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Office of the Federal Auditor General
Audit Service Corporation

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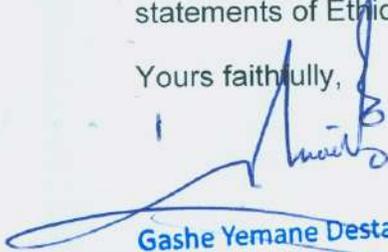
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Ethiopian Investment Holdings
Addis Ababa

Dear Sirs / Mesdames,

We have pleasure in enclosing a copy of the independent auditor's report and financial statements of Ethiopian Sugar Corporation for the year ended 30 June 2018.

Yours faithfully,


Gashe Yemane Desta (FCCA)
Director General



The Management Board
Ethiopian Sugar Industry Group
Addis Ababa (with a copy of the independent auditor's report and financial statements)

The Chief Executive Officer
Ethiopian Sugar Industry Group
Addis Ababa (with sixteen copies of the independent auditor's report and financial statements)

Office of the Federal Auditor General
Ministry of Revenues
Ministry of Finance

Addis Ababa (with a copy, each, of the independent auditor's report and financial statements)

ETHIOPIAN SUGAR CORPORATION
REPORTS AND ANNUAL FINANCIAL STATEMENTS
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FOR THE YEAR ENDED 30 JUNE 2018

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Office of the Federal Auditor General
Audit Services Corporation

INDEPENDENT AUDITOR'S REPORT
TO THE MANAGEMENT OF
ETHIOPIAN SUGAR INDUSTRY GROUP

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of Ethiopian Sugar Corporation, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at 30 June 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB).

Basis for Qualified Opinion

1. The Sugar Corporation Import account (01-12500-6000) exhibits a material long-standing outstanding balance of ETB 266,000,090 dating back to the 2014 fiscal year, persisting without resolution in the subsequent financial statements of the SIDF. This balance is obscured in the import financial statement that indicates lack of proper accounting treatment, raising concerns regarding the accuracy and completeness of the financial reporting.
2. We have identified notable deficiencies within the inventory management system of Corporation, which demand immediate attention. Such as:
 - The inventory cost flow assumptions as policy are not consistent throughout the Corporation. In consequence, the value of inventory reported in the statement of financial position is the sum of inventory valued at weighted average method in Kesem and inventory valued at First In First Out (FIFO) method in Metehara, Wonji Shoa and Fincha Sugar Factories. Weak inventory system has result in full provision of inventories in Tendaho and Welkait Sugar Projects.

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**INDEPENDENT AUDITOR'S REPORT
TO THE MANAGEMENT OF
ETHIOPIAN SUGAR INDUSTRY GROUP (continued)**

Basis for Qualified Opinion (continued)

- We observed the absence of financial stock cards, due to that, discrepancies between the physical count and ledger balance have been accounted for in stock shortage/overage accounts, such discrepancies carry inherent risks to the integrity and accuracy of the inventory management system. In effect, ETB 412,728,175 (ETB 361,140,621 in 2017) and ETB 810,975,183 (ETB 40,110,436 in 2017) are accounted as stock shortage and stock overage respectively, requiring further investigation. The absence of financial stock cards not only impairs the company's ability to monitor inventory effectively but also undermines the reliability and completeness of inventory records and expenses.
- For an industry like the sugar sector, which typically encompasses a myriad of inventory line items, for instance Arjo Sugar Corporation has adopted a practice of consolidating inventory items into aggregated sums. However, Arjo keeps inventory items on a lump sum basis. For example, a general store items worth ETB 100,746,095 (ETB 85,210,605 in 2017) was amalgamated and accounted for as a single line as general store item.
- The Corporation has consumable inventories and goods in transit worth of ETB 1,774,554,962 consisting long outstanding and slow-moving inventories, which have been increasing from year to year but are not measured at lower of cost or net realizable value. Despite this fact, the provision for stock obsolescence showed no movement over the last three years, overstating the value of inventory with an amount that should have been accounted as impairment on stock yearly. Moreover, inventory account consists of items with abnormal balances which is caused by inappropriate accounting on which the management has not taken investigative action.

Consequently, we were unable to determine the completeness and accuracy of stock & goods in transit and cost of sales shown on the statement of financial position and statement of profit or loss and other comprehensive income at ETB 7,275,878,446 and ETB 6,850,090,673 respectively.

3. There was no reliable system of internal control over the accounting of intercompany account on which we could rely for the purposes of our audit. As a result, the Inter-company receivable and Inter-company payable accounts on the branches' financial statements did not match the Inter-company payable and Inter-company receivable of other factories or projects. In the process of elimination of the intercompany receivable and payable the residual figure worth of ETB 131,333,525 is credited to Sugar Industry Development Fund (Equity account) account without considering the economics of the transactions. Moreover, lack of internal control over the accounting of funding, the Head office account on the statement of financial position of each branch do not agree with the balance at the Group level. In the process of eliminating this account net amount of ETB 4,098,642 is debited to the Sugar Industry Development Fund (Equity account). Therefore, the equity account entitled Sugar Industry Development Fund of ETB 16,689,024,042 is overstated with the sum of the above stated figure.

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**INDEPENDENT AUDITOR'S REPORT
TO THE MANAGEMENT OF
ETHIOPIAN SUGAR INDUSTRY GROUP (continued)**

Basis for Qualified Opinion (continued)

4. The financial statements reflect advance payments to contractors as per Note 16, amounting to ETB 15,311,564,066 with ETB 7,468,623,328 (49%) being impaired. This indicates a deficiency in the internal control system governing the tracking and recovery of advance payments. Given that these funds represent public money and remain unsettled, we would typically anticipate legal actions or appropriate measures to address these outstanding advances.
5. The revenue shown in the statement of profit or loss & other comprehensive income of ETB 7,093,393,859 is the cumulative total of the revenue recorded in the separate records of the head office and the sugar factories when the produce is put under the control of the head office and is measured at transfer prices determined by the Board of Directors of the Corporation. This constitutes a departure from IFRS which requires that a sale be recognized at the transaction price on delivery to the customer. In consequence we were unable to satisfy ourselves that the revenue shown in the statement of profit or loss and other comprehensive income is correctly stated.
6. We have identified notable deficiencies within the cost accounting system of the Corporation which demand immediate attention. Such as:
 - The absence of a cost accounting system resulted in the cost of sugarcane in Arjo Sugar Corporation, amounting to ETB 145,561,545 (66,009 tons), being calculated based on the proportion of harvested sugar to the total agricultural area. This approach lacked the necessary controls to ensure proper accounting for inventory consumption and other related production costs. Moreover, a variance of ETB 52,537,644 was identified between the excise tax recorded and paid and the amount calculated based on the cost of production, excluding depreciation, the latter is more by amount.
 - It is difficult to determine the costs associated with producing 313,478 quintals for the year in Kesseme sugar Corporation. Additionally, expenses, including the cost of sales, have been grouped together under the general and administrative expense category. For example, insurance costs totaling Birr 8,672,247 that should have been allocated as overhead costs, were accounted for as total expenses.

Therefore, due to the lack of a robust internal control framework, we do not have confidence in relying on the total Cost of sales figure, which amounts to Birr 6,850,090,673.

7. The property, plant and equipment consisting CIP-tissue culture for an amount of ETB 74,185,564 has exhibited no movement over a significant period and has not been capitalized. This indicates a potential lack of asset utilization by the Corporation. As a result, we were unable to ascertain whether adjustments have been found necessary in respect of property, plant and equipment shown on the statement of financial position at ETB 112,523,384,302.

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**INDEPENDENT AUDITOR'S REPORT
TO THE MANAGEMENT OF
ETHIOPIAN SUGAR INDUSTRY GROUP (continued)**

Basis for Qualified Opinion (continued)

8. Included in trade and other receivables is receivable from Commercial Bank of Ethiopia amounting to Birr 194,483,544 (185,937,260 in 2017). We have obtained no sufficient and appropriate audit evidence that this balance is recoverable. In addition, the provision of Birr 155,801,589 is not supported by appropriate documents. In consequence we were unable to determine whether any adjustment might have been found necessary in respect of Trade and other receivables shown on the statement of financial position at Birr 1,100,960,228.
9. Despite the fact that a provision of Birr 238,421,302 was held in advance and prepayment accounts of Wonji Sugar Factory for the out growers', a substantial portion of this provision was allocated for the sugar cane plantation damaged during political unrest in 2010 E.C. and for some farms that unilaterally terminated their contracts with the Corporation. Given that these funds represent public money and remain unsettled, we would typically anticipate legal actions or appropriate measures to address these outstanding advances.
10. As discussed in Note 28.6 (Capital management) of the notes to the financial statements, gearing (Debt to Equity ratio) of the Corporation stood at 114% (111% in 2017) which imply the Corporation has larger proportion of debt than equity, so would not be able to pay down its debt unless serious measures are taken in this respect.
11. Paid up capital of the Corporation is summation of the carrying amount of net asset of each of the existing factories amounting ETB 6,042,512,614 upon establishment until it is increased by ETB 8,040,511,876 through in kind contribution by the government as discussed on Note 19 of the notes to the financial statements. This contribution in kind is represented by Tendaho and Kessem sugar development dams. However, these dams were transferred to Ethiopian Construction Works Corporation by Regulation no 366/2015 by the Corporation's mandate stated on the regulation (Article 5 Sub article 3).

Emphasis of Matter

- We draw attention to Note 34 to the financial statements which describes the going concern uncertainties of Tendaho Sugar Factory Project Office indicating the civil war in the Northern region, the bad weather condition (El Nino effect), the subsequent transfer of movable properties to other factories and projects of the Corporation and termination of most of the staff have raised uncertainties on the going concern of the Factory project office. Our opinion is not qualified in this respect.
- We also draw attention to this note again (Note 34) to the financial statements which also describes the going concern uncertainties of Wolkait Sugar Development Project indicating a need of significant financial investment for completing the Factory and related infrastructure, including plantation. Our opinion is not qualified in this respect.

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**INDEPENDENT AUDITOR'S REPORT
TO THE MANAGEMENT OF
ETHIOPIAN SUGAR INDUSTRY GROUP (continued)**

Responsibilities of the Corporation's Management for the Financial Statements
(continued)

The Corporation's Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is responsible for overseeing the financial reporting process. The Management is also responsible for assessing the Corporation's ability to continue as a going concern, ensuring that disclosures are made, as applicable, of matters related to going concern and using the going concern basis of accounting unless the Management knows of an intention either to liquidate the Corporation or to cease operations, or knows that there is no realistic alternative but to do so.

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

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**INDEPENDENT AUDITOR'S REPORT
TO THE MANAGEMENT OF
ETHIOPIAN SUGAR INDUSTRY GROUP (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 Corporation'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 Corporation 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 Corporation Management 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 Corporation Management 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 Corporation Management, 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 Banchiyehu Tamirat.

Audit Services Corporation

4 September 2024



ETHIOPIAN SUGAR CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018



Ethiopian Sugar Corporation
Financial Statements
Management, Professional Advisors and Registered Office
For the year ended 30 June 2018

Corporation TIN number 0016295696
Business registration no: MT/AA/5/0008968/2004
Business licence no: MT/AA/14/669/11583/200

Executive management (as of June 30 2018)

Name	Date of appointment	Position
H.E Ambassador Girma Biru	Mar,21	Board chair person
Ato Solomon Engida	June,19	Board Member
Dr. Kebede Teshome	Dec,20	Board Member
Ato Fikadu Agonafer	Mar,21	Board Member
Ato Beakal Ejigu	Aug,20	Board Member
Ato Gadisa Desalegn	Jan,22	Board Member
Ato Weyo Roba	Dec,18	CEO
Ato Abraham Demissie	May,22	Service, DCEO
Ato Tafesse Assefa	May,22	Marketing, DCEO
Ato Abayneh Bazezew	May,22	Research & Trai. DCEO
Ato Zemedkun Tekle	May,22	Corporate Affair, DCEO
Ato Feyissa Fikadu		A/Op & Proj. DCEO

Principal bank

Commercial Bank of Ethiopia
P.O.Box 255
Fax: +251-11-5514522
Tel:+251-11551 50 04
Addis Ababa

Cooperative Bank of Oromia
P.O.Box: 16936
Fax: +251 115 58 24 51
Tel: +251-115-58 21 60/61
Bole Road road
Addis Ababa

Consultant

Grant Toronto Advisor PLC
P.O.BOX 25437-1000
Tel:+251-115536364
Addis Ababa, Ethiopia

Independent auditors

Audit Service Corporation



**ETHIOPIAN SUGAR CORPORATION
STATEMENT OF MANAGEMENT RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2018**

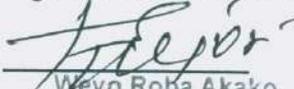
In compliance with the Article 14(8) of the Public Enterprises Proclamation No. 25/1992, the Management of the Corporation (hereafter referred to as the Management) of Ethiopian Sugar Corporation (hereafter referred to as the Corporation) is responsible for the preparation of the annual financial statements that fairly present the state of affairs of the Corporation at the end of the financial year and of the profit for loss and cash flows for the year in accordance with International Financial Reporting Standards (IFRS), the Commercial Code, the Financial Reporting Proclamation No. 847/2014, and the requirement of Article 12(8) of the public Enterprises Proclamation No. 25/1992. The Management is also responsible for safeguarding the assets of the Corporation.

The management is also responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. To enable the Management to meet these responsibilities it set standards and implement systems of internal control, accounting and information systems. Management is responsible for the systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability of assets and to prevent and detect material misstatements and loss.

The internal audit function of the Corporation serves management and the Board by performing an independent evaluation of the adequacy and effectiveness of risk management, internal controls, financial reporting mechanisms and record, information systems and operations, safeguarding of assets and adherence to laws and regulations.

The management is responsible that the financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The management is of the opinion that the Corporation has adequate resources to continue in operation for the foreseeable future based on forecasts and available cash resources and accordingly the annual financial statements have been prepared on a going concern basis. It is the responsibility of the external auditors to express an opinion on the annual financial statements.

Signed on behalf of the management by:


Weyo Roba Akako
Chief Executive Officer


Finance Department

04 September 2024



Ethiopian Sugar Corporation
Financial Statements
Report of Management
For the year ended 30 June 2018

Management has pleasure of presenting their report on the affairs of Ethiopian Sugar Corporation ("the Corporation") together with the financial statements for the year ended 30 June 2018, to the Board of Directors of Ethiopian Sugar Corporation. This report discloses the financial performance and state of affairs of the Corporation.

Incorporation and address

Ethiopian Sugar Corporation ("the Corporation") is a principally engaged in production of sugar. The Corporation was established on 29 October 2010 in accordance with regulation number 192/2010 and the provisions of the Commercial Code of Ethiopia of 1960.

Principal activities

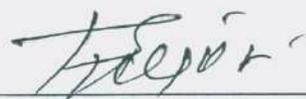
- 1 to grow sugarcane and other sugar yielding crops;
- 2 to process and produce sugar, sugar products, sugar by-products and products of sugar by-products;
- 3 to sell its products and by-products in the domestic and export markets;
- 4 to cause the undertaking of feasibility studies, design preparation, technology selection and negotiation, erection and commissioning of new sugar development and expansion projects; in cooperation with the relevant organs,
- 5 to undertake studies and research in the field of sugar cane plantation and sugar production technologies and implement useful results thereof; in cooperation with capable domestic enterprises, to cause the designing and fabrication of machineries and spare parts required by public sugar factories;
- 6 to possess, in accordance with the law, and develop lands required for its operations;
- 7 to encourage and support sugar cane growers who are supplying their cane products to public sugar factories;
- 8 in line with directives and policy guidelines issued by the Ministry of Finance and Economic Development, to sell and pledge bonds and to negotiate and sign loan agreements with local and intentional financial sources;

The Corporation is principally engaged in Sugar Manufacturing in Ethiopia.

Operating results

The Corporation's results for the year ended 30 June 2018 are set out on page 10. The profit for the year has been transferred to retained earnings. The summarized results are presented below.

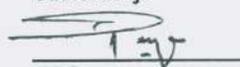
	30 June 2018 ETB	30 June 2017 ETB
Revenue	7,093,393,859	8,107,264,107
Profit before income tax	(7,509,820,217)	(4,734,145,909)
Income tax expense	342,364,423	(41,638,182)
Total compressive income (loss) for the year	<u>(7,167,455,794)</u>	<u>(4,775,784,091)</u>



Weyo Roba Akako
 Chief Executive Officer

04 September 2024
 Addis Ababa, Ethiopia

Paulos Moja


 CFO



ETHIOPIAN SUGAR CORPORATION
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018



	Notes	2018 ETB	2017 ETB
Revenue	4	<u>7,093,393,859</u>	<u>8,107,264,107</u>
Cost of sales	6	<u>(6,850,090,673)</u>	<u>(7,306,041,105)</u>
Gross profit		243,303,186	801,223,002
Other operating income	5	158,592,824	206,297,735
General & administrative	7	(3,931,768,319)	(2,596,285,191)
Bad debt expense	15,16,17	(345,383,199)	(466,536,728)
Write down of inventory to NRV / Stock obsolescence expense	18	(74,800,762)	(121,772,905)
Loss of cane at fair value	13.2	(100,181,261)	(74,541,286)
Fair value gain/(loss) on standing cane		(1,069,479,483)	389,894,807
Impairment of bearer Plant	13.1	-	(155,892,048)
Reversal (Provision for loss) of plantation	13.2	13,602,508	(661,210,858)
Operating profit (loss)		(5,106,114,507)	(2,678,823,470)
Finance costs/charges	8	<u>(2,403,705,711)</u>	<u>(2,055,322,439)</u>
Profit (loss) before tax		(7,509,820,217)	(4,734,145,909)
Income tax expense	9	<u>342,364,423</u>	<u>(41,638,182)</u>
Profit (loss) for the year		<u>(7,167,455,795)</u>	<u>(4,775,784,091)</u>
Other comprehensive income, net of income tax			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain loss on retirement benefits obligations	29a	<u>(3,399,837)</u>	<u>(1,767,540)</u>
Total comprehensive income for the year		<u>(7,164,055,958)</u>	<u>(4,774,016,551)</u>

ETHIOPIAN SUGAR CORPORATION
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	2018 ETB	2017 ETB	2016 ETB
Assets				
Non-current assets				
Property plant & equipment	11	112,523,384,302	93,649,333,161	72,750,515,792
Right of use asset - land	12	358,496,066	358,496,066	358,496,066
Right of use asset - office lease	12.3	14,004,641		
Bearer plant	13.1	896,305,898	912,732,754	959,411,191
Other asset		3,992,000	3,992,000	3,992,000
		113,796,182,906	94,924,553,981	74,072,415,049
Current assets				
Trade and other receivable	15	1,100,960,228	1,234,396,097	721,123,020
Stock & goods in transit	18	7,275,878,446	5,676,110,443	4,195,293,221
Stock Shortage		412,728,175	361,140,621	-
Biological Asset - Standing cane	13.2	3,337,523,672	3,475,502,312	3,982,471,920
Biological asset - beef cattle		9,307,100	3,348,774	-
Tax receivable	17	3,351,995,417	3,018,169,455	2,830,091,141
Advance and prepayments	16	8,461,912,324	9,682,837,862	14,650,732,221
Cash and cash equivalents	14	1,682,959,424	1,571,418,002	1,211,394,756
		25,633,264,785	25,022,923,566	27,591,106,278
Total assets		139,429,447,692	119,947,477,547	101,663,521,327
Equity and liabilities				
Equity				
Paid-up capital	19	14,083,024,490	14,083,024,490	14,083,024,490
Sugar Industry development fund	21	16,689,024,042	16,472,351,151	13,856,907,643
Contribution for capital expenditure	26	101,054,623	101,054,623	101,054,623
Capital contribution	22	443,712,291	3,423,986	448,748,158
Asset revaluation reserve	23	11,977,353,299	11,977,353,299	11,977,353,299
Net accumulated loss	20	(41,951,109,669)	(35,863,745,751)	(32,928,996,047)
Other reserve	25	(4,925,717)	(1,717,122)	-
Reserve for SIDF	24	(5,226,030,158)	(3,202,621,900)	(74,242,043)
Total equity		(3,887,896,798)	3,569,122,776	7,463,850,123
Non-current liabilities				
Long term loan	27.4	119,519,426,549	95,109,281,045	76,211,254,595
Employee benefit obligation	29	41,259,040	34,816,706	29,903,890
Deferred tax liability	10	4,055,003,219	4,397,367,641	4,355,729,458
		123,615,688,808	99,541,465,392	80,596,887,943
Current liabilities				
Trade and other payable	27	12,502,220,136	11,220,634,904	8,758,487,853
Retention Payable	27	1,208,892,386	1,068,373,337	767,493,986
Interest payable		3,074,949,113	2,817,154,034	2,523,742,525
Sugar development fund	27	218,335,357	209,480,986	205,356,116
Tax payable	30	1,165,536,868	949,774,832	1,022,826,144
Unearned revenue	32	98,019,753	114,634,113	9,384,607
Accrual	31	391,559,052	224,099,092	223,019,147
Provision	31	231,167,835	192,627,643	92,472,882
Stock Overage		810,975,183	40,110,436	-
		19,701,655,682	16,836,889,379	13,602,783,261
Total liabilities		143,317,344,490	116,378,354,771	94,199,671,204
Total equity and liabilities		139,429,447,692	119,947,477,547	101,663,521,327



ETHIOPIAN SUGAR CORPORATION
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Paid-up capital	Accumulated Loss	Sugar Industry Development Fund	Capital contribution	Asset revaluation reserve	Reserve for SIFD	Contribution for capital expenditure	Other reserve	Total
	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Unadjusted balance at 1 July 2016	14,042,512,614	1,329,473,415	13,856,907,643	448,748,158	-	-	101,054,623	-	29,778,696,453
First time IFRS adoption adjustments	40,511,876	(34,258,469,463)	-	-	11,977,353,299	-	-	-	(22,240,604,287)
Adjusted balance at 1 July 2016 (Restated)	14,083,024,490	(32,928,996,048)	13,856,907,643	448,748,158	11,977,353,299	(74,242,043)	101,054,623	-	7,463,850,122
Comprehensive income for the year	(4,775,784,091)								(4,775,784,091)
Cash transferred	1,841,034,388								1,841,034,388
Grant from SDF			2,615,443,508						
Net Contribution				(445,324,172)					(445,324,172)
Other Comprehensive income for the year						(3,128,379,856)		(1,717,122)	(1,717,122)
Transfer to SIFD Fund						(3,128,379,856)			(3,128,379,856)
Balance at 30 June 2017	14,083,024,490	(35,863,745,751)	16,472,351,151	3,423,986	11,977,353,299	(3,202,621,900)	101,054,623	(1,717,122)	3,569,122,776
Comprehensive income for the year	(7,167,455,795)								(7,167,455,795)
Cash transfers	1,080,091,871								1,080,091,871
Grant from SDF			216,672,891						216,672,891
Net Contribution				440,288,305					440,288,305
Other Comprehensive income for the year								(3,208,594)	(3,208,594)
Transfer to SIFD Fund						(2,023,408,258)			(2,023,408,258)
Balance at 30 June 2018	14,083,024,490	(41,951,109,674)	16,689,024,042	443,712,291	11,977,353,299	(5,226,030,158)	101,054,623	(4,925,717)	(3,887,896,804)



ETHIOPIAN SUGAR CORPORATION
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 30 JUNE 2018

	2018 ETB	2017 ETB
Operating activities		
Profit before tax	(7,509,820,217)	(4,734,145,909)
Non-cash adjustment to reconcile profit before tax to net cash flows		
Depreciation of property, plant and equipment and Bearer Plant	2,131,978,751	1,918,557,410
Impairment (Reversal) of Bearer Plant	(14,561,631)	155,892,048
Provision (Reversal of provision) for Loss of Plantation	(13,602,508)	661,210,858
Fair Value Change on biological Asset	878,663,548	260,147,140
Stock Obsolescence	74,800,762	121,772,906
Bad Debt Expense	345,252,946	466,536,728
Change Stock Shortage	719,277,192	(321,030,185)
Amortization of the right use of assets	13,403,905	-
Severance expense (Current service and interest)	3,233,740	3,195,693
	(3,371,373,511)	(1,467,863,311)
Working capital adjustments:		
Decrease (Increase) in trade and other receivables	(305,942,691)	(764,161,440)
Decrease (Increase) in advance and prepayment	981,094,937	4,564,167,679
Decrease (Increase) in Inventories	(1,674,568,764)	(1,602,590,128)
Decrease (Increase) in Biological Asset	(733,040,726)	(417,737,164)
Increase (Decrease) in trade and other payables	2,088,840,622	3,193,971,884
Net cash flows from operating activities	(3,014,990,134)	3,505,787,520
Investing activities		
Investment in property, plant and equipment and sugar development	(20,829,229,674)	(22,659,659,372)
Disposal proceeds	-	57,563,005
Expenditure on bearer plant	(145,811,732)	(324,492,023)
Lease payment	(27,408,546)	-
Net cash flows used in investing activities	(21,002,449,951)	(22,926,588,389)
Financing activities		
Proceeds from borrowings	26,240,532,901	20,695,454,864
Repayment of borrowings	(1,825,065,953)	(1,797,404,618)
Additional fund from SIDF for project expansion	1,296,634,513	4,456,477,898
Contribution to SIDF	(2,023,408,258)	(3,128,379,856)
Capital contribution	440,288,305	(445,324,172)
Net cash flows from/(used in) financing activities	24,128,981,507	19,780,824,115
Net increase/ (decrease) in cash and cash equivalents	111,541,422	360,023,246
Cash and cash equivalents at 1 July,	1,571,418,002	1,211,394,756
Cash and cash equivalents at 30 June	1,682,959,424	1,571,418,002



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

1. General information

The present "Sugar Corporation" with a vision of executing sugar development activities at a large scale came into existence on October, 2010 by the Council of Ministers Regulation No.192/2010 replacing the former Ethiopian Sugar Development Agency.

Currently, with the Regulation No. 916/2015 instituted to determine the authority and practice of FDRE Executive Bodies, the Corporation is operating under a Board of Management while it is organized under Ministry of Government Enterprises. The corporation is established at sum of the carrying amount of the net asset of the each factories at the date of incorporation.

At the time of the establishment, there were 3 factories and 1 project namely

- Wonji shoa Sugar Factory
- Metehara Sugar Factory
- Fincha Sugar Factory
- Tendaho Sugar Factory (project phase)

Immediately after the re-establishment, the corporation has undergone series of expansion and modernization projects such as upgrading the existing factories Wonji and Fincha Sugar Factory. Through time, various activities have been carried out to build additional sugar factories. Currently, the corporation has 8 projects in progress each at different stages. The projects include

- Omo –Kuraz Sugar development project – I,II,III,V
- Welkayit Sugar Development project
- Tana Belles Sugar Development projects – I & II

In 2017 , the following projects have been fully completed and began operation.

- Arjo Dedessa Sugar development projects
- Kessem Sugar development project

The corporation's place of business is Addis Ababa, Kirkos Sub-city, Woreda 08, Kia-Med University College PLC Building. It also has factories and projects in different parts of the country.

2. Significant accounting Policies

2.1 Basis of preparation and Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).Therefore, these is the Corporation's first financial statements prepared in accordance with IFRSs and IFRS first time adoption requirements have been applied. They have been prepared under the assumption that the Corporation operates on a going concern basis.

For all periods up to and including the year ended 30 June 2017, the Corporation prepared its financial statements in accordance with local generally accepted accounting principles (Local GAAP). These financial statements for the year ended 30 June 2018 are the first the Corporation has prepared in accordance with IFRS. The explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in Note 2.3.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

The financial statements have been prepared in accordance with the going concern principle under the historical cost convention, except for revaluation of properties as deemed cost, and equity investments at fair value. Items included in the financial statements are measured using the currency of the primary economic environment in which the Corporation operates ('the functional currency'). The financial statements are presented in Ethiopian Birr ("ETB") which is the Corporation's functional currency.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Corporation's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The management believes that the underlying assumptions are appropriate and that the Corporation's financial statements therefore present the financial position and results fairly.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates 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 Corporation in preparing its financial statements:

2.2.1 Current versus non-current classification

The Corporation presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Corporation classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.2.2 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Corporation.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

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 Corporation 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 Corporation 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.

The Corporation's Management determine the policies and procedures for both recurring fair value measurement, such as financial instrument at FVTPL financial assets.

For the purpose of fair value disclosures, the Corporation 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 as explained above.

2.2.3 Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation 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 and excluding taxes or duty.

The outcome of the transaction can be measured reliably when all the following conditions are satisfied:

- The amount of the revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Corporation;
- when the service delivered at the balance date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable.

The Corporation recognizes revenue when it satisfies a performance obligation by transferring a promised good or service to its customer. The transfer occurs at the time when the customer obtains control / Corporation of the good or service. This is determined by assessing, based on the terms of the contract entered into, the extent of the performance that is required of the Corporation and determining whether the goods and services to be delivered are distinct. Goods and services are considered to be distinct if the customer can benefit from the good or service either on its own or together with resources that are readily available to the customer and the Corporation's promise to transfer the good or service can be identified separately from other promises made in the contract.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

To determine whether to recognize revenue, the Corporation follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized at a point in time when the Corporation satisfies performance obligations by transferring the promised goods or services to its customers. As the period of time over which such delivery occurs is short, the revenue from the contract is accounted for on the basis of delivery at a point in time.

The Corporation recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations (i.e. Advance received for future delivery) and reports these amounts as other non financial liabilities in the statement of financial position.

Similarly, if the Corporation satisfies a performance obligation before it receives the consideration (i.e. Delivery of service or goods for credit), the Corporation recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

The corporation's revenue is largely made up of "farming" revenue in the form of sugar , deciduous fruit, bananas and by products. In all cases , revenue is recognised when the sugar is delivered to the customer. this would be on receipt of a delivery report from stock controller. Other operations revenue comprises revenue from the sale of grain, which is largely immaterial in isolation. Nevertheless, revenue on these operations is recognised in accordance with the principles of IFRS 15 above.

Sugar Industry Development Fund (SIDF)

The Sugar Industry Development fund is established by Proclamation NO. 415/2004. Financial sources of the fund is sale proceeds of sugar in the domestic market by the corporation in excess of ETB 1,026 per quintal weighting 100kgs (One Thousand Twenty Six Birr) and is expected to be further increase with the coming in to effect of a directive which is currently on a draft stage.

Transfer of sale proceed to the fund is recorded as a reduction from revenue and refund of the amount back to the corporation for project works shall be recognized directly in equity. Any Proceeds of sale that is attributed to the fund yet not transferred should be reported as payable to SIDF.

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.

2.2.4 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 Corporation operates ("the functional currency"). The financial statements are presented in Ethiopian Birr ("ETB") which is the Corporation's functional currency.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Transactions and balances

Transactions in foreign currencies are initially recorded by the Corporation at their respective functional currency spot rate at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies, if any, are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.2.5 Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Corporation operates and generates taxable income. Taxable profit differs from profit reported in the income statement because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period.

Tax paid in advance before the due date such as those withheld by the customer for sale of goods is recognized as withholding receivable and offset against the current income tax payable as computed in accordance with the Ethiopian tax proclamation number 979/2016 at the year end.

Current income tax relating to items recognized directly in equity if any is recognized in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate. The tax consequences of dividends should be recognized in P&L when a liability to pay the dividend is recognized.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences: including the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, The carry forward of unused tax credits and unused tax losses can be utilized, except When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities arise from taxable and deductible temporary differences. The following events and transaction of The Corporation gives rise to deferred tax;

- Property, plant and equipment;
- Allowance for Stock obsolescence
- Allowance for doubtful debtors;
- Unrealized exchange gain or loss;
- Severance payment obligation;

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax legislation that have been enacted or substantially enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation, as at the end of the reporting period, expects to recover or settle the carrying amount of these assets and liabilities.

Deferred tax relating to items recognized outside profit or loss if any is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Tax expenses

Current and deferred taxes (Changes in deferred tax asset and liability) are recognized in profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognized, in the same or a different period, to other comprehensive income; or a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income. Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

Value added tax

Revenues, expenses and assets are recognized net of the amount Value Added Tax (VAT), except:

- Where the Value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of sales tax included

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. PPE is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs capitalized to bearer assets (sugar cane roots, banana palms, deciduous and macadamia trees) include all direct costs of land preparation and planting.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. When the cost of a major inspection is included in the carrying amount of an item of PPE, the remaining carrying amount of the previous inspection is derecognized. All other repair and maintenance costs are recognized in the profit or loss as incurred.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

Construction-in-Process (CIP)

The corporation is undertaking series of expansion and modernization projects including construction of additional sugar factories, land farm development as well as infrastructure (house, hospitals, road and school, irrigation system, pipe). Engineering feasibility studies will be expensed when incurred. Professional external engineering and design activities will be capitalized as construction-in-process when incurred to the extent such costs can be traced directly to a specific CIP project. If a project is abandoned, the related engineering costs will be written off in the period in which the decision to abandon the project is approved by management.

The CIP account will include the capitalized cost of materials, machinery, equipment, labour and outside services as well as certain external engineering costs described under Engineering Costs. Costs accumulated in the CIP account will be transferred to the appropriate fixed asset account when it is ready for intended use. When segments of a project are put into operation one at a time, the estimated cost of each segment will be transferred to the fixed asset account. The estimated cost will be adjusted to actual cost when final project expenditures are known.

Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment);

A sugarcane plant is to be divided into two parts i.e. stubbles of previous crop (Ratoons) and the standing crop which is grown on this root which is then harvested for further processing. Hence, Cane Roots (Ratoons) is a bearer biological asset that is used in the production or supply of agricultural produce (Standing crops); and is expected to bear canes for more than one period. Until matured, the costs of direct material, direct labour and applied overhead for sugarcane are charged to Bearer Plant –Immature account i.e. Bearer Plant – Immature.

Once matured, the accumulated cost of the sugarcane shall be transferred to Bearer Plant-Mature account i.e. Bearer Plants – mature – Sugarcane and is considered property, plant and equipment and is governed by IAS 16. Depreciation on matured bearer biological asset becomes the costs of agricultural produce.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets including those Property, plant and equipment. The useful lives of items of property, plant and equipment have been assessed as follows:

Theoretical Useful Life (years)

Dam, Canals , and Irrigation	50 Years
Agricultural Equipment	10 years
Buildings	50 years
Plant and machinery	10 years
Motor vehicles	10 years
Office equipment	7 years
Computer equipment	7 years
Sugar Cane roots	9 years
Deciduous fruit trees	20 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized except for derecognized item of property, plant and equipment at opening IFRS Financial Position date which do not satisfy the capitalization criteria which is directly charged to equity.

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.

Assets costing less than Birr 2,000 each are expensed at the time of acquisition.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

2.2.7 Leases

Right-of-use asset

The Corporation is party to lease arrangements over land and office buildings. The Corporation 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 Corporation.

The right-of-use assets are initially measured at the present value of the minimum lease payments, which comprises the following:

- The amount of the initial measurement of the liability;
- All lease payments made at or before the commencement date of the lease, less any lease incentives provided to the
- All initial direct costs incurred by the Corporation in respect of the lease;
- An estimate of the costs that will be incurred by the Corporation for dismantling and restoring the leased asset by the Corporation at the end of the lease term.

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 remeasurement of the lease liability.

Amortization is calculated on a 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.

The Corporation acquired land, free of charge for indefinite period, long before the Land Lease proclamation comes to effect. There are different improvements on the land holdings of the Corporation 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.

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 Corporation from the lessor;

The lease payments are discounted using the Corporation's incremental borrowing rate. After initial recognition date, the Corporation accounts for the lease liabilities by reducing the carrying amount to reflect payments made on the lease; Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are

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 expenditure is recognized in the statement of profit or loss when it 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 lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. 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. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

2.2.9 Financial instruments — initial recognition and subsequent measurement

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 Corporation becomes a party to the contractual provisions of the instrument.



**ETHIOPIAN SUGAR CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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J) Financial assets

Initial recognition and measurement

Financial assets of the Corporation are classified, at initial recognition financial asset subsequently measured at amortized cost or at fair value based on the purpose for which the financial assets are acquired. All financial assets are recognized initially at fair value plus or minus transaction cost.

Financial asset at amortized cost (Loans and receivables)

This category is the most relevant to the Corporation such as Loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such as financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. 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 EIR. The EIR amortization is included in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Trade receivables Comprises of amounts due from customer in respect of the sugars and byproducts sold in credit. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are a-classified as current assets. If not, they are presented as non-current assets. Lifetime expected credit losses must be recomputed based on the requirements of IFRS 9. For trade receivables or contract assets balance that do not contain a significant financing component A provision matrix may be used to estimate ECL . The amount of the provision is recognized in the profit or loss.

Equity instruments

Equity instruments such as investment in the shares of other entities are to be measured at Fair value through profit or loss (FVTPL) , except for those equity instruments for which the entity has elected to report value changes in Other comprehensive income (OCI). The Corporation will generally hold equity instruments that are classified as FVTPL.

Fair value determination

If the market for a financial asset is not active, the Corporation establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and on discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific



ETHIOPIAN SUGAR CORPORATION
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Impairment of financial assets

Disclosures relating to impairment of financial assets are summarized in the following notes:

- Accounting policy disclosures Below
- Financial assets Note 15
- Trade receivables Note 15.1

Impairment of financial asset shall be based on expected credit losses, resulting in the recognition of a loss allowance before the credit loss is incurred. Under this approach, the corporation needs to consider current conditions and reasonable and supportable forward-looking information that is available without undue cost or effort when estimating expected credit losses.

As the information may not be readily available to effectively determine credit loss using general approach as above, the Corporation apply simplified approach in accordance with practical expedient where for trade receivables or contract assets that do not contain a significant financing component, the loss allowance should be measured at initial recognition and throughout the life of the receivable at an amount equal to lifetime ECL. 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.

A provision matrix is applying the relevant loss rates to the trade receivable balances outstanding (i.e. a trade receivable aged analysis). an entity would apply different loss rates depending on the number of days that a trade receivable is past due. Depending on the diversity of its customer base, the entity would use appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments.

The Corporation assesses, at each reporting date, whether there is any objective evidence that a financial asset is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtors or a of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Corporation first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.



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The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. Loans, together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in profit or loss.

ii) Financial liabilities

Initial recognition and measurement

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.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Corporation's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as follows:

Loans and borrowings and trade payables

This is the category most relevant to the Corporation. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Effective interest method is a method of calculating the amortized cost of a financial liability and to allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction and costs and other premium or discount) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

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 EIR. The EIR amortization is included in finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

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.

Derecognition

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 derecognition 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.



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Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below :

Loans and receivables

This category is the most relevant to the Corporation. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. 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 EIR. The EIR amortization is included in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

Trade receivables are amounts due from customers and agents for delivery of products . If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. A provision for impairment of receivables is established when there is objective evidence that the Corporation will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the profit or loss.

Equity instruments

Equity instruments such as investment in the shares of other entities are to be measured at Fair value through profit or loss (FVTPL) , except for those equity instruments for which the entity has elected to report value changes in Other comprehensive income (OCI). The Corporation will generally hold equity instruments that are classified as FVTPL.

Fair value determination

If the market for a financial asset is not active, the Corporation establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and on discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity specific inputs.



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Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and bank overdrafts as they are considered an integral part of the Corporation's cash management. Bank overdrafts (if any) are shown within borrowings in current liabilities on the statement of financial position.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either
 - (a) the Corporation has transferred substantially all the risks and rewards of the asset, or
 - (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of its continuing involvement in it. In that case, the Corporation also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that it has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Corporation could be required to repay.

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 Corporation's own use (major construction or acquisition projects only). The Corporation defines qualifying assets as those linked to projects with projected expenditure of greater than ETB 1,000,000 and where the expected period to bring assets into use exceeds 6 Months. Assets in use or ready for use are not qualifying assets.

Where a loan is taken out specifically to finance the construction of an asset, the amount to be capitalized shall be the interest payable on that loan less income earned on the temporary investment of the borrowings. If construction of a qualifying asset is financed from an entity's general borrowings, the borrowing costs eligible to be capitalized shall be determined by applying the weighted average general borrowings rate to the expenditure incurred on the asset.

2.2.11 Inventories

Inventory shall be recognized when the control to the goods passes to the Corporation. Title to goods passes from the seller to the corporation in any manner and on any conditions explicitly agreed on by the parties. In the case of foreign purchased item, such term included FOB, CIF and C & F where the transfer of risk and rewards occurred at different point in time. If no conditions are explicitly agreed to by the parties, control of goods generally transfers from the seller to the corporation at the time and place at which the seller completes its performance with reference to the physical delivery of the goods.

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. Inbound freight costs should be included, but outbound freight should be excluded. Inventories are stated at the lower of cost and net realizable value.



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Cost of production

ESC shall determine the cost of production not for each batch or process, but it is calculated for a specific period, may it be a quarterly or half yearly or yearly as the case may be. And thus, it is recommended that ESC should use normative cost method/full absorption cost method.

ESC should use standard costing approach where a pre-determined unit cost is used to account for movement of finished goods during the period. On a quarterly or half yearly or yearly basis as the case may be, all inventory and cost of sales will need to be trued up to actual value for IFRS reporting purposes. If the amount of under or over applied costs are significant, the proration of such costs among cost of sales, finished goods and WIP will be based on their proportion at the date.

i) Cost per ton of sugarcane consists of standard agricultural direct material costs, standard agricultural direct labour cost, and standard agricultural overhead costs.

ii) Cost per ton of bagged sugar consists of standard factory direct material costs, standard factory direct labour cost, and standard factory overhead costs.

The allocation of fixed production overhead costs to inventories shall be based on the normal capacity of the production facility. Actual production levels will be monitored relative to the planned volume. If production levels for the year fall below a certain percentage to be decided by management from the planned level, this will be taken as a trigger that normal production levels are not being achieved and a correction of the closing inventory value to current period expense will be made.

Cost of sugar cane

Each Factory in ESC shall determine the cost of harvested cane for each field or plots of land identified by field or plot number. Costs of direct materials, direct labour, and applied overhead incurred between the previous harvest and the current harvest for the production of agricultural produce are considered the cost of production and debited to future crops (WIP) in each plantation field identified by a ratoon account ID.

Depreciation on matured bearer biological assets is also considered as part of the current cost of production. Hence, the accumulated cost of agricultural produce consists of current expenditures (direct materials, direct labour, and applied overhead) and current depreciation on bearer biological assets.

The cost of sugarcane at point of harvest is determined by dividing the accumulated cost to the total quantity of sugar cane in KG produced during the period. ESC shall use fair value less cost to sell to record the harvested agricultural produce as inventory. The sources of fair value for sugar cane can be Purchase price of sugarcane from out growers. Gain/loss shall be computed as the difference between fair value and accumulated costs. If fair value exceeds accumulated costs, Gains on Valuation of Biological Assets arises. On the other hand, loss occurs if accumulated costs exceed fair value. After the harvest is completed, the cane stock is accounted for under Sugarcane inventory (IAS 2).



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The cost of sugar & by products

Using Process costing method, all costs will be accumulated for each stage of sugar production or process, and the cost per unit of product is ascertained at each stage of production by dividing the cost of each process by the normal output of that process. Hence each major stage of the production process shall be designated as a cost centers.

At a certain stage in the sugar processing plant, joint products (Raw sugar, Molasses, filter cake, and Bagasse) are separately identifiable, emerging from a single process. Bagasse splits after milling in the juice extraction plant (split-off point) and goes to steam generation plant to be used as an input for steam generation. However, molasses is split from sugar after centrifuging stage (split-off point) and sent to molasses tanker for storage. The common process costs / Joint cost should be apportioned between the joint products at the split-off point. The apportionment of common process costs between joint products is arbitrary whichever method is used, but the factory should ensure consistent use of the apportionment method throughout the financial period.

Where the production process generates more than one product, and the value of the one product (by-product) is immaterial, the by-product is often measured at net realisable value, with the main product being measured at cost less the value attributed to the by-product. Hence if the value of the molasses compared to the main product sugar is immaterial, then the molasses can be valued at its net realizable value. Cost per unit of product (sugar, Ethanol) produced shall be worked out from the total manufacturing process (joint cost and refinement process) but after deducting realizable value of by-products, as well as normal and abnormal losses.

Inventory Provision

Inventories shall be stated at the lower of cost or net realizable value. Generally, the cost of inventories shall be stated using the weighted-average cost method. The write downs of inventory below cost shall be reversed to the extent that the conditions leading to the write-down no longer apply. It is anticipated that such situations will be rare and that in practice, benefit will be realized either when finished goods/services are sold or when written-down material are actually used in the production/service delivery process.

The following stock obsolescence provision calculation methods apply:

1. Damaged inventory having no further usage or no market value is provisioned at 100%.
2. Slow moving, obsolete inventory and items with a shelf life approaching expiration are provisioned by market and sales entities or factories and supported by adequate rationale. The rationale should reflect the situation or a set of circumstances (not covered by point 1) that require full, or partial provisioning. Reference to their resale value shall be made when determining the amount of provision.

2.2.12 Biological Asset

The corporation's biological assets comprise growing crops in the form of sugar cane, and deciduous fruit. Biological assets are measured at fair value, determined as at 30 June, based on current estimated market prices for the following season, less the estimated costs of harvesting, transport, packing and point-of-sale costs. The sources of fair value for sugar cane can be Purchase price of sugarcane from out growers. Hence If there has been any Unharvested /growing corps (cane) , unused agricultural produce or harvested cane, ESC shall use fair value less cost to sell to record the harvested agricultural produce as inventory. Gain/loss shall be computed as the difference between fair value and accumulated costs. If fair value exceeds accumulated costs, Gains on Valuation of Biological Assets arises. On the other hand, loss occurs if accumulated costs exceed fair value



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2.2.13 Non-current assets classified as held for sale

An Corporation shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

Assets that meet the above criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease.

2.3.14 Impairment of non-financial assets

Disclosures relating to impairment of non-financial assets are summarized in the following notes:

- | | |
|---|---------|
| • Accounting policy disclosures | Below |
| • Disclosures for significant assumptions (if any) | Below |
| • Property, plant and equipment | Note 11 |

The Corporation assesses at each reporting date whether 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 Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or Cash Generating Unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Corporation bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Corporation's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the asset's or Cash Generating Unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.



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2.2.15 Employee benefits

Short-term benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid annual leave and sick leave, bonuses and non-monetary benefits such as medical care) are recognized in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognized as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Post employment benefit

Defined contribution plan;

Defined contribution plans are post-employment benefit plans under which the Corporation pays fixed contributions into separate entities on a mandatory, contractual or voluntary basis. The Corporation pays fixed contributions (11 % of the employee's basic salary) into state managed private employee's state plan for individual employees. The Corporation has no further legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognized as an expense in the period that related employee services, are received. The Corporation has no further payment obligations once the contributions have been paid.

Defined Benefit Plan;

The Corporation is obliged by law to pay severance payment for eligible employees who served the Corporation for more than 5 years when the employment leaves the company by its own will. 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. Accordingly the present value of post employment benefit obligation (severance) 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. This is based on employee turnover rates, salary growth rate, expected date of termination, identification of eligible employees and relevant discount rate. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Discount factors are determined close to each year-end by reference to current incremental borrowing rate.

The liability is computed using Projected Unit Method to determine the present value of its defined benefit obligations and the related current service cost and, interest expense. The liability is determined as a present value, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods

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. Interest expense which represents the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement is included in Finance costs.

Any gain or loss on settlement which represent the difference between the present value of the defined benefit obligation being settled, as determined on the date of settlement; and The settlement price and any additional payments made directly by the entity in connection with the settlement is recognized in the profit or loss. Other actuarial gain or loss is recognized through other comprehensive income.

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



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Termination benefit;

the Corporation shall recognize the amount of post employee benefits expected to be paid in exchange for that service in the following ways:

An entity recognizes redundancy benefits as a liability and an expense when the entity is demonstrably committed to either:

1. Terminate the employment of an employee or group of employees before the normal retirement date Or Provide termination benefits because of an offer made in order to encourage voluntary redundancy.
2. When the entity can no longer withdraw the offer of those benefits; and
3. When the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

Termination benefits do not provide the Corporation with future economic benefits and are recognized as an expense immediately.

2.2.16 Legal reserve

No less than one-twentieth (5%) of the annual net profit of the Corporation shall be transferred to the legal reserve fund until such fund amounts to one-fifth (20%) of the capital of the Corporation. It is utilized up on the decision of the supervising authority, to cover losses incurred by the Corporation and to expand the activities of the Corporation.

2.2.17 Provisions

Provisions are recognized when the Corporation 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.

2.2.18 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.

2.2.19 Related parties

A party is related to an entity if, inter alia

(i) directly, or indirectly through one or more intermediaries, the party:

- a) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
- b) has an interest in the entity that gives it significant influence over the entity; or

(ii) the party is an associate of the entity.

The Corporation discloses the nature of relationships between the Corporation and its related parties irrespective of whether there have been transactions between them. An entity shall disclose the name of its shareholder and other companies owned by the same share holder which in this case are other companies owned by Government.

The entity also discloses information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include

(a) the amount of the transactions;

(b) the amount of outstanding balances,

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement;

(ii) details of any guarantees given or received;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.



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2.3 First-time adoption of IFRS

Reconciliation of equity as at 1 July 2016 (date of translation to IFRS)

	Notes	GAAP 1 JULY 2016 ETB	RECLASSIFICATION ETB	REMEASUREMENT ETB	IFRS 1 JULY 2016 ETB
Assets					
Non-current assets					
Property plant & equipment	a)	47,940,069,975	10,076,355,196	14,734,090,621	72,750,515,792
Right of use asset	b)	-	18,987,789	339,308,276	358,496,066
Bearer plant	c)	-	-	959,411,191	959,411,191
Deferred expenditure	y)	7,925,605,027	(2,659,651,230)	(5,265,953,797)	(0)
Other asset	n)	3,992,000	-	-	3,992,000
Projects and public factories		13,502,651,497	-	(13,502,651,497)	0
		69,372,318,499	7,435,691,755	(7,735,595,206)	74,072,415,049
Current assets					
Trade and other receivable *	d)	1,273,797,852	51,913,751	(604,588,583)	721,123,020
Stock & goods in transit	e)	4,731,953,393	(203,195,396)	(333,464,775)	4,195,293,221
Biological Asset - Standing cane	z)	3,177,797,709	-	804,674,210	3,982,471,920
Tax receivable*		2,988,227,968	44,229,355	(202,366,183)	2,830,091,141
Advance and prepayments*	h)	28,813,441,614	(7,192,545,921)	(6,970,163,472)	14,650,732,221
Inter-company receivable *	i)	488,420,430	394,872,228	(883,292,658)	-
Cash and cash equivalents	j)	1,211,395,459	-	(703)	1,211,394,756
		42,685,034,425	(6,904,725,983)	(8,189,202,164)	27,591,106,278
Total assets		112,057,352,924	530,965,772	(10,924,797,369)	101,663,521,327
Equity and liabilities					
Equity					
Capital					
Sugar Industry Development Fund		14,042,512,614	-	40,511,876	14,083,024,490
Industrial dev't fund contribution for capital expenditure		13,137,570,467	-	719,337,176	13,856,907,643
Capital contribution		101,054,623	-	-	101,054,623
Asset revaluation reserve	k)	2,102,885,376	-	(1,654,137,218)	448,748,158
Head office account	l)	56,296,027	-	11,921,057,272	11,977,353,299
Other reserve	m)	(20,793,960,448)	(22,574,013,830)	10,438,978,230	(32,928,996,048)
Project expansion fund	n)	-	22,545,284,957	(22,545,284,957)	0
Reserve for SIDF	o)	-	-	(74,242,043)	(74,242,043)
Total equity		8,646,358,659	(28,728,873)	(1,153,779,664)	7,463,850,122
Non-current liabilities					
Long term loan	a)	76,040,502,000	(780,610,491)	951,363,086	76,211,254,595
Employee benefit obligation	r)	-	-	29,903,890	29,903,890
Deferred tax liability	s)	-	-	4,355,729,458	4,355,729,458
		76,040,502,000	(780,610,491)	5,336,996,434	80,596,887,943
Current liabilities					
Trade and other payable **	t)	10,105,111,705	82,099,501	(1,428,723,352)	8,758,487,853
Retention Payable **		767,493,986	-	-	767,493,986
Inter-company payable **	x)	12,280,985,072	1,573,620,229	(13,854,605,301)	-
Long term loan-current maturity		369,408,637	(369,408,637)	-	-
Interest Payable	u)	2,305,933,114	-	217,809,411	2,523,742,525
Sugar development fund**		205,356,116	-	-	205,356,116
Tax payable **	v)	971,846,364	44,229,355	6,750,425	1,022,826,144
Unearned revenue **		9,384,607	-	-	9,384,607
Accrual **	w)	140,075,971	9,764,688	73,178,488	223,019,147
Provision	w)	-	-	92,472,882	92,472,882
State dividend & industrial dev't fund		214,896,692	-	(214,896,692)	-
		27,370,492,264	1,340,305,136	(15,108,014,139)	13,602,783,261
Total liabilities		103,410,994,265	559,694,645	(9,771,017,705)	94,199,671,205
Total equity and liabilities		112,057,352,925	530,965,772	(10,924,797,369)	101,663,521,327

* Figures are reported as debtors in the GAAP Financial statements amounting ETB 33,563,887,864

** Figures are reported as creditors in the GAAP Financial statements amounting ETB 24,480,253,822



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2.3 First-time adoption of IFRS

Reconciliation of equity as at 30 June 2017

	Notes	GAAP 30 JUNE 2017	RECLASSIFICATION	REMEASUREMENT	IFRS 30 JUNE 2017
Assets					
Non-current assets					
Property plant & equipment	a)	64,765,641,706	12,025,345,312	16,858,346,144	93,649,333,162
Right of use asset	b)	-	18,987,789	339,508,276	358,496,066
Bearer plant	c)	-	-	912,732,754	912,732,754
Deferred expenditure	y)	8,139,284,067	(4,170,502,430)	(3,968,781,637)	0
Other asset	n)	3,992,000	-	-	3,992,000
Projects and public factories		17,401,540,293	-	(17,401,540,293)	-
		<u>90,310,458,065</u>	<u>7,873,830,672</u>	<u>(3,259,734,756)</u>	<u>94,924,553,982</u>
Current assets					
Trade and other receivable *	d)	1,142,381,609	129,976,002	(37,961,514)	1,234,396,097
Stock & goods in transit	e)	6,720,257,883	(203,195,396)	(840,952,044)	5,676,110,443
Stock Shortage	f)	-	-	361,140,621	361,140,621
Biological Asset - Standing cane	g)	3,883,840,332	-	(408,338,020)	3,475,502,312
Biological asset- beef cattle		3,348,774	-	-	3,348,774
Tax receivable *		3,241,122,630	21,327,468	(244,280,643)	3,018,169,455
Advance and prepayments *	h)	24,294,528,482	(7,527,456,301)	(7,084,234,319)	9,682,837,862
Inter-company receivable *	i)	311,186,231	340,163,927	(651,350,158)	-
Cash and cash equivalents	j)	1,582,461,097	-	(11,043,095)	1,571,418,002
		<u>41,179,127,038</u>	<u>(7,239,184,300)</u>	<u>(8,917,019,172)</u>	<u>25,022,923,566</u>
Total assets		<u>131,489,585,104</u>	<u>634,646,372</u>	<u>(12,176,753,928)</u>	<u>119,947,477,548</u>
Equity and liabilities					
Equity					
Capital		14,042,512,614	-	40,511,876	14,083,024,490
Sugar Industry Development Fund		15,789,250,975	-	683,100,176	16,472,351,151
Industrial dev't fund contribution for capital expenditure		101,054,623	-	-	101,054,623
Capital contribution		2,102,885,376	-	(2,099,461,390)	3,423,986
Asset revaluation reserve	k)	56,296,027	-	11,921,057,272	11,977,353,299
Project expansion fund	l)	-	25,453,089,148	(25,453,089,148)	0
Accumulated Loss	m)	(28,802,707,763)	(25,642,843,127)	18,581,805,139	(35,863,745,751)
Other reserve	n)	-	-	(1,717,122)	(1,717,122)
Reserve for SIDF	o)	-	(366,237,303)	(2,836,384,596)	(3,202,621,900)
Total equity		<u>3,289,291,852</u>	<u>(555,991,282)</u>	<u>835,822,207</u>	<u>3,569,122,777</u>
Non-current liabilities					
Long term loan	q)	95,193,633,076	(1,470,899,433)	1,386,547,402	95,109,281,045
Employee benefit obligation	r)	-	-	34,816,706	34,816,706
Deferred tax liability	s)	-	-	4,397,367,641	4,397,367,641
		<u>95,193,633,076</u>	<u>(1,470,899,433)</u>	<u>5,818,731,748</u>	<u>99,541,465,392</u>
Current liabilities					
Trade and other payable **	t)	11,509,760,114	180,551,733	(469,676,942)	11,220,634,905
Retention Payable **		1,068,373,338	-	-	1,068,373,338
Inter-company payable **	x)	16,195,330,244	2,736,443,204	(18,931,773,448)	-
Long term loan-current maturity		369,384,879	(369,384,879)	-	-
Interest Payable	u)	2,224,133,724	-	593,020,310	2,817,154,034
Sugar development fund **		209,480,986	-	-	209,480,986
Tax payable **	v)	987,482,417	21,327,468	(59,035,053)	949,774,832
Unearned revenue **		114,634,113	-	-	114,634,113
Accrual and provision **	w)	113,183,665	92,599,561	18,315,866	224,099,091
Provision	w)	-	-	192,627,643	192,627,643
State dividend & industrial dev't fund		214,896,696	-	(214,896,697)	(1)
Stock Overage		-	-	40,110,437	40,110,437
		<u>33,006,660,176</u>	<u>2,661,537,087</u>	<u>(18,831,307,885)</u>	<u>16,836,889,377</u>
Total liabilities		<u>128,200,293,252</u>	<u>1,190,637,654</u>	<u>(13,012,576,137)</u>	<u>116,378,354,769</u>
Total equity and liabilities		<u>131,489,585,103</u>	<u>634,646,372</u>	<u>(12,176,753,930)</u>	<u>119,947,477,548</u>

* Figures are reported as debtors in the GAAP Financial statements amounting ETB 28,989,218,952

** Figures are reported as creditors in the GAAP Financial statements amounting ETB 30,198,244,877



ETHIOPIAN SUGAR CORPORATION u7
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2018

2.3 First-time adoption of IFRS

Reconciliation of Profit or loss for the year ended on 30 June 2017

	Notes	GAAP 30 JUNE 2017 ETB	REAMESURMENT ETB	RECLASSIFICATION ETB	IFRS 30 JUNE 2017 ETB
Revenue	z)	8,190,476,373	-	(83,212,265)	8,107,264,107
Cost of sales	za)	(7,316,454,154)	(58,594,308)	69,007,356	(7,306,041,106)
Gross profit (loss)		874,022,219	(58,594,308)	(14,204,909)	801,223,002
Contribution to SIDF	o)	(3,128,379,856)	-	3,128,379,856	-
Other operating income	zb)	113,535,574	92,762,161	-	206,297,735
General & administrative	zc)	(1,346,127,302)	(1,319,426,308)	-	(2,665,553,610)
Provision for bad debt expense	d)	(812,280,281)	(171,768,221)	517,511,775	(466,536,728)
Loss of cane at fair value	g)	-	(74,541,286)	-	(74,541,286)
Impairment of Bearer Plant	c)	-	(155,892,048)	-	(155,892,048)
Provision for plantation	g)	-	(661,210,858)	-	(661,210,858)
Write down of finished goods inventory to NRV		-	(55,495,151)	(66,277,754)	(121,772,905)
Fair value gain or loss	g)	-	389,894,807	-	389,894,807
Operating profit (loss)		(4,299,229,647)	(2,014,271,211)	3,565,408,968	(2,748,091,890)
Finance costs/charges	zd)	(1,059,801,982)	(995,520,457)	-	(2,055,322,439)
Profit (loss) before tax		(5,359,031,629)	(3,009,791,668)	3,565,408,968	(4,803,414,329)
Income tax expense	ze)	-	(41,638,182)	-	(41,638,182)
Profit (loss) for the year		(5,359,031,629)	(3,051,429,850)	3,565,408,968	(4,845,052,511)
Other comprehensive income, net of income tax					
Items that will not be subsequently reclassified into profit or loss:		-	-	-	-
Remeasurement gain loss on retirement benefits obligations		-	(1,767,540)	-	(1,767,540)
Total comprehensive income for the year		(5,359,031,629)	(3,049,662,310)	3,565,408,968	(4,843,284,971)



**ETHIOPIAN SUGAR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

First-time adoption of IFRS for the corporation

These financial statements, for the year ended 30 June 2018, are the first the corporation has prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

For periods up to and including the year ended 30 June 2017, the corporation prepared its financial statements in accordance with its accounting framework. Accordingly, the corporation has prepared financial statements which comply with IFRS applicable for periods ending on or after 30 June 2018, together with the comparative period data as at and for the year ended 30 June 2017, as described in the summary of significant accounting policies.

In preparing these financial statements, the Corporation's opening statement of financial position was prepared as at 1 July 2016, the corporation's date of transition to IFRS. This note explains the principal adjustments made by the corporation in restating its financial statements prepared under the previous framework, including the statement of financial position as at 1 July 2016 and the financial statements as at and for the year ended 30 June 2017.

In preparing its opening IFRS statement of financial position, the corporation has adjusted amounts reported previously in financial statements prepared in accordance with corporation'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 corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

In preparing these financial statements in accordance with IFRS 1, the corporation has applied the mandatory exceptions from full retrospective application of IFRS. The optional exemptions from full retrospective

Optional exemptions applied

The corporation applied the following exemptions on its transition to IFRS

Deemed cost: Property, plant and equipment were carried in the statement of financial position prepared in accordance with previous framework using historical cost. The corporation has elected to regard replacement cost as deemed cost at the transition date as carrying values of assets under previous framework and IFRS is expected to be materially different.

Leases: The corporation is required to determine whether an arrangement contains a lease based on the facts and circumstances existing on 1 July 2016. 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 corporation 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 (1 July 2016).

Exceptions applied

The corporation applied the following mandatory exception from retrospective application:

Estimates exception

Estimates under IFRS at 1 July 2016 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 SUGAR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

a) Property, plant and equipment

	30 June 2017	1 July 2016
	<u>ETB</u>	<u>ETB</u>
Reclassifications		
Reclassification from deferred expenditure (i)	1,589,080,059	2,064,038,881
Reclassification to prepayment (i)	359,910,057	2,648,203,556
Reclassification from advance	-	5,364,112,758
	<u>1,948,990,117</u>	<u>10,076,355,196</u>
Remeasurement		
Depreciation Recalculation (ii)	512,299,664	-
Construction in progress (iv)	(318,537,448)	6,225,693,315
Inter-branch reconciliation (v)	1,572,451,282	173,751,223
Reserve for excess of deemed cost over book value- (ii)	-	11,590,877,836
Reclassification to prepayment (i)	(639,994,886)	772,029,060
Addition difference (iii)	(6,296,953)	9,130,074
Receivable from tendaho housing (v)	-	214,970,444
Prior period adjustment (vi)	171,634,052	(171,634,052)
HO Vs Project allocation	893,391,915	179,329,895
Allocation of HO Deferred Expenditure	(537,264,055)	537,264,055
Deferred Expenditure Reversal	(138,552,401)	85,794,218
Derecognition	-	(3,889,815,517)
Derecognition advance and payable to Sur	993,299,928	(993,299,928)
Reversal of GAAP Elimination	(378,175,575)	-
	<u>2,124,255,523</u>	<u>14,734,090,621</u>
	<u>4,073,245,639</u>	<u>24,810,445,817</u>

- i) Under the previous framework, right of use asset were recognized for land that has not yet been made available for use by the corporation. Under IFRS, the advance payment shall be prepayment instead of land lease until the land is handed over to the corporation
- ii) Under previous framework, property, plant and equipment are used to be recognized at historical cost. Under IFRS, property, plant and equipment are revalued and reserve for excess of deemed cost over book value is recognized. Depreciation has also been recalculated based the revised remaining life and the new valuation.
- iii) Addition difference between assets acquired during the year and amount reported in the draft financial statement is charged to profit or loss.
- iv) To recognize transactions recorded in head office project account but not in the accounts of factory and projects.
- v) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.
- vi) The company capitalized the pre-operation expenditure incurred in relation to plant expansion projects and depreciated this on straight line basis over ten years as per the tax law. Under IFRS, preoperational costs are not allowed and the nature of the costs are further analyzed and partially transferred to construction in progress.
- vii) Under the previous framework, reclassification of deferred expenditure to CIP was made in 2017. Under IFRS the adjustment is taken back to 2016 and the amounts are restated.
- viii) To recognize transactions recorded in head office project account but not in the accounts of factory and projects .
- ix) Under previous framework, property, plant and equipment were understated as some of the work executed for the project were wrongly reported as part of the advance to contractors. There are also CIP recognized against retention amounting ETB 60.647 Million.
- x) Under the previous framework, assets that meet the criteria for recognition was erroneously charged to deferred expenditure. Under IFRS, those assets are revalued and included in PPE and derecognized from deferred expenditure.
- xi) To recognize transactions recorded in head office project account but not in the accounts of factory .
- xii) Under the previous framework, assets that meet the criteria to be capitalized were erroneously recorded as advance to tendaho housing. Under IFRS, the assets are identified and capitalized.
- xiii) Under IFRS, Prior period adjustments resulted from recording errors are restated in the period they are occurred.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

b) Right of use asset - land	30 June 2017	1 July 2016
	ETB	ETB
Remeasurement		
Reserve for excess of deemed cost over book value - Right use of asset - land (ii)	-	358,496,066
	-	<u>358,496,066</u>
c) Bearer plants	30 June 2017	1 July 2016
	ETB	ETB
Remeasurement		
Cane plant (i)	308,949,866	1,183,388,952
Fruit plant (i)	-	19,491,466
Depreciation cane (i)	(199,116,442)	-
Depreciation fruit (i)	(619,814)	-
Impairment (ii)	(155,892,048)	(243,469,226)
	<u>(46,678,438)</u>	<u>959,411,191</u>
	<u>(46,678,438)</u>	<u>959,411,191</u>
i) IFRS 1 allows first time adopter to revalue its the PPE including bearer plant and take the resulting amount as a deemed cost. Accordingly, the Corporation has revalued its bearer plant as at translation date of July 1, 2016. Hence, this adjustment is made to account for the net difference between GAAP and the balance resulted after revaluation of bearer plant as at July 1, 2016. Depreciation has also been recalculated based the revised		
c) Projects and public factories	30 June 2017	1 July 2016
	ETB	ETB
Remeasurement		
Elimination of HO investment	(22,276,859,871)	(83,821,806,096)
Reversal of GAAP Elimination	18,377,971,075	70,319,154,599
	<u>(3,898,888,796)</u>	<u>(13,502,651,497)</u>
	<u>(3,898,888,796)</u>	<u>(13,502,651,497)</u>
d) Trade and other receivable	30 June 2017	1 July 2016
	ETB	ETB
Reclassifications		
Abnormal balance (ii)	47,861,856	51,702,765
Staff debtors (i)	574,703	55,805
Sundry debtors (i)	29,648,232	95,694
Advance and prepayment (i)	(22,540)	59,488
	<u>78,062,251</u>	<u>51,913,751</u>
	<u>78,062,251</u>	<u>51,913,751</u>
Remeasurement		
Inter-branch reconciliation (i)	29,895,379	(31,201,278)
Allowance for credit loss (iii)	520,749,642	(557,405,553)
Prior period adjustment (ii)	15,982,048	(15,981,753)
	<u>566,627,069</u>	<u>(604,588,583)</u>
	<u>566,627,069</u>	<u>(604,588,583)</u>
i) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.		
ii) Under previous framework, debtors with abnormal balances were offset against normal balances. However, Under IFRS offsetting is not allowed and hence this is to reclassify debtors with abnormal balance in to creditors.		
iii) Under previous framework, allowance for credit loss for trade and other receivables was not properly assessed and recognized. Under IFRS, additional allowances are resulted from individual assessment of debtor balances.		
iv) Under IFRS, Prior period adjustments resulted from recording errors are restated.		



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

e) Stock & goods in transit	30 June 2017	1 July 2016
	<u>ETB</u>	<u>ETB</u>
Reclassifications		
GIT to CIP (i.)	-	(203,195,396)
	-	(203,195,396)
Remeasurement		
Deferred settlement (i)	(75,869,591)	(9,193,952)
Reversal of provision for stock obsolescence (ii)	(3,675,285)	25,854,762
Receivable from tendaho housing (ii)	-	48,433,273
Prior period adjustment (iii)	17,089,646	(2,515,567)
inter-branch reconciliation (i)	(108,586,413)	(639,224)
Provision for stock obsolescence (iv)	(140,194,080)	(104,779,697)
Stock remeasurement (i)	(119,147,230)	(195,148,997)
Stock expense (iii)	(77,104,316)	(95,475,372)
	<u>(507,487,269)</u>	<u>(333,464,775)</u>
	<u>(507,487,269)</u>	<u>(333,464,775)</u>

- i) Under previous framework, imported sugars through deferred settlement arrangements were measured and recognized at amount to be settled in future. Under IFRS, inventories purchased in deferred settlement arrangements has to be measured at discounted amount on initial recognition.
- ii) Under previous framework, provisions were made for stock obsolescence. Under IFRS, decrease in provisions are resulted from reassessment of obsolescence .
- iii) Under previous frame work the Corporation did not keep a perpetual records of inventory and hence the physical count at the year have been revalued and the resulting remeasurement gain or loss is recognized against profit or loss.
- iv) Under previous framework, finished goods stock having lower NRV than their initial cost were measured at cost. Under IFRS, stock items are valued at the lower of their cost and NRV which resulted an impairment.
- v) Under previous frame work the Corporation did not recognize provision in respect of obsolete and slow-moving inventory item. Hence this adjustment represent recognition of allowance for stock obsolescence.
- vi) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.
- vii) Under previous framework, stocks valuations were not performed as per year end stock count. Under IFRS, valuations are performed using year end stock count.

f) Stock Shortage / Overage	30 June 2017	1 July 2016
	<u>ETB</u>	<u>ETB</u>
Amount under previous framework		
Roll over		
Remeasurement		
Remeasurement gain or loss (i)	401,251,055.61	-
	401,251,055.61	-
	<u>401,251,055.61</u>	<u>-</u>

- i) Under previous frame work the entity did not keep a perpetual records of inventory and hence the physical count at the year have been revalued and the resulting remeasurement gain or loss is recognized against profit or loss.



**ETHIOPIAN SUGAR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

g) Standing cane/fruit	30 June 2017	1 July 2016
	ETB	ETB
Remeasurement		
Fair value measurement - cane (i)	(214,370,422)	3,257,611,601
Fair value measurement - fruit (i)	1,962,886	111,638,031
Derecognition of Sugar Development Impairment (ii)	(286,793,117)	(1,246,680,521)
Inter-branch reconciliation (ii)	(661,210,858)	(1,317,894,901)
Loss of cane at fair value	2,225,790	-
Cost Reclassified to Bearer Plant	(43,686,111)	-
	(11,140,398)	-
	<u>(1,213,012,230)</u>	<u>804,674,210</u>
	<u>(1,213,012,230)</u>	<u>804,674,210</u>

- i) IAS 41 requires to use fair value method for biological assets. Accordingly, the Corporation has revalued the biological assets as at translation date and subsequently. Hence, this adjustment is made to account for the net difference between GAAP and IFRS requirements and the balance resulted after revaluation of biological asset.
- ii) Under previous framework, tax receivables were reported under trade and other receivables. Under IFRS, non-financial assets have to be separately presented in the statement of financial position, and this adjustment is made to reclassify tax receivables to non-financial asset.
- iii) Due to the El Niño effect in the region, it has been determined that the biological asset has incurred damage. As a result, management has concluded that the plantation no longer provides future economic benefits due to the adverse weather conditions. Therefore, a provision has been recorded for the entire accumulated costs associated with the plantation, amounting to ETB 1.613 billion (consisting of ETB 1.06 billion as of July 7, 2016, and ETB 612 million as of July 7, 2017).
- iv) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.
- v) The subsequent assessment of the biological asset indicates that the cost incurred on plantation was a total loss as it could not bear the expected result and hence management decided for derecognition of the investments incurred on plantation. Besides, it is indicated that the plantation has no further benefit due to the lack of treatment due to the war in the orthern region of the country.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

h) Advance and prepayment

Reclassification

From trade receivable (i)	-	(1,869,804,252)
From PPE (ii)	(438,245,030)	(5,362,585,994)
Abnormal balance (iii)	103,328,116	27,584,623
From creditors (i)	6,533	12,259,703
	<u>(334,910,380)</u>	<u>(7,192,545,921)</u>

(334,910,380) (7,192,545,921)

Remeasurement

Allowance for credit loss (iv)	(19,138,796)	(6,222,672,634)
Prior period adjustment (iii)	1,299,147	(1,299,147)
Inter-branch reconciliation (ii)	237,180,263	-
Receivable from tendaho housing (ii)	-	(263,403,716)
Sur Advance transferred to MOI	(165,209,738)	(182,994,771)
Reversal of advance repayment - Sur Construction supplier & contractor (iii)	(165,209,738)	165,209,738
Impairment loss (ii)	(104,630,226)	(454,033,632)
Reversal of GAAP Credit loss	101,638,240	-
	<u>(114,070,847)</u>	<u>(6,970,163,472)</u>

(114,070,847) (6,970,163,472)

- i) Under previous framework, advance and payments were reported under trade and other receivables. Under IFRS, non-financial assets has to be separately presented in the statement of financial position, and this adjustment is made to reclassify advances to non-financial assets.
- ii) Under the previous framework, right of use asset were recognized for land that has not yet been made available for use by the factory and projects. Under IFRS, the advance payment shall be prepayment instead of land lease until the land is handed over to the factory and projects
- iii) Under previous framework, debtors with abnormal balances were offset against normal balances. However, Under IFRS offsetting is not allowed and hence this is to reclassify debtors with abnormal balance in to creditors.
- iv) Under previous framework, allowance for credit loss for advance and prepayments was not properly assessed and recognized. Under IFRS, additional allowances are resulted from individual assessment of debtor balances.
- v) Under IFRS, Prior period adjustments resulted from recording errors are restated.
- vi) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.
- vii) Under the previous framework, assets that meet the criteria to be recognized as PPE and stock were erroneously recorded as advance to tendaho housing. Under IFRS, the assets are identified and appropriately recognized.
- vi) Under previous framework ,prior period adjustment reversing advance repayment to sur construction in respect of dam construction have been made in 2017. Hence, This adjustment is required to retrospectively adjust the balance as at opening date i.e. 30 June 2016.



**ETHIOPIAN SUGAR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

i)	Inter-company receivable	30 June 2017	1 July 2016
		ETB	ETB
	Reclassification		
	Abnormal balance (i)	(54,708,302)	394,872,228
		<u>(54,708,302)</u>	<u>394,872,228</u>
	Remeasurement		
	Inter-branch reconciliation (i)	25,442,171	47,433,632
	Elimination of inter-company receivable	(44,320,172)	(1,639,287,259)
	Reversal of GAAP Elimination	250,820,501	708,560,969
	Allowance for credit loss (ii)	-	-
		<u>231,942,500</u>	<u>(883,292,658)</u>
		<u>177,234,199</u>	<u>(488,420,430)</u>
i)	Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.		
ii)	Under previous framework, debtors with abnormal balances were offset against normal balances. However, Under IFRS offsetting is not allowed and hence this is to reclassify debtors with abnormal balance in to creditors.		
iii)	Under previous framework, allowance for credit loss for inter-company balances was not assessed and recognized. Under IFRS, allowances for credit losses are recognized from individual assessment of inter-company balances.		
i)	Cash	30 June 2017	1 July 2016
		ETB	ETB
	Remeasurement		
	Inter-branch reconciliation	(11,043,095)	-
	Reversal of GAAP Elimination adjustment	-	(703)
		<u>(11,043,095)</u>	<u>(703)</u>
		<u>(11,043,095)</u>	<u>(703)</u>
i)	To adjust prior period adjustments taken in 2017 fiscal year and restate the 2016 financial statements and inter branch reconciliations.		
c)	Capital contribution	30 June 2017	1 July 2016
		ETB	ETB
	Remeasurement		
	Reversal of GAAP Elimination	82,550,997	(1,654,137,218)
		<u>82,550,997</u>	<u>(1,654,137,218)</u>
		<u>82,550,997</u>	<u>(1,654,137,218)</u>
k)	Asset revaluation reserve	30 June 2017	1 July 2016
		ETB	ETB
	Remeasurements		
	Revaluation surplus - PPE (i)	-	10,718,176,855
	Revaluation surplus - Bearer plant (i)	-	1,202,880,418
		<u>-</u>	<u>11,921,057,272</u>
i)	Under previous framework, property, plant and equipment are recognized at historical cost and bearer plants are not recognized at all. Under IFRS, property, plant and equipment and bearer plants are revalued and reserve for excess of deemed cost over book value is recognized.		



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l) Head office account	30 June 2017	1 July 2016
	<u>ETB</u>	<u>ETB</u>
Remeasurements		
Profit or loss for the period	2,492,476,571	-
Employee benefit - severance	-	(16,381,771)
Inter-branch reconciliation	(1,517,788,230)	(6,452,472,073)
Derecognition of IDF (State dividend)	-	139,550,656
Provision for bad debt expense	(112,905,413)	(1,238,603,238)
Provision for stock obsolescence	-	8,483,362
PPE-recognition	-	14,986,197
Bearer plant recognition	-	1,669,900,653
Provision for legal claim	-	(1,653,730)
Deferred tax liability	-	(3,490,253,214)
Deferred settlement - stock purchase	-	(545,950,810)
Write off of deferred expenditure	(222,399,337)	(984,174,953)
Prior period adjustment	238,368,952	(239,769,068)
Deferred settlement - stock purchase	-	287,665,376
Construction in progress	-	(561,684,533)
Annual leave	-	(14,065,263)
Supplier and contractor	-	5,992,129
Write off of taxes payable	-	13,191,918
Stock valuation	-	68,846,119
Reversal of GAAP elimination adjustment	4,873,267,210	22,123,433,862
Elimination of inter-branch accounts	2,391,807,155	(348,063,390)
	<u>8,142,826,909.82</u>	<u>10,438,978,229.54</u>
Reclassification		
Transfer to IFRS Reserve	(2,275,280,212)	(14,187,832,055)
Contribution to SIDF	366,237,303	-
Reclassified to project expansion fund	(1,159,786,388)	(8,386,181,775)
	<u>(3,068,829,297)</u>	<u>(22,574,013,830)</u>
m) Other reserve		
	30 June 2017	
	<u>ETB</u>	
Remeasurements		
Actuarial gain/(loss) - severance obligation (i)	<u>(1,717,122)</u>	-
	<u>(1,717,122)</u>	
Rollover adjustment	<u>(1,717,122)</u>	-
	<u>(1,717,122)</u>	
i) Under previous framework, retirement benefit obligation was not recognized at all. Under IFRS, post employment benefit (severance pay) is recognized using actuaries, and the resulted actuarial gain (loss) are accounted in other comprehensive income.		



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n) Project expansion fund

Reclassification		
Reclassification to IFRS reserve	2,275,280,212	14,187,832,055
Annual leave	-	-
Inter-branch reconciliation	632,523,979	8,357,452,902
	<u>2,907,804,191</u>	<u>22,545,284,957</u>
Remeasurements		
Profit or loss for the period	(2,094,071,653)	-
Employee benefit - severance	-	(13,522,119)
Accumulated Impairment Bearer Plant	-	(243,469,226)
Provision for bad debt expense	(1,680,063)	(6,109,170,729)
Provision for stock obsolescence	(18,176,286)	(296,089,381)
Provision for Biological asset Impairment	(48,673,687)	(1,060,260,037)
Standing cane recognition	-	180,047,397
Inventory	-	(256,089,397)
Deferred tax liability	-	(366,073,763)
Deferred tax asset	-	-
Construction in progress	(618,377,749)	618,377,749
Write off of deferred expenditure	(101,107,691)	(2,241,715,067)
Annual leave	-	(4,342,314)
Interbranch reconciliation	4,290,554,844	14,897,378,925
Sur construction Written off	(165,209,738)	78,543,971
Reversal of prior period adjustment	-	(3,889,815,517)
Recognition of Vacuum Pump	-	105,429,445
Stock shortage / overage	-	12,961
Reversal of GAAP elimination adjustment	17,254,370,883	61,356,567,903
Elimination of project investment	(21,405,433,051)	(85,301,095,756)
	<u>(2,907,804,191)</u>	<u>(22,545,284,957)</u>
	<u>(0)</u>	<u>0</u>

o) Contribution to SIDF

Remeasurement	
Transfer to equity (i)	<u>3,128,379,856</u>

- i) Under the previous framework, contribution to sugar industry development fund was reported in profit or loss as a reduction from sales revenue. Under IFRS, this is directly charged in equity account.



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p) Other comprehensive income

Remeasurement

Actuarial gain/(loss) employee benefit obligation (i) (1,767,540) -

- i) Under previous framework, retirement benefit obligation was not recognized at all. Under IFRS, a retirement employees benefits (severance pay) is recognized using actuaries, and the resulted actuarial gain (loss) are accounted in other comprehensive income.

q) Long term loan

	30 June 2017	1 July 2016
	ETB	ETB

Reclassification

Payable to head office (i)	(690,288,942)	(780,610,491)
	<u>(690,288,942)</u>	<u>(780,610,491)</u>

Remeasurement

Inter-branch reconciliation (ii)	(135,498,373)	-
Capital transfer (iii)	-	(40,511,876)
Prior period adjustment (iv)	218,233,547	(218,233,547)
	<u>352,449,181</u>	<u>1,210,108,470</u>
	<u>435,184,355</u>	<u>951,363,048</u>
	<u>(255,104,587)</u>	<u>170,752,557</u>

- i) Under previous framework, payable to Corporation balances were reported under long term loan section. Under IFRS, the amounts are reclassified to Inter-company payable.
- ii) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.
- iii) Under previous framework, capital transfer from ministry of finance was erroneously recognized as a loan. Under IFRS, the stated amount is transferred to paid-up capital.
- iv) To adjust prior period adjustments taken in 2017 and 2018 fiscal year and restate the 2016 financial statements
- v) Under previous framework, forex loss on long term has not been recognized. However, under IFRS the forex loss is recognized.

r) Post employment benefit obligation

Amount under previous framework

Roll over

Remeasurement

Severance benefit obligation (i)	4,912,816	29,903,890
	<u>4,912,816</u>	<u>29,903,890</u>
	<u>4,912,816</u>	<u>29,903,890</u>

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



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NOTES TO THE FINANCIAL STATEMENTS
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s) Deferred tax liability	30 June 2017	1 July 2016
	ETB	ETB
Remeasurement		
Deferred tax liability	(73,578,114)	3,945,384,872
Property plant and equipment and bearer plant (i)	115,216,296	410,344,586
Allowance for credit loss (i)	-	-
Deferred expenditure (i)	-	-
Severance expense (i)	-	-
	<u>41,638,182</u>	<u>4,355,729,458</u>

t) Trade and other payable	30 June 2017	1 July 2016
	ETB	ETB
Reclassifications		
Non-financial liability (i)	116,728,915	47,259,534
Abnormal balance (ii)	(6,246,410)	16,164,713
Sundry payable (i)	35,106,773	13,216,454
Staff payables (i)	610,381	19,450
Payable to contractor (i)	12,266,236	5,439,350
HO Vs Project	(36,173,863)	227,750,085
HEPCO	184,901	53,205
Interest payable	-	(241,472,047)
Interbranch reconciliation	(24,024,702)	30,949,712
Supplier & contractor (i)	-	(17,280,956)
	<u>98,452,232</u>	<u>82,099,501</u>
	<u>98,452,232</u>	<u>82,099,501</u>

Remeasurement		
Inter-branch reconciliation (iii)	200,240,491	(213,432,656)
Recognition of PPE (iv)	(1,361,352)	9,130,074
Prior period adjustment (ii)	22,806,531	5,784,683
Deferred settlement (iii)	88,473,159	(296,859,328)
HO Vs Project reconciliation	(1,410,577)	(26,815,036)
Reversal of payable to sur construction (i)	-	(778,425,194)
Payable to Sur construction transferred to MOI	(778,425,194)	(128,105,896)
	<u>(469,676,942)</u>	<u>(1,428,723,352)</u>
	<u>(469,676,942)</u>	<u>(1,428,723,352)</u>

- i) Under previous framework, accruals and tax payables were reported under trade and other payables. Under IFRS, non-financial liabilities has to be separately presented in the statement of financial position, and this adjustment is made to reclassify accruals and tax payables to non-financial assets.
- ii) Under previous framework, creditors with abnormal balances were offset against normal balances. However, Under IFRS offsetting is not allowed and hence this is to reclassify creditors with abnormal balance in to debtors.
- iii) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.
- iv) Under previous framework, liabilities related with acquisition of PPE were not recognized. Under IFRS, liabilities are recognized along with the related PPE.



ETHIOPIAN SUGAR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
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- v) Under IFRS, Prior period adjustments resulted from recording errors are restated.
- vi) Under previous framework, liabilities related to imported sugars using deferred settlement arrangements were measured at settlement amount initial recognition. Under IFRS, such liabilities has be measured at discounted amount at initial recognition. Subsequent increase in liability due to finance charges should be recognized against profit (loss).
- vii) Under previous framework ,prior period adjustment reversing payable to sur construction in respect of dam construction have been made in 2017. Hence, This adjustment is required to retrospectively adjust the balance as at opening date i.e. 30 June 2016.Hence, This adjustment is required to retrospectively adjust the balance as at opening date i.e. 30 June 2016. Accordingly the balance is transferred to Ministry of Irrigation.
- viii) Under previous framework, advance payments were erroneously recognized as payable to suppliers and expenses. Under IFRS, corrections are made to appropriately recognize such transactions.

u) Interest Payable	30 June 2017	1 July 2016
	ETB	ETB
Remeasurement		
Interest payable		(241,472,047)
Recognition of interest payable on long term loan (i)	159,927,680	459,281,458
HO vs Project reconciliation	215,283,218	-
	<u>375,210,898</u>	<u>217,809,411</u>

- i) Under previous framework, Interest expense and forex loss related to the long term loan has not been recognized. However, under IFRS the interest expense and the forex loss is recognized.

v) Tax payable	30 June 2017	1 July 2016
	ETB	ETB
Reclassification		
VAT and WHT payable (i)	(22,901,886.57)	44,229,354.74
	<u>(22,901,887)</u>	<u>44,229,355</u>
	<u>(22,901,887)</u>	<u>44,229,355</u>

Remeasurement		
Inter-branch reconciliation (i)	(29,694,320.52)	(234.50)
Inter-branch reconciliation (i)	(4,785,231.88)	-
Prior period adjustment (ii)	(18,502,965.31)	18,502,965.31
Write off of taxes payable (ii)	(10,319,181.33)	(11,749,932.95)
HO Vs Project reconciliation (iii)	(2,483,778.90)	(2,373.20)
	<u>(65,785,478)</u>	<u>6,750,425</u>
	<u>(65,785,478)</u>	<u>6,750,425</u>

- i) Under previous framework, tax payables were reported under trade and other payable. Under IFRS, non-financial liabilities has to be separately presented in the statement of financial position, and this adjustment is made to reclassify tax payables to non-financial assets.
- ii) To adjust prior period adjustments taken in 2017 fiscal year and restate the 2016 financial statements
- iii) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.



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w) Accrual and provision	30 June 2017 ETB	1 July 2016 ETB
Reclassifications		
From trade and other payables (i)	-	-
Abnormal balance (ii)	8,551,178	9,764,688
	<u>8,551,178</u>	<u>9,764,688</u>
Remeasurement		
Annual leave obligation (iii)	3,009,300	18,407,577
Provision for legal claim (iv)	100,154,761	92,472,882
Inter-branch reconciliation (i)	107,779,449	54,770,910
	<u>210,943,509</u>	<u>165,651,370</u>
	<u>219,494,686</u>	<u>175,416,058</u>

- i) Under previous framework, accruals and tax payables were reported under trade and other payables. Under IFRS, non-financial liabilities has to be separately presented in the statement of financial position, and this adjustment is made to reclassify accruals and tax payables to non-financial assets.
- ii) Under previous framework, creditors with abnormal balances were offset against normal balances. However, Under IFRS offsetting is not allowed and hence this is to reclassify debtors with abnormal balance in to debtors.
- iii) Under the previous framework, accrued liability for annual leave was not recognized. Under IFRS, provisions for such transaction are being recognized.
- iv) Under previous framework, provision for legal claim were not assessed and recognized. Under IFRS, legal claims are assessed at reporting dates and provisions are made for the best estimated amount.
- v) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.

x) Inter-company payable	30 June 2017 ETB	1 July 2016 ETB
Reclassification		
Inter-branch reconciliation (i)	527,262,409	28,728,873
Payable to head office (iii)	690,265,184	1,150,019,128
Abnormal balance (i)	(54,704,618)	394,872,228
	<u>1,162,822,976</u>	<u>1,573,620,229</u>
Remeasurement		
Inter-branch reconciliation (ii)	1,232,420,204	(1,007,532,555)
Elimination of inter-company receivable	(2,350,015,964)	(2,048,923,064)
Reversal of GAAP elimination adjustment	(3,959,572,387)	(10,798,149,682)
	<u>(5,077,168,147)</u>	<u>(13,854,605,301)</u>
	<u>(3,914,345,172)</u>	<u>(12,280,985,072)</u>

- i) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.
- ii) Under previous framework, creditors with abnormal balances were offset against normal balances. However, Under IFRS offsetting is not allowed and hence this is to reclassify debtors with abnormal balance in to debtors.
- iii) Under previous framework, payable to Corporation balances were reported under long term loan section. Under IFRS, the amounts are reclassified to Inter-company payable.



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v) Deferred expenditure	30 June 2017 ETB	1 July 2016 ETB
Reclassification		
Reclassification to PPE	(1,510,851,200)	(2,659,651,230)
	<u>(1,510,851,200)</u>	<u>(2,659,651,230)</u>
Remeasurement		
Derecognition (i)	1,514,879,312	(5,265,953,797)
Transfer to PPE		-
Inter-branch reconciliation (ii)	(322,507,440)	-
Prior period adjustment (ii)	104,800,289	-
	<u>1,297,172,161</u>	<u>(5,265,953,797)</u>
	<u>1,297,172,161</u>	<u>(5,265,953,797)</u>

- i) Under previous framework, the company capitalized the preoperation expenditure incurred in relation to plant expansion projects and depreciated this on straight line basis over ten years as per the tax law. As such, this cost does not qualify for recognition as an asset under IFRS, thus the book value as at 30 June 2016 and amortization in the subsequent period has been derecognized against retained earning and profit or loss. Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments. Under IFRS, Prior period adjustments resulted from recording errors are restated in the period they are occurred.

z) Revenue	30 June 2017
Amount under previous framework	
Reclassification	
Sales of by product (i)	(41,507,702)
Inter-branch reconciliation (ii)	(41,704,563)
	<u>(83,212,265)</u>
	<u>(83,212,265)</u>

- i) Under previous framework, revenue were recognized from sales of molasses, a by-product from production of white sugar. Under IFRS, as per IAS 2: 14, Where the production process generates more than one product, and the value of the one product (by-product) is immaterial, the by-product is often measured at net realizable value, with the main product being measured at cost less the value attributed to the by-product.
- ii) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.



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za) Cost of sales

30 June 2017

ETB

Remeasurement

Depreciation expense - PPE (i)	365,413,223
Depreciation expense - Bearer plant (i)	(88,022,821)
Deferred settlement - stock (ii)	119,611,995
Transfer to bearer plant (iii)	75,148,243
Fair value measurement - biological asset (iv)	(470,102,114)
Deferred expenditure (v)	(60,642,833)
	<u>(58,594,308)</u>

Reclassification

Sales of by product (vi)	69,007,356
	<u>69,007,356</u>
	<u>10,413,048</u>

- i) Under previous framework, PPEs are recognized at historical cost and bearer plants are not recognized at all. Under IFRS, PPE and bearer plants are revalued at estimated value as deemed cost and depreciation have also been recalculated accordingly.
- ii) Under previous framework, imported sugars through deferred settlement arrangements were measured and recognized at amount to be settled in future. Under IFRS, inventories purchased in deferred settlement arrangements has to be measured at discounted amount on initial recognition. Accordingly, the related amount charged to cost of sales has decreased.
- iii) Under previous framework, bearer plants were not accounted and all related costs were charged to cost of sales. Under IFRS, bearer plants are capitalized by reversal of the cost of sales
- iv) Under previous framework, biological assets were measured and recognized at cost. Under IFRS, IAS 41 requires to use fair value method for biological assets. Accordingly, the Corporation has revalued the biological assets as at translation date and subsequently. Hence, this adjustment is made to account for the net difference between GAAP and IFRS requirements and the balance resulted after revaluation of biological asset.
- v) Under previous framework, the company capitalized the preoperation expenditure incurred in relation to plant expansion projects and depreciated this on straight line basis over ten years as per the tax law. As such, this cost does not qualify for recognition as an asset under IFRS, thus the book value as at 30 June 2016 and amortization in the subsequent period has been derecognized against retained earning and profit or loss.
- vi) Under previous framework, revenue were recognized from sales of molasses, a by-product from production of white sugar. Under IFRS, as per IAS 2; 14, Where the production process generates more than one product, and the value of the one product (by-product) is immaterial, the by-product is often measured at net realizable value, with the main product being measured at cost less the value attributed to the by-product.
- vii) Under previous framework, biological assets were measured and recognized at cost. Under IFRS, IAS 41 requires to use fair value method for biological assets. Accordingly, the Corporation has revalued the biological assets as at translation date and subsequently. Hence, this adjustment is made to account for the net difference between GAAP and IFRS requirements and the balance resulted after revaluation of biological asset.
- viii) Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.



**ETHIOPIAN SUGAR CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

zb)	Other operating income	30 June 2017
		<u>ETB</u>
	<u>Remeasurement</u>	
	Other income (i)	54,330,395
	Deferred Expenditure (i)	38,105,304
	Elimination of sales commission from factories to HO	(34,634,210)
	Reversal of GAAP sales commission elimination	<u>34,960,672</u>
		<u><u>92,762,161</u></u>
i)	Under local GAAP , The company capitalized the preoperation expenditure incurred in relation to the new plant expansion project and depreciated this on straight line basis over ten years as per the tax law. As such, this cost does not qualify for recognition as an asset under , Thus the book value as at 7 July 2016 and amortization in the subsequent period has been derecognized against retained earning and profit or loss.	
zc)	General and administrative expense	30 June 2017
		<u>ETB</u>
	<u>Remeasurement</u>	
	Severance expense (i)	1,932,050
	Annual leave expense (ii)	(3,541,570)
	Deferred expenditure (iv)	(530,421,031)
	Depreciation expense (v)	(118,342,103)
	Addition difference (vii)	(4,913,684)
	Provision for legal claim (viii)	(100,154,761)
	Inter-branch reconciliation (vi)	(109,988,797)
	Prior period adjustment (vii)	(29,815,099)
	Current Service Cost (vi)	(2,444,145)
	Reversal of GAAP severance Expense (i)	261,124
	Forex Difference	(352,449,181)
	Other expense	5,002
	Elimination of sales commission from factories to HO	(34,634,210)
	Reversal of GAAP sales commission elimination	<u>(34,919,905)</u>
		<u>(1,319,426,308)</u>
		<u><u>(1,319,426,308)</u></u>
i)	Under previous framework, severance expense were recognized when benefit is paid. Under IFRS, post employment benefit benefits (severance pay) is recognized using actuaries.	
ii)	Under the previous framework, accrued expense for annual leave was not recognized. Under IFRS, provisions for such transaction are being recognized.	
iii)	Under previous framework, allowance for credit loss for was not properly assessed and recognized. Under IFRS, additional allowances are resulted from individual assessment of debtor balances.	
iv)	Under previous framework, provisions were made for stock obscelesence. Under IFRS, decrease in provisions are resulted from reassessment of obscelesence.	
iv)	Under previous framework, the company capitalized the preoperation expenditure incurred in relation to plant expansion projects and depreciated this on straight line basis over ten years as per the tax law. As such, this cost does not qualify for recognition as an asset under IFRS, thus the book value as at 30 June 2016 and amortization in the subsequent period has been derecognized against retained earning and profit or loss.	
v)	Under previous framework, PPEs were recognized at historical cost. Under IFRS, PPE are revalued at estimated value as deemed cost and depreciation have also been recalculated accordingly.	
vi)	Under previous framework, inter-branch balances were not reconciled. Under the current framework, such balances are investigated and reconciled, which resulted the above adjustments.	
vii)	Addition difference between assets acquired during the year and amount reported in the draft financial statement is charged to profit or loss.	



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NOTES TO THE FINANCIAL STATEMENTS
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zd) Finance costs/charges

30 June 2017

ETB

Remeasurement

Interest on deferred settlement (i)	(397,100,874)
Interest on employee benefit obligation (ii)	(3,755,266)
Interest expense	(520,522,929)
Inter-branch reconciliation (iii)	(74,141,388)
	<u>(995,520,457)</u>
	<u>(995,520,457)</u>

- i) Under previous framework, liabilities related to imported sugars using deferred settlement arrangements were measured at settlement amount initial recognition. Under IFRS, such liabilities has be measured at discounted amount at initial recognition. Subsequent increase in liability due to finance charges should be recognized against profit (loss).
- ii) Under previous framework, retirement benefit obligation was not recognized at all. Under IFRS, a retirement employees benefits (severance pay) is recognized using actuaries. Hence, the interest portion of the unpaid balance is recognized as finance charge at the end of the year.

ze) Income tax expense

30 June 2017

ETB

Remeasurement

Tax charge (i)	25,984,562
Tax credit (i)	(67,622,744)
	<u>(41,638,182)</u>
	<u>(41,638,182)</u>

- i) Under previous framework, the factory and projects did not recognize differed tax assets (liabilities) at all. Under IFRS, deferred tax assets (liabilities) has been recognized by the temporary difference between the tax and accounting bases of assets (liabilities), which are, severance benefit obligation, provision for bad debt expense and stock obscelesence, provision for legal claims, deferred expenditures, PPE and bearer plants. Accordingly, the respective deferred tax charges and credits are recognized in profit or loss.



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2.4. New or revised Standards or Interpretations

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

- (i) 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 Corporation, 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 Corporation'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: Annual Improvements to IFRS 2015 - 2017 cycle	1 January 2019
Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle	1 January 2019
Amendments to IAS 28 - Long-term Interests in Associates and Joint Venture	1 January 2019

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 Corporation are as follows:

Corporation as lessee:

- Lessees are required to recognise 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.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.



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- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Corporation 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.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

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

The amendment specifies that the income tax consequences on dividends are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised 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.



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



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3. Significant accounting judgements, estimates and assumptions

The preparation of the Corporation's financial statements requires management to make judgements, 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.

Judgements

In the process of applying the Corporation's accounting policies, management has not encountered any situation that calls for any a significant judgements, 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 Corporation 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 Corporation. Such changes are reflected in the assumptions when they occur.

Useful life of property, plant and equipment

The Corporation measures its property, plant and equipment at cost less accumulated depreciation and for the purpose of determining depreciation, the Corporation 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.

Valuation of Biological Asset

Growing cane is classified as immature until it is ready for harvest. The fair value measurement of growing cane has been categorised as a Level 3 Fair Value as it is determined using unobservable inputs to the valuation methodology, and is based on the best information available at reporting date.

Employee termination benefit

The cost of post employment benefit 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 post employment benefit obligation are provided in Note 29.



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4 Revenue

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

4.1 Source of Revenue

The Corporation earns revenue mainly from sales of locally produced and imported sugar. 50% income from sales of locally produced sugar is deposited to Sugar Industry development fund (SIDF) account maintained at National bank of Ethiopia, which is established by proclamation and the management of the fund is mandated to the corporation's board of directors.

The Corporation also earns revenue from sales of ethanol, molasses and fruits.

4.2 Significant payment terms

The entity operates on both advance collection and credit arrangements

In cash sales, The customers shall deposit the amount into the corporation's operational bank account in the form of account to account transfer using such instruments as CPO prior to the delivery of the goods. In the case of the credit sale, the products are delivered up on issuance of credit sale invoice and delivery. The company has only few credit customer namely Ethiopian trading corporation, MEWIT and ETfruit. The credit term of the corporation is 15 days after the item is delivered.

4.3 Information about major customers

The corporation enters in to contract with customer such as Jinead, Ethiopian Trading and Business Corporation, EtFruit and unions in different regional states to sale sugar and other by products such as Ethanol and molasses. It also sales its products to industrial customers such as beverage companies both on cash and credit basis.

4.4 Sole Producer and Distributer (Monopoly) right.

The sugar industry in Ethiopia is operated only by government under a monopoly through Ethiopian Sugar Corporation.

4.5 Revenue by product

The following are analysis of the corporation's' revenue by types of products sold

	2018 ETB	2017 ETB
Imported Sugar	3,142,190,215	3,474,149,234
Locally Produced White Sugar	3,727,829,245	4,423,340,851
Ethanol	181,390,934	181,021,963
Fruit	41,983,465	28,752,060
	<u>7,093,393,859</u>	<u>8,107,264,107</u>



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5 Other income

	2018	2017
	ETB	ETB
Other income	158,592,824	206,297,735
	<u>158,592,824</u>	<u>206,297,735</u>

5.1 The Corporation's other income includes income from sales of scrap material, disposal of asset, and others.

6 Cost of Sugar Sold

A sugarcane plant is to be divided into two parts i.e. stubbles of previous crop (Ratoons) and the standing crop which is grown on this root which is then harvested for further processing. Hence, Cane Roots (Ratoons) is a bearer biological asset that is used in the production or supply of agricultural produce (Standing crops); and is expected to bear canes for more than one period. Standing crops shall be classified as biological assets under IAS 41 and shall be measured at fair value less costs to sell.

The fair value of standing cane at each reporting date is determined by estimating the growth of the cane, the yield and expected selling prices less estimated costs to harvest and transport. Changes in fair value are included in the statement of profit and loss.

Once matured or harvested, the cane is transferred to inventory at fair value less cost to sell. Actual Costs of cane represents direct materials, direct labour, and applied overhead incurred between the previous harvest and the current harvest for the production of agricultural produce. Gain/loss is determined as the difference between fair value and accumulated costs. If fair value exceeds accumulated costs, Gains on Valuation of Biological Assets arises. On the other hand, loss occurs if accumulated costs exceed fair value

6.1 Cost of goods sold in detail

	2018	2017
	ETB	ETB
Current production costs		
Imported sugar	2,744,503,173	3,101,602,939
Direct cost	1,606,461,286	1,975,490,956
Testing Cost	67,975,448	-
Factory processing cost	1,257,701,085	1,179,860,631
Total available for sales	5,676,640,992	6,256,954,526
Excise tax	682,868,984	706,749,339
Stocks available for sales	6,359,509,977	6,963,703,865
Ethanol production cost	114,708,456	120,350,572
Fruit plantation cost	.10,375,777	8,818,264
Decrease (Increase) in stock of finished products	37,560,779	(346,548,259)
Fair Value adjustment		
- Growing Cane and Fruit	(291,017,196)	470,102,114
- Harvested Cane and Fruit	618,952,881	89,614,549
Cost of Goods sold	<u>6,850,090,673</u>	<u>7,306,041,105</u>



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7 General, Admin and selling expense

	2018	2017
	ETB	ETB
Salary, Wages and Benefits	715,517,608	569,774,171
Current Service Cost	7,384,805	6,607,207
Annual leave expense	14,641,925	3,677,200
Insurance	51,359,546	48,765,070
Repair and maintenance	136,905,529	143,965,526
Fuel and lubricant	45,569,625	24,676,573
Office supplies	28,337,071	28,327,551
Depreciation	490,389,443	414,784,365
Amortization (write off) deferred charge	14,628,573	94,340,214
Foreign currency exchange loss	2,085,061,082	862,823,445
Provision for legal claim	38,882,524	100,154,761
Penalty and interest	4,406,147	31,769,231
Other expense	298,684,441	266,619,878
	<u>3,931,768,319</u>	<u>2,596,285,191</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 Finance cost/income

	2018	2017
	ETB	ETB
Interest expense	2,045,611,691	1,764,896,061
Interest on employee termination benefit obligation (8.1)	3,947,340	3,385,075
Finance cost/income	421,592	370,191
Interest on deferred settlement	353,725,087	286,671,112
	<u>2,403,705,711</u>	<u>2,055,322,439</u>

8.1 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, and lease liability.

9 TAXATION

(a) Income tax expense

Current income tax relating to items recognized directly in equity if any is recognized in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

	2018	2017
	ETB	ETB
Current taxation based on the taxable profit for the year at 30%		
ADD: deferred tax charge	42,131,524	83,160,063
LESS: deferred tax credit	(384,495,947)	(41,521,881)
Current year profit tax expense	<u>(342,364,423)</u>	<u>41,638,182</u>



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10 Deferred tax

Deferred taxation is estimated on all temporary differences under the liability method using the tax rate of 30%.

10.1 Deferred tax liability

The depreciation rate used for tax purpose and the rate used for IFRS purpose are different which gives rise to deferred tax asset.

	2018 ETB	2017 ETB	2016 ETB
Property, Plant and Equipment and bearer plant	5,326,636,212	5,453,647,662	5,349,689,218
Employee benefit obligation	(6,135,102)	(5,695,065)	(4,914,531)
Stock Obsolescence and Bad Debt Expense	(405,108,584)	(311,815,648)	(188,514,405)
Deferred expenditure	(791,038,956)	(680,981,015)	(772,788,958)
Provision for litigation claim	(69,350,350)	(57,788,293)	(27,741,865)
	<u>4,055,003,219</u>	<u>4,397,367,641</u>	<u>4,355,729,458</u>

10.1 Deferred tax liability

The depreciation rate used for tax purpose and the rate used for IFRS purpose are different which gives rise to deferred tax asset.

10.1.1 Change in depreciation method for tax purpose in 2017

The new income tax proclamation No.979/ 2017 has been issued on 2017 and become effective for the period ended June 30, 2017. The new proclamation revokes the pooling system and permits entities to separately calculate depreciation on each individual asset by applying the rate specified under regulation No. 410/2017 article 39 using either declining balance method or straight line methods. Accordingly, We has opted to use straight line method to determine depreciation for depreciable asset or business intangibles which are acquired on or after July 1, 2017.

	2018 ETB	2017 ETB	2016 ETB
Tax base of the asset at June 30,	21,006,753,051	19,679,226,762	14,993,814,237
Book value of the asset at June 30,	38,762,207,091	37,858,052,302	32,826,111,629
Temporary deference	<u>17,755,454,039</u>	<u>18,178,825,540</u>	<u>17,832,297,392</u>
Deferred tax asset /liability on temporary differences at 30%	<u>5,326,636,212</u>	<u>5,453,647,662</u>	<u>5,349,689,218</u>

10.2 Deferred tax asset

10.2.1 employee benefit obligation

Deferred tax asset arises on the temporary difference between carrying amount of termination benefit obligation and its tax base. Under Ethiopian tax law, severance payment is deductible when the employee actually terminates and when the obligation is settled in cash where as IFRS requires recognition of termination benefit obligation as the employee becomes entitled for the benefit for the service he/she rendered during the period regardless of payment. This gives rise to deductible temporary difference between tax base (nil in this case) and carrying amount of employee benefit obligation at the reporting date.

	2018 ETB	2017 ETB	2016 ETB
Tax base of the asset at June 30,	-	-	-
Book value of the asset at June 30,	(20,450,340)	(18,983,550)	(16,381,771)
Temporary difference	<u>20,450,340</u>	<u>18,983,550</u>	<u>16,381,771</u>
Deferred tax asset on temporary differences at 30%	<u>6,135,102</u>	<u>5,695,065</u>	<u>4,914,531</u>

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10.2.2 Stock Obsolescence and Expected Credit Loss

The company recognizes allowance for doubtful expense in the period in which the provision is made whereas the local tax law requires such expenses to be recognized only when the company goes through the court case and customer default is actually decided by the court. Hence, deferred tax asset has been recognized on the timing difference arising from recognition of allowance for doubtful account. The temporary difference is eliminated up on acceptance of the default by tax office.

The company also recognizes stock provision expense in the period in which the provision is made whereas the local tax law requires such expenses to be recognized only when the item is written off and approved by tax official representatives as a result deductible temporary difference arises. The temporary difference is eliminated up on acceptance of the provision by tax office as the company has a practice of inviting the tax official when the item is disposed or written off.

	2018	2017	2016
	ETB	ETB	ETB
Tax base of the asset at June 30,	-	-	-
Book value of the asset at June 30,	(1,350,361,947)	(1,039,385,492)	(628,381,350)
Temporary difference	<u>1,350,361,947</u>	<u>1,039,385,492</u>	<u>628,381,350</u>
Deferred tax asset on temporary differences at 30%	<u>405,108,584</u>	<u>311,815,648</u>	<u>188,514,405</u>

10.2.3 Deferred expenditure

Under local GAAP, the company capitalized the preoperational expenditure incurred in relation establishment of the factory and depreciated this on straight line basis over ten years as per the tax Law. As such, this cost does not qualify for recognition as an asset under IFRS, Thus the book value as at 1st July 2016 has been derecognized against Head office account.

Tax base of the asset at June 30,	2,636,796,521	2,269,936,717	2,575,963,195
Book value of the asset at June 30,	-	-	-
Temporary difference	<u>2,636,796,521</u>	<u>2,269,936,717</u>	<u>2,575,963,195</u>
Deferred tax asset on temporary differences at 30%	<u>791,038,956</u>	<u>680,981,015</u>	<u>772,788,958</u>

10.2.4 Deferred tax asset - provision for litigation claim

The company recognized provision for legal claim as at 30 June 2018 arising from legal litigation whereas the local tax law requires such expenses to be recognized when the court decision is made, this results in recognition of differed tax asset.

	2018	2017	2016
	ETB	ETB	ETB
Tax base of the asset at June 30,	-	-	-
Book value of the asset at June 30,	(231,167,835)	(192,627,643)	(92,472,882)
Temporary difference	<u>231,167,835</u>	<u>192,627,643</u>	<u>92,472,882</u>
Deferred tax asset on temporary differences at 30%	<u>69,350,350</u>	<u>57,788,293</u>	<u>27,741,865</u>



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11 Property, plant and equipment	Land		Building		Civil & irrigation		Factory plant & machinery		Field equipment		equipment & furniture		Construction in progress		Total		
	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	
Deemed Cost:																	
AS AT 1 JULY 2016	899,203,357	4,838,128,128	9,423,635,741	9,988,079,346	4,695,723,861	190,144,244	42,749,463,848	72,784,378,525									
Additions/transfer	351,009,024	2,730,660	27,688,505	5,944,525	499,859,900	21,123,395	21,751,303,362	22,659,659,372									
Disposals/adjustments	-	(2,007,787)	-	-	(55,555,218)	-	-	(57,563,005)									
AS AT 30 June 2017	1,250,212,381	4,838,851,001	9,451,324,247	9,994,023,871	5,140,028,543	211,267,638	64,500,767,211	95,386,474,892									
Additions/transfer	-	-	2,048,717	9,245,000	424,635,945	15,030,981	20,378,269,031	20,829,229,674									
Disposals	-	-	-	1,872,153,386	-	-	(1,872,153,386)	-									
AS AT 30 June 2018	1,250,212,381	4,838,851,001	9,453,372,963	11,875,422,258	5,564,664,487	226,298,619	83,006,882,855	116,215,704,565									
Accumulated depreciation																	
AS AT 1 JULY 2016	-	1,083,684	-	-	32,779,049	-	-	33,862,733									
Additions/transfer	22,046,984	256,559,107	290,717,005	497,715,005	603,896,334	32,344,562	-	1,703,278,997									
Disposals	-	-	-	-	-	-	-	-									
AS AT 30 June 2017	22,046,984	257,642,791	290,717,005	497,715,005	636,675,383	32,344,562	-	1,737,141,730									
Additions/transfer	33,965,634	257,470,866	292,078,351	582,319,329	755,667,728	33,676,624	-	1,955,178,534									
Disposals	-	-	-	-	-	-	-	-									
AS AT 30 June 2018	56,012,618	515,113,657	582,795,357	1,080,034,334	1,392,343,111	66,021,186	-	3,692,320,264									
AS AT 1 JULY 2016	899,203,357	4,837,044,444	9,423,635,741	9,988,079,346	4,662,944,812	190,144,244	42,749,463,848	72,750,515,792									
AS AT 30 June 2017	1,228,165,397	4,581,208,211	9,160,607,241	9,496,308,866	4,503,353,160	178,923,076	64,500,767,211	93,649,333,161									
AS AT 30 June 2018	1,194,199,763	4,323,737,344	8,870,577,606	10,795,387,924	4,172,321,376	160,277,433	83,006,882,855	112,523,384,302									



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11 Property, plant and equipment	Land		Building	Civil & irrigation		Factory plant & machinery		Field equipment		equipment & furniture		Construction in progress		Total	
	ETB	ETB		ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB	ETB
Deemed Cost:															
AS AT 1 JULY 2016	899,203,357	4,838,128,128	9,423,635,741	9,988,079,346	4,695,723,861	190,144,244	42,749,463,848	72,784,378,525							
Additions/transfer	351,009,024	2,730,660	27,688,505	5,944,525	499,859,900	21,123,395	21,751,303,362	22,659,659,372							
Disposals/adjustments	-	(2,007,787)	-	-	(55,555,218)	-	-	(57,563,005)							
AS AT 30 June 2017	1,250,212,381	4,838,851,001	9,451,324,247	9,994,023,871	5,140,028,543	211,267,638	64,500,767,211	95,386,474,892							
Additions/transfer	-	-	2,048,717	9,245,000	424,635,945	15,030,981	20,378,269,031	20,829,229,674							
Disposals	-	-	-	1,872,153,386	-	-	(1,872,153,386)	-							
AS AT 30 June 2018	1,250,212,381	4,838,851,001	9,453,372,963	11,875,422,258	5,564,664,487	226,298,619	83,006,882,855	116,215,704,565							
Accumulated depreciation															
AS AT 1 JULY 2016	-	1,083,684	-	-	32,779,049	-	-	33,862,733							
Additions/transfer	22,046,984	256,559,107	290,717,005	497,715,005	603,896,334	32,344,562	-	1,703,278,997							
Disposals	-	-	-	-	-	-	-	-							
AS AT 30 June 2017	22,046,984	257,642,791	290,717,005	497,715,005	636,675,383	32,344,562	-	1,737,141,730							
Additions/transfer	33,965,634	257,470,866	292,078,351	582,319,329	755,667,728	33,676,624	-	1,955,178,534							
Disposals	-	-	-	-	-	-	-	-							
AS AT 30 June 2018	56,012,618	515,113,657	582,795,357	1,080,034,334	1,392,343,111	66,021,186	-	3,692,320,264							
AS AT 1 JULY 2016	899,203,357	4,837,044,444	9,423,635,741	9,988,079,346	4,662,944,812	190,144,244	42,749,463,848	72,750,515,792							
AS AT 30 June 2017	1,228,165,397	4,581,208,211	9,160,607,241	9,496,308,866	4,503,353,160	178,923,076	64,500,767,211	93,649,333,161							
AS AT 30 June 2018	1,194,199,763	4,323,737,344	8,870,577,606	10,795,387,924	4,172,321,376	160,277,433	83,006,882,855	112,523,384,302							



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11a. Construction in progress

Immediately after the re-establishment, the corporation has undergone series of expansion and modernization projects such as upgrading the existing factories Wonji and Fincha Sugar Factory including land farm development as well as infrastructure (house, hospitals, road and school, irrigation system, pipe). It also started the tendaho project. Through time, various activities have been carried out to build additional sugar factories. Currently, the corporation has 8 projects in progress each at different stages. The projects include

Omo –Kuraz Sugar development project – I,II,III,V
Welkayit Sugar Development project
Tana Belles Sugar Development projects – I & II
Arjo Dedessa Sugar development projects
Kessem Sugar development project

11b. Impairment review

Upon impairment review, the net book value of property, plant and equipment do not exceed its recoverable value as at the end of the reporting period. Thus, the management are of the opinion that allowance for impairment is not required.

11c. Disclosures for valuation methods, significant estimates and assumptions

All categories of property, plant and equipment of the company were carried at cost in the statement of financial position prepared in accordance with Local GAAP. On the basis of valuations performed as at 1 July 2016. The Company has elected to regard those values as deemed cost at the date of the revaluation since they were broadly comparable to fair value.

The valuation is performed by internally established valuation team and verified by engineer Mulugeta, an accredited external independent valuator who is presently designated as a certified valuator, awarded by the Royal Institution of Chartered Surveyor. Engineer Mulugeta, is a specialist in valuing these types of assets by applying a valuation model in accordance with that recommended by the International Valuation Standards Committee. He has completed numerous valuation assignments on properties and has the experience and ability to complete the valuation assignment in a competent manner.

The valuation team carried out physical inspection and verification of PPEs (CIPs, field equipment, vehicles, furniture and computers) found in the premise of the company. The inspection was made to verify that the assets do exist and are working.

The team assumed that there is no any significant difference in assets' conditions and utilizations, which has a great impact on the assessment of obsolescence, in the period between the time of inspection and the date of valuation.

The valuation approaches utilized to estimate the value of the subject properties and assets were selected based on the analysis and knowledge of the nature and types of the subject properties and assets and availability of data (i.e., property sales data, income data, cost data etc.). It is the valuator's opinion that the cost approach techniques would be considered meaningful and applicable for all PPEs (property and plant and machinery) of the Company.

In the Cost Approach, the valuator forms an opinion of the cost of PPEs (buildings, and machinery) and depreciating them to reflect value loss from physical, functional and external causes. This valuation methodology is commonly known as depreciated replacement value (DRV). The valuator utilizes all of the above engineering and market information to develop a cost approach indication of value. The source of replacement costs for all plants, machinery and equipment were obtained from the local sub dealers, which are selling same and/or similar assets, valuations, invoices and the valuator database.



The sum of the three elements of accrued depreciation has been considered in determining depreciation factor. These are 1. The physical deteriorations , 2.Functional Obsolescence and the economic/external obsolescence. The physical deteriorations of the buildings and machinery have been determined through observation method. Functional Obsolescence is resulting from two sources: the economic/external obsolescence from excess capital cost and excess operating expenses, and for both buildings and machinery is considered to be 0.00 percent.

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

Quantitative disclosures fair value measurement hierarchy as at 1 July 2016

	date of valuation	Fair value measurement using		
		Quoted prices in an active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		ETB	ETB	ETB
Assets measured at fair value;				
Land Development	Thursday, June 30, 2016			899,203,357
Building	Thursday, June 30, 2016			4,838,128,128
Civil & irrigation	Thursday, June 30, 2016			9,423,635,741
Factory plant & machinery	Thursday, June 30, 2016			9,988,079,346
Field equipment	Thursday, June 30, 2016			4,695,723,861
Office equipment & furniture	Thursday, June 30, 2016			190,144,244
CIP	Thursday, June 30, 2016			42,749,463,848
				72,784,378,525



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12 Right use of asset - Land

The movement in the carrying value of Right use of asset - land are presented as follows:

	Right use of asset - Land
	Total
Cost	
As at 1 July 2016	358,496,066
Additions/transfer	-
Disposals	-
As at 30 June 2017	<u>358,496,066</u>
Additions/transfer	-
Disposals / adjustment	-
As at 30 June 2018	<u>358,496,066</u>
Amortisation	
As at 30 June 2017	<u>-</u>
Additions/transfer	-
Disposals / adjustment	-
As at 30 June 2018	<u>-</u>
As at 1 July 2016	<u>358,496,066</u>
As at 30 June 2017	<u>358,496,066</u>
As at 30 June 2018	<u>358,496,066</u>

12.1 Right use of asset - land

The land is transferred to the corporation under lease or right of use asset arrangement with Federal and regional government in accordance with Rural land administration and use proclamation number 456/2005, 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 Corporation at different sites. The Land use right is valued by external valuation expert considering the lease price for similar location. As the lease period is for indefinite, right use of asset land is not depreciated.

The following table provides the fair value hierarchy disclosures for the valued right use of asset - land:

Quantitative disclosures fair value measurement hierarchy as at 1 July 2016

Date of valuation	Fair value measurement using			
	Quoted prices in an active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	ETB	ETB	ETB	
Assets measured at fair value;				
Right use of asset - land	7/1/2016	-	-	358,496,066
		-	-	<u>358,496,066</u>



12.2 In 2016, The corporation secured a land lease from the Addis Ababa City Administration for a total area of 4,419 square meters. This lease was intended for the construction of the corporation's headquarters. However, the lease was subsequently cancelled by the City Administration, and the land was reclaimed. The advance payment made in relation to this lease was initially recorded as a prepayment.

12.3 Right use of asset - Office lease

The movement in the carrying value of Right use of asset -office lease are presented as follows:

	Right use of asset - Office
	Total
Cost	
As at 1 July 2016	-
Additions/transfer	-
Disposals	-
As at 30 June 2017	-
Additions/transfer	27,408,546
Disposals / adjustment	-
As at 30 June 2018	27,408,546
Amortisation	
As at 30 June 2017	-
Additions/transfer	13,403,905
Disposals / adjustment	-
As at 30 June 2018	13,403,905
As at 1 July 2016	-
As at 30 June 2017	-
As at 30 June 2018	14,004,641

12.3a Right of use asset - Office lease

The corporation has rented office building from KIAMED Medical college plc for a total lump sum payment amounting ETB 27,408,546 before VAT for two year commencing from July,8, 2017 G.C and expiring on July 8, 2019 E.C. The lease bears no interest. The company use the property for storage purpose only and shall not sub-lease the property. The total lease payment is made in advance within 30 days from the date of lease agreement.



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13 Biological Asset

13.1 Cane/Fruit Roots

The cane/fruit roots are bearer plants and are therefore presented as non-current assets.

	Cane	Fruit	Total
Deemed Cost:			
Carrying value at 8 July 2016	1,078,823,600	19,425,510	1,098,249,111
Expansion of area under cane	274,645,560	209,939	274,855,500
Fallow during the year	(3,998,372)	-	(3,998,372)
Carrying value at 7 July 2017	1,349,470,789	19,635,450	1,369,106,239
Expansion of area under cane	160,272,713	-	160,272,713
Addition	-	1,915,611	1,915,611
Fallow during the year	(8,525,194)	-	(8,525,194)
Carrying value at 7 July 2018	1,501,218,308	21,551,061	1,522,769,369
Accumulate Depreciation:			
Carrying value at 8 July 2016	-	-	-
Additional Charge for the period	217,992,331	-	217,992,331
Disposal during the year	(3,339,492)	625,573	(2,713,919)
Carrying value at 7 July 2017	213,993,960	625,573	214,619,533
Additional Charge for the period	184,641,847	683,565	185,325,411
Disposal during the year	(8,525,194)	-	(8,525,194)
Carrying value at 7 July 2018	390,110,613	1,309,138	391,419,751
Immature bearer plant:			
Carrying value at 8 July 2016	102,572,840	2,058,467	104,631,307
Addition/New cane plantation during the year	144,357,486	1,223,822	145,581,308
Transfer to mature cane	(96,000,757)	3,395,465	(92,605,292)
Carrying value at 7 July 2017	150,929,569	6,677,753	157,607,322
Transfer to mature cane	(133,783,534)	(1,114,913)	(134,898,447)
Addition/New cane plantation during the year	123,747,923	3,299,126	127,047,049
Carrying value at 7 July 2018	140,893,957	8,861,966	149,755,923
Accumulated Impairment:			
Carrying value at 8 July 2016	243,469,226	-	243,469,226
Additional Charge for the period	155,892,048	-	155,892,048
Carrying value at end of year 7 July 2017	399,361,274	-	399,361,274
Reversal of Impairment	(14,561,631)	-	(14,561,631)
Carrying value at end of year 7 July 2018	384,799,643	-	384,799,643
Net Carrying Value of Cane roots 2016	1,181,396,440	21,483,977	959,411,191
Net Carrying Value of Cane roots 2017	887,045,124	25,687,630	912,732,754
Net Carrying Value of Cane roots 2018	867,202,009	29,103,889	896,305,898

Cane roots are bearer plants that are used solely to grow produce over several periods and hence Before the bearer plants are in the location and condition necessary to be capable of operating in the manner intended by management, i.e. before they reach maturity and bear produce, they are accounted for as self constructed items of property, plant and equipment – akin to capital work in progress. This requires measurement at accumulated cost. Determination of point of maturity requires application of judgement. Cane root may start to yield produce after three months, but reaches optimum yield generally after six months, which is when the bearer plant is capitalized.

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13.2 Growing Cane

The carrying value of cane roots comprises:

	Cane ETB	Fruit ETB	Total ETB
Carrying value at beginning of year 8 July 2016	3,870,833,889	111,638,031	3,982,471,920
Plantation during the year	309,629,908		309,629,908
Loss of Cane at Fair Value	(74,541,286)		(74,541,286)
Cost of harvested cane	1,692,356,859		1,692,356,859
FV at point of harvest	<u>(1,460,316,626)</u>		<u>(1,460,316,626)</u>
FV gain (loss) on harvested cane	<u>15,783,999</u>		<u>15,783,999</u>
Change on cost of standing cane	104,692,527	65,955	104,758,482
Change in fair value of standing cane	<u>(628,463,147)</u>	1,896,931	<u>(626,566,216)</u>
FV gain (loss) on standing cane	<u>(187,502,785)</u>	1,896,931	<u>(185,605,854)</u>
Provision for possible distraction	<u>(661,210,858)</u>		<u>(661,210,858)</u>
Carrying value at end of year 7 July 2017	<u>3,361,901,395</u>	<u>113,600,917</u>	<u>3,475,502,312</u>
Plantation during the year	795,585,094		795,585,094
Loss of cane at Fair Value	(100,181,261)		(100,181,261)
Cost of Harvested Cane	1,920,722,867		1,920,722,867
Fair value of Harvested Cane	<u>(1,301,769,987)</u>		<u>(1,301,769,987)</u>
Fair Value loss (gain) on harvested cane	<u>(618,952,881)</u>		<u>(618,952,881)</u>
Change in cost of standing cane	(68,502,694)		(68,502,694)
Change in fair value of standing cane	350,582,964	9,446,827	360,029,791
FV gain (loss) on standing cane	<u>(787,929,114)</u>	9,446,827	<u>(778,482,287)</u>
Reversal of provision for possible destruction	<u>13,602,508</u>		<u>13,602,508</u>
Carrying value at end of year 7 July 2018	<u>3,214,475,927</u>	<u>123,047,745</u>	<u>3,337,523,672</u>

Growing cane is classified as immature until it is ready for harvest. The fair value measurement of growing cane has been categorised as a Level 3 Fair Value as it is determined using unobservable inputs to the valuation methodology, and is based on the best information available at reporting date.

Due to the El Niño effect in Tendahoo Sugar project, it has been determined that the biological asset has incurred damage. As a result, management has concluded that the plantation no longer provides future economic benefits due to the adverse weather conditions. Therefore, a provision has been recorded for the entire accumulated costs associated with the plantation, amounting to ETB 1.613 billion (consisting of ETB 1.06 billion as of July 7, 2016, and ETB 612 million as of July 7, 2017).

The fair value of growing crops is determined based on current market prices less estimated selling costs. However, Due to the conflict in the Tigray, it was not possible to conduct an assessment to determine if the crop at Welkait sugar project had been damaged. Consequently, management has also concluded that the plantation has ceased to provide further benefit due to the lack of care during the war period. Therefore, a provision has been recognized for the full accumulated costs related to the plantation, totalling ETB 352 (comprising ETB 286 as of July 7, 2016, and ETB 207 as of July 7, 2016)."

The loss on cane at fair value reflects the value of cane harvested for the sugar projects that was not utilized in the production of white sugar. This loss occurred because the processing plant was not yet operational and ready for production at the time the cane was harvested.

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14 Cash and cash equivalents

	2018	2017	2016
	ETB	ETB	ETB
Cash at banks	1,682,651,231	1,567,782,147	1,205,873,362
Cash on hand	308,193	3,635,856	5,521,394
Cash and cash equivalents	1,682,959,424	1,571,418,002	1,211,394,756

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments maturing within 90 days 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.

15 Financial assets : Trade and other receivable

	2018	2017	2016
	ETB	ETB	ETB
Trade receivables	404,079,114	512,389,957	393,843,992
Sundry debtors	663,289,587	691,279,158	258,365,110
Staff receivable	84,578,195	49,079,911	53,694,426
Claim receivable	-	-	41,016,771
Receivable from MoFED	30,358,870	31,449,277	-
Former associated enterprise	2,250,608	2,250,608	21,578,052
Project and public sugar factories	12,932,323	6,895,501	-
	1,197,488,697	1,293,344,410	768,498,351
Less: Allowance for credit loss	(96,528,469)	(58,948,313)	(47,375,331)
	1,100,960,228	1,234,396,097	721,123,020
Total financial assets	1,100,960,228	2,865,414,999	721,123,020
Total current	1,100,960,228	2,865,414,999	721,123,020
Total non-current	-	-	-

15.1 Trade receivables

Since all sales of white sugar to customer is made by head office , trade receivable are mainly maintained in the account of head office.

- 15.1a** Comprises of amounts due from major customer such as MEWIT, Et-fruit and Ethiopian Trading Enterprise for sales of sugars and other by-products on account. Recognition of trade receivable coincides with the recognition of the corresponding sales amount. The sale of sugar including order receiving, invoice issuance as well as cash collection is maintained, followed up and controlled at head office.

Trade receivables are non-derivatives financial assets carried at amortized cost which do not generate a fixed or variable interest income for the Corporation. The carrying amount of cash, trade and other receivable is considered a reasonable approximation of fair value.



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15.1b Allowance for credit losses

The Corporation applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for trade receivable arising from Credit sales as these items do not have a significant financing component. In measuring the expected credit losses, the receivables have been assessed on a collective basis as they possess shared credit risk characteristics.

The average credit period for collection of trade receivable is 15 Days. No interest is charged on trade receivables. For receivable as than trade such as such as staff debtors , The Corporation has recognised 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 Corporation has recognised an allowance for doubtful debts. It represents only of trade debtors arising from sales of sugar on credit.

The movements in impairment allowance for receivable is analysed below:

	Individually impaired ETB	Collectively impaired ETB	Total ETB
At 1 July 2016	47,375,331		47,375,331
Impairment loss recognized on receivables	11,572,982		11,572,982
Utilized/written off			-
Unused amounts reversed/recovered			-
At 30 June 2017	58,948,313	-	58,948,313
Impairment loss recognized on receivables	37,580,156		37,580,156
Utilized/written off		-	-
Unused amounts reversed/recovered		-	-
At 30 June 2018	96,528,469	-	96,528,469

16 Advance and prepayment

	2018 ETB	2017 ETB	2016 ETB
Advance payment (16,1)	15,311,564,066	16,309,734,947	20,832,825,075
Prepayments	6,902,514	15,327,035	52,957,823
Out growers (16,2)	612,069,072	586,568,607	590,015,370
Allowance for credit losses	(7,468,623,328)	(7,228,792,726)	(6,825,066,047)
	8,461,912,324	9,682,837,862	14,650,732,221



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16.1 This represent advance payment made to the Corporation'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.

16.2 In addition to in-house production, sugar Factories purchases sugarcane from out growers through farms association. Costs of farming up to weighbridge is financed from by the corporation which will be , but reimbursable as a deduction from purchase price of the cane. All expenditure incurred on the out growers land identified by field number are recorded in Advance to out growers' account (12330-0000) which is a receivable.

The out grower are also given a fixed sum of money in order to fulfil their cash need until the first round cane is harvested and the payment is reported as a subsistence fee receivable. The subsistence fee is repaid proportionately over the five rounds of harvesting. i.e. the deduction from subsistence fee in an equal instalment over harvesting. The corporation also incurs house construction cost for the farmers based on their request and all costs incurred for the construction of the house will be recognized and settled in the same way as subsistence fee.

17 Tax receivable

	2018	2017	2016
	ETB	ETB	ETB
VAT receivable	3,329,664,464	3,047,831,934	2,858,706,592
WHT receivable	257,806,082	210,484,886	160,294,848
Income tax receivable	72,644,679	-	-
Less: Allowance for credit loss	(308,119,808)	(240,147,366)	(188,910,300)
	<u>3,351,995,417</u>	<u>3,018,169,455</u>	<u>2,830,091,141</u>



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18 Inventories

	2018	2017	2016
	ETB	ETB	ETB
Imported sugar	701,609,946	868,738,830	111,911,108
Locally Produced White sugar	725,221,545	671,023,806	158,924,270
Chemical & fertilizer	285,432,527	151,091,786	135,943,274
General store items	367,236,889	491,821,078	416,261,392
Construction materials	5,461,442	6,313,891	6,424,714
Ethanol production	30,728,959	43,959,757	38,858,962
Fuel and lubricants	111,570,610	95,591,764	71,657,081
Spare parts	2,125,166,332	1,709,573,831	1,364,878,340
Irrigation materials	391,644,496	173,208,400	142,849,157
Materials & supplies	509,274,534	491,321,134	40,006,760
Factory & agricultural consumable	408,663	159,530,791	131,464,759
Factory and construction material	255,111,962	5,152,051	151,329,812
Farm Products	33,545,212	6,272,652	2,800,112
Others	60,434,404	63,180,274	45,771,912
	5,602,847,521	4,936,780,043	2,819,081,652.24
Goods In transit	2,267,947,984	1,259,446,699	1,774,554,962
Pro. For Stock Obsolescence	(594,917,060)	(520,116,298)	(398,343,393)
Total inventories at the lower of cost and NRV	7,275,878,446	5,676,110,443	4,195,293,221



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19 Paid up capital

The entity is wholly owned by the government of the Federal democratic republic of Ethiopia. The Corporation is established at summation of the carrying amount of the net asset of the each of the existing factories amounting ETB 6,042,512,614 at the date of incorporation i.e. 10 December 2010. This represent authorised and paid up capital of each factory and head office. In the subsequent period the paid-up capital increase by ETB 8,040,511,876 through in kind contribution by government.

20 Accumulated loss

The cumulative profit or loss of the Corporation that are available for reinvestment in the Corporation's core business or to pay down its debt.

21 Sugar Industry Development Fund

The Sugar Industry Development fund is established by Proclamation NO. 415/2004. Financial sources of the fund is sale proceeds of sugar in the domestic market by the corporation in excess of ETB 1,026 per quintal weighting 100kgs (One Thousand Twenty Six Birr) and is expected to be further increase with the coming in to effect of a directive which is currently on a draft stage.

Transfer of sale proceed to the fund is recorded as a reserve for SIDF of each branch and refund of the amount back to the corporation for project works is recognized directly in equity component SIDF . Hence SIDF is a components of equity that represent funds transfer from fund to the corporation to finance the ongoing sugar development projects.

22 Capital contribution

This is regular contribution by the government to the factories and head office. The contribution is made both in cash and kind. It is treated as one of the components of equity.

23 Asset revaluation reserve

The balance is resulted from revaluation of property, plant and equipment, and freehold land at first time adoption of IFRS .

24 Reserve for SIDF

This represents transfer of portion of the sales proceed of each factory to SIDF fund Since 2017 and directly charged to an equity component called Reserve for SIDF. The contribution to the fund made before 2017 was charged to profit or loss and hence reported as part of accumulated loss.

25 Other reserve

All other categories of equity that is not categorized under the above items are reported as part of other reserve. This includes transaction like actuarial gain or loss arising from remeasurement of employee benefit.

26 Contribution for capital expenditure

Represent SIDF Contribution to head office and service fee from factories less head office operating cost



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27 Financial liabilities at amortized cost:

	2018	2017	2016
	ETB	ETB	ETB
Trade and other payable (27,1)	12,502,220,136	11,220,634,904	8,758,487,853
Retention payable (27,3)	1,208,892,386	1,068,373,337	767,493,986
Sugar development fund (27,2)	218,335,357	209,480,986	205,356,116
Long term loan (27,4)	119,584,781,501	94,656,603,140	76,205,909,355
Total financial liabilities	133,514,229,379	107,155,092,369	85,937,247,311
Total current	13,929,447,878	12,498,489,228	9,731,337,955
Total non-current	119,584,781,501	94,656,603,140	76,205,909,355

27.1 Trade and other payables

	2018	2017	2016
	ETB	ETB	ETB
Trade payable	3,274,105,895	3,585,724,107	2,444,139,728
Sundry payable	300,763,018	241,744,015	289,582,013
Staff payable	35,714,249	11,548,684	7,859,123
Provision for taxation	15,620,704		
Payable to METEC	826,390,060	38,511,525	30,107,908
Payable to contractors	36,623,282	1,106,761,879	1,782,882,371
Former Associated enterprise	1,840,507,764	1,840,507,764	1,151,567,347
Suppliers & contractors	5,686,884,359	4,395,836,921	3,052,479,613
	12,016,609,330	11,220,634,894	8,758,618,102

Trade payables are non-interest bearing and are normally settled on 60-day terms and Interest payable is calculated on long term loans and bonds which is normally settled quarterly throughout the financial year. The carrying values of trade and other short-term payables are considered to be a reasonable approximation of fair value. Sundry payables are those unpaid invoices that do not directly relate to the normal operations of the business, i.e. unusual transactions that do not relate to the normal course of business.



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27.2 Sugar Industry Development Fund Payable

Is a portion of income from sale of locally produced sugar to be deposited in a special account maintained at National bank of Ethiopia. Hence, the SIDF payable ledger in the operating account represents the income from sale of sugar yet not transferred to SIDF fund in the NBE account.

27.3 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 Corporation for works executed, The Corporation withheld five percentage (5 %) of the payment due as a retention money until the constructed plant is successfully competed and become operational.

27.4 Long term loans

This represents the loans obtained from local and international banks. While Omo 2, Omo 3 projects and kesem factory are financed by the loan obtained from China development bank, Welkayit Project financed by Exim Bank of China, Kuraz 5 is financed by ICBC, other projects such as BELES, KURAZ 1 and ARJO including farm land development and infrastructure is financed by loan obtained from Commercial bank of Ethiopia.

Majority of the loans are directly secured by the corporation and hence are maintained in the accounts of head office.

	Total ETB
Balance at 1 July 2016	76,211,254,595
Add; Disbursement	18,897,952,339
; Forex loss	1,797,502,525
<u>Less: Settlement</u>	<u>(1,797,428,413)</u>
Balance at 30 June 2017	95,109,281,045
Add; Disbursement	21,943,786,446
; Forex loss	4,296,746,455
<u>Less: Settlement</u>	<u>(1,830,387,397)</u>
Balance at 30 June 2018	119,519,426,549

The Corporation finances its projects through loans obtained from different finance provider/ Financier such as world bank, Arab banks, African development bank and others. A loan agreement is entered in to with these financiers at a given lump sum limit to be disbursed to each project at different times based on the utilization request to pay for the works completed and for advance payment to 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 instalment commencing at the end of from 5 up to 15 years of grace period.

The borrowing are payable as follows	At '2018	At '2017	At '2016
not later than one year	-	-	-
later than five years	119,519,426,549	95,109,281,045	76,211,254,595
later than five years	-	-	-
	<u>119,519,426,549</u>	<u>95,109,281,045</u>	<u>76,211,254,595</u>



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28 Financial Risk Management

28.1 Introduction

The Corporation's principal financial liabilities, comprise loans and borrowings, trade and other payables . The main purpose of these financial liabilities is to finance the Corporation's operations . The Corporation's principal financial assets include trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Corporation's activities expose it to a variety of financial risks, including financial risk, credit risk, and interest rates risk. The Corporation's overall risk management programme focuses on the identification and management of risks and seeks to minimise potential adverse effects on its financial performance. Investment policies are in place, which help manage liquidity, and seek to maximise return within an acceptable level of interest rate risk.

28.1.1 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 Corporation.

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 Corporation's risk management strategy, priorities and policies as approved by the Managing Director..

The Corporation's policy is that risk management processes throughout the Corporation 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 Corporation

28.1.2 Risk measurement and reporting systems

The Corporation'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 Corporation. These limits reflect the business strategy and market environment of the Corporation as well as the level of risk that the Corporation is willing to accept, with additional emphasis on selected regions. In addition, the Corporation measures and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

28.1.3 Risk mitigation

The Corporation uses various risk mitigating techniques to reduce its risk to the level acceptable. Risk controls and mitigate, identified and approved for the Corporation, 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



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28.2 Financial risk

Financial instruments by category

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

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

The Corporation's classification of its financial assets is summarised in the table below:

	FVTPL ETB	Amortised Cost ETB	Total ETB
30 June 2018			
Cash and balances with banks	1,682,959,424	-	1,682,959,424
Investment securities			
– At fair value through PL	-	-	-
– At amortized cost	-	-	-
Trade receivables	-	404,079,114	404,079,114
Other receivables excluding prepayments	-	696,881,113	696,881,113
Total financial assets	1,682,959,424	1,100,960,228	2,783,919,651
	FVTPL ETB	Amortised Cost ETB	Total ETB
30 June 2017			
Cash and balances with banks	1,571,418,002	-	1,571,418,002
Investment securities			
– At fair value through PL	-	-	-
– At amortized cost	-	-	-
Trade receivables	-	512,389,957	512,389,957
Other receivables excluding prepayments	-	722,006,140	722,006,140
Total financial assets	1,571,418,002	1,234,396,097	2,805,814,099
category (Cont'd)			
30 June 2016			
Cash and balances with banks	1,211,394,756	-	1,211,394,756
Investment securities			
– At fair value through PL	-	-	-
– At amortized cost	-	-	-
Trade receivables	-	393,843,992	393,843,992
Other receivables excluding prepayments	-	327,279,028	327,279,028
Total financial assets	1,211,394,756	721,123,020	1,932,517,776





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28.3 Credit risk

The Corporation 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 Corporation is exposed to credit risk is trade receivables.

28.3.1 Management of credit risk

The Corporation manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or companies of counterparty and to geographical and industry segments. Such risks are subject to regular review. Limits on the level of credit risk by category and territory are approved executive management.

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

28.3.2 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 2018, 30 June 2017 and 1 July 2016 and are held in Ethiopian banks have been classified as non-rated as there are no credit rating agencies in Ethiopia. The Corporation has cash or cash equivalent that are held in foreign currency.

(b) The Corporation 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. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location and nature of customers.

The expected loss rates are based on the payment profile for sales over the past 48 months before 30 June 2018 and 30 June 2017 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. The Corporation has identified gross domestic product (GDP) and unemployment rates of the countries in which the customers are domiciled to be the most relevant factors and according adjusts historical loss rates for expected changes in these factors. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

Trade receivables are written off (i.e. derecognised) 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 Corporation on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

The amount that best represents the company's maximum exposure to credit risk as at 30 June 2018 is made up as follows:

30 June 2016	Fully performing	Past due	Impaired	Total
Trade and other receivables	1,100,960,228		96,528,469	1,197,488,697
Cash and bank balances	1,682,959,424			1,682,959,424
	<u>2,783,919,651</u>		<u>96,528,469</u>	<u>2,880,448,121</u>
30 June 2017	Fully performing	Past due	Impaired	Total
Trade and other receivables	1,234,396,097		58,948,313	1,293,344,410
Cash and bank balances	1,571,418,002			1,571,418,002
	<u>2,805,814,099</u>		<u>58,948,313</u>	<u>2,864,762,412</u>
30 June 2018	Fully performing	Past due	Impaired	Total
Trade and other receivables	673,747,689		47,375,331	721,123,020
Cash and bank balances	1,211,394,756			1,211,394,756
	<u>1,885,142,445</u>		<u>47,375,331</u>	<u>1,932,517,776</u>

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28.4 Liquidity risk

Liquidity risk is the risk that the Corporation 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 Corporation 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 Corporation on acceptable terms.

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

28.4.1 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 Corporation evaluates its ability to meet its obligations on an ongoing basis. Based on these evaluations, the Corporation 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 Corporation's reputation.

28.4.2 Maturity analysis of financial liabilities

The table below analyses the Corporation'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
30 June 2018				
Trade payable	3,274,105,895	-	-	3,274,105,895
Retention payable	-	-	1,208,892,386	1,208,892,386
SIDF	-	-	218,335,357	218,335,357
Borrowings	-	-	119,519,426,549	119,519,426,549
Other liabilities	8,742,503,435	-	-	8,742,503,435
Total financial liabilities	12,016,609,330	-	120,946,654,291	132,963,263,622
30 June 2017				
Trade payable	3,585,724,107	-	-	3,585,724,107
Retention payable	-	-	1,068,373,337	1,068,373,337
SIDF	-	-	209,480,986	209,480,986
Borrowings	-	-	95,109,281,045	95,109,281,045
Other liabilities	7,634,910,788	-	-	7,634,910,788
Total financial liabilities	11,220,634,894	-	96,387,135,369	107,607,770,263



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1 July 2016

Trade payable	2,444,139,728	-	-	2,444,139,728
Retention payable	-	-	767,493,986	767,493,986
SIDF	-	-	205,356,116	205,356,116
Borrowings	-	-	76,211,254,595	76,211,254,595
Other liabilities	6,314,478,375	-	-	6,314,478,375
Total financial liabilities	8,758,618,102	-	77,184,104,697	85,942,722,799

28.5 Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, credit spreads and their volatilities. Market risk can arise in conjunction with trading and non-trading activities of a financial institutions. The Corporation does not ordinarily engage in trading activities as there are no active markets in Ethiopia.

28.5.1 Management of market risk

The main objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising 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 Corporation's exposure to the risk of changes in market interest rates relates primarily to the Corporation's obligations and financial assets with floating interest rates. The Corporation is also exposed on fixed rate financial assets and financial liabilities. The Corporation's investment portfolio is comprised of Ethiopian Government bonds and equity investments.

The Corporation has loans and borrowings and therefore is exposed to interest rate risk as far as loans and

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

30 June 2018

	Fixed ETB	Floating interest bearing ETB	Non-interest bearing ETB	Total ETB
Assets				
Cash and bank balances	1,682,959,424	-	-	1,682,959,424
Trade receivables	-	-	404,079,114	404,079,114
Other receivables	-	-	747,867,782	747,867,782
Total	1,682,959,424	-	1,151,946,896	2,834,906,320
Liabilities				
Trade payables	-	-	3,274,105,895	3,274,105,895
Borrowings	119,519,426,549	-	-	119,519,426,549
Other liabilities	-	-	(1,846,878,153)	(1,846,878,153)
Total	119,519,426,549	-	1,427,227,742	120,946,654,291



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30 June 2017

	Fixed	Floating bearing	interest bearing	Non-interest bearing	Total
	ETB	ETB	ETB	ETB	ETB
Assets					
Cash and bank balances	1,571,418,002	-	-	-	1,571,418,002
Trade receivables	-	-	-	512,389,957	512,389,957
Other receivables	-	-	-	740,359,068	740,359,068
Total	1,571,418,002	-	-	1,252,749,025	2,824,167,027
Liabilities					
Trade payables	-	-	-	3,585,724,107	3,585,724,107
Borrowings	95,109,281,045	-	-	-	95,109,281,045
Other liabilities	-	-	-	(2,307,869,783)	(2,307,869,783)
Total	95,109,281,045	-	-	1,277,854,324	96,387,135,369

30 June 2016

	Fixed	Floating bearing	interest bearing	Non-interest bearing	Total
	ETB	ETB	ETB	ETB	ETB
Assets					
Cash and bank balances	1,211,394,756	-	-	-	1,211,394,756
Trade receivables	-	-	-	393,843,992	393,843,992
Other receivables	-	-	-	312,059,536	312,059,536
Total	1,211,394,756	-	-	705,903,528	1,917,298,284
Liabilities					
Trade payables	-	-	-	2,444,139,728	2,444,139,728
Borrowings	76,211,254,595	-	-	-	76,211,254,595
Other liabilities	-	-	-	(1,471,289,626)	(1,471,289,626)
Total	76,211,254,595	-	-	972,850,102	77,184,104,697



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(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 Corporation primarily transacts in Ethiopian Birr and its assets and liabilities are denominated in the same currency. There are small portion of long term loan that are denominated in Foreign currency and there is also cash at bank in foreign currency, The Corporation is therefore moderately exposed to not exposed to currency risk .

28.6 Capital management

The Corporation maintains an efficient capital structure of equity shareholders ' funds, consistent with the Corporation's risk profile and the regulatory and market requirements of its business.

The Corporation's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders and regulators.
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to safeguard the Corporation ' s ability to continue as a going concern so that it can provide returnsto the government; and
- to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

	2018 ETB	2017 ETB	2016 ETB
Capital	14,083,024,490	14,083,024,490	14,083,024,490
Capital contribution	443,712,291	3,423,986	448,748,158
Asset revaluation reserve	11,977,353,299	11,977,353,299	11,977,353,299
Head office accounts	(41,951,109,669)	(35,863,745,751)	(32,928,996,047)
Other reserve	(4,925,717)	(1,717,122)	-
Equity	<u>(15,451,945,306)</u>	<u>(9,801,661,098)</u>	<u>(6,419,870,100)</u>
Total liability	143,317,344,490	116,378,354,771	94,199,671,204
Less: current liability	19,701,655,682	16,836,889,379	13,602,783,261
Net debt	<u>123,615,688,808</u>	<u>99,541,465,392</u>	<u>80,596,887,943</u>
Gearing	114%	111%	109%

An important aspect of the Corporation ' s overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the Corporation is focused on the creation of value for shareholders.



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28.7 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 categorised 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.

28.7.1 Valuation models

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable input reflect market data obtained from independent sources; unobservable inputs reflect the Corporation's market assumptions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in which all significant inputs are directly or indirectly observable from market data.

In conclusion, this category is for valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

28.7.2 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.

28.7.3 Valuation technique using significant unobservable inputs – Level 3

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

28.7.4 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.

28.8 financial assets and financial liabilities

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



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29 Defined benefit obligation (Severance Benefit)

(i) *Severance benefit plan*

Accounted as part of financial liability, The Corporation is obliged by law to pay severance payment for eligible employees who served the Corporation for more than 5 years when the employment is terminated by the employee's own will. The Corporation employees are entitled to severance benefit. The severance benefit entitlement is provided under the labour proclamation No.3777/2003, as amended by the Labour (Amendment) Proclamation No. 494/2006 .In the first year, the pay is third times the average daily wage of the last week of service, severance pay is calculated in proportion to the period of service. For every additional year of service, payment is increased by a third of a benefit provided that the total amount does not exceed twelve months wage of the employee. This benefit is also entitled to employees in the event of death in service , voluntary resignation and disability after five years of service. Accordingly the present value of post employment benefit obligation ,(severance) and the related current service cost were measured using the projected unit credit method.

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 is an unfunded defined benefit scheme. The key financial assumptions are the discount rate , the rate of salary increases and age of retirement. The Corporation does not maintain any assets for the schemes but ensures that it has sufficient funds for the obligations as they crystallise. The details of the valuation approached is explained

Severance Benefit:

The actuarial liability values as at 30 June 2016, 2017 and 2018 have been calculated using the Projected Unit Credit Method. We have first estimated the total liability based on total service (i.e. service between date of employment and expected date of exit) according to the Scheme design. We have projected benefit payments into the future taking into account assumed future pay increases. The expected future cash flows are then discounted to the valuation date. The total liability has then been pro-rated by a proportion of past service relative to expected total service in order to estimate the actuarial liability at the valuation date. The actuarial liability estimated as at 30 June 2016, 2017 and 2018 is an outcome of a valuation exercise.

The current service costs for the year 1 July 2016 to 30 June 2017, 1 July 2017 to 30 June 2018 and 1 July 2018 to 30 June 2019 have been calculated using the Projected Unit Method with a one-year control period. The 2017, 2018 and 2029 current service costs are outcomes of a planning exercise (with the latter service cost being required for the next disclosure i.e. for the year ending 30 June 2019). 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. For an ageing membership the current service cost would be expected to increase over time.

No allowance has been made for new entrants after the valuation date or for any other discretionary benefits or practice within the Scheme. A current service cost has not been estimated for members who are above their normal retirement age as we have assumed that these members will retire immediately at the valuation date.



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29a Defined benefits liabilities:

Changes in the present value of the defined benefit obligation

	2018	2017	2016
	ETB	ETB	ETB
At the beginning of the year	34,816,706	29,903,890	29,065,213
Current service cost	6,771,124	6,607,207	-
Interest cost	4,796,843	3,755,266	-
Actuarial (gains)/losses on:	1,072,501	806,924	-
Economic assumptions	(95,621)	(25,209)	-
Experience	2,231,715	935,407	-
Benefits paid	(8,334,227)	(7,166,780)	-
At the end of the year	<u>41,259,040</u>	<u>34,816,706</u>	<u>29,065,213</u>

29b The principal assumptions used in determining defined benefit obligations

	30 June 2018	30 June 2017	1 July 2016
	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

(i) Discount rate

In Ethiopia, there is neither a deep market in corporate nor government bonds. Furthermore, the market for treasury bills in Ethiopia is inefficient and does not appear to be market determined. IAS 19 does not provide guidance for setting the discount rate in a country with limited government bonds or instruments.

The Corporation therefore opted to use a discount rate of (30 June 2018: 12.75%, 30 June 2017: 12.75%, 1 July 2016 : 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 30 June 2016, 2017 and 2018. Salary increases have been assumed to occur at the end of each accounting year (i.e. at 30 June 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.



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(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.

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

(v) *Withdrawals from service*

The withdrawal rate selected was based on experience in other similar

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%

(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 2018 (30 June 2017: 5.4 years, 1 July 2016: 5.5 years)



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29c 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	Sensitivity scenarios			
	(2) 1 + 1	(3) 1 - 1	(4) e & cpi	(5) e & cpi - 1
Assumptions being varied				
Discount rate (i)	13.75%	11.75%	12.75%	12.75%
Salary increases (e) and inflation (cpi)	10.75%	10.75%	11.75%	11.75%
Results				
1-Jul-16	15,442,266	17,431,114	17,362,841	18,862,841
30-Jun-17	18,253,776	20,582,104	20,501,393	22,001,393
30-Jun-18	20,225,054	22,764,720	22,675,283	24,175,283

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

A 1% p.a. reduction in the discount rate will increase the actuarial liability estimated at 30 June 2016, 2017 and 2018 to around 444.0 million Birr, 540.8 million Birr and 671.6 million Birr respectively (with all other assumptions remaining the same).

Alternatively, a 1% p.a. increase in the salary increase assumption will increase the actuarial liability estimated at 30 June 2017, 2018 and 2019 to around 428.6 million Birr, 526.3 million Birr and 658.9 million Birr respectively (with all other assumptions remaining the same). The other figures in the table above can be interpreted in a similar way.

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the longevity assumptions will also have an effect on the valuation results. However, we have shown the impact of what we believe are the key factors.

Key risks

The risks associated with severance benefit entitlements are as follows;

- 1 The benefits are linked to salary and consequently has an associated risk of an increase in salary.
- 2 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 Corporation
- 3 The severance benefit is unfunded with no separate assets, an investment risk would therefore not arise.
- 4 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 Corporation of the benefits is therefore subject to the demographic movement of the employees.



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30 Tax Payable

	2018	2017	2016
	ETB	ETB	ETB
Employment Income tax	101,908,585	26,088,933.67	42,840,207
Other taxes	37,766	25,938,524.96	58,047,852
Excise tax payable	559,057,515	475,638,980.56	327,799,612
Withholding tax payable	70,149,190	53,241,988.73	71,321,085
Vat Payable	415,424,031	354,367,263.71	501,938,893
Pension contribution payable	18,959,780	14,499,140.66	20,878,496
	1,165,536,868	949,774,832.30	1,022,826,144

Employment income tax payable is a monthly tax deducted from employee of the Corporation and to paid to ERCA. The year end balance represent the tax deducted from employees but not settled to the authority as the settlement is made usually in the subsequent period. The Pension payable is defined contribution plan where Employees are included in a statutory pension scheme to which the Corporation and these employees contribute 11% and 7% of the individual monthly salaries, respectively.

31 Accruals and Provision

	2018	2017	2016
	ETB	ETB	ETB
Accrual	391,559,052	224,099,092	223,019,147
Provision	231,167,835	192,627,643	92,472,882
	622,726,887	416,726,735	315,492,029

31.1 Included in accrual is cumulative annual leave , 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.

32 Unearned revenue

Unearned revenue represents cash collection from factories for sale of sugar but sales is not yet completed and sugar not yet delivered to the customer.



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33 Events after reporting period

Except as disclosed below, there were no significant events that occurred between 30 June 18 and the date of issue of this financial statement.

i. Covid 19 assessment

The corporation has assessed the impact of Covid 19 on the Business, based on the assessment, no significant impact or uncertainties is expected by management.

ii. Government announcement to privatize sugar factories

Ethiopian Investment Holdings, the main marketing authority for the government, invited local and foreign investors to acquire up to 100 percent ownership in the eight sugar firms. These include Omo Kuraz 1, Omo Kuraz 2, Omo Kuraz 3, Omo Kuraz 5, Arjo Dedessa, Kesseme, Tana Beles and Tendaho

The Ethiopian Sugar Industry Group (ESIG) the newly established body replacing the former sugar corporation has taken over the ownership of sugar development projects such as Omo 1, Omo 2, Omo 3, Omo 5, Tendaho, Arjo and Welkait. Under this new structure, the rest of the projects and each existing factories such as Beles, Kesem, Fincha, Wonji and Methara sugar factories will have their own legal personalities directly controlled by Ethiopian investment Holding.

iii. Out break of civil war in norther region of Ethiopia

Since November 2020, a military conflict between the FDRE Government and TPLF has affected the northern region of the country. The Project has been unable to assess the potential damage incurred by the Welkait Sugar Development Project located in the region due to the project's closure since the conflict began. Despite management's inability to access the project for assessment, physical assets of the project valued at a total of 17,668,281,669.79 BIRR, including the factory machinery, buildings, irrigation systems, other infrastructure, and plantation, were exposed to potential damage during the war.

iv. Military Conflict in Oromia region of Ethiopia

Since 2020, a military conflict has arisen between the Federal Democratic Republic of Ethiopia (FDRE) Government and local rebel forces in the Oromia region. The Arjo and Fincha Sugar Factory, situated in the area, have been significantly impacted by the conflict. Management has conducted an assessment revealing a total loss of around Birr 281 and 245 million incurred by the factories respectively due to vandalism perpetrated by the rebels since the onset of the conflict.

v. Change in Political Conditions, Civil War and El Niño effect.

Due to changes in political conditions, civil war in the Northern Region, bad weather Condition (El Niño effect) and decisions by the regional government, operation has been temporarily suspended and the future fate of Tendaho project is yet to be decided by management. As a result project's movable properties have been transferred to other factories and projects of the group and most of the staff have been terminated.

vi. The El Niño effect in the Afar Region and effect on Biological Assets and Stock items

Due to the El Niño effect in the region, it has been determined that the biological asset of Tendaho project has incurred damage. As a result, management has concluded that the plantation no longer provides future economic benefits due to the adverse weather conditions. Therefore, a provision has been recorded for the entire accumulated costs associated with the plantation, amounting to ETB 1.613 billion (consisting of ETB 1.06 billion as of July 7, 2016, and ETB 612 million as of July 7, 2017).



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34 Going concern assumption

Management of the Corporation has concluded on the appropriateness of the use of the going concern basis of accounting based on the assessment made on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. Management's conclusions are based on the assessment made up to the forcible future.

Management of the Project has affirmed its commitment to continue operations at the Welkait project and has therefore determined that the going concern basis of accounting is appropriate. However, significant financial investment is deemed necessary for completing the factory and related infrastructure, including the plantation. Pursuant to a board decision dated Sene 14, 2015 E.C., management has mandated the need for an additional minimum of 42 billion BRR in funding, which is anticipated to be secured through bank loans. Consequently, the project's continuity hinges solely on obtaining this bank financing. Management has therefore evaluated the presence of material uncertainties regarding the project's ability to continue in the foreseeable future.

Concurrently, management intends to explore alternative strategies, including the potential privatization of the project through transfer to private national or multinational investors. This strategic initiative aims to secure additional funding and enhance the project's sustainability beyond the current financial constraints.

The Subsequent event conditions of the Civil War in the Northern Region, the bad weather condition (El Niño effect), the subsequent transfer of movable properties to other Factories and Projects of the group, the termination of most of the staff has raised uncertainties on the going concern condition of Tendaho Project. Consequently, Management of the Group has yet to decide on the Tendaho Project future fate of whether to sale or operate as a joint venture with other investors to determine that the going concern basis of accounting is appropriate.

