOPIAN ELECTRIC UTILITY (continued)**

Report on the Audit of the Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's 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 Entity'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 Entity 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor's report is Woizero Alganesh Araya.



**INDEPENDENT AUDITOR'S REPORT
TO THE SUPERVISING AUTHORITY OF
ETHIOPIAN ELECTRIC UTILITY (continued)**

Report on the Audit of the Financial Statements (continued)

Additional Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the additional information. The additional information comprises the information included in pages 1 through 3 of the financial statements, but does not include the financial statements and our auditor's report thereon.

In connection with our audit of the financial statements, our responsibility is to read the additional information and, in so doing, consider whether the additional 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 that we have performed, we conclude that there is a material misstatement of this additional information, we are required to report that fact. We have nothing to report in this regard.

Audit Services Corporation

12 April 2022

ETHIOPIAN ELECTRIC UTILITY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 7 JULY 2019

		2019 ETB	2018 ETB
	Notes		
Revenue	4	<u>11,315,603,383</u>	<u>7,319,122,701</u>
Cost of sales (Power, Distribution , Substation and Transmission)	5	<u>(10,382,961,317)</u>	<u>(9,557,770,824)</u>
Gross profit		932,642,066	(2,238,648,123)
Other operating income	6	1,375,663,130	819,253,035
Administration expense	7a	(1,029,424,706)	(594,877,712)
Other operating expense	8	(12,503,297)	(158,945,169)
Impairment allowance	7b	<u>(34,916,718)</u>	<u>(2,288,528)</u>
Operating profit		1,231,460,474	(2,175,506,498)
Finance costs/charges	9	<u>(445,810,362)</u>	<u>(327,526,187)</u>
Profit before tax		785,650,113	(2,503,032,685)
Income tax expense	10	<u>-</u>	<u>-</u>
Profit for the year		<u>785,650,113</u>	<u>(2,503,032,685)</u>
Other comprehensive income, net of income tax			
Items that will not be subsequently reclassified into profit or loss:			
pre-measurement gain (loss) on retirement benefits obligations	27c	<u>(32,761,720)</u>	<u>(17,581,000)</u>
Total comprehensive income for the year		<u>752,888,393</u>	<u>(2,520,613,685)</u>

The notes on pages 13 - 77 are an integral part of these financial statements

ETHIOPIAN ELECTRIC UTILITY
STATEMENT OF FINANCIAL POSITION
AS AT 7 JULY 2019

		2019 (ETB)	2018 (ETB)	8 July 2017 (ETB)
Assets	Notes			
Non-current assets				
Property, plant and equipment	11	44,285,381,672	45,702,827,568	46,606,609,132
Land and Forestry	12	161,084,000	161,084,000	161,084,000
Intangible Asset	13	894,767,016	736,296,851	398,352,887
Right use of asset - Office	14	28,629,909	13,168,889	16,579,941
Advance and Prepayments	18	4,537,688,209	4,813,206,953	4,824,289,700
Investment in associate	19	31,202,573	35,116,307	33,272,282
		49,938,753,379	51,461,700,568	52,040,187,943
Current assets				
Cash and cash equivalents	16	8,773,589,595	5,859,330,609	1,213,133,613
Trade receivables	17.1	2,203,801,752	1,864,781,224	1,465,481,820
Receivable from EEP	17.2	-	-	1,570,521,562
Other receivable	17.3	49,811,810	86,624,908	303,492,388
Inventories	20	4,596,198,951	4,398,567,533	5,447,475,721
		15,623,402,108	12,209,304,274	10,000,105,104
Total assets		65,562,155,487	63,671,004,842	62,040,293,047
Equity and liabilities				
Equity				
paid up capital		36,246,642,700	29,571,451,211	27,226,388,945
legal reserve	21	43,245,339	3,962,833	3,962,833
Retained earnings	2.3ae	7,084,604,884	10,514,820,945	13,017,853,630
Grant and contribution	22	11,845,385	-	-
Other Reserve	23	(50,342,720)	(17,581,000)	-
Reserve for excess of deemed cost over book value	24	11,123,966,881	11,123,966,881	11,123,966,881
Total equity		54,459,962,468	51,196,620,870	51,372,172,289
Non-current liabilities				
Lease Liability	15	12,377,746	4,550,691	6,445,064
Customer Deposit	25.3	722,626,192	444,814,472	394,421,310
Long term loans	25.2	1,894,903,279	3,415,952,426	1,748,167,769
Suppliers Credit	25.4	456,764,288	114,682,210	111,040,044
Bonds Payable	25.5	3,365,911,975	2,365,576,514	2,481,249,181
Contractors Retention	25.6	607,615,978	614,463,901	618,938,153
Post Employment benefit liabilities	27	576,370,000	463,623,280	379,004,454
Contract liabilities	29	1,868,721,219	2,725,179,358	2,716,852,886
		9,505,290,677	10,148,842,852	8,456,118,861
Current liabilities				
Current portion of Lease Liability	15	15,060,426	6,601,428	8,021,186
Trade and other payables	25.1	1,030,110,312	483,058,361	694,398,625
Payable to EEP	2.3p	-	565,278,257	(488,523,198)
Current portion of Supplier Credit	25.4	-	315,111,090	253,184,694
Current portion of bonds Payable	25.5	350,944,775	165,672,668	69,101,579
Other tax obligations	28	43,255,615	68,187,848	46,320,763
Contract liabilities - Prepaid Cards	29	73,626,576	42,688,067	34,086,280
Accruals and Provision	30	83,904,638	678,943,400	1,595,411,968
		1,596,902,342	2,325,541,120	2,212,001,897
Total liabilities		11,102,193,019	12,474,383,972	10,668,120,758
Total equity and liabilities		65,562,155,487	63,671,004,842	62,040,293,047

The notes on pages 13 to 77 are an integral part of these financial statements

The financial statements on pages 9 to 77 were approved and authorized by Executive Management for issue on April 12, 2022 and were signed by:

Ato Shiferaw Telila
 Chief Executive Officer
 12 April 2022

Shiferaw Telila
Chief Executive Officer

ETHIOPIAN ELECTRIC UTILITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 7 JULY 2019

	paid up capital ETB	Legal Reserve ETB	Retained Earnings ETB	Reserve for excess of deemed cost over book value ETB	Grant and Contribution ETB	Other Reserve ETB	Total ETB
Balance at 8 July 2017	27,226,388,945	3,962,833	13,017,853,630	11,123,966,881	-	-	51,372,172,289
Profit for the year	-	-	(2,503,032,685)	-	-	-	(2,503,032,685)
Other Comprehensive income for the year	-	-	-	-	-	(17,581,000)	(17,581,000)
Grant & Contribution	-	-	-	-	2,345,062,266	-	2,345,062,266
Increase in Capital	2,345,062,266	-	-	-	(2,345,062,266)	-	-
Balance at 7 July 2018	29,571,451,211	3,962,833	10,514,820,945	11,123,966,881	-	(17,581,000)	51,196,620,870
Profit for the year	-	-	785,650,113	-	-	-	785,650,113
Transfer to legal reserve	-	39,282,506	(39,282,506)	-	-	-	-
Other Comprehensive income for the year	-	-	-	-	-	(32,761,720)	(32,761,720)
Grant & Contribution	-	-	-	-	2,510,453,204	-	2,510,453,204
Increase in Capital	2,498,607,820	-	-	-	(2,498,607,820)	-	-
Transfer from retained earnings	4,176,583,669	-	(4,176,583,669)	-	-	-	-
Balance at 7 July 2019	36,246,642,700	43,245,339	7,084,604,883	11,123,966,881	11,845,385	(50,342,720)	54,459,962,468

The notes on pages 13 to 77 are an integral part of these financial statements

ETHIOPIAN ELECTRIC UTILITY
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 7 JULY 2019

	Notes	2019 (ETB)	2018 (ETB)
Operating activities			
Profit before tax		785,650,113	(2,503,032,685)
Non-cash adjustment to reconcile profit before tax to net cash flows			
Depreciation and impairment of property, plant and equipment	11	3,686,663,565	3,587,060,128
Amortization of the right use of assets	14	16,139,236	9,909,458
Amortization of intangible assets	13	496,437	496,437
Impairment of financial asset	17	34,916,718	2,288,528
Severance expense (Current service cost and interest)	27	79,985,000	67,037,826
Interest expense	9	385,482,362	278,112,361
Foreign exchange loss	25.2 & 25.4	84,189,600	186,019,090
		5,073,523,031	1,627,891,143
Working capital adjustments:			
Decrease in trade, other receivables, and receivable from EEP	17	(302,207,430)	1,385,801,110
Increase in advance and prepayment	18	275,518,744	11,082,747
Decrease in inventories	20	(197,631,418)	1,048,908,188
Decrease in trade and other payables including payable to EEP	25	(642,175,511)	(43,538,504)
Increase in contract liability	29	(856,458,139)	8,326,472
Increase in customer Deposit	25.3	277,811,719	50,393,162
Decrease in contractors retention	25.6	(6,847,923)	(4,474,252)
		3,621,533,073	4,084,390,066
Interest paid		(385,482,362)	(278,112,361)
Net cash flows from operating activities		3,236,050,712	3,806,277,704
Investing activities			
Purchase of property, plant and equipment	11 & 25.2	(2,269,217,668)	(2,281,141,513)
Purchase of intangible asset	13	(158,966,602)	(338,440,402)
Proceeds from the disposal of non current assets	11	-	509,000
Income from investment in associate	19	3,913,734	(1,844,025)
Net cash flows used in investing activities		(2,424,270,537)	(2,620,916,939)
Financing activities			
Capital and grant contribution		275,519,242	2,345,062,266
Proceeds from borrowings (loan , Bond and supplier Credit)	25.2 & 25.5	2,250,906,456	1,147,518,186
Repayment of borrowings (loan , Bond and supplier Credit)	25.2 & 25.5	(408,632,684)	(21,931,686)
Payment for additional leased asset	14	(15,314,203)	(9,812,537)
Net cash flows from/(used in) financing activities		2,102,478,811	3,460,836,230
Net increase/ (decrease) in cash and cash equivalents		2,914,258,986	4,646,196,995
Cash and cash equivalents at 8 July,		5,859,330,609	1,213,133,613
Cash and cash equivalents at 7 July		8,773,589,595	5,859,330,609

The notes on pages 13 to 77 are an integral part of these financial statements

***ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019***

1. General information

Ethiopian Electric Utility (EEU) is a monopoly public Utility which was established on October 2013 by the Council of Ministers Regulation No. 303/2013 as amended by Regulation No. 382/2016, following the split of Ethiopian Electric Power Corporation (EEPCo) in to two separate entities. As a result EEU is mandated to deal with the operation of Substations & power transmission lines up to 66 kV, to undertake construction works & operation of off grid electricity generation, to construct & administer electric distribution networks, to sell & purchase bulk electric power on transmission lines up to 66 kv and the Utility is mandated to initiate electric tariff amendments. Currently the utility applies 5 (Five) categories of tariffs such as domestic tariffs, general tariff, low volt time off day industrial tariff, high volt time off day industrial tariff 15 KV, as well as street light tariff

The Utility is governed under public Enterprise proclamation no. 25/1992. The Supervising Authority was Ministry of Water, Irrigation & Electric and starting from October 2021 as per Proclamation No. 1263/2021 the Supervising Authority of EEU becomes Public Enterprises Holding & Administration Agency (PEHAA)

EEU has 11 regional offices following the State's government structure; there are different districts and customer service offices led by those regions.

The Utility purchases bulk electric from Ethiopian Electric Power (EEP) and sales electric energy to its local & foreign customers using the post paid & prepaid energy meters installed in the customers' premises. For the purchase of bulk power EEU has signed power purchase contract agreement with EEP. As per the agreement EEP should install energy meters in all respective delivery stations & power purchase will be undertaken using those meters, untill that, EEU will pay 60% of its revenue from sales of electric to EEP as a cost of Energy purchased (cost of goods sold).

Starting from October 2020 Power purchase for Addis Ababa and Partial Oromia Region has been done using the meters installed on the substations, and starting from December 2021 the power purchased from EEP has been fully done using energy meters.

2. Significant accounting Policies

2.1 Basis of preparation and Statement of compliance

Statement of Compliance

The financial statements for the period end 7 July 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are the Enterprise's First Financial Statements prepared in accordance with IFRS ,therefore, IFRS 1, First time Adoption of International Financial Reporting Standards has been applied

For all periods up to and including the year ended 7 July 2018 EEU prepared its financial statement in accordance with local generally accepted accounting practice (Local GAAP) and also for the year ended 7 July 2019 for the purpose of restricted user only the utility prepared its financial statements with local GAAP

The explanation of how the transition to IFRS has affected the reported financial position ,financial performance and cash flows of the Utility is provided in Note 2.3.

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Going Concern

The financial statements have been prepared on going concern basis. Nothing has come to the attention of the management to indicate that the Utility will not remain a going concern for at least twelve months from the date of approval of these financial Statements for issue.

Use of Judgments and Estimates

In preparing these Financial Statements, management has made judgments, estimates and assumptions that affect the application of the Utility's accounting policies and reported amounts of asset, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgment, estimates and assumption that are significant to the financial statements, are disclosed in note 3.

2.2 Summary of significant accounting policies

The following are the significant accounting policies applied by the Utility in preparing its financial statements:

2.2.1 Current versus non-current classification

The Utility presents assets and liabilities in the statement of financial position based on current/non-current classification.

2.2.2 Fair value measurement

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Utility uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Utility determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Utility has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

2.2.3 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Revenue from Sales of electric power/Post paid:- The Utility recognizes revenue from sales of electric power on monthly basis based on the measure taken by the kilowatt hour meter installed in the premise of each customer. It recognizes revenue from the sales of electric energy over time.

Revenue from prepaid meter sales system:- This revenue arises from the sales of electric energy, it allows the consumer to pay in advance. Initially the prepaid energy sales are recorded as a contract liability and recognized as revenue when the consumer utilize the energy. The prepaid energy is assumed to be utilized at the earliest when the consumer presents the card for recharge or one month from the energy has purchased.

Revenue from Electric Power Connection work & other services:- The utility recognizes revenue from new connection works and from services provided on the customers' premises (Relocation and maintenance) over time when performance obligation is satisfied. i.e when the utility provided electric service in the premises of the customers & the customers have got the right to use the electric service. (as per IFRS 15 an entity shall recognize revenue when or as the entity satisfies the performance obligation by transferring a promised goods or services to a customer.)

2.2.4. Interest income/expense

For all financial instruments measured at amortized cost interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

2.2.5 Foreign currencies

Functional and Presentation Currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Utility operates ('the functional currency'). The financial statements are presented in Ethiopian Birr ("ETB") which is the Utility's functional currency.

Transactions and balances

Foreign currency transactions are initially translated to the Functional Currency using the spot exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the transaction at exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in Profit or loss. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

2.2.6 Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses if any. Such cost includes the cost of replacing part of Property, plant and equipment if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Utility recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in the profit or loss as incurred

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as only when it is probable that future economic benefits associated with the item will flow to the Utility and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized.

Depreciation is calculated using the straight-line method over the estimated useful lives, as follows;

Asset Class:	Theoretical Useful Life (years)
· Distribution	15 - 25 years
· Transmission lines	25 - 40 years
· Substations	15 - 40 years
· Diesels	10 – 50 years
· Vehicles	20 years
· Administrative building	40 years
· Office furniture and equipment	15 - 25 years

The Utility commences Depreciation when the asset is available for use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Property plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's or Cash Generating Unit's fair value less costs of sale and its value in use.

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2.2.7 Leases

Right-of-use asset

The Utility is party to lease arrangements over land and office buildings. It recognizes right-of-use assets and the related liabilities at the commencement date for all lease arrangements that are entered into that convey the right to control the use of identified assets for a period of time. The commencement date of the lease is the date when the lessor makes the asset available for use by the Enterprise.

The right-of-use assets are initially measured at the present value of the minimum lease payments.

After the commencement date, the right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and are adjusted for any re-measurement of the lease liability.

The Utility acquired land, free of charge for indefinite period, long before the Land Lease proclamation comes to effect. The Land is valued by external valuation expert considering the lease price for similar location. As the possession is for indefinite period, freehold land is not depreciated.

Right of Use of Asset amortization on is calculated on straight-line method over the term of the lease or the useful life of the asset, whichever is the shorter. In the case of the lease hold land the cost is amortized over the lease period.

Lease liability

The lease is initially measured at the present value of the lease payments that are not paid at the commencement date including fixed payments, less any incentive payments that will be receivable by the Utility from the lessor;

The lease payments are discounted using the Utility's incremental borrowing rate. After initial recognition date, the Utility accounts for the lease liabilities by reducing the carrying amount to reflect payments made on the lease;

Short term lease and low value assets are recognized on a straight-line basis as an expense in profit or loss. Short term leases are with a lease term of 12 month.

2.2.8 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the related expenditure is recognized in the period in which expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortization expense on intangible assets with finite lives is presented as a separate line in the statement of profit or loss.

Amortization of intangible assets with definite useful life is calculated using straight line method as follows:-

Asset Class:	Theoretical Useful Life (years)
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· Prepaid Meter Software	15 years
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2.2.9 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. Financial assets and financial liabilities are recognized when the Utility becomes a party to the contractual provisions of the instrument.

Classification

The classification depends on the entities business model for managing the financial assets/Financial Liability and the contractual term of the cash flow. The Utility classifies its financial assets as follows:

- Those to be measured subsequently at amortized cost
- Those to be measured subsequently at fair value

Recognition

Regular way of purchases and sales of financial assets/Financial Liability are recognized on trade date, the date on which the Utility commits to purchase or sell the asset.

de-recognition

Financial Asset/Financial Liability are derecognized when the rights to receive cash flows from the asset have expired, or have been transferred and the Utility has transferred substantially all the risks and rewards of ownership

Measurement

All financial assets are recognized initially at fair value plus or minus transaction cost. The subsequent measurement of financial assets depends on their classification as described below :

i) Financial assets

Trade and Other Receivable

Trade receivables are the amounts due from customer for services performed in ordinary course of the business. Other trade receivables arise from new connection and rechargeable works. They are generally due for settlement within a year and therefore classified as current. For some reason if they fail to settle within a year they are presented as noncurrent. Trade receivables and other receivables are recognized initially at Fair value. The Utility holds the trade receivables with the objective to collect the contractual cash flows and therefore measures at amortized cost using the effective interest rate (EIR) method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing within 90 days or less from the date of acquisition that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash at banks earns interest at floating rates based on daily bank deposit rates.

Impairment of financial assets

The Utility assesses Impairment of financial asset on forward-looking basis the expected credit losses(ECL) for financial asset carried at amortized cost. The impairment methodology applied depends on whether there has been a significant evidence increase in credit risk.

The Utility applies simplified approach permitted by IFRS 9, which requires lifetime credit losses to be recognized from initial recognition of receivables. As a practical expedient, a provision matrix may be used to estimate ECL for these financial instruments. The matrix is to be set by management based on historical analysis and reasonable judgment.(to be added)

Details of disclosures relating to impairment of financial assets are provide in Note 17

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ii) Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities subsequently measured at amortized cost such as at fair value through profit or loss and liabilities measured at amortized cost such as loans, borrowings, and payables. The Utility's financial liabilities include loans and borrowings, trade and other payables, .

Loans and Borrowings

The Utility's Borrowing and Loans are comprises long term loans and Bonds payables. Initially, recognized at fair value net of transaction cost incurred and subsequently interest bearing loans and borrowings measured at amortized cost using the effective interest rate method

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate (EIR). The EIR amortization is included in finance costs in the statement of profit or loss.

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. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method

de-recognition

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.2. 10 Borrowing cost

Interest cost shall be included as a component of the historical acquisition cost of qualifying fixed assets constructed for the Utility's own use (major construction or acquisition projects only).

2.2.11 Inventories

Inventories shall be stated at the lower of cost or net realizable value. Cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, The cost of inventories shall be stated using the weighted-average cost method

Provision for damaged inventory having no further usage or no market value is provisioned at 100% and Provision for slow moving and obsolete inventory are provisioned by market value.

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2.2.12 Non-current assets classified as held for sale

The Utility classify non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets classified as held for sale measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease.

2.2.13 Impairment of non-financial assets

Intangible asset that have an indefinite useful life are not subject to amortization and are tested, annual for impairment if there is indication that an asset may be impaired.

Other asset tested for impairment when there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Utility estimates the asset's recoverable amount.

2.2.14 Employee benefits

Short-term benefits

Salary, Wages, annual leave sick leave, bonuses and non-monetary benefits such as kwh electric energy monthly consumption up to 440 kwh are expected to payable within 12 months after the service is rendered. The amount is recognized in respect of employees' service up to the end of the reporting period and is measured at an amount expected to be paid when the liabilities are settled

Post employment benefit

Defined contribution plans. These are post-employment benefit plans under which the Utility pays fixed contributions into separate entities on a mandatory, contractual or voluntary basis. The Utility is obligation to contribute 11 % of the employee's basic salary to Public Servant Social Security and recognized as an expense in the period that related employee services are rendered.

Define Benefit Plan, This is a post employee plan . The Utility's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The Utility accounts for both legal obligation which is severance payment and constructive obligation which is free electricity for its retired staff.

The Utility is obliged by law to pay severance payment for eligible employees who served the Utility for more than 5 years when the employment is terminated. The amount payable is one month final salary for the first year of service and one third of the final salary for the remaining year of services.

The Utility also has a practice of providing free electricity to those employees who will have served the Utility for more than 10 years and resign on retirement. This benefit is payable to the retired employees in the form of monthly kilowatt-hour (kWh) electric energy up to 264 Kwh according to their past years of service.

Accordingly the present value of post employment benefit obligation and the related current service cost were measured using the projected unit credit method. Management estimates the benefit obligation annually with some basic actuarial assumption.

Disclosures relating to measurement and recognition of Post employment benefit summarized in note 29 .

Termination benefit

Termination benefits are payable when employment is terminated by the Utility before the normal retirement date or when employee accepts voluntary redundancy in exchange of benefits.

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2.2.15 Legal reserve

Legal Reserve is a statutory reserve. Its amount is accumulated by transferring 5% of the annual net profit until it reaches 20 % of the Capital.

2.2.16 Provisions

Provisions are recognized when the Utility has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

2.2.17 Leave accrual

A provision is made for the estimated liability for annual vacation as a result of services rendered by employees up to the end of the reporting period. Employee's entitlements to annual vacation are also charged to the profit or loss when they accrue to employees.

2.2.18 Related parties

A party is related to an entity if, directly or indirectly through one or more intermediaries, the party: controls, controlled by, or under common control with, the entity and has an interest in the entity that gives it significant influence over the entity. The Utility discloses the nature of relationships between its related parties irrespective of whether there have been transactions between them.

The related party of the utility includes the management board, major responsibilities of the board are to decide on policy issues, appointing of the chief executive officer, approve internal regulations, approve long term loans, propose the capital of the utility, Submits books of account to the auditors and approve sales of fixed asset. The chair person, each members & secretary are entitled for monthly allowances of ETB 1,300 plus ETB 200 per meeting, ETB 1200 plus ETB 150 per meeting & ETB 525 plus ETB 50 per meeting. And also ETB 500 per month to Board secretariat office head.

ETHIOPIAN ELECTRIC UTILITY
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2.3 First-time adoption of IFRS

These financial statements, for the year ended 7 July 2019 are the first the Utility has prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB). For periods up to and including the year ended 7 July 2018 and also for the year ended 7 July 2019 for the purpose of restricted user only, the Utility prepared its financial statements in accordance with local generally accepted accounting principle (Local GAAP). Accordingly, the Utility has prepared financial statements that comply with IFRS applicable as at 7 July 2019 together with the comparative period data for the year ended 7 July 2018 as described in the summary of significant accounting policies.

The Utility's opening statement of financial position was prepared as at 8 July 2017, the Utility's date of transition to IFRS. This note explains the principal adjustments made by the Utility in restating its Local GAAP financial statements, including the statement of financial position as at 8 July 2017 and the financial statements for the year ended 7 July 2018.

The Utility has adjusted amounts reported previously in financial statements prepared in accordance with Utility's previous accounting framework and the Commercial Code of Ethiopia 1960. An explanation of how the transition from previous framework to IFRS has affected the Utility's financial position, financial performance and cash flows is set out in the following tables.

In accordance with IFRS 1, the Utility has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective application selected by the Utility are summarized below

i. Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Utility has applied the following exemptions:

Borrowing cost:

EEU is engaged in the construction of various qualifying assets. The Utility's previous GAAP accounting policy was to expense borrowing costs as incurred. EEU has the following options with regard to capitalization of borrowing cost;

To apply IFRS 1.D23. The carrying amount for 8 July 2017 is not restated and is determined by the previous GAAP. EEU capitalizes borrowing costs incurred on or after 8 July 2017 (including borrowing costs that relate to qualifying assets under construction at 8 July 2017) in accordance with IAS 23. This is the option chosen by the management of EEU.

Deemed Cost :

Property, plant and equipment were carried in the statement of financial position prepared in accordance with previous framework using historical cost. The Utility's Property, plant and equipments are revalued by professional valuers and take the fair value as a deemed cost at the transition date as carrying values of assets under previous framework and IFRS is expected to be materially different. And the fair value is determined using depreciated replacement cost valuation method

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Leases:

The Utility is required to determine whether an arrangement contains a lease based on the facts and circumstances existing on 8 July 2017. Any contracts that exist would result in a classification based on the facts and circumstances that exist at transition date.

Fair value measurement of financial instruments at initial recognition:

The application of “day 1” gain or loss recognition in IFRS 9 for financial instruments recorded at fair value may be burdensome. As a result, an exemption is offered by IFRS 1 for financial instruments carried at fair value for which there is no active market.

The Utility has decided to apply the exemption and would apply the “day 1” gain or loss recognition requirements in IFRS 1 prospectively to transactions entered into after the transition date (8 July 2017).

ii. Exceptions applied

The Utility applied the following mandatory exception from retrospective application:

Estimates exception

Estimates under IFRS at 8 July 2017 are consistent with estimates made for the same date under its previous accounting framework, unless there is evidence that those estimates were in error.

The estimates used by management in preparing the transition date statement of financial position are consistent with those used under previous framework for the same date.

ETHIOPIAN ELECTRIC UTILITY
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2.3 First-time adoption of IFRS Continued

Reconciliation of equity as at 8 July 2017 (date of translation to IFRS)

		EEU GAAP 7 JULY 2017 ETB	RECLASSIFICATION ETB	REMEASUREMENT ETB	IFRS As at 8 JULY 2017 ETB
Assets					
Non-current assets					
Property, plant and equipment	2.3(a)	33,384,346,957	(4,817,412,784)	18,039,674,960	46,606,609,132
Advance and Prepayments	2.3(j)	-	4,724,462,651	99,827,049	4,824,289,700
Right use of asset - Office	2.3(b)	-	-	16,579,941	16,579,941
Land and Forestry	2.3(d)	-	-	161,084,000	161,084,000
Intangible Asset	2.3(e)	-	20,444,922	377,907,965	398,352,887
Investment in associate	2.3(g)	32,983,378	-	288,904	33,272,282
		33,417,330,335	(72,505,211)	18,695,362,819	52,040,187,943
Current assets					
Inventories	2.3(f)	5,452,002,885	-	(4,527,164)	5,447,475,721
Trade receivables	2.3(h)	(171,883,517)	1,734,088,688	(96,723,351)	1,465,481,820
Receivable from EEP		1,570,521,562	-	-	1,570,521,562
Other receivable	2.3(i)	574,724,669	(255,542,335)	(15,689,946)	303,492,388
Cash and cash equivalents	2.3(k)	1,253,397,513	(40,263,900)	-	1,213,133,613
		8,678,763,112	1,438,282,453	(116,940,461)	10,000,105,104
Total assets		42,096,093,447	1,365,777,242	18,578,422,358	62,040,293,047
Equity and liabilities					
Equity					
paid up capital		27,226,388,945	-	-	27,226,388,945
legal reserve		3,962,833	-	-	3,962,833
Retained earnings	2.3(ae)	(702,052,170)	1,277,133,822	12,442,771,978	13,017,853,630
Grant and contribution		-	-	-	-
Reserve for excess of deemed cost over book value	2.3(af)	-	-	11,123,966,881	11,123,966,881
Total equity		26,528,299,608	1,277,133,822	23,566,738,859	51,372,172,289
Non-current liabilities					
Long term loans	2.3(l)	502,233,317	782,492,029	463,442,422	1,748,167,769
Suppliers Credit	2.3(m)	504,092,726	-	(393,052,682)	111,040,044
Bonds Payable	2.3(n)	2,700,000,000	-	(218,750,819)	2,481,249,181
Unallocated Collection		3,237,959,546	(3,237,959,546)	-	-
Customer Contribution		1,117,238,888	(1,117,238,888)	-	-
Contract liabilities	2.3(q)	-	4,662,829,722	(1,945,976,835)	2,716,852,886
Customer Deposit	2.3(r)	363,293,318	31,127,992	-	394,421,310
Contractors Retention	2.3(s)	622,600,025	(3,661,872)	-	618,938,153
Post Employment benefit liabilities	2.3(u)	-	-	379,004,454	379,004,454
Lease liability	2.3(c)	-	-	6,445,064	6,445,064
		9,047,417,820	1,117,589,437	(1,708,888,396)	8,456,118,861
Current liabilities					
Trade and other payables	2.3(o)	1,024,319,420	(215,424,884)	(114,495,912)	694,398,625
Payable to EEP	2.3(p)	4,996,090,885	(995,911,131)	(4,488,702,952)	(488,523,198)
Current portion of Supplier Credit	2.3(m)	269,503,043	(16,318,349)	-	253,184,694
Current portion of bonds Payable	2.3(n)	100,000,000	-	(30,898,421)	69,101,579
Current portion of Lease Liability	2.3(c)	-	-	8,021,186	8,021,186
Contract liabilities - Prepaid Cards	2.3(t)	76,382,545	-	(42,296,265)	34,086,280
Other tax and obligation	2.3(w)	44,959,771	-	1,360,992	46,320,763
Accruals and Provision	2.3(v)	9,120,354	198,708,347	1,387,583,268	1,595,411,968
		6,520,376,019	(1,028,946,017)	(3,279,428,105)	2,212,001,897
Total liabilities		15,567,793,839	88,643,420	(4,988,316,501)	10,668,120,758
Total equity and liabilities		42,096,093,447	1,365,777,242	18,578,422,358	62,040,293,047

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2.3 First-time adoption of IFRS Continued
Reconciliation of equity as at 7 July 2018

		EEU GAAP 7 JULY 2018	RECLASSIFICATION	REMEASUREMENT	IFRS As at 7 JULY 2018
		ETB	ETB	ETB	ETB
Assets					
Non-current assets					
Property, plant and equipment	2.3(a)	31,550,472,177	(4,805,161,084)	18,957,516,474	45,702,827,568
Advance and Prepayments	2.3(j)	-	4,743,846,423	69,360,530	4,813,206,953
Right use of asset - Office	2.3(b)	-	-	13,168,889	13,168,889
Land and Forestry	2.3(d)	-	-	161,084,000	161,084,000
Intangible Asset	2.3(e)	-	67,376,996	668,919,856	736,296,851
Investment in associate	2.3(g)	31,468,838	-	3,647,469	35,116,307
		31,581,941,015	6,062,335	19,873,697,218	51,461,700,568
Current assets					
Inventories	2.3(f)	4,269,277,920	-	129,289,613	4,398,567,533
Trade receivables	2.3(h)	526,572,680	1,437,190,665	(98,982,121)	1,864,781,224
Other receivable	2.3(i)	623,104,439	(514,890,883)	(21,588,649)	86,624,908
Cash and cash equivalents	2.3(k)	5,899,651,594	(40,537,742)	216,757	5,859,330,609
		11,318,606,633	881,762,040	8,935,601	12,209,304,274
Total assets		42,900,547,648	887,824,375	19,882,632,819	63,671,004,842
Equity and liabilities					
Equity					
paid up capital		29,571,451,211	-	-	29,571,451,211
legal reserve		3,962,833	-	-	3,962,833
Retained earnings	2.3(ae)	(1,803,386,847)	1,143,616,809	11,174,590,983	10,514,820,945
Other Reserve	2.3(ad)	-	-	(17,581,000)	(17,581,000)
Grant and contribution		-	-	-	-
Reserve for excess of deemed cost over book value	2.3(ah)	-	-	11,123,966,881	11,123,966,881
Total equity		27,772,027,197	1,143,616,809	22,280,976,864	51,196,620,870
Non-current liabilities					
Long term loans	2.3(l)	2,266,017,902	924,151,591	225,782,934	3,415,952,426
Suppliers Credit	2.3(m)	131,000,558	(16,318,349)	-	114,682,210
Bonds Payable	2.3(n)	2,450,000,000	-	(84,423,486)	2,365,576,514
Unallocated Collection		3,296,711,778	(3,296,711,778)	-	-
Customer Contribution		2,227,547,076	(2,227,547,076)	-	-
Contract liabilities	2.3(q)	-	5,957,690,360	(3,232,511,002)	2,725,179,359
Customer Deposit	2.3(r)	410,043,927	34,770,545	-	444,814,472
Contractors Retention	2.3(s)	618,125,773	(3,661,872)	-	614,463,901
Post Employment benefit liabilities	2.3(u)	-	-	463,623,280	463,623,280
Lease liability	2.3(c)	-	-	4,550,691	4,550,691
		11,399,447,014	1,372,373,422	(2,622,977,584)	10,148,842,852
Current liabilities					
Trade and other payables	2.3(o)	1,943,701,017	(1,410,174,393)	(50,468,263)	483,058,361
Payable to EEP	2.3(p)	783,269,720	(217,991,463)	-	565,278,257
Current portion of Supplier Credit	2.3(m)	315,111,090	-	-	315,111,090
Current portion of bonds Payable	2.3(n)	300,000,000	-	(134,327,332)	165,672,668
Current portion of Lease Liability	2.3(c)	-	-	6,601,428	6,601,428
Contract liabilities - Prepaid Cards	2.3(t)	107,063,670	-	(64,375,603)	42,688,067
Other tax and obligation	2.3(w)	65,872,020	-	2,315,828	68,187,848
Provisions and Accruals	2.3(v)	214,055,919	-	464,887,481	678,943,400
		3,729,073,437	(1,628,165,856)	224,633,539	2,325,541,120
Total liabilities		15,128,520,451	(255,792,434)	(2,398,344,045)	12,474,383,972
Total equity and liabilities		42,900,547,648	887,824,375	19,882,632,819	63,671,004,842

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

Reconciliation of Profit or loss for the year ended on 7 July 2018

		EEU GAAP 7 JULY 2018	REAMESURMENT	RECLASSIFICATION	IFRS for the year ended on 7 July 2018
		ETB	ETB	ETB	ETB
Revenue	2.3(x)	6,247,721,309	1,306,854,294	(235,452,903)	7,319,122,701
Cost of sales (Power, Distribution , Substation and Transmission)	2.3(z)	(6,596,296,766)	(2,960,645,954)	(828,104)	(9,557,770,824)
Gross profit		(348,575,457)	(1,653,791,659)	(236,281,007)	(2,238,648,123)
Other operating income	2.3(y)	367,777,575	451,519,211	(43,751)	819,253,035
Administration expense	2.3(aa)	(576,851,936)	(18,025,776)	-	(594,877,712)
Other operating expense	2.3(ab)	(208,021,984)	49,076,815	-	(158,945,169)
Impairment allowance	2.3(aa)	-	(2,288,528)	-	(2,288,528)
Operating profit		(765,671,802)	(1,173,509,938)	(236,324,758)	(2,175,506,498)
Finance costs/charges	2.3(ac)	(232,855,130)	(94,671,057)		(327,526,187)
Profit before tax		(998,526,932)	(1,268,180,995)	(236,324,758)	(2,503,032,685)
Income tax expense		-			-
Profit for the year		(998,526,932)	(1,268,180,995)	(236,324,758)	(2,503,032,685)
Other comprehensive income					
Other comprehensive income, net of income tax					
Items that will not be subsequently reclassified into profit or loss:					
re-measurement gain loss on retirement benefits obligations	2.3(ad)	-	(17,581,000)		(17,581,000)
Total comprehensive income for the year		(998,526,932)	(1,285,761,995)	(236,324,758)	(2,520,613,685)

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

a) Property, plant and equipment	7 July 2018	8 July 2017
	ETB	ETB
Amount under previous framework	31,550,472,177	33,384,346,957
Roll over	13,222,262,175	-
<u>Reclassifications</u>		
Advance and Prepayment (i)	59,183,774	(4,796,967,862)
Intangible Asset in progress (ii)	(46,932,074)	(20,444,922)
	<u>12,251,700</u>	<u>(4,817,412,784)</u>
<u>re-measurement</u>		
Depreciation Recalculation (iii)	(2,386,956,335)	-
Reserve for excess of deemed cost over book value (iii)	-	31,381,003,043
WIP - Belongs to EEP (iv.)	4,350,898,072	(4,350,898,072)
WIP that were in service in 2017 (v)	(1,349,169,572)	(8,846,148,823)
WIP that needs to be expensed (vi)	(457,877,680)	-
GIT - Written off (vii.)	49,205,717	(144,281,188)
Purchase of vehicle on account (viii)	36,093,800	-
Disposal of vehicle (ix)	(509,000)	-
Wrongly expensed PPEs (x)	268,725,371	-
PPEs paid in 2019 yet capitalized in 2018 (xi)	383,170,935	
Motor Vehicle from Metec (xii)	5,868,944	
Purchase of condominium on account (xiii)	18,391,262	
	<u>917,841,515</u>	<u>18,039,674,960</u>
	45,702,827,568	46,606,609,132
	45,702,827,568	46,606,609,132

- i) Under the previous framework, advance and prepayment was classified and reported under PPE. It is now reclassified and separately presented as a line item in the statement of financial position.
- ii.) Under the previous framework, intangible asset in progress was classified and reported under PPE. It is now reclassified and separately presented as a line item in the statement of financial position.
- iii.) Under previous framework, property, plant and equipment are recognized at historical cost. Under IFRS, property, plant and equipment including Intangible asset and forestry are revalued and reserve for excess of deemed cost over book value is recognized. Depreciation has also been recalculated based on the revised remaining life and the new valuation.
- iv.) Under the previous framework, EEP Projects financed by Gov. Grant were recorded in the accounts of EEU. Under IFRS this is eliminated and transferred to EEP along with the grant.
- v.) To derecognize WIPs that were already in service as at opening date and were included in the valuation report.
- vi.) Under the previous framework, recording error was made to WIP and depreciation accounts. Under IFRS this errors are retrospectively restated.

2.3 First-time adoption of IFRS Continued

- vii.) Under the previous framework, Goods in transit of EEP were recorded in the accounts of EEU. Under IFRS this is eliminated and transferred to EEP along with the grant.
- viii.) Under the previous framework, purchase of vehicles amounting ETB 36 million has been accounted for in the subsequent period and hence an adjustment is required to record the transaction in the period in which it has occurred.
- ix.) Under the previous framework, proceed from disposal of vehicle has been wrongly recorded as other income. Hence an adjustment is made to derecognize the disposed asset and to account for the resulting gain or loss.
- x.) Under the previous framework, capital expenditures amounting ETB 269 Million were wrongly expensed as a period cost and Hence an adjustment is made to capitalize those expenditures in to WIP.
- xi.) To recognize liabilities for WIP where payment is made in 2019 yet not accrued for in 2018.
- xii.) To adjust the advance payment made for PPE (motor vehicle) in 2017 and received in 2018. Under previous framework, the advance payment was recorded as PPE in 2017.
- xiii.) To adjust condominium buildings purchased in 2018 on account, settled in 2019 and corrected the posting error.

Disclosures for valuation methods, significant estimates and assumptions - PPE

All category of property, plant and equipment of the utility were carried in the statement of financial position prepared in accordance with Local GAAP on the basis of valuations performed as at 7 July 2017. The Utility has elected to regard those values as deemed cost at the date of the revaluation since they were broadly comparable to fair value.

The assets involved in the valuation include buildings , plant, distribution and transmission lines, substations, machinery and vehicles. The valuation methodology used for each category of assets as presented is depreciated replacement value (DRV) and active market prices, significantly adjusted for any difference in the nature, location or condition of the specific property.

The Depreciated replacement value (DRV) of plant ,machinery ,distribution and transmission lines, substations and equipment is estimated cost of acquiring and installing the new assets having the same production capacity as the existing ones or their modern substitutes penalized according to their depreciation factor(DF).

The Depreciated replacement value (DRV) of a building is the Gross Replacement Cost (GRC) depreciated according to their condition factor. The GRC of a building is the estimated cost of erecting the buildings or the modern substitute buildings having internal areas the same as that of the existing ones and the ancillary site works together with the relevant professional fees and other associated expense related to the construction of the building.

The valuation is performed by Price water house (PWC)., an accredited independent value. PWC is a specialist in valuing these types of assets . A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

The following table provides the fair value hierarchy disclosures for the valued PPE items :

Quantitative disclosures fair value measurement hierarchy as at 7 July 2017

	date of valuation	Quoted prices in an	Significant	Significant
		active markets (Level 1)	observable inputs (Level 2)	unobservable inputs (Level 3)
		ETB	ETB	ETB
Assets measured at fair value;				
Building	7/7/2017	-	-	570,016,300
Land improvements	7/7/2017	-	-	41,732,900
Freehold land	7/7/2017	-	-	896,204,500
Substation	7/7/2017	-	-	1,318,923,600
Motor vehicles	7/7/2017	-	-	615,782,000
Office Furniture and equipment	7/7/2017	-	-	132,074,951
Garage and workshop equipment, Construction machinery and transformer under stock	7/7/2017	-	-	116,584,675
Diesel generator	7/7/2017	-	-	114,049,000
Distribution and Transmission line	7/7/2017	-	-	38,830,290,339
		-	-	42,635,658,265
b) Right of use asset			7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework			-	-
Roll over			16,579,941	-
<u>re-measurement</u>				
Office Lease (i.)			6,498,406	23,781,887
Amortization (i.)			(9,909,458)	(7,201,946)
			(3,411,052)	16,579,941
			13,168,889	16,579,941

Under its previous framework , the Utility has accounted for the building rents as an operating lease. Under IFRS, those leases have been recognized as the right use of asset at the sum of initial payment , present value of future rental payments and any directly attributable cost. Amortization is recognized on a straight-line basis over the rental period.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

c) Lease liability	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	-	-
Roll over	14,466,250	
<u>re-measurement</u>		
Office Lease (i.)	6,498,406	14,466,250
Repayment (i.)	(9,812,537)	
	<u>(3,314,131)</u>	<u>14,466,250</u>
	<u>11,152,119</u>	<u>14,466,250</u>

i.) Under its previous framework , the Utility has accounted for the building rents as an operating lease. Under IFRS, those leases have been recognized as the lease liability in respect of the right use of asset present value of future rental payments. The carrying value of the liability shall be increased by the periodic interest and reduced by periodic settlement each year.

d) Land and Forestry	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	-	-
Roll over	161,084,000	-
<u>re-measurement</u>		
Free hold land and Forestry (i.)	-	161,084,000
	<u>-</u>	<u>161,084,000</u>
	<u>161,084,000</u>	<u>161,084,000</u>

i.) The Entity owns large area of forestry which have not be recognized in the previous framework. Under IFRS , it is now revalued at fair value and recognized in the statement of financial position.

Disclosures for valuation methods, significant estimates and assumptions - Free hold land

The Utility acquired land, free of charge for indefinite period, before and after the Land Lease proclamation comes to effect. There are different improvements on the land holdings of the Utility at different sites. The Land is valued by external valuation expert considering the lease price for similar location. As the possession is for indefinite period, freehold land is not depreciated. The land size , location and mode of control is detailed below:

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

Land for building and other purposes

<u>Region</u>	<u>Area (m²)</u>	<u>Free Hold/Lease Hold</u>
Addis Ababa	450218	Free Hold
Amhara	457037	Free Hold
Oromia	600704	Free Hold
South	96291	Free Hold
Tigray	150508	Free Hold
Somale	253246	Free Hold
Afar	100616	Free Hold
Dire Dawa	5781	Free Hold
Harari	17570	Free Hold
Gambella	49113	Free Hold
Benshangul-Gumuz	73331	Free Hold
Total	2,254,415	

Land in Forestry

<u>Region</u>	<u>Area (m²)</u>	<u>Free Hold/Lease Hold</u>
Oromia	3499000	Free Hold
South	162000	Free Hold
Total	3661000	

Land in Ethiopia belongs to Government and is allocated to institutions and individuals for specific purposes. For this reason, EEU is allocated land in various areas in Ethiopia for development of electricity distribution infrastructure and other ancillary uses. To sell such land for other purpose the EEU has to obtain permission from the Government and it is not likely to receive it as Government would ask them to surrender the said land and they will allocate it to someone else at new terms. For this reason, we have adopted the rates used at date of allocation as the fair market value for the purpose of this valuation.

e.) Intangible Asset	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	-	-
Roll over	398,352,887	-
<u>re-measurement</u>		
Intangible asset in progress (ii.)	291,508,328	375,922,216
Recognition of intangible Asset (i.)	-	1,985,750
Amortization of intangible Asset (i.)	(496,437)	-
	291,011,890	377,907,965
<u>Reclassifications</u>		
Intangible Asset in progress (ii.)	46,932,074	20,444,922
	736,296,851	20,444,922
	736,296,851	398,352,887

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

A billing system/software has been recognized at a fair value which is to be taken as a deemed cost as at the date
i.) of transition and amortized subsequently on a straight line basis over the remaining life estimated at the date of valuation.

Under previous frame work intangible asset in progress was reported at EEP along with respective loan &
ii.) advance paid to customer. It is now reclassified & presented in the intangible asset in the statement of financial position of EEU.

f.) Inventory	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	4,269,277,920	5,452,002,885
Roll over	(4,527,164)	-
<u>re-measurement</u>		
Reversal of allowance for stock obsolescence (i.)	-	133,277,716
GIT - Written off	137,804,880	(137,804,880)
PPE that was wrongly treated as an inventory (ii.)	(3,988,103)	
	<u>133,816,777</u>	<u>(4,527,164)</u>
	<u>4,398,567,533</u>	<u>5,447,475,721</u>

Under the previous framework, The utility provided for allowance for stock obsolescence amounting ETB 133.2
i.) Million merely on the basis of age rather than considering the market worth of those inventory item .Hence under IFRS , The provision is fully reversed as none of the stock found to be above the cost.

Under previous framework, the entity has made adjustments on 2019 to correct errors on July 2017 financial
ii.) statements. Under IFRS, the adjustments are taken back and the financial statements are restated as at 8 July 2017.

g.) Investment in associate	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	(1,514,540)	32,983,378
Roll over	33,272,282	
<u>re-measurement</u>		
Profit share recalculation (i)	<u>3,358,565</u>	<u>288,904</u>
	<u>3,358,565</u>	<u>288,904</u>
	<u>35,116,307</u>	<u>33,272,282</u>

i) Under IFRS, re-measurement of profit shares from investments are performed and the resulted decrease and increases in investment is recognized.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

h.)	7 July 2018	8 July 2017
	(ETB)	(ETB)
Trade receivables		
Amount under previous framework	526,572,680	(171,883,517)
Roll over	1,637,365,337	
<u>Reclassifications</u>		
Advance from customers (i.)	125,800,219	307,631,288
Customer billings (ii)	(146,813,894)	146,813,894
Prior period adjustment (iii)	(275,884,348)	1,279,643,507
	<u>(296,898,023)</u>	<u>1,734,088,688</u>
<u>re-measurement</u>		
Allowance for credit loss (iv)	<u>(2,258,770)</u>	<u>(96,723,351)</u>
	<u>(2,258,770)</u>	<u>(96,723,351)</u>
	<u><u>1,864,781,224</u></u>	<u><u>1,465,481,820</u></u>

i.) Under previous framework, advances from customers offset against Debtors. However, Under IFRS Offsetting is not allowed and hence this is to reclassify energy credits from customers in to creditors.

ii) Under the previous framework, customer billing account were erroneously credited for customer deposits, revenue from connection and service fees and revenue from capital works. Under IFRS this errors are retrospectively restated.

iii) Under the previous framework, financial statements include debtors with abnormal balances and other erroneous records. Under IFRS, management decides to reverse this balance against retained earnings and profit or loss accounts.

iv) Under the previous framework, allowance for credit loss was not assessed and recognized. Under IFRS allowance for credit loss is determined using ECL and individually assessing balances with no movements for longer period.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

i.) Other receivable	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	66,146,473	574,724,669
Roll over	303,492,388	-
<u>Reclassifications</u>		
Sundry Debtors (i)	(257,823)	(430,070)
Advance and Prepayment (ii.)	(6,062,335)	(17,766,703)
Sundry Debtors (Intercompany balance) (iii.)		(239,298,540)
Cash and stock shortages (iv)	(9,773)	1,952,978
Sundry Debtors - Abnormal balance (vi)	147,086	-
Sundry Debtors - WIP Clearing (v)	(270,932,405)	-
	<u>(277,115,250)</u>	<u>(255,542,335)</u>
<u>re-measurement</u>		
Allowance for credit loss (vii.)	(29,759)	(21,523,780)
Other receivable written off (viii.)	-	(35,110)
Receivable from metec (viii)	(5,868,944)	5,868,944
	<u>(5,898,703)</u>	<u>(15,689,946)</u>
	<u>86,624,908</u>	<u>303,492,388</u>

i.) Under the previous framework, recording error was made to sundry debtors and cash and stock shortage accounts. Under IFRS this errors are retrospectively restated against retained earnings.

ii.) Under previous framework, both financial and non financial asset were presented together in the financial statement. Hence non financial asset such as advance and prepayments were reclassified and shown separately in the financial statement.

iii.) Under the previous framework, balances resulted from transaction between different project office which is established to facilitate expansion, new electrification as well as rehabilitation programs and EEU including but not limited to transfer of stock items, fuel as well as cash was reported as Miscellaneous receivable and payable in the financial statement. The balances is now reconciled and eliminated from the consolidated financial statement

iv) Under the previous framework, recording error was made to sundry debtors and cash and stock shortage accounts. Under IFRS this errors are retrospectively restated against retained earnings.

v) EEP project financed by Government grant were recorded & transferred to EEP up on completion of the project.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

Under previous framework ,Debtors with abnormal balances were offset against normal balances. However ,
vi Under IFRS Offsetting is not allowed and hence this is to reclassify debtors with abnormal balance in to creditors.

vii Under the previous framework, allowance for credit loss related with other receivables were recognized, Under IFRS additional allowances are resulted from individual assessment of debtor balances.

viii.) Under the previous framework, advance and prepayment was classified and reported under PPE and other receivable. It is now reclassified and separately presented as a line item in the statement of financial position.

j.) Advance and Prepayment	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	-	-
Roll over	99,827,049	-
<u>Reclassification</u>		
From Sundry Debtors (i.)	6,062,335	17,766,703
From PPE (i.)	4,737,784,088	4,796,967,862
Advance and prepayment (ii)	-	(90,271,914)
	<u>4,743,846,423</u>	<u>4,724,462,651</u>
<u>re-measurement</u>		
Allowance for credit loss (i)	-	(12,243)
Advance made by EEP yet recorded by EEU (iii)	(30,466,519)	99,839,292
	<u>(30,466,519)</u>	<u>99,827,049</u>
	<u>4,813,206,953</u>	<u>4,824,289,700</u>

Under the previous framework, allowance for credit loss for long outstanding advances and prepayments was
i.) not assessed and recognized. Under IFRS allowance for credit loss is determined using individual assessment of balances with no movements for longer period.

ii) Under the previous framework, advance and prepayment as at 8 July 2017 include amounts that do not exist at reporting date. Under IFRS, adjustment is made to eliminate the balances.

iii) Under the previous framework, advance and prepayment that belongs to EEP yet had been recorded in EEU account has now been eliminated & transferd to EEP account.

k.) Cash	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	4,646,254,081	1,253,397,513
Roll over	1,213,133,613	-
<u>Reclassification</u>		
Sundry Creditors (abnormal balance) (i.)	(273,843)	273,843
WIP	-	(50,800)
Prior period adjustment (i)	-	(40,486,942)
	<u>(273,843)</u>	<u>(40,263,900)</u>

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

Remeasurment

Prior period adjustment (i)	216,757	-
	<u>216,757</u>	<u>-</u>
	<u>5,859,330,609</u>	<u>1,213,133,613</u>

- i.) Under the previous framework, cash account has abnormal balance. Under IFRS, management decides to reverse this balance against retained earnings.

	7 July 2018	8 July 2017
	(ETB)	(ETB)
l.) Long term loans		
Amount under previous framework	1,763,784,584	502,233,317
Roll over	1,748,167,769	-
<u>Reclassifications</u>		
IDA Loan - 5126 (i.)	141,659,562	842,720,935
Japanese Grant (ii.)	-	(60,228,906)
	<u>3,653,611,915</u>	<u>1,284,725,346</u>
<u>re-measurement</u>		
Fair value measurement (iii.)	(482,774,861)	-
Long term loan transferred from EEP (iv)	245,115,373	463,442,422
	<u>(237,659,488)</u>	<u>463,442,422</u>
	<u>3,415,952,426</u>	<u>1,748,167,769</u>

- Under the previous framework, The loan obtained from World Bank was wrongly reported under EEP Payable i.) and Other Creditors in 2017 and 2018 .This is now reclassified to long term loan in the statement of financial position.

- ii.) Under previous framework, Japanese grant was separately presented under long term loan in the statement of financial position. This is now reclassified to trade and other payables in the statement of financial position.

- iii) Under the previous framework, loan from foreign finance providers at a lower rate than the market interest rate were recognized at face value. Under IFRS, loan is remeasured using market rate.

- iv) Loan that belongs to EEU were recorded under account of EEP & hence under IFRS reclassified to EEU along with the corresponding asset which was financed by the same loan.

	7 July 2018	8 July 2017
	(ETB)	(ETB)
m.) Suppliers Credit		
Amount under previous framework	(327,484,120)	773,595,769
Roll over	364,224,738	-
<u>Remeasurment</u>		
GIT - Written off	393,052,682	(393,052,682)
	<u>393,052,682</u>	<u>(393,052,682)</u>

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

Reclassification

Prior period adjustment (i)	-	(16,318,349)
	-	(16,318,349)
	429,793,300	364,224,738

i.) Under the previous framework, recording error was made to supplier credit account. Under IFRS this errors are retrospectively restated against retained earnings (prior period adjustment).

n.)	7 July 2018 (ETB)	8 July 2017 (ETB)
Bonds Payable		
Non current portion		
Amount under previous framework	(250,000,000)	2,700,000,000
Roll over	2,481,249,181	
<u>re-measurement</u>		
Fair value measurement (i.)	134,327,332	(218,750,819)
	134,327,332	(218,750,819)
	2,365,576,514	2,481,249,181
Current maturity portion		
Amount under previous framework	250,000,000	100,000,000
Roll over	69,101,579	
<u>re-measurement</u>		
Fair value measurement (i)	(153,428,911)	(30,898,421)
	(153,428,911)	(30,898,421)
	165,672,668	69,101,579
	2,531,249,181	2,550,350,760

i.) Under the previous framework, bonds issued to Commercial Bank of Ethiopia at a lower rate than the market interest rate were recognized at face value. Under IFRS, bond values are remeasured using market rate.

o.)	7 July 2018 (ETB)	8 July 2017 (ETB)
Trade and other payables		
Amount under previous framework	919,381,597	1,024,319,420
Roll over	694,398,625	-
<u>Reclassifications</u>		
Sundry payable (iii)	349	(7,320,978)
)	-	(239,298,540)
Sundry payable (Loan IDA 5126)	(984,380,497)	-
Sundry payable (Japanese Grant)	-	60,228,906
Sundry payable Abnormal balance	631,790	797,051
Sundry payable (prepaid cards)	(697,276)	697,276
Sundry payable (in to customer Deposit)	(4,241,947)	(30,528,598)
Sundry payable (i)	(206,061,929)	-
	(1,194,749,509)	(215,424,884)

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

re-measurement

Interest Payable - bonds (ii.)	18,550,833	29,785,277
Interest Payable - Long term loan (ii.)	(5,934,276)	-
Sundry payable (i)	51,411,092	(144,281,188)
	64,027,649	(114,495,912)
	483,058,361	694,398,625

i.) Under the previous framework, recording errors were made to sundry creditor account. Under IFRS, management decides to reverse this balance against retained earnings (prior period adjustments).

ii.) Under the previous framework, loan from foreign finance providers and bonds issued to Commercial Bank of Ethiopia at a lower rate than the market interest rate were recognized at face value. Under IFRS, bond values are remeasured using market rate.

	7 July 2018	8 July 2017
	(ETB)	(ETB)
p.) Payable to EEP		
Amount under previous framework	(4,212,821,165)	4,996,090,885
Roll over	(488,523,198)	-
<u>re-measurement</u>		
GIT - Written off	137,804,880	(137,804,880)
WIP (i.)	4,350,898,072	(4,350,898,072)
	4,488,702,952	(4,488,702,952)
<u>Reclassification</u>		
IDA Loan - 5126	842,720,935	(842,720,935)
Prior period adjustment (ii.)	69,208	(153,190,196)
WIP Clearing (i)	(64,870,476)	-
	777,919,668	(995,911,131)
	565,278,257	(488,523,198)

i.) Under the previous framework, WIP that belongs to EEP have been reported under EEU and now eliminated.

ii.) Under the previous framework, medical expenses that belongs to EEP were recorded in the accounts EEU. Under IFRS this is eliminated and transferred to EEP along with the liability.

	7 July 2018	8 July 2017
	(ETB)	(ETB)
q.) Contract liabilities		
Amount under previous framework	-	-
Roll over	2,716,852,886	-
<u>Reclassifications</u>		
Reclassified from customer billing account	1,294,860,639	4,662,829,722
	1,294,860,639	4,662,829,722

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

re-measurement

Transfer of revenue	(1,286,534,166)	(1,945,976,835)
	(1,286,534,166)	(1,945,976,835)
	2,725,179,358	2,716,852,886

	7 July 2018 (ETB)	8 July 2017 (ETB)
r) Customer Deposit		
Amount under previous framework	46,750,609	363,293,318
Roll over	394,421,310	-
<u>Reclassification</u>		
Error to customer billing account (i)	(599,394)	599,394
Reclassification From Sundry Creditors (ii.)	4,241,947	30,528,598
	3,642,553	31,127,992
	444,814,472	394,421,310

i.) Under the previous framework, customer billing account were erroneously credited for customers deposit. Under IFRS this errors is retrospectively restated.

ii) Under previous framework, customer deposit amounting ETB 30,528,598 (34,770,545) reported under sundry payables. This is now reclassified to customer deposit classification in statement of financial position.

	7 July 2018 (ETB)	8 July 2017 (ETB)
s) Contractors Retention		
Amount under previous framework	(4,474,252)	622,600,025
Roll over	618,938,153	
<u>Reclassification</u>		
Prior period adjustment (i.)	-	(3,661,872)
	-	(3,661,872)
	614,463,901	618,938,153

i.) Under the previous framework, recording error was made to supplier credit account. Under IFRS this errors are retrospectively restated against retained earnings (prior period adjustment).

	7 July 2018 (ETB)	8 July 2017 (ETB)
t) Contract liabilities - Prepaid Cards		
Amount under previous framework	30,681,125	76,382,545
Roll over	34,086,280	
<u>re-measurement</u>		
Revenue from prepaid cards (i.)	(22,079,338)	(42,296,265)
	(22,079,338)	(42,296,265)
	42,688,067	34,086,280

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

Under the previous framework, collection from prepaid cards were relieved to profit or loss (recognized as a revenue) the earlier of the time when the customer presents its card for recharging or in 6 months. Currently, management decides that the revenue recognition period not to exceed one month from date of advance collection. Under IFRS this policy change is retrospectively applied.

u)	7 July 2018 (ETB)	8 July 2017 (ETB)
Post Employment benefit liabilities		
Amount under previous framework		-
Roll over	379,004,454	
<u>re-measurement</u>		
Severance and energy benefit (i.)	84,618,826	379,004,454
	<u>84,618,826</u>	<u>379,004,454</u>
	<u>463,623,280</u>	<u>379,004,454</u>

i.) Under previous framework, retirement benefit obligation was not recognized at all. Under IFRS a retirement employees benefits (Electric benefit & severance pay) is recognized using actuaries.

v)	7 July 2018 (ETB)	8 July 2017 (ETB)
Accrual and Provisions		
Amount under previous framework	204,935,565	9,120,354
Roll over	1,595,411,968	
<u>re-measurement</u>		
Provision For legal cases (i.)	6,880,420	5,830,431
re-measurement		
Employee annual leave accrual (ii.)	(7,204,489)	10,278,917
WIPs in service in 2017/18 yet not accrued for (iii.)	(965,998,636)	1,349,169,572
Purchase of PPE on account (iv)	18,391,262	22,304,348
	<u>(947,931,444)</u>	<u>1,387,583,268</u>
Reclassification		
Accruals for tax (v.)	(198,708,347)	198,708,347
Purchase of vehicle on account (vi.)	25,235,657	
	<u>(173,472,689)</u>	<u>198,708,347</u>
	<u>678,943,400</u>	<u>1,595,411,968</u>

Under the previous framework, provision for legal cases was not recognized. Under IFRS provision for legal claims arising from litigation of labour cases, contractual and extra contractual liability and property damage claims are being recognized.

ii.) Under the previous framework, accrued liability for annual leave was not recognized. Under IFRS provisions for such transaction are being recognized.

iii) To recognize liabilities in respect of expenditure incurred for capital works yet not settled in cash.

iv) To Adjust condominium buildings purchased in 2018 on account and settled in 2019

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

Under previous framework, corrections for recording errors (accruals for Income tax not paid from 2004 - 2009) v) made as at 8 July 2017 was made on 2018 financial statements. Under IFRS, the adjustments are made as at 7 July 2017 to restate the financial statements.

Under the previous framework, purchase of vehicle amounting ETB 25 million has been accounted for in the vi.) subsequent period and hence an adjustment is required to record the transaction in the period in which it has occurred.

	7 July 2018	8 July 2017
	(ETB)	(ETB)
w) Other tax and obligations		
Amount under previous framework	20,912,249	44,959,771
Roll over	46,320,763	
<u>re-measurement</u>		
Withholding Tax	954,836	1,360,992
	<u>954,836</u>	<u>1,360,992</u>
	<u>68,187,848</u>	<u>46,320,763</u>
	7 July 2018	8 July 2017
	(ETB)	(ETB)
x) Revenue		
Amount under previous framework	6,247,721,309	
<u>re-measurement</u>		
Revenue from new connection (i)	182,107,531	
Revenue from capital work (ii)	1,102,667,426	
Revenue from prepaid cards (ii)	22,079,338	
	<u>1,306,854,294</u>	-
<u>Reclassification</u>		
Revenue from capital work (ii)	-	
Reversal of Debtor balances (iii)	(235,452,903)	
	<u>(235,452,903)</u>	
	<u>7,319,122,701</u>	-

Under the previous framework, though connection works are completed the liabilities were not derecognized. i) Under IFRS, liabilities are derecognized for work completed in the financial years and revenue from connection fees are recognized.

Under the previous framework, revenue from capital works were directly recognized in equity account. Under ii) IFRS, revenue from capital works are recognized through profit and loss account.

Under the previous framework, financial statements include debtors with abnormal balances and other erroneous iii) records. Under IFRS, management decides to reverse this balance against retained earnings and profit or loss accounts.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

y)	7 July 2018 (ETB)	8 July 2017 (ETB)
Other income		
Amount under previous framework	367,777,575	
<u>re-measurement</u>		
Gain on concessional loan	448,669,646	
Investment income (i)	3,358,564	
Disposal of vehicles (ii)	(509,000)	
	451,519,211	
<u>Reclassification</u>		
Club sales	(43,751)	
	(43,751)	
	819,253,035	

i) Under IFRS, re-measurement of profit shares from investments are performed and the resulted increases in investment is recognized.

ii.) Under the previous framework, proceed from disposal of vehicle has been wrongly recorded as other income. Hence an adjustment is made to derecognize the disposed asset and to account for the resulting gain or loss.

z)	7 July 2018 (ETB)	8 July 2017 (ETB)
Cost of sales		
Amount under previous framework	6,596,296,766	
<u>pre-measurement</u>		
Depreciation (i)	2,386,956,335	
Materials and supplies expense (ii.)	575,334,950	
Right use of Asset - Amortization (i)	9,909,458	
Rent Expense (i)	(11,554,789)	
	2,960,645,954	
<u>Reclassification</u>		
Dist - Salary and wage (iii)	(523,209)	
Dist - Other personnel Cost (iii)	1,281,756	
Other expense (iii)	69,557	
	828,104	
	9,557,770,824	

Depreciation has been recalculated based on the revised remaining economic life as the revalued asset. For the
i.) right use of asset recognized as at the date of transition, amortization is recognized and the related rent expense is derecognized.

ii) Under the previous framework, capital expenditures were wrongly expensed as a period cost and Hence an adjustment is made to capitalize those expenditures in to WIP.

iii.) Under the previous framework, medical and other miscellaneous expenses were erroneously credited. Under IFRS, adjustments are taken to restate the balances as at 7 July 2018.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

	7 July 2018 (ETB)	8 July 2017 (ETB)
aa) Administrative expense		
Amount under previous framework	576,851,936	
<u>pre-measurement</u>		
Bad debt expense (i)	2,288,528	
Employee benefit obligation - Current service cost (ii)	17,624,000	
Provision - legal cases	6,880,420	
Reversal of annual leave	(7,204,489)	
EEU contribution to sport	229,407	
Amortization of Intangible Asset (iii)	496,437	
	20,314,304	-
	597,166,240	
<p>i) Under the previous framework, allowance for credit loss related with other receivables were recognized, Under IFRS additional allowances are resulted from individual assessment of debtor balances.</p>		
<p>ii) Under previous framework, retirement benefit obligation was not recognized at all. Under IFRS a retirement employees benefits (severance pay) is recognized using actuaries.</p>		
<p>iii) Under previous framework, Intangible asset is not recognized as an asset. Under IFRs, the Billing software is recognized as an assets at estimated value as deemed cost and amortization of the asset is also recognized in 2018.</p>		
ab) Other operating expense		
Amount under previous framework	208,021,984	
<u>pre-measurement</u>		
Exchange rate gain - long term loan (i.)	(49,076,815)	
	(49,076,815)	
	158,945,169	
<p>i) Under the previous framework, outstanding loan in foreign currencies were not measured at closing rate. Under IFRS, outstanding loans are measured using closing exchange rates.</p>		
ac) Finance cost		
Amount under previous framework	232,855,130	
<u>pre-measurement</u>		
Interest expense - long term loan	(5,934,276)	
Interest expense - Loan	49,449,254	
Interest expense - Lease liability	1,742,253	
Interest expense - Employee benefit obligation	49,413,826	
	94,671,057	
	327,526,187	

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

ad) Other comprehensive income	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	-	
<u>pre-measurement</u>		
Employee benefit obligation - loss on re-measurement (i.)	17,581,000	
	<u>17,581,000</u>	
	<u><u>17,581,000</u></u>	
<p>Arises from to an increase or a decrease in the projections used to value a Utility's defined benefit pension plan i.) obligations (severance and KWH benefit liability).</p>		
ae) Retained earnings	7 July 2018 (ETB)	8 July 2017 (ETB)
Amount under previous framework	(1,101,334,677)	(702,052,170)
<u>re-measurements</u>		
Profit or loss for the period	(1,268,180,995)	
Revenue from new connection		1,031,942,673
Revenue from Sales of electricity (Prepaid Cards)		42,296,265
Investment in associate		288,904
Allowance for credit loss		(118,259,374)
Bonds - fair value measurement		219,863,963
Employee benefit - severance		(24,633,489)
Employee benefit - energy		(354,370,965)
Provision		(5,830,431)
Reversal of other receivable		(35,110)
Annual leave		(10,278,917)
PPE In transit		-
Customers advance contribution		914,034,162
Right Use of Asset		16,579,941
Lease Liability		(14,466,250)
Stock obsolescence		133,277,716
Receivable from metec		5,868,944
Elimination of Supplies credit		393,052,682
Intangible asset		10,958,093
PPE Revaluation		10,202,483,170
	<u>(1,268,180,995)</u>	<u>12,442,771,978</u>

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

Reclassification

Profit or loss for the period	(236,324,758)	
Bill and Related Accounts Clearing	-	
Customer contribution - directly credited to equity	-	
Reversal of abnormal (credit) customer billing balance		1,239,256,433
Customer contribution - (Wrongly credited to customer billing)	(146,214,500)	146,214,500
Prior period error adjustment		141,259,142
Other financial Cost		(50,800)
Sundry Creditors - Abnormal Balance	249,022,245	(249,545,454)
	(133,517,013)	1,277,133,822
Rollover adjustment	13,017,853,630	-
	<u>10,514,820,945</u>	<u>13,017,853,630</u>

	7 July 2018 (ETB)	8 July 2017 (ETB)
af) Reserve for excess of deemed cost over book value		
Amount reported under previous framework		-
<u>pre-measurement</u>		
Property, Plant and Equipment (i)	-	21,053,441,526
Land and Forestry(ii)	-	263,858,000
Intangible Asset	-	1,985,750
CIPs and PPEs that were in service as at opening date	-	(10,195,318,395)
Rollover adjustment	11,123,966,881	-
	<u>11,123,966,881</u>	<u>11,123,966,881</u>
Amount reported under IFRS	<u>11,123,966,881</u>	<u>11,123,966,881</u>

i) Under previous framework, property, plant and equipment are recognized at historical cost. Under IFRS, building, motor vehicles, and plant and machinery, property, land and equipment including Intangible asset and forestry are revalued and reserve for excess of deemed cost over book value is recognized.

ii) Under previous framework, freehold land is not recognized as an asset. Under IFRS, freehold land is recognized as an asset at estimated value as deemed cost and excess of deemed cost over book value is recognized.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

ag) Some amounts in the previous financial statements are reclassified in IFRS to different accounts, these are disclosed in the table below:-

Amounts in 2017 Financial statement (under previous frame work)				Under IFRS		
	Description	Amount	Reference	Description	Amount	Reference
Trade receivables	Debtors	1,972,739,992	Balance sheet	Trade receivable	(171,883,517)	2.3 (h)
	Receivable from new connection	<u>622,722</u>		Other receivable	574,724,669	2.3 (i)
	balance	1,973,362,714		Receivable from EEP	<u>1,570,521,562</u>	SFP
	balance	1,973,362,714		balance	1,973,362,714	
Contract liabilities	Unallocated collection	3,237,959,546	Balance sheet			
	Customer contribution	<u>1,117,238,888</u>		Contract liabilities	4,355,198,434	2.3 (q)
	balance	4,355,198,434				
Current Liability	contribution from Ethiopian Electric Power	3,576,964,271.00	Balance sheet	Trade & other payable	1,024,319,420	2.3 (o)
	creditors	<u>2,573,908,705</u>		Payable to EEP	4,996,090,885	2.3 (p)
	balance	6,150,872,976		Contract liability-prepaid card	76,382,545	2.3 (t)
				Other tax & obligation	44,959,771	2.3 (w)
				Accruals & provisions	<u>9,120,354</u>	2.3 (v)
				balance	6,150,872,976	

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

2.3 First-time adoption of IFRS Continued

2018 Financial Statement (under previous frame work)				Under IFRS		
Trade receivables	Debtors	1,148,706,824	Balance sheet	Trade receivable	526,572,680	2.3 (h)
	Receivable from new connection	970,295		Other receivable	623,104,439	2.3 (i)
	balance	1,149,677,119		balance	1,149,677,119	
Contract liabilities	Unallocated collection	3,296,711,778	Balance sheet	Contract liabilities	5,524,258,854	2.3 (q)
	Customer contribution	2,227,547,076				
	balance	5,524,258,854				
Cost of Sale	Cost of sales	3,030,417,966	Profit & Loss	Cost of sale (Power, distribution, substation & transmission)	6,596,296,766	2.3 (z)
	Cost of Substations, transmission & distribution	3,565,878,800				
	balance	6,596,296,766				
Other Operating Expense	Commission for Unified billing	11,859,719	Profit & Loss	Other Operating Expense	208,021,984	2.3 (ab)
	Loss on Foreign Exchange	195,843,855				
	Audit Fee	249,835				
	Board Fee	68,575				
	208,021,984					

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

3. Significant accounting judgments, estimates and assumptions

The preparation of the Utility's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Judgments

In the process of applying the Utility's accounting policies, management has not encountered any situation that calls for any a significant judgments, which have significant effect on the amounts recognized in the financial statements:

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Utility based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Utility. Such changes are reflected in the assumptions when they occur.

Useful life of property, plant and equipment

The Utility measures its property, plant and equipment at cost less accumulated depreciation and for the purpose of determining depreciation, the Utility estimated the use full life amounts to be Prospectively applied Starting from the date of translation in to IFRS with changes in accumulated depreciation being recognized against profit or loss in the comparative and subsequent financial statement.

Power Purchase Agreement:

The management of the utility concludes that the power purchase agreement with EEP is not a lease, since the power purchase agreement is not substantially for all of the power generated by EEP & the purchase price is fixed tariff per unit of out put.

Employee termination benefit

The cost of post employment benefit and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and employee turnover rates . Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a post employment benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the salary increment rate and date of employee termination. In determining the appropriate salary increment rate, management has taken historical data and estimated rate of salary increment using growth rate calculation formula.

Further details about pension obligations are provided in Note 27.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

4 Revenue

The following are analysis of the Utility's' revenue for the year

	2019 (ETB)	2018 (ETB)
Sale of electricity - local-post paid	6,138,160,105	4,487,482,464
sales of electricity -local- prepaid meter	974,593,821	543,526,083
Revenue from capital work	2,332,599,214	1,102,665,713
Service charges	579,233,900	416,476,268
Meter service charges	533,580,461	252,582,952
Connection fees	659,127,979	496,146,891
Sales of electricity - foreign	4,115,223	19,688,063
Sales of power factor correctors	93,637,031	524,187
Income from sales of compact fluorescent lamps	555,650	30,080
	<u>11,315,603,383</u>	<u>7,319,122,701</u>

4.1 Significant payment terms

The entity operates on both advance collection and credit arrangements

Advance collection

EEU collects advances from the customer to contribute to the cost of the connection, and in return the utility constructs the connecting infrastructure and retains responsibility for maintaining it. The utility also introduced the prepaid system which eliminates the need for manual meter reading, computing the bill, and bill collection. It allows the customer pay in advance.

Credit arrangement

The entity issue bills to customers and make collections for sales of electric power in the following month of consumption. The entity has also arranged credit facility scheme for its customers such as for low income household and industrial customer whereby power connection service or installation of power factor corrector services are given respectively.

4.2 Information about major customers

Ethiopian Electric Utility sale electric power through out the country for industries and millions of households. No individual customer contributed 3 % or more to the Utility's revenue for FY 2018 .

4.3 Sole Producer and Distributer (Monopoly) right.

The power and utility industry in Ethiopia is operated only by government under a monopoly through its enterprises such as EEP and EEU. They are the main player in the Ethiopian energy sector. EEU is therefore a state monopoly in distribution and the operation of power transmission lines of ≤ 66 kV, it owns and operates the off grid Electricity generation, low voltage power transmission lines, substation and distribution up to 66 kV Volt level.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

5 Cost of Goods Sold

	2019 (ETB)	2018 (ETB)
Power Purchase - EEP	4,270,121,489	3,030,417,966
Distribution (5.1)	6,074,984,543	6,479,742,588
Substation and Transmission (5.1)	<u>37,855,285</u>	<u>47,610,270</u>
	<u><u>10,382,961,317</u></u>	<u><u>9,557,770,824</u></u>

5.1 Cost of Distribution, Substation and Transmission

	2019 (ETB)			2018 (ETB)		
	Distribution	Substation & Transmission	Total	Distribution	Substation & Transmission	Total
Salary and Wages	1,473,831,134	6,039,102	1,479,870,236	1,127,472,996	8,380,794	1,135,853,789
Depreciation	3,607,016,260	31,722,238	3,638,738,497	3,395,847,784	37,612,397	3,433,460,181
Material and supplies	518,309,203	33,212	518,342,415	1,346,057,263	126,364	1,346,183,627
Other personnel cost	1,319,918	-	1,319,918	171,021,349	1,262,209	172,283,558
Travel and subsistence	184,080,714	-	184,080,714	132,515,518	93,475	132,608,993
Fuel and lubricants	27,927,078	21,733	27,948,811	116,162,454	75,630	116,238,084
Rent	160,535,329	-	160,535,329	50,175,280	-	50,175,280
Amortization	-	-	-	9,909,458	-	9,909,458
Communications	26,405,562	-	26,405,562	14,513,075	13,729	14,526,804
Insurance	969,988	-	969,988	5,382,267	-	5,382,267
Miscellaneous	74,589,357	39,000	74,628,357	110,685,145	45,672	110,730,817
	<u><u>6,074,984,543</u></u>	<u><u>37,855,285</u></u>	<u><u>6,112,839,828</u></u>	<u><u>6,479,742,588</u></u>	<u><u>47,610,270</u></u>	<u><u>6,527,352,858</u></u>

6 Other income

	2019 (ETB)	2018 (ETB)
Concessional loan discount (income)	391,679,780	448,669,646
Compensation for damages	96,219,126	134,467,628
General line	11,687,838	85,260,462
Stock surplus	-	18,176,974
Club sales	18,074,758	12,689,658
Maintenance and service	473,055	7,937,654
Investment income	3,213,412	5,658,397
Fines	7,783,982	2,269,189
Miscellaneous	<u>846,531,178</u>	<u>104,123,426</u>
	<u><u>1,375,663,130</u></u>	<u><u>819,253,035</u></u>

6.1 Compensation for damages represents cash received from insurance liable individual who caused incidents and damages on the distribution, and transmission assets of the utility. Incomes from general lines arises from installation of lines for communities The Utility's other income reported as miscellaneous includes income from sales of scrap material, disposal of asset, and others.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
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7a Admin expense

	2019 (ETB)	2018 (ETB)
Salary, Wages and Benefits	471,691,392	205,253,278
Current Service Cost	19,657,000	17,624,000
Material and supplies	194,258,750	116,578,227
Depreciation	51,088,649	99,242,239
Other personnel cost	8,209,865	41,385,350
Insurance	40,813,926	38,398,555
Provision - Legal cases	20,534,606	6,880,420
Sport	11,545,051	12,360,044
Travel and subsistence	22,768	11,361,452
Fuel	45,492,026	8,741,949
Transpiration	-	3,923,114
Conferences	12,684,926	1,828,494
Legal fee	-	1,410,837
Rent	10,404,096	301,588
Amortization	16,139,236	496,437
Stock writtenoff	1,548,911	
Bank service charge	9,571,190	(1,634,883)
Miscellaneous	115,762,316	30,726,610
	<u>1,029,424,706</u>	<u>594,877,712</u>

7b Impairment Allowance

	2019 (ETB)	2018 (ETB)
Bad Debt expense	34,916,718	2,288,528
	<u>34,916,718</u>	<u>2,288,528</u>

Current service cost which represents the increase in the present value of a defined benefit obligation resulting from employee service in the current period is included in employee benefits expense. The current service cost is dependent on the age, service and salary of individual members. The expected service cost would be higher for older members who are closer to retirement compared to younger members as their benefits would come into payment sooner. Therefore, as long as the age, service and salary profile of the membership remains stable so will the service cost (as a percentage of salary) on the same set of assumptions.

8 Other operating expense

	2019 (ETB)	2018 (ETB)
Loss on foreign exchange	(612,315)	146,767,040
Commission for unified billing	4,636,356	11,859,719
Audit Fee	496,865	249,835
Board Fee	69,350	68,575
Gain or loss on settlement	7,913,041	
	<u>12,503,297</u>	<u>158,945,169</u>

Foreign exchange losses recognized in the statement of profit or loss are the net balance of gains & losses on exchange rate, resulted from the settlement of such Transactions in foreign currencies and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies. However the forex loss amount on Note 25.2 results from discounted future cashflow at market rate

9 Finance cost/income

	2019 (ETB)	2018 (ETB)
Interest expense	382,679,117	276,370,108
Interest on employee termination benefit obligation (9.1)	60,328,000	49,413,826
Interest on Lease liability (9.1)	2,803,245	1,742,253
	<u>445,810,362</u>	<u>327,526,187</u>

Interest expense is related to the long term loan obtained from commercial bank of Ethiopia bearing interest at a rate of 9.5%/11.5% per annum. Also included under finance cost is unwinding of the present value of employee termination benefit obligation, staff loan and lease liability.

10 Taxation

The utility is exempted from income tax as per Letter from Ministry of Finance.

**ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019**

11 Property, plant and equipment

	Building		Freehold land		Land improvements		Substation		Motor vehicles		Office furniture and equipment		Garage and workshop equipment, Construction machinery		Diesel generator		Transmission line		Distribution and		Property in transit		Construction in progress		Total						
	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB				
As at 8 July 2017	570,016,300	896,204,500	41,732,900	1,318,923,600	615,782,000	132,074,951	116,584,675	114,049,000	38,830,290,339	133,650,481	3,837,300,386	46,606,609,132																			
Additions	18,567,344	-	5,910	-	107,112,245	43,943,835	7,980,000	-	1,589,393,440	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Transfer	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Disposals	-	-	-	-	(509,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
As at 7 July 2018	588,583,644	896,204,500	41,738,810	1,318,923,600	722,385,245	176,018,786	124,564,675	114,049,000	40,419,683,779	109,848,461	4,777,887,196	49,289,887,696																			
As at 7 July 2018	588,583,644	896,204,500	41,738,810	1,318,923,600	722,385,245	176,018,786	124,564,675	114,049,000	40,419,683,779	109,848,461	4,777,887,196	49,289,887,696																			
Additions	18,094,349	822,600	-	-	36,921,740	49,242,530	-	-	208,479,450	11,535,817	1,944,121,182	2,269,217,668																			
Transfer	45,373,610	-	1,790,428	-	-	-	-	-	1,740,508,407	-	(1,787,672,446)	-																			
Disposals	-	-	-	-	-	-	-	-	-	-	-	-																			
As at 7 July 2019	652,051,603	897,027,100	43,529,238	1,318,923,600	759,306,986	225,261,317	124,564,675	114,049,000	42,368,671,635	121,384,278	4,934,335,932	51,559,105,365																			
Accumulated depreciation																															
As at 8 July 2017	-	-	-	-	-	-	-	-	-	-	-	-																			
Charge for the year	19,962,236	-	3,359,481	126,476,529	64,559,917	31,684,193	5,571,603	10,532,018	3,324,914,152	-	-	-																			
Disposals	-	-	-	-	-	-	-	-	-	-	-	-																			
As at 7 July 2018	19,962,236	-	3,359,481	126,476,529	64,559,917	31,684,193	5,571,603	10,532,018	3,324,914,152	-	-	-																			
As at 7 July 2018	19,962,236	-	3,359,481	126,476,529	64,559,917	31,684,193	5,571,603	10,532,018	3,324,914,152	-	-	-																			
Charge for the year	21,140,551	-	3,359,776	126,476,529	66,760,979	32,147,480	5,571,603	10,514,018	3,420,692,628	-	-	-																			
Disposals	-	-	-	-	-	-	-	-	-	-	-	-																			
As at 7 July 2019	41,102,787	-	6,719,257	252,953,058	131,320,896	63,831,673	11,143,205	21,046,035	6,745,606,780	-	-	-																			
Net book value																															
As at 8 July 2017	570,016,300	896,204,500	41,732,900	1,318,923,600	615,782,000	132,074,951	116,584,675	114,049,000	38,830,290,339	133,650,481	3,837,300,386	46,606,609,132																			
As at 7 July 2018	568,621,408	896,204,500	38,379,329	1,192,447,071	657,825,328	144,334,594	118,993,072	103,516,982	37,094,769,627	109,848,461	4,777,887,196	45,702,827,568																			
As at 7 July 2019	610,948,816	897,027,100	36,809,981	1,065,970,542	627,986,090	161,429,643	113,421,470	93,002,965	35,623,064,855	121,384,278	4,934,335,932	44,285,381,672																			

ETHIOPIAN ELECTRIC UTILITY
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12 Forest assets

	assets (IAS 41) ETB
Basis of presentation and measurement	Fair value through P&L
At 8 July 2017 Deemed cost	161,084,000
Increase/(decrease) in fair value of biological assets	-
At 7 July 2018	<u>161,084,000</u>
Increase/(decrease) in fair value of biological assets	-
At 7 July 2019	<u>161,084,000</u>

Forest assets are stated at fair value and recognized once EEU has possession of the land or once plantations have been established on land acquired by EEU. Any gain or loss arising from a change in fair market value is recognized in the consolidated income statement. The same accounting treatment applies when biological assets are derecognized or impaired.

The EEU's forest assets were revalued on 7 July 2017 by PWC.

In the absence of other valuation benchmarks, Indoor uses the projected future cash flows of the planted biological asset and a market discount rate in order to determine NPV. The cash flows are calculated based on the optimal work flow over the production cycle and adjusted for market assumptions where applicable. This valuation approach is often referred to as the income approach.

13 Intangible Assets

	Billing Software ETB	ERP software in process ETB	Total ETB
Cost			
At 8 July 2017	1,985,750	396,367,138	398,352,887
Additions	-	338,440,402	338,440,402
At 7 July 2018	1,985,750	734,807,539	736,793,289
Additions	-	158,966,602	158,966,602
At 7 July 2019	1,985,750	893,774,141	895,759,891
Amortization			
At 8 July 2017	-	-	-
Charge for the year	496,437	-	496,437
At 7 July 2018	496,437	-	496,437
Charge for the year	496,437	-	496,437
At 7 July 2019	992,875	-	992,875
NET BOOK VALUE			
At 7 July 2019	<u>992,875</u>	<u>893,774,141</u>	<u>894,767,016</u>
At 7 July 2018	<u>1,489,312</u>	<u>734,807,539</u>	<u>736,296,851</u>
At 8 July 2017	<u>1,985,750</u>	<u>396,367,138</u>	<u>398,352,887</u>

In the year 2005 the Utility has purchased a billing software. EEU has an absolute control over the use of the software and is also subject to annual license renewal charge of fixed amount.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

14 Right of use asset (Building)

The Utility's head office building and bill collection outlets are held under a lease arrangements. The right of use asset as well as lease liability that has been recognized in respect of these rents are only related to those lease arrangements with a lease period of more than 12 months and having monthly rental of more than Birr 200,000. Any other short-term lease (Below 12 month period), below the recognition materiality level of monthly rental of Birr 200,000 and leases of low value assets have not been recognized as the right of use asset (ROA). Below is the reconciliation of the opening balance and year end amount.

	Lease 1	Lease 2	Lease 3	Lease 4	Total ETB
<u>Cost</u>					
At 8 July 2017	12,578,892	11,202,995	-	-	23,781,887
Additions	-	-	6,498,406	-	6,498,406
At 7 July 2018	12,578,892	11,202,995	6,498,406	-	30,280,293
Additions	-	13,091,797	-	18,508,459	31,600,256
Disposals	-	(11,202,995)	-	-	(11,202,995)
At 7 July 2019	12,578,892	13,091,797	6,498,406	18,508,459	50,677,553
<u>Amortization and impairment</u>					
At 8 July 2017	1,022,394	6,179,552	-	-	7,201,946
Amortization charge for the year	4,192,964	3,734,332	1,982,162	-	9,909,458
At 7 July 2018	5,215,358	9,913,884	1,982,162	-	17,111,404
Amortization charge for the year	4,192,964	4,134,635	2,166,135	5,645,502	16,139,236
Disposals	-	(11,202,995)	-	-	(11,202,995)
At 7 July 2019	9,408,322	2,845,523	4,148,297	5,645,502	16,139,236
Net book value					
At 7 July 2019	3,170,570	10,246,274	2,350,108	12,862,956	28,629,909
At 7 July 2018	7,363,534	1,289,112	4,516,244	-	13,168,889
At 8 July 2017	11,556,498	5,023,444	-	-	16,579,941

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

15 Lease liability (Building)

	Lease 1	Lease 2	Lease 3	Lease 4	Total ETB
Balance at 8 July 2017	10,464,106	4,002,144	-	-	14,466,250
Additional obligation - new contract	-		6,498,406	-	6,498,406
Finance charge	961,087.70	272,856	508,309	-	1,742,253
Less: Repayments	(4,800,034)	(4,275,000)	(2,479,755)	-	(11,554,789)
Balance at 7 July 2018	6,625,159	-	4,526,959	-	11,152,119
Additional obligation - new contract	-	13,091,797	-	18,508,459	31,600,256
Finance charge	475,040	780,027	342,510	1,205,667	2,803,245
Less: Repayments	(4,800,034)	(3,794,180)	(2,479,755)	(7,043,478)	(18,117,447)
Balance at 7 July 2019	2,300,165	10,077,644	2,389,714	12,670,648	27,438,172

The lease agreement includes fixed lease payments. They are non-cancellable and do not contain any further restrictions. The details of the agreement for each leased is detailed below.

Contract 1

Ethiopian Electric Utility entered in to a contract on 9 April 2017 to lease office building located in Adama City. The lease obligation is payable semi-annually in an equal installment of Birr 2,400,017 and rented for the lease period from 9 April 2017 to 8 April 2020. The outstanding liability is discounted an incremental interest rate of 11.5% per annum.

Contract 2

Ethiopian Electric Utility entered in to a contract to lease office building located in Addis Ababa City. The lease obligation is payable equal semi-annually installment of Birr 2,137,500 and rented for the lease period from 11 November 2018 to 10 November 2021. The lease is renewed on 11 November 2018 for three years and the lease obligation is payable equal quarterly installment of Birr 1,264,727. The outstanding liability is discounted an incremental interest rate of 11.5% per annum.

Contract 3

Ethiopian Electric Utility entered in to a contract to lease office building located in Addis Ababa City. The lease obligation is payable equal semi-annually installment of Birr 1,239,878 and rented for the lease period from 7 August 2017 to 6 August 2020. The outstanding liability is discounted an incremental interest rate of 11.5% per annum.

Contract 4

Ethiopian Electric Utility entered in to a contract on 9 April 2017 to lease office building located in Addis Ababa City. The lease obligation is payable quarterly in an equal installment of Birr 1,760,870 and rented for the lease period from 7 August 2018 to 6 August 2021. The outstanding liability is discounted an incremental interest rate of 11.5% per annum.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
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16 Cash and cash equivalents

	2019 ETB	2018 ETB	8 July 2017 ETB
Cash at banks	8,686,696,244	5,855,604,458	1,204,304,079
Cash on hand	86,893,350	3,726,151	8,829,534
Cash and cash equivalents	8,773,589,595	5,859,330,609	1,213,133,613

17 Financial assets :

	2019 ETB	2018 ETB	8 July 2017 ETB
Trade receivables	2,203,801,752	1,864,781,224	1,465,481,820
Related party Receivable - EEP (17.2)	-	-	1,570,521,562
Other receivable	49,811,810	86,624,908	303,492,388
Total financial assets	2,253,613,562	1,951,406,132	3,339,495,770
	-	-	
Total current	2,253,613,562	1,951,406,132	3,339,495,770
Total non-current	-	-	-

17.1 Trade receivables

	2019 ETB	2018 ETB	8 July 2017 ETB
Customer Billing	2,166,028,301	1,578,257,798	1,505,857,466
New Connection	168,835,253	124,545,537	52,572,104
Rechargeable work	2,836,668	260,960,010	3,775,601
less; Allowance for credit losses 17.1.1	(133,898,471)	(98,982,121)	(96,723,351)
Net trade receivable	2,203,801,752	1,864,781,224	1,465,481,820
<i>Maturity analysis</i>			
Current	-	-	-
Non- current	-	-	-
	-	-	-

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

17.1.1 Allowance for credit losses

The average credit period for collection of trade receivable is three months. No interest is charged on trade receivables. For other trade receivable such as those that arise from new connection and rechargeable works, The Utility has recognized an allowance for doubtful debts through individually assessing all outstanding receivables.

Trade receivables disclosed below include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Utility has recognized an allowance for doubtful debts. It represents only of trade debtors arising from customer billing for distribution of electric power.

<u>Age of receivables - Customer billing</u>	<u>30 June 2019</u>	<u>30 June 2018</u>	<u>1 July 2017</u>
	<u>ETB</u>	<u>ETB</u>	<u>ETB</u>
1 - 90 days	1,712,437,484	1,123,229,751	709,590,029
91 days - 1 year	332,711,921	383,163,796	141,238,106
1 year - 2 years	43,076,812	19,028,973	108,203,501
Over 2 years	57,230,428	38,201,455	305,412,218
Total	2,145,456,645	1,563,623,975	1,264,443,854

The movements in impairment allowance for trade receivable is analyzed below:

	<u>Individually impaired</u>	<u>Collectively impaired</u>	<u>Total</u>
	<u>ETB</u>	<u>ETB</u>	<u>ETB</u>
At 8 July 2017	21,005,790	75,717,560	96,723,351
Impairment loss recognized on receivables	2,258,770	-	2,258,770
Utilized/written off	-	-	-
Unused amounts reversed/recovered	-	-	-
At 7 July 2018	23,264,560	75,717,560	98,982,121
Impairment loss recognized on receivables	-	34,916,350	34,916,350
Utilized/written off	-	-	-
Unused amounts reversed/recovered	-	-	-
At 7 July 2019	23,264,560	110,633,910	133,898,471

17.2 Related Party Receivable - EEP

Receivable from EEP arises from transfer of stock and other asset to electric power on a loan basis. It is recognized up on transfer at the fair value of item transferred.

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2019

17.3 Other receivable

	2019 (ETB)	2018 (ETB)	8 July 2017 (ETB)
Metal and engineering corporation	94,772,962	94,772,962	100,641,906
Sundry Debtors	52,759,058	72,074,595	280,543,612
Staff receivable	19,293,882	4,147,392	1,573,390
VAT receivable	9,292,786	29,721,475	26,916,473
Cash and stock shortages	7,789,675	24,624,125	28,890,065
Suspense	2,173,210	3,464,609	7,077,434
Gross amount	186,081,574	228,805,159	445,642,881
Less: Impairment allowance (Others)	(136,269,763)	(142,180,251)	(142,150,493)
	49,811,810	86,624,908	303,492,388

The balances receivable from METEC which arose from sale of scrap material to METEC on credit has been outstanding for long period of time and hence is fully provided for. Staff receivable represent the travel advance or per-diem paid to the staffs and not settled at the year end.

18 Advance and prepayment

	2019 (ETB)	2018 (ETB)	8 July 2017 (ETB)
Advance payment	4,537,700,452	4,813,219,196	4,824,301,943
Allowance for credit losses	(12,243)	(12,243)	(12,243)
	4,537,688,209	4,813,206,953	4,824,289,700

This represent advance payment made to the utility's major suppliers and contractor for purchase of capital good items and services such as construction to be delivered in the future. The prepayment is released to Construction in progress (CIP) on a proportionate basis at a 30% of the work executed to date when the billing is issued. Certain prepayments were found to be impaired and an allowance for credit losses has been recorded accordingly within other expenses. The impaired prepayments are advance payments mostly made to suppliers and service providers including professional consultancies in the business-to-business market that are experiencing operational difficulties and failed to deliver the promised goods and services with in the agreed period of time.

ETHIOPIAN ELECTRIC UTILITY
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19 Investment in associate

	<u>2019 (ETB)</u>	<u>2018 (ETB)</u>	<u>8 July 2017 (ETB)</u>
Balance brought forward	35,116,307	33,272,282	30,236,907
Add :- Investment income for the period	3,061,716	5,658,397	3,689,811
Addition Investment			
Less:- Dividend income received	<u>(6,975,449)</u>	<u>(3,814,372)</u>	<u>(654,436)</u>
Closing Balance	<u>31,202,573</u>	<u>35,116,307</u>	<u>33,272,282</u>

In 2015, The utility has collaborated with a foreign based private Utility called Elsewedy Electrometer to establish a new Utility called Ethiopian electrometer plc. with an initial registered share capital of total paid up capital of 60 million birr. The plc. is engaged in the manufacturing of all types of Electricity meter and pre-paid electricity meter system which is mainly supplied to the utility. EEU owns 40% of the shares of the plc. (i.e. 2,400 shares) by contributing 24 million birr. .

20 Inventories

	<u>2019 ETB</u>	<u>2018 ETB</u>	<u>8 July 2017 ETB</u>
General Stock	4,299,389,288	2,487,218,710	2,616,113,028
Project Stock	-	1,427,048,054	1,959,909,654
Stationery	58,729,665	55,600,003	34,812,210
Diesel Fuel	-	17,839,240	18,309,882
Oil and Lubricants	828,090	6,821,089	13,730,535
Other	<u>25,035,546</u>	<u>89,957,716</u>	<u>264,824,263</u>
	4,383,982,590	4,084,484,812	4,907,699,572
Pro. For Stock Obsolescence	<u>-</u>	<u>-</u>	<u>-</u>
	4,383,982,590	4,084,484,812	4,907,699,572
Goods In transit	<u>212,216,361</u>	<u>314,082,721</u>	<u>539,776,149</u>
Total inventories at the lower of cost and net realizable value	<u>4,596,198,951</u>	<u>4,398,567,533</u>	<u>5,447,475,721</u>

21 Legal Reserve

The legal reserve is a statutory reserve to which 5% of net profits for the year shall be transferred each year to this reserve until it amounts to 20% of the capital.

22 Grant and Contribution

This is an equity reserve to which budget contribution received from the Government of the Federal democratic republic of Ethiopia is accumulated. Loan forgiven and assumed by Government are also transferred to grant & contribution account. The amount accumulated in the grant & contribution is transferred to paid up capital based on the letter from The Federal democratic Republic of Ethiopia Ministry of finance.

23 Other reserve

Other reserve is a component of equity to which an increase or a decrease in the projections used to value a Utility's defined benefit pension plan obligations (severance and KWH benefit liability) is charged.

24 Reserve for excess of deemed cost over book value

The reserve for excess of deemed cost is resulted from the increase in revaluation of property, plant and equipment, and freehold land at 8 July 2017, first time adoption of IFRS,. However, this reserve is not subject for distribution.

25 Financial liabilities at amortized cost:

This note is a summary of all financial liabilities of the utility at the reporting date. Each elements of the liabilities are further explained below from note 25.1 - 25.6

25.1 Trade and other payables

	2019	2018	July 8 2017
	ETB	ETB	ETB
Trade payable	934,319,172	94,568,947	390,980,911
Interest Payable - bonds	93,501,368	121,457,049	84,426,373
Interest Payable - Long term loan	52,924,515	73,445,297	47,506,713
Sundry payable	(50,634,744)	193,587,069	171,484,628
	1,030,110,312	483,058,361	694,398,625

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25.2 Long term loans

Loan type	Non cash foreign loan			Cash foreign loan		
	BADEA-529	IDA-4795	IDA 5126	IDA-6157	IDA-6158	Total
Interest rate	4.0%	2.5%	0.0%	6%	6%	
Maturity	Oct - 2019	Oct - 2019		Oct-41	Oct-41	
Balance at 8 July 2017	53,363,055	388,641,356	1,306,163,357	-	-	1,748,167,769
Add; Disbursement	15,871,116	-	386,774,934	5,961,912	1,141,556,274	1,550,164,237
; Forex loss	11,709,178	72,410,965	-	175,125	33,325,153	117,620,421
Balance at 7 July 2018	80,943,350	461,052,321	1,692,938,292	6,137,037	1,174,881,427	3,415,952,426
Add; Disbursement	-	-			899,626,219	899,626,219
; Forex loss	-	-		371,169	56,847,443	57,218,612
Less: Discount on concessional loan					(242,960,016)	(242,960,016)
Less: Loan Assumed by the government	(80,943,350)	(461,052,321)	(1,692,938,292)			(2,234,933,962)
Balance at 7 July 2019	-	-	-	6,508,206	1,888,395,073	1,894,903,279

The utility finances its projects through loans obtained from different finance providers/ Financiers such as world bank, Arab banks, African development bank and others. The Financiers enter in to a loan agreement with Ministry of finance (MOF) & EEU take the loan on lent through MOF having subsidiary agreements with the Ministry. The loan arrangements are at a given lump sum limit to be disbursed to each project at different times based on the request to pay for supply of goods, works, services and for advance payment to suppliers and contractors. The loan is denominated in foreign currency and bears an interest which is clearly specified in the agreement. It is recognized up on disbursement from the bank at the fair value of the consideration received translated in to Birr at the exchange rate ruling at date on which the loan is disbursed. The loan is repayable in semi-annual installment commencing at the end of from 5 up to 15 years of grace period.

The borrowing are re-payable within five to Fifty years

Non Cash loans represent for loan facilities where cash disbursements are directly made to the supplier of the goods by the financier where as **cash loans** are loans the financier transfer the loan to the accounts of EEU & disbursement to beneficiaries are made by EEU.

Concessional loan: are loans from foreign finance providers and bonds issued to Ethiopian Electric Utility at a lower rate than the market interest rate and hence recognized at fair value (discounted amount using market rate). The difference between the fair value and the cash receipt (face value) is charged to profit or loss as concessional income

Loan Assumed by the government: represent those long term loans absorbed by Ethiopian government and EEU is allowed by a letter to transfer it to its capital account.

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25.3 Customer Deposit

Customer deposit is refundable deposit made by the customer up on connection (up on inception of the contract) as guarantee for meter installed at the customer's premise. It is recognized as a payable up on collection of advance. The deposit is refunded up on termination of the contract by the customer.

25.4 Supplier Credit

	Good Luck ETB	El-Sewedy ETB	Supreme &Co ETB	Cobra ETB	Total ETB
Balance at 8 July 2017	156,074,272	(869,920)	54,223	208,966,162	364,224,738
; Forex loss	28,055,858	2,769,378	9,747	37,563,686	68,398,669
Less: Settlement	-	(2,830,108)	-	-	(2,830,108)
Balance at 7 July 2018	184,130,130	(930,649)	63,971	246,529,848	429,793,300
; Forex loss	11,126,323	930,649	3,869	14,910,147	26,970,988
Less: Settlement	-	-	-	-	-
Balance at 7 July 2019	195,256,453	-	67,840	261,439,996	456,764,288

The utility also purchases project machineries and stocks from abroad on a deferred letters of credit basis guaranteed by the ministry of finance. The supplier sign credit sales contract with the Utility where the later agrees to ship and deliver the item at an agreed quantity and specification. Up on signing of the agreement, The utility issues in favour of the seller an irrevocable letter of credit exclusively in USD or other foreign currency payable in years from bill of lading date up on submission of original required shipping documents. Recognized up on receipt of the goods from the supplier at the fair value of the goods received translated in to Birr at the exchange rate ruling at date on which the transaction is occurred.

The borrowing are payable as follows

	At '2019	At '2018	At 'July 8 2017
not later than one year		315,111,090	253,184,694
later than one year and not later than five years	456,764,288	114,682,210	111,040,044
later than five years	-	-	-
	456,764,288	429,793,300	364,224,738

25.5 Bonds Payable

	2019 ETB	2018 ETB	July 8 2017 ETB
Balance at the beginning of the year	2,531,249,182	2,550,350,760	2,550,350,760
Add; Disbursement	1,351,280,236		-
Less: Repayments	(165,672,668)	(19,101,579)	-
Balance at the end of the year	3,716,856,750	2,531,249,182	2,550,350,760

The Utility secured a loan amounting ETB 2.8 billion from Commercial bank of Ethiopia in the form of 28 unsecured bond of 100 million birr each bearing interest at the rate of 6 % per annum and repayable in 14 semi-annual installment through 2025. The loan is recognized at fair value up on release of each bond which is the present value of the bonds fair value and nominal interested at 6 % paid semi annual. An effective interest rate of 10 % is used to discount the bond.

	At '2019	At '2018	At 'July 7 2017
not later than one year	350,944,775	165,672,668	69,101,579
later than one year and not later than five years	3,365,911,975	2,365,576,514	2,481,249,181
later than five years	-	-	-
	3,716,856,750	2,531,249,182	2,550,350,760

25.6 Contractors' retention / Retention Payable

Represent a Payment made for a construction works that is withheld pending the completion of some specified condition. When a contractor is bills the utility for works executed, The utility withheld five percentage (5 %) of the payment due as a retention money until the constructed plant is successfully competed and become operational.

26 Financial Risk Management

26.1 Introduction

The utility's risk management policy aimed to assess the existing and potential risk, examine the level of existing risk, control and take remedy action. The utility is exposed to a wide array of risks internally such as daily operations, internal processes, assets, properties etc. and externally such as issues related legal, social, political and economic etc. The Utility's overall risk management program focuses on the identification and management of risks and seeks to minimize potential adverse effects on finance, customer, injury loss time, project delay etc.

The Utility's activities expose it to a variety of financial risks, including financial risk (credit and Market risk, and interest rates risk), Liquidity risk, and Non financial risks.

26.1.1 Risk management structure

The Management has the ultimate responsibility for establishing and ensuring the effective functioning of the Risk and Compliance Management activities of the Utility.

The Chief Finance Officer (CFO) has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and risk appetite. It is also responsible for performing compliance monitoring and testing, preparing periodic risk and compliance exposure reports to management.

The Management is responsible for translating and implementing the Utility's risk management strategy, priorities and policies as approved by the Managing Director..

The Utility's policy is that risk management processes throughout the Utility are assessed periodically by the management. This will help to adequately capture risk exposure, aggregate exposure of risk types and incorporate short run as well as long run impact on the Utility.

26.1.2 Risk measurement and reporting systems

The Utility's risks are measured using methods that reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical model. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

Monitoring and controlling risks is primarily performed based on limits established by the Utility. These limits reflect the business strategy and market environment of the Utility as well as the level of risk that the Utility is willing to accept, with additional emphasis on selected regions. In addition, the Utility measures and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

26.1.3 Risk mitigation

The Utility uses various risk mitigating techniques to reduce its risk to the level acceptable. Risk controls and mitigate, identified and approved for the Utility, are documented for existing and new processes and systems.

The adequacy of these mitigate is tested on a periodic basis through administration of control self-assessment questionnaires, using an operational risk management tool which requires risk owners to confirm the effectiveness of established controls. These are subsequently reviewed as part of the review process.

26.2 Financial risk

Financial instruments by category

The Utility's financial assets are classified into the following categories: at fair value through profit or loss (FVTPL) or amortized cost and the financial liabilities are classified into other liabilities at amortized cost.

Financial instruments are classified in the statement of financial position in accordance with their legal form and substance.

The Utility's classification of its financial assets is summarized in the table below:

	FVTPL	Amortized Cost	Total
	ETB	ETB	ETB
7 July 2019			
Cash and balances with banks	8,773,589,595	-	8,773,589,595
Trade receivables	-	2,203,801,752	2,203,801,752
Other receivables excluding prepayments	-	49,811,810	49,811,810
Total financial assets	8,773,589,595	2,253,613,562	11,027,203,157
	FVTPL	Amortized Cost	Total
	ETB	ETB	ETB
7/7/2018			
Cash and balances with banks	1,213,133,613	-	1,213,133,613
Trade receivables	-	1,864,781,224	1,864,781,224
Other receivables excluding prepayments	-	86,624,908	86,624,908
Total financial assets	1,213,133,613	1,951,406,132	3,164,539,745

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8/7/2017	FVTPL ETB	Amortized Cost ETB	Total ETB
Cash and balances with banks	5,859,330,609	-	5,859,330,609
– At amortized cost	-	1,465,481,820	1,465,481,820
Trade receivables	-	1,570,521,562	1,570,521,562
Related party Receivable - EEP	-	303,492,388	303,492,388
Total financial assets	5,859,330,609	3,339,495,770	9,198,826,379

26.3 Credit risk

The Utility has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Utility is exposed to credit risk is trade receivables.

26.3.1 Management of credit risk

The table below show the maximum exposure to credit risk for the Utility's financial assets. The maximum exposure is show gross before the effect of mitigation:

	Notes	7 July 2019 ETB	7 July 2018 ETB	8 July 2017 ETB
Cash and balances with banks	16	8,773,589,595	5,859,330,609	1,213,133,613
Trade receivables	17.1	2,203,801,752	1,864,781,224	1,465,481,820
Related party Receivable - EEP		-	-	1,570,521,562
Other receivables excluding prepayments	17.3	49,811,810	86,624,908	303,492,388
		11,027,203,157	7,810,736,741	4,552,629,383

26.3.2 Credit quality analysis

(a) Credit quality of cash and cash equivalents

The credit quality of cash and bank balances and short-term investments that were neither past due nor impaired at as 30 June 2019, 30 June 2018 and 1 July 2017 and are held in Ethiopian banks have been classified as non-rated as there are no credit rating agencies in Ethiopia. The Utility has cash or cash equivalent that are held in foreign currency.

(b) The Utility applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

The expected loss rates are based on the payment profile for sales over the past 48 months before 30 June 2019 and 30 June 2018 respectively as well as the corresponding historical credit losses during that period.

Trade receivables are written off (i.e. derecognized) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Utility on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

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On the above basis the expected credit loss for trade receivables as at 30 June 2018 and 2017 was determined as follows:

30 June 2019	0 - 90 days	90 Days - 1 Years	1 - 2 Years	2 Years <	Total
Expected credit loss rate	0.00%	6.00%	78.00%	100.00%	
Gross carrying amount	1,712,437,484	332,711,921	43,076,812	57,230,428	2,145,456,645
Lifetime expected credit loss	-	19,962,715	33,599,913	57,230,428	110,793,056
30 June 2018	0 - 90 days	90 Days - 1 Years	1 - 2 Years	2 Years <	Total
Expected credit loss rate	0.00%	6.00%	78.00%	100.00%	
Gross carrying amount	709,590,029	141,238,106	108,203,501	305,412,218	1,264,443,854
Lifetime expected credit loss	-	8,474,286	84,398,731	305,412,218	398,285,236
30 June 2017	61 - 90days	>90 days	31 - 60 days	31 - 60 days	Total
Expected credit loss rate	0.00%	6.00%	78.00%	100.00%	
Gross carrying amount	1,123,229,751	383,163,796	19,028,973	38,201,455	1,563,623,975
Lifetime expected credit loss	-	22,989,828	14,842,599	38,201,455	76,033,882

The closing balances of the trade receivables loss allowance as at 7 July 2019, 7 July 2018 and 8 July 2017 reconciles with the trade receivables loss allowance opening balance as follows:

	ETB
Loss allowance as at 7 July 2017 under previous framework	120,000,000
IFRS 9 transition adjustments	(118,873,844)
Opening loss allowance at 8 July 2017	238,873,844
Loss allowance recognized during the year	<u>2,258,770</u>
Loss allowance as at 7 July 2018	<u>241,132,613</u>
Loss allowance recognized during the year	<u>(130,339,557)</u>
Loss allowance as at 7 July 2019	<u><u>110,793,056</u></u>

26.4 Liquidity risk

Liquidity risk is the risk that the Utility cannot meet its maturing obligations when they become due, at reasonable cost and in a timely manner. Liquidity risk arises because of the possibility that the Utility might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Utility on acceptable terms.

Liquidity risk management in the Utility is solely determined by the Chief Finance Officer(CFO). CFO bears the overall responsibility for liquidity risk. The main objective of the Utility's liquidity risk framework is to maintain sufficient liquidity in order to ensure that the Utility will settle maturing obligations.

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26.4.1 Management of liquidity risk

Cash flow forecasting is performed by the finance department. The finance department monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs.

The Utility evaluates its ability to meet its obligations on an ongoing basis. Based on these evaluations, the Utility devises strategies to manage its liquidity risk.

Prudent liquidity risk management implies that sufficient cash is maintained and that sufficient funding is available to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Utility's reputation.

26.4.2 Maturity analysis of financial liabilities

The table below analyses the Utility's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The cash flows presented are the undiscounted amounts to be settled in future.

	0-180 days	181 - 365 days	Over 1 year	Total
	ETB	ETB	ETB	ETB
7-Jul-19				
Trade payable	2,800,000,000	-	-	2,800,000,000
Contract liabilities	618,938,153	-	3,962,833	622,900,986
Borrowings	3,111,274,196	-	27,226,388,945	30,337,663,141
Other liabilities	6,223,429,729	-	75,513,992,800	81,737,422,529
Payable to EEP	-	111,040,044	-	111,040,044
Total financial liabilities	12,753,642,078	111,040,044	102,744,344,578	115,609,026,700
7-Jul-18				
Trade payable	390,980,911	-	-	390,980,911
Contract liabilities	34,086,280	-	2,716,852,886	2,750,939,166
Borrowings	322,286,273	-	4,340,456,994	4,662,743,267
Other liabilities	1,945,150,445	-	1,398,808,981	3,343,959,426
Payable to EEP	565,278,257	(488,523,198)	-	76,755,060
Total financial liabilities	3,257,782,167	(488,523,198)	8,456,118,861	11,225,377,830
8-Jul-17				
Trade payable	94,568,947	-	-	94,568,947
Contract liabilities	42,688,067	-	2,725,179,358	2,767,867,425
Borrowings	480,783,758	-	5,896,211,150	6,376,994,908
Other liabilities	1,135,620,662	-	1,527,452,344	2,663,073,007
Payable to EEP	-	565,278,257	-	565,278,257
Total financial liabilities	1,753,661,434	565,278,257	10,148,842,852	12,467,782,544

26.5 Market risk

Management of market risk

The main objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Market risk is monitored by the Sales and Marketing department on regular basis, to identify any adverse movement in the underlying variables.

(i) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will be affected by changes in market interest rates. Borrowings obtained at variable rates give rise to interest rate risk.

The Utility's exposure to the risk of changes in market interest rates relates primarily to the Utility's obligations and financial assets with floating interest rates. The Utility is also exposed on fixed rate financial assets and financial liabilities. The Utility's investment portfolio is comprised of Ethiopian Government bonds and equity investments.

The Utility has loans and borrowings and therefore is exposed to interest rate risk as far as loans and borrowings are concerned. Loans and receivable assets are carried at cost, hence any movement in market interest rate has no effect on the value of such assets.

The table below sets out information on the exposures to fixed and variable interest instruments

7-Jul-19

	Fixed	Floating interest bearing	Non-interest bearing	Total
	ETB	ETB	ETB	ETB
Assets				
Cash and bank balances	8,773,589,595	-	-	8,773,589,595
Trade receivables	-	-	2,203,801,752	2,203,801,752
Related party Receivable - EEP	-	-	-	-
Other receivables excluding prepayments	-	-	49,811,810	49,811,810
Total	8,773,589,595	-	2,253,613,562	11,027,203,157
Liabilities				
Trade payables	-	-	-	-
Borrowings	32,625,299,614	-	-	32,625,299,614
Other liabilities	-	-	38,443,590,495	38,443,590,495
Total	32,625,299,614	-	38,443,590,495	71,068,890,109

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7-Jul-18

	Fixed	Floating interest bearing	Non-interest bearing	Total
	ETB	ETB	ETB	ETB
Assets				
Cash and bank balances	1,213,133,613	-	-	1,213,133,613
Trade receivables	-	-	1,465,481,820	1,465,481,820
Related party Receivable - EEP	-	-	1,570,521,562	1,570,521,562
Other receivables excluding prepayments	-	-	303,492,388	303,492,388
Total	1,213,133,613	-	3,339,495,770	4,552,629,383
Liabilities				
Trade payables	-	-	390,980,911	390,980,911
Borrowings	4,662,743,267	-	-	4,662,743,267
Other liabilities	-	-	828,253,979	828,253,979
Total	4,662,743,267	-	1,219,234,890	5,881,978,157

8-Jul-17

	Fixed	Floating interest bearing	Non-interest bearing	Total
	ETB	ETB	ETB	ETB
Assets				
Cash and bank balances	5,859,330,609	-	-	5,859,330,609
Trade receivables	-	-	1,465,481,820	1,465,481,820
Related party Receivable - EEP	-	-	-	-
Other receivables excluding prepayments	-	-	86,624,908	86,624,908
Total	5,859,330,609	-	1,552,106,728	7,411,437,336
Liabilities				
Trade payables	-	-	94,568,947	94,568,947
Borrowings	6,376,994,908	-	-	6,376,994,908
Other liabilities	-	-	2,013,046,045	2,013,046,045
Total	6,376,994,908	-	2,107,614,992	8,484,609,899

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Utility primarily transacts in Ethiopian Birr and its assets and liabilities are denominated in the same currency. The Utility is therefore not exposed to currency risk.

26.6 Capital management

The Utility's objectives when managing capital are to safeguard the Enterprise's ability to continue as a going concern and to maintain an optimal structure to reduce the cost of capital. The gearing ratios as at 2017, 2018, and 2019 were as follows.

	2019 ETB	2018 ETB	2017 ETB
paid up capital	-	29,571,451,211	27,226,388,945
Legal reserve	3,962,833	3,962,833	3,962,833
Retained earnings	3,962,833	10,514,820,945	13,017,853,630
Other reserve	10,514,820,945	11,106,385,881	11,123,966,881
Equity	10,522,746,611	51,196,620,870	51,372,172,289
Total liability	11,102,193,019	12,474,383,972	10,668,120,758
Less: current liability	(1,596,902,342)	(2,325,541,120)	(2,212,001,897)
Net debt	12,699,095,361	14,799,925,092	12,880,122,655
Gearing	55%	22%	20%

26.7 Fair value of financial assets and liabilities

IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, which comprises of three levels as described below, based on the lowest level input that is significant to the fair value measurement as a whole.

26.7.1 Fair value methods and assumptions

Trade receivables are carried at cost net of provision for impairment. The estimated fair value represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

26.7.2 Valuation technique using significant unobservable inputs – Level 3

The Utility has no financial asset measured at fair value on subsequent recognition.

26.7.3 Transfers between the fair value hierarchy categories

During the three reporting periods covered by these annual financial statements, there were no movements between levels as a result of significant inputs to the fair valuation process becoming observable or unobservable.

26.8 Offsetting financial assets and financial liabilities

There are no offsetting arrangements. Financial assets and liabilities are settled and disclosed on a gross basis.

27 Defined benefit obligation (Severance and Electric Energy Benefit)

Valuation Approach

The provision was based on an independent actuarial valuation performed by Ruparelia Consultants Limited (RCL) using the projected unit credit method. The severance benefit and Electric Energy benefit plan is an unfunded defined benefit scheme. The key financial assumptions are the discount rate, the rate of salary increases and age of retirement. The Utility does not maintain any assets for the schemes but ensures that it has sufficient funds for the obligations as they crystallize. The details of the valuation approached is explained.

	7 July 2019	7 July 2018	8 July 2017
	ETB	ETB	ETB
Defined benefits liabilities: (Note 27 a)			
Present value of funded obligation - Electric Energy Benefit	536,536,000	432,177,342	354,370,965
Present value of funded obligation - Severance Benefit	39,834,000	31,445,938	24,633,489
Defined Benefit Obligation (Asset) recognized in the SOFP	576,370,000	463,623,280	379,004,454

Income statement charge included in personnel expenses: (Note 27 b)

	2019 (ETB)	2018 (ETB)
Electric Energy Benefit	71,917,000	60,319,377
Severance Benefit	8,068,000	6,718,449
Total defined benefit expenses	79,985,000	67,037,826

re-measurements gain or loss for the Defined Benefit Obligation: (Note 27 b)

	2019 (ETB)	2018 (ETB)
Electric Energy Benefit	32,442,000	17,487,000
Severance Benefit	319,720	94,000
	32,761,720	17,581,000

The income statement charge included within personnel expenses includes current service cost, interest cost, past service costs on the defined benefit schemes.

27a Liability recognized in the financial position

	7 July 2019	7 July 2018	8 July 2017
	ETB	ETB	ETB
Electric energy benefit	536,536,000	432,177,342	354,370,965
Severance pay	39,834,000	31,445,938	24,633,489
	576,370,000	463,623,280	379,004,454

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27b Amount recognized in the profit or loss

	7 July 2019	7 July 2019	7 July 2018	7 July 2018
	ETB	ETB	ETB	ETB
	Electric Energy Benefit	Severance Benefit	Electric Energy Benefit	Severance Benefit
Current service cost (excluding interest)	23,011,000	5,317,000	18,473,000	4,120,000
Interest cost	56,082,000	4,246,000	46,064,377	3,349,449
Benefit Paid	(7,176,000)	(1,495,000)	(4,218,000)	(751,000)
	71,917,000	8,068,000	60,319,377	6,718,449

27c Amount recognized in other comprehensive income:

	7 July 2019	7 July 2019	7 July 2018	7 July 2018
	ETB	ETB	ETB	ETB
	Electric Energy Benefit	Severance Benefit	Electric Energy Benefit	Severance Benefit
Actuarial (gains)/losses on experience	32,442,000	319,720	17,487,000	94,000
	32,442,000	319,720	17,487,000	94,000

27d Changes in the present value of the defined benefit obligation

	7 July 2019	7 July 2019	7 July 2018	7 July 2018
	ETB	ETB	ETB	ETB
	Electric Energy Benefit	Severance Benefit	Electric Energy Benefit	Severance Benefit
At the beginning of the year	432,177,000	31,446,000	354,370,965	24,633,489
Current service cost	23,011,000	5,317,000	18,473,000	4,120,000
Interest cost	56,082,000	4,246,000	46,064,377	3,349,449
Actuarial (gains)/losses on experience	32,442,000	320,000	17,487,000	94,000
Benefits paid	(7,176,000)	(1,495,000)	(4,218,000)	(751,000)
At the end of the year	536,536,000	39,834,000	432,177,342	31,445,938

27e The principal assumptions used in determining defined benefit obligations

	7 July 2019	7 July 2018	8 July 2017
	ETB	ETB	ETB
Discount rate (p.a)	12.75%	12.75%	12.75%
Long term salary increases (p.a)	10.75%	10.75%	10.75%
Retirement age assumption	55	55	55

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(i) Discount rate

The Utility opted to use a discount rate of (7 July 2019: 12.75%, 7 July 2018: 12.75%, 7 July 2017 : 12.75%) based on the prevailing commercial banks lending rate as advised by the Association of Ethiopian Insurers.

(ii) Long term salary increases

A salary increase assumption of 10.75% p.a. has been assumed at 7 July 2017, 2018 and 2019. Salary increases have been assumed to occur at the end of each accounting year (i.e. at 7 July every year). The salary increase has been determined by the management as mutually compatible rate taking into account the likely future economic scenarios of the country.

(iii) Electric Energy consumption Tariff

In order to estimate the monetary value of this benefit, the KWh has been converted into Birr using the tariff rates determined by the management.

(iv) Mortality rate

Mortality is normally expressed as the probability of death within the next year for an individual of a specific age. Different mortality rates are thus set for each age group (higher rates for older people) and this set of rates is referred to as a mortality table.

The mortality table used for the current employees was A1949/52 as published by the Institute of Actuaries.

Age	7 July 2018		8 July 2017	
	Males	Females	Males	Females
20	0.111%	0.111%	0.111%	0.111%
25	0.112%	0.111%	0.112%	0.111%
30	0.116%	0.113%	0.116%	0.113%
35	0.132%	0.120%	0.132%	0.120%
40	0.188%	0.147%	0.188%	0.147%
45	0.330%	0.231%	0.330%	0.231%
50	0.599%	0.420%	0.599%	0.420%
55	1.035%	0.750%	1.035%	0.750%
60	1.720%	1.272%	1.720%	1.272%

(v) Withdrawals from service

The withdrawal rate selected was based on experience in other similar arrangements.

Age	Males	Females
20	15.0%	15.0%
25	12.0%	12.0%
30	6.0%	6.0%
35	2.5%	2.5%
40	1.8%	1.8%
45	1.0%	1.0%
50	0.0%	0.0%
55	0.0%	0.0%
60	0.0%	0.0%

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(vi) Ill-health / Disability

Age	Males	Females
20	0.04%	0.04%
25	0.04%	0.04%
30	0.04%	0.04%
35	0.04%	0.04%
40	0.06%	0.05%
45	0.11%	0.08%
50	0.20%	0.14%
55	0.35%	0.25%
60	0.57%	0.42%

(vii) Duration of the plan

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years. The average duration of the retirement benefit obligation at the end of the reporting period is 5.4 years in 2019 (7 July 2018: 5.4 years, 8 July 2017: 5.5 years)

27f Quantitative sensitivity analysis for significant assumption

The sensitivity of the overall defined benefit liability to changes in the weighted principal assumption is:

Figures in Birr

Assumptions being varied	Sensitivity scenarios				
	(1) Base	(2) I + 1	(3) I - 1	(4) e & cpi	(5) e & cpi - 1
Discount rate (i)	12.75%	13.75%	11.75%	12.75%	12.75%
Salary increases (e) and inflation (cpi)	10.75%	10.75%	10.75%	11.75%	9.75%
Results					
7-Jul-17	379,004,454	327,579,944	443,980,785	428,595,396	338,355,050
7-Jul-18	463,623,280	402,498,675	540,799,780	526,335,200	412,444,039
7-Jul-19	463,623,280	402,498,675	540,799,780	526,335,200	412,444,039

Key risks

The risks associated with severance benefit entitlements are as follows;

The benefits are linked to salary and consequently has an associated risk of an increase in salary.

The benefits are defined as per the labour proclamation , and hence possible amendment to the proclamation could change this benefit and materially change the cost of the Utility

The severance benefit is unfunded with no separate assets, an investment risk would therefore not arise.

Severance benefit is payable when an employees contract of employment is terminated by the initiation of the employer against the provision of law. The actual cost to the Utility of the benefits is therefore subject to the demographic movement of the employees.

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28 Other tax and obligation

	2019 ETB	2018 ETB	8 July 2017 ETB
Employment Income tax	24,494,083	37,394,487	22,953,869
Withholding tax payable	8,109,953	14,948,271	13,975,075
Vat Payable / Receivable	9,292,786	15,360,035	12,460,098
Pension contribution payable	1,358,793	485,055	(3,068,278)
	<u>43,255,615</u>	<u>68,187,848</u>	<u>46,320,763</u>

29 Contract liabilities

Contract liability represents to EEU's obligation to deliver services to a customer for which the entity has received consideration from the customer.

	Customer Contribution		Prepaid	Total
	Capital	Non Capital	Current Liability	
	ETB	ETB	ETB	ETB
At 8 July 2017	203,204,726	2,513,648,160	34,086,280	2,750,939,166
Deferred during the year	73,891,149	1,939,822,558	604,772,447	2,618,486,154
Released to the statement of profit or loss	(68,009,598)	(1,890,420,494)	(596,170,660)	(2,554,600,751)
Transfer to other liabilities		(45,102,773)		(45,102,773)
Refund to customers		(1,854,371)	-	(1,854,371)
At 7 July 18	<u>209,086,278</u>	<u>2,516,093,081</u>	<u>42,688,067</u>	<u>2,767,867,425</u>
Deferred during the year	576,168	1,947,086,750	1,008,267,758	2,955,930,676
Released to the statement of profit or loss		(2,619,279,371)	(975,394,496)	(3,594,673,867)
Transfer to other liabilities		(184,841,686)	(1,934,752)	
At 7 July 19	<u>209,662,445</u>	<u>1,659,058,774</u>	<u>73,626,576</u>	<u>1,942,347,796</u>

30 Accrual and Provision

	2019 ETB	2018 ETB	2017 ETB
Accrual and Provision	83,904,638	678,943,400	1,595,411,968
	<u>83,904,638</u>	<u>678,943,400</u>	<u>1,595,411,968</u>

Included in accrual is cumulative annual leave , utility , unclaimed salary and others accrued at the reporting date. Each employee is entitled to an annual leave of 14 days for the first year of employment and keeps on increasing one day per additional year of service until it reaches the maximum amount allowed per year . However , the leave can only be carried forward for one more year.

Provision for legal claims arising from litigation of labour cases, contractual and extra contractual liability and property damage claims are being recognized.

31 Events after reporting period

No adjusting or significant non-adjusting events have occurred between the 30 June reporting date and the date of authorization.

32 Contingent liabilities and commitments

There has been Contingent Assets arising from legal litigation on which EEU has sued different entities for Property Damage, Contractual and Extra-Contractual Liability, Electric Power theft , etc.. The Contingent asset amounts to Birr 66,996,143 for the year ended 7 July 2018 (Birr 3,955,363 for year ended 7 July 2017). In the year ended 7 July 2018 the court has either decided or the amount already been collected arising from these litigations amounts to Birr 69,770,948.

The Entity has commitments which is not provided in these financial statements of approximately Birr 7,250,500,000 in respect to various purchase contracts.

33 New or revised Standards or Interpretations

Application of new and revised International Financial Reporting Standards (IFRSs) and Interpretations (IFRICs)

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning or after 8 July 2019, and have been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Utility, except the following set out below:

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement except for the lease which is early adopted as at the transition date. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the Utility's financial statement

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 16 Leases	1 January 2019
Amendments to IAS 12 Income Taxes: 1 January 2019	Annual Improvements to IFRS 2015 -2017cycle
Amendments to IAS 23 Borrowing Costs: 1 January 2019	Annual Improvements to IFRS 2015 - 2017 cycle
Amendments to IAS 28 - 1 January 2019	Long-term Interests in Associates and Joint Venture

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the Utility are as follows:

Utility as lessee:

Lessees are required to recognize a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.

Utility as lessor:

Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification. A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.

Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that the income tax consequences on dividends are recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized the events or transactions which generated the distributable reserves.

The effective date of the amendment is for years beginning on or after 1 July 2019 and the impact of this amendment is currently being assessed.

Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalizing borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The effective date of the amendment is for years beginning on or after 1 July 2019 and the impact of this amendment is currently being assessed.

Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the amendment is for years beginning on or after 1 July 2019 and the impact of this amendment is currently being assessed.

Amendments to IAS 28 - Long-term Interests in Associates and Joint Venture

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The directors of the Utility do not anticipate that the application of these amendments will have a significant impact on the Utility's financial statements.