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**AUDIT SERVICES  
CORPORATION**

ETHIOPIAN SUGAR CORPORATION

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2019

**ETHIOPIAN SUGAR CORPORATION  
REPORTS AND ANNUAL FINANCIAL STATEMENTS  
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FOR THE YEAR ENDED 30 JUNE 2019**

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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

*Opinion*

We have audited the financial statements of Ethiopian Sugar Corporation (the Corporation), which comprise the statement of financial position as at 30 June 2019, and 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 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 30 June 2019 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 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 is 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. This resulted in discrepancies between the physical inventory count and the ledger balance. As evidenced, there is difference of ETB 394,718,290 between the recorded inventory and the actual inventory count, the latter being more in amount. This variance has been accounted for under Cost of goods sold, plantation, and administrative expenses, necessitating further investigation. The lack of financial stock cards not only hinder the company's ability to effectively track inventory but also compromises the reliability and completeness of portion allotted to Cost of goods sold, plantation, and administrative expenses. Consequently, the adjustment of ETB 394,718,290 in the prorated balance for these accounts has not been verified for audit purposes.
- For an industry like the sugar sector, which typically encompasses a myriad of inventory line items, we identified a concerning practice of consolidating various inventory items into aggregated sums, instead of providing detailed breakdowns, at Arjo Sugar Factory, Kesseme Sugar Factory, and Tana Beles sugar projects. This practice hinders accurate inventory tracking, cost analysis, and effective management. For example, fixed assets & Spare parts items worth ETB 119,952,394 in Kesem factory, irrigation material items worth ETB 349,373,277 in Tana Beles sugar development and Fixed asset & Spare parts items worth ETB 98,157,029 in Arjo sugar factory.
- The Corporation has consumable inventories and goods in transit worth of ETB 500,641,185 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, an 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 6,761,563,406 and ETB 8,872,878,586 respectively.

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

3. There was no system of internal control over the accounting of intercompany accounts 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 statement 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 278,960,027 is credited to Head office account (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 the net amount of ETB 3,506,920 is credited to the Head office account (equity account). Therefore, the equity account entitled Head office account balance of ETB 18,666,049,921 is overstated with the sum of the above stated figure.
4. The financial statements reflect advance payments to contractors (Note 17) amounting to ETB 15,010,231,282 with ETB 7,382,602,470 (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. 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 factory, amounting to ETB 45,836,966 (446,501 tons), being calculated based on the proportion of harvested sugar to the total agricultural area, without accounting for depreciation. This approach lacked the necessary controls to ensure proper accounting for inventory consumption and other related production costs. This lack of traceability hinders the company's ability to accurately track inventory usage and associated costs, potentially impacting the reliability of production cost calculations.
  - It is difficult to determine the costs associated with producing 240,447 Quintals for the year in Kessem sugar Corporation. Expenses, inclusive of the cost of sales, have been aggregated under the general and administrative expense category. For instance, other expenses consisting of various product costs amounting ETB 126,408,998 that should have been classified and allotted as overhead cost and incorporated in cost of inventory, are accounted as expenses totally. Moreover, we were unable to adequately relate the amount of issued inventory to the sugar cane field where it was used and to the associated production costs. This lack of traceability hinders the company's ability to accurately track inventory usage and associated costs, potentially impacting the reliability of production cost calculations.

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

***Basis for Qualified Opinion (continued)***

- The absence of a cost accounting system resulted in the cost of sugarcane in Omo II Sugar factory. For instance, we were unable to adequately relate the amount of inventory issued to the sugar cane fields, where it was used and to the associated production costs. This lack of traceability hinders the company's ability to accurately track inventory usage and associated costs, potentially impacting the reliability of production cost calculations. Consequently, we were unable to delineate the costs linked with the production of 143,829 Quintals for the year and inhibit our confidence in relying on the total cost of goods sold figure, amounting to ETB 114,625,764.
- The absence of a cost accounting system resulted in the cost of sugarcane in Omo III Sugar factory. For instance, we were unable to adequately relate the amount of issued inventory to the sugar cane field where it was used and to the associated production costs. This lack of traceability hinders the company's ability to accurately track inventory usage and associated costs, potentially impacting the reliability of production cost calculations. Consequently, we were unable to delineate the costs linked with the production of 143,829 Quintals for the year and inhibit our confidence in relying on the total cost of goods sold figure, amounting to ETB 131,974,529.

Therefore, due to lack of a robust internal control framework, we do not have confidence in relying on the total Cost of sales figure, which amounts to ETB 8,329,720,902.

6. The property, plant and equipment consisting of 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 122,978,559,844.
7. Included in trade and other receivables is receivable from Commercial Bank of Ethiopia amounting to ETB 70,540,004 (194,483,544 in 2018). We have obtained no sufficient and appropriate audit evidence that this balance is recoverable. 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 ETB 1,206,504,342.
8. Despite the fact that a provision of ETB 265,468,615 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.

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

9. We identified significant deficiencies in the internal control over cash and cash equivalents in Arjo Sugar factory. These weaknesses limit our ability to form an opinion on the reliability of the reported cash and cash equivalents balance of ETB 17,532,425.93 in the factory.
10. The revenue shown in the statement of profit or loss & other comprehensive income of ETB 8,872,878,586 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.
11. 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 115% (114% in 2018) 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.
12. 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).

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

***Emphasis of Matter***

- We draw attention to Note 33 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.

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

***Emphasis of Matter (continued)***

- We also draw attention to this note again (Note 33) 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.
- We draw attention to the audit report on the financial statements of Arjo Sugar Factory a component included in the Combined Financial Statements. The audit of Arjo Sugar Factory resulted in an adverse opinion due to material misstatements related to cash and bank balance, deficiency in the control environment in inventory, cost of sales and non-financial assets. However, we have determined that this matter is not material to the Combined Financial Statements as a whole.

***Responsibilities of the Factory's Management and the Corporation's Management  
for the Financial Statements***

The Factory's and Project'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 the Factory's Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Corporation's Management is responsible for overseeing the Factory's financial reporting process. The Corporation's Management is also responsible for assessing the Factory'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 Corporation's Management knows of an intention either to liquidate the Factory 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.

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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)*

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

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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)*

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 Banchiayehu Tamrat.

*Audit Services Corporation*

26 September 2024



**Ethiopian Sugar Corporation**  
**Financial Statements**  
**Management, Professional Advisors and Registered Office**  
**For the year ended 30 June 2019**

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**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 2019)

<b>Name</b>	<b>Date of appointment</b>	<b>Position</b>
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



**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 2019**

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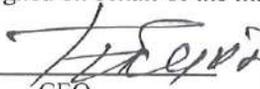
In compliance with the Article 14(8) of the Public Enterprises Proclamation No. 25/1992, the Management of the Corporation (hereafter referred to as the Management) of Ethiopian Sugar Corporation (hereafter referred to as the Corporation) is responsible for the preparation of the annual financial statements 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 an 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:

  
CEO  
Weyo Roba Akako  
Chief Executive Officer  
26 September 2024

  
Finance Department



**Ethiopian Sugar Corporation**  
**Financial Statements**  
**Report of Management**  
**For the year ended 30 June 2019**

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 2019, to the Board of Director 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;

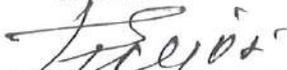
The Corporation is principally engaged in Sugar Manufacturing in Ethiopia.

**Operating results**

The Corporation's results for the year ended 30 June 2019 are set out on page 10. The profit for the year has been transferred to retained earnings. The summarized results are presented below.

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>ETB</b>	<b>ETB</b>
Revenue	8,872,878,586	7,093,393,859
Profit before income tax	(14,594,834,801)	(8,511,155,984)
Income tax expense	<u>38,032,044</u>	<u>302,360,928</u>
Total compressive income (loss) for the year	<u><b>(14,556,802,757)</b></u>	<u><b>(8,208,795,056)</b></u>

Weyo Roba Akako  
 Chief Executive Officer



CEO

26 September 2024

Addis Ababa, Ethiopia



Paulos Moja  
 CFO



**ETHIOPIAN SUGAR CORPORATION**  
**STATEMENT OF PROFIT OR LOSS ANH OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENHEH 30 JUNE 2019**

	Notes	2019 ETB	2018 ETB
Revenue	4	<u>8,872,878,586</u>	<u>7,093,393,859</u>
Cost of sales	6	<u>(8,329,720,902)</u>	<u>(6,659,258,683)</u>
<b>Gross profit</b>		<b>543,157,683</b>	<b>434,135,176</b>
Other operating income	5	218,943,074	167,727,069
General & administrative	7	(2,674,940,802)	(1,672,553,811)
Foreign currency exchange loss	27.4	(3,017,540,068)	(2,108,981,600)
Fair value gain (loss) cane and fruit	13.2	(1,170,691,297)	(1,729,343,151)
Loss on cane at fair Value	13.2	(125,367,275)	(100,181,261)
Impairment Loss - PPE	11	(4,022,047,511)	-
Provision for bad debt expense	15,16,17	(87,782,488)	(345,383,199)
Provision for stock obsolescence	18	(43,886,058)	(2,916,583)
Provision expense - Standing Cane	13.2	(31,707,226)	73,345,639
<b>Operating profit</b>		<b>(10,411,861,967)</b>	<b>(5,284,151,721)</b>
Finance costs/charges	8	<u>(4,182,972,833)</u>	<u>(3,227,004,262)</u>
<b>Profit before tax</b>		<b>(14,594,834,801)</b>	<b>(8,511,155,984)</b>
Income tax expense	9	<u>38,032,044</u>	<u>302,360,928</u>
<b>Profit for the year</b>		<b><u>(14,556,802,757)</u></b>	<b><u>(8,208,795,056)</u></b>
<b>Other comprehensive income, net of income tax</b>			
Items that will not be subsequently reclassified into profit or loss:			
Remeasurement gain loss on retirement benefits obligations	29a	<u>8,721,746</u>	<u>(3,208,594)</u>
<b>Total comprehensive income for the year</b>		<b><u>(14,548,081,011)</u></b>	<b><u>(8,212,003,650)</u></b>



**ETHIOPIAN SUGAR CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

		2019	2018
	Notes	ETB	ETB
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	122,978,559,844	112,551,002,673
Right use of asset - Land	12	364,503,135	364,630,945
Right use of asset - Office	12	300,368	14,004,641
Bearer plant	13.1	966,252,994	896,305,898
Investment in ESISC and MSF		3,992,000	3,992,000
		<b>124,313,608,343</b>	<b>113,829,936,159</b>
<b>Current assets</b>			
Trade and other receivable	15	1,206,504,342	1,101,868,117
Stock & goods in transit	18	6,761,563,406	7,275,759,447
Biological Asset - Agricultural	13.2	3,230,210,323	3,337,523,672
Biological Asset - Animal	13.2	3,299	9,307,100
Tax receivable	17	3,647,632,716	3,404,102,142
Advance and prepayments	17	8,280,004,749	8,460,488,783
Cash and cash equivalents	14	3,356,382,398	1,682,959,424
		<b>26,482,301,233</b>	<b>25,272,008,684</b>
<b>Total assets</b>		<b>150,795,909,576</b>	<b>139,101,944,843</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Paid up - capital	19	14,083,024,490	14,083,024,490
Government contribution	27	-	-
Capital contribution	27	418,273,766	443,712,291
Contribution for capital expenditure	26	101,054,623	101,054,623
Sugar Industry Development Fund	21	18,666,049,921	16,698,166,751
Reserve for SIDF	24	(7,290,739,206)	(5,226,030,158)
Asset revaluation reserve	23	11,977,353,299	11,977,353,299
Accumulated loss	20	(55,722,648,339)	(42,420,229,398)
Other reserve	25	3,796,029	(4,925,717)
<b>Total equity</b>		<b>(17,763,835,417)</b>	<b>(4,347,873,818)</b>
<b>Non-current liabilities</b>			
Long term loan	27.4	132,505,301,565	116,077,041,717
Deferred income on concessional loan	27.5		
Employee benefit obligation	29	43,827,359	41,259,040
Deferred tax liability	10	4,056,974,669	4,095,006,713
		<b>136,606,103,593</b>	<b>120,213,307,470</b>
<b>Current liabilities</b>			
Trade and other payable	27	15,472,216,337	10,151,034,766
Retention Payable	27.3	2,190,924,265	1,714,589,410
Interest payable	27	2,726,675,328	2,380,395,313
Long term loan-current maturity	27.4	8,823,693,834	6,817,792,767
Sugar development fund payable	27	167,514,534	218,335,357
Tax payable	30	1,215,203,864	1,217,643,593
Contract liability	31	128,902,226	211,263,331
Accrual	31	729,351,602	294,288,819
Provision	31	499,159,410	231,167,835
		<b>31,953,641,400</b>	<b>23,236,511,191</b>
<b>Total liabilities</b>		<b>168,559,744,993</b>	<b>143,449,818,661</b>
<b>Total equity and liabilities</b>		<b>150,795,909,576</b>	<b>139,101,944,843</b>



ETHIOPIAN SUGAR CORPORATION  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2019

	Sugar Industry Development Fund	Government contribution	Capital contribution	Other reserve	Industrial development fund contribution for capital expenditure	Paid up - capital	Reserve for SIDF	Asset revaluation reserve	Accumulated Loss	Total
	ETB	ETB	ETB	ETB	ETB		ETB	ETB	ETB	ETB
<b>Balance at 30 June 2018</b>	<b>16,698,166,751</b>		<b>443,712,291</b>	<b>(4,925,717)</b>	<b>101,054,623</b>	<b>14,083,024,490</b>	<b>(5,226,030,158)</b>	<b>11,977,353,299</b>	<b>(42,420,229,398)</b>	<b>(4,347,873,818)</b>
Comprehensive income for the year	-	-	-	-	-	-	-	-	(14,556,802,757)	(14,556,802,757)
Other Comprehensive income for the year	-	-	-	8,721,746	-	-	-	-	-	8,721,746
Transfer for the period	-	-	(25,438,525)	-	-	-	-	-	-	(25,438,525)
Contribution to SIDF	-	-	-	-	-	-	(2,064,709,048)	-	-	(2,064,709,048)
Cash and non-cash transfer	1,967,883,170	-	-	-	-	-	-	-	1,254,383,815	3,222,266,985
<b>Balance at 30 June 2019</b>	<b>18,666,049,921</b>		<b>418,273,766</b>	<b>3,796,029</b>	<b>101,054,623</b>	<b>14,083,024,490</b>	<b>(7,290,739,206)</b>	<b>11,977,353,299</b>	<b>(55,722,648,339)</b>	<b>(17,763,835,417)</b>
<b>Balance at 1 July 2019</b>	<b>18,666,049,921</b>		<b>418,273,766</b>	<b>3,796,029</b>	<b>101,054,623</b>	<b>14,083,024,490</b>	<b>(7,290,739,206)</b>	<b>11,977,353,299</b>	<b>(55,722,648,339)</b>	<b>(17,763,835,417)</b>
Comprehensive income for the year	-	-	-	-	-	-	-	-	(10,980,373,798)	(10,980,373,798)
Other Comprehensive income for the year	-	-	-	8,179,699	-	-	-	-	-	8,179,699
Transfer for the period	-	-	(24,987,390)	-	-	-	-	-	-	(24,987,390)
Contribution to SIDF	-	-	-	-	-	-	(1,927,511,067)	-	-	(1,927,511,067)
Cash and non-cash transfer	(786,122,134)	-	-	-	-	-	-	-	2,700,202,123	1,914,079,989
<b>Balance at 30 June 2020</b>	<b>17,879,927,787</b>		<b>393,286,376</b>	<b>11,975,728</b>	<b>101,054,623</b>	<b>14,083,024,490</b>	<b>(9,218,250,273)</b>	<b>11,977,353,299</b>	<b>(64,002,820,014)</b>	<b>(28,774,447,984)</b>



**ETHIOPIAN SUGAR CORPORATION**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	2019 ETB	2018 ETB
<b>Operating activities</b>		
<b>Profit before tax</b>	<b>(14,594,834,801)</b>	<b>(7,509,820,217)</b>
<b>Non-cash adjustment to reconcile profit before tax to net cash flows</b>		
Depreciation of property, plant and equipment and Bearer Plant	2,057,743,276	2,131,978,751
Impairment ( Reversal ) of PPE and Bearer Plant	4,022,047,511	(14,561,631)
Provision (Reversal of provision) for Loss of Plantation	31,707,226	(13,602,508)
Fair Value Change on biological Asset	1,200,374,646	878,663,548
Stock Obsolescence	43,886,058	74,800,762
Bad Debt Expense	88,696,071	345,252,946
Change Stock Shortage	-	719,277,192
Amortization of the right use of assets	13,832,083	13,403,905
Severance expense (Current service and interest)	11,290,065	3,233,740
	<b>(7,125,257,864)</b>	<b>4,138,446,706</b>
<b>Working capital adjustments:</b>		
Decrease (Increase) in trade and other receivables	(522,883,728)	(305,942,691)
Decrease (Increase) in advance and prepayment	266,504,891	981,094,937
Decrease (Increase) in Inventories	470,309,983	(1,674,568,764)
Decrease (Increase) in Biological Asset	(1,115,464,723)	(733,040,726)
Increase (Decrease) in trade and other payables	8,717,130,210	2,088,710,373
	<b>690,338,769</b>	<b>4,494,699,834</b>
<b>Net cash flows from operating activities</b>	<b>690,338,769</b>	<b>4,494,699,834</b>
<b>Investing activities</b>		
Investment in property, plant and equipment and sugar development	(16,318,531,624)	(20,829,229,674)
Disposal proceeds	-	-
Expenditure on bearer plant	(258,763,430)	(145,811,732)
Lease payment	-	(27,408,546)
Investment in ESISC and MSF	-	-
	<b>(16,577,295,054)</b>	<b>(21,002,449,951)</b>
<b>Financing activities</b>		
Proceeds from borrowings	22,881,989,175	26,240,532,901
Repayment of borrowings	(6,453,729,327)	(1,825,065,953)
Loan Transfer to LAMAC	-	-
Grant	-	-
Net Cash transfer	1,254,383,815	-
Additional fund from SIDF for project expansion	1,967,883,170	1,296,634,513
Contribution to SIDF	(2,064,709,048)	(2,023,408,258)
Capital contribution	(25,438,525)	440,288,305
	<b>17,560,379,259</b>	<b>24,128,981,507</b>
<b>Net cash flows from/(used in) financing activities</b>	<b>17,560,379,259</b>	<b>24,128,981,507</b>
Net increase/ ( decrease ) in cash and cash equivalents	1,673,422,975	111,541,426
Cash and cash equivalents at 1 July,	1,682,959,424	1,571,418,002
<b>Cash and cash equivalents at 30 June</b>	<b>3,356,382,398</b>	<b>1,682,959,428</b>



**ETHIOPIAN SUGAR CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

**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 Arjo Dedessa and Kessem have been fully completed and began operation. where as Omo II nd Omo III have been complited and started operation in 2020 and 2021 respectively. The completion of these four projects has increased the total number of operation factories in to Seven.

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). They have been prepared under the assumption that the Corporation operates on a going concern basis.

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.



**ETHIOPIAN SUGAR CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

**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.

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.



**ETHIOPIAN SUGAR CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

**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.

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.



**ETHIOPIAN SUGAR CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

**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.

**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.



**ETHIOPIAN SUGAR CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

**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.

**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.



**ETHIOPIAN SUGAR CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

**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.

**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.



**ETHIOPIAN SUGAR CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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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:

	<b>Theoretical Useful Life (years)</b>
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.

**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.



**ETHIOPIAN SUGAR CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

**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 incurred.

**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.

**1) 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.



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**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.

**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.

**Subsequent measurement**

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



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**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.

**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.



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**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.

**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



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**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).

**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.



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**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

**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.



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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.

**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



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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 :

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.



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**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. 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 recognize a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- 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 recognized 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 recognized 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 recognized in profit or loss, other comprehensive income or equity according to where the entity originally recognized the events or transactions which generated the distributable reserves.

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

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

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

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



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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 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 categorized 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

	2019	2018
	ETB	ETB
Sales of Imported Sugar	4,968,836,655	3,142,190,215
Sales of Locally Produced White Sugar	3,750,421,568	3,727,829,245
Sales of Ethanol	121,460,649	181,390,934
Sales of Molasses	-	2,553,694
Sales of Beef cattle	2,211,144	10,041,233
Sales of Fruit	29,948,569	29,388,538
	<u>8,872,878,586</u>	<u>7,093,393,859</u>

**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.

**5 Other income**

	2019	2018
	ETB	ETB
Other income	218,943,074	167727069.1
	<u>218,943,074</u>	<u>167,727,069</u>

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



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**6 Cost of Goods 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**

	2019 ETB	2018 ETB
<b>Current production costs</b>		
Imported sugar	3,972,659,084	2,744,503,173
Cost of harvested cane at fair value	2,130,076,304	1,941,649,641
Factory processing cost	1,195,389,777	1,107,501,560
Testing Cost	77,242,774	67,975,448
Total available for sales	<b>7,375,367,939</b>	<b>5,861,629,822</b>
Excise tax	788,451,248	672,169,473
<b>Stocks available for sales</b>	<b>8,163,819,187</b>	<b>6,533,799,295</b>
Ethanol production cost	105,054,091	114,708,456
Fruit plantation cost	10,174,864	10,375,777
Decrease (Increase) in stock of finished products	50,672,761	375,155
<b>Cost of Goods sold</b>	<b>8,329,720,902</b>	<b>6,659,258,683</b>



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**7 General, Admin and selling expense**

	2019	2018
	ETB	ETB
Salary, Wages and Benefits	1,134,566,867	717,580,462
Cotton cost	34,075,544	-
Current Service Cost	8,505,768	7,384,805
Annual leave expense	(2,889,384)	14,641,925
Fuel and lubricant - expense	178,224,107	132,232,107
Write off - Deferred Expenditure	6,570,400	1,203,412
Compensation expense	90,624,100	-
Provision for legal claim	353,772,417	39,064,348
Insurance expense	49,047,923	66,781,281
Bank charge	7,123,640	2,216,634
Repair and maintenance	94,045,400	76,859,752
Rent expense	19,301,609	12,742,253
Transportation expense	1,478,067	34,082,996
Audit and board Fee	6,938,526	2,035,417
Office supplies	37,312,583	41,325,916
Depreciation expense	447,452,714	300,041,752
Amortization expense	14,036,570	13,531,715
Penalty and interest	5,703,797	4,608,679
Other Expense	143,460,421	159,905,565
Selling expense	19,964,134	21,824,534
Utility expense	886,563	195,502
Miscellaneous	24,739,036	24,294,757
	<u>2,674,940,802</u>	<u>1,672,553,811</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 TB	2019	2018
	ETB	ETB
Interest expense	3,826,054,295	2,868,356,850
Interest on employee termination benefit obligation	5,601,109	4,368,932
Interest on deferred settlement	351,317,430	354,278,480
	<u>4,182,972,833</u>	<u>3,227,004,262</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, deferred settlement and lease liability.



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**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.

	2019	2018
	ETB	ETB
Current taxation based on the taxable profit for the year at 30%	-	-
Add: Deferred tax charge	-	-
Less: Deferred tax credit	(38,032,044)	(302,360,928)
Current year profit tax expense	<u>(38,032,044)</u>	<u>(302,360,928)</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

**10.1 Deferred tax liability/PPE**

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

	<b>2019</b>	<b>2018</b>
	<b>ETB</b>	<b>ETB</b>
Property, Plant and Equipment and bearer plant	(5,452,086,698)	(5,325,812,673)
Employee benefit obligation	7,615,619	6,719,368
Stock Obsolescence and Bad Debt Expense	313,105,802	363,697,286
Deferred expenditure	1,044,164,622	791,038,956
Provision for litigation claim	30,225,986	69,350,350
	<b>(4,056,974,669)</b>	<b>(4,095,006,713)</b>

**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.

	<b>2019</b>	<b>2018</b>
	<b>ETB</b>	<b>ETB</b>
Tax base of the asset at June 30,	30,980,689,139.52	21,006,753,050.52
Book value of the asset at June 30,	49,154,311,464.97	38,759,461,959.63
Temporary deference	<u>(18,173,622,325.45)</u>	<u>(17,752,708,909.11)</u>
Deferred tax asset /liability on temporary differences at 30%	<u>(5,452,086,697.64)</u>	<u>(5,325,812,672.73)</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.

	<b>2019</b>	<b>2018</b>
	<b>ETB</b>	<b>ETB</b>
Tax base of the asset at June 30,	-	-
Book value of the asset at June 30,	(25,385,395.21)	(22,397,892.37)
Temporary difference	<u>25,385,395.21</u>	<u>22,397,892.37</u>
Deferred tax asset on temporary differences at 30%	<u>7,615,618.56</u>	<u>6,719,367.71</u>

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**10.2.2 Stock Obsolescence and Bad Debt Expense**

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.

	2019 ETB	2018 ETB
Tax base of the asset at June 30,	-	-
Book value of the asset at June 30,	(1,043,686,006.95)	(1,212,324,285.50)
Temporary difference	<u>1,043,686,006.95</u>	<u>1,212,324,285.50</u>
Deferred tax asset on temporary differences at 30%	<u>313,105,802.09</u>	<u>363,697,285.65</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.

	2019 ETB	2018 ETB
Tax base of the asset at June 30,	3,480,548,740.13	2,636,796,520.66
Book value of the asset at June 30,	-	-
Temporary difference	<u>3,480,548,740.13</u>	<u>2,636,796,520.66</u>
Deferred tax asset on temporary differences at 30%	<u>1,044,164,622.04</u>	<u>791,038,956.20</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 deferred tax asset.

	2019 ETB	2018 ETB
Tax base of the asset at June 30,	-	-
Book value of the asset at June 30,	(100,753,287.25)	(231,167,834.93)
Temporary difference	<u>100,753,287.25</u>	<u>231,167,834.93</u>
Deferred tax asset on temporary differences at 30%	<u>30,225,986.18</u>	<u>69,350,350.48</u>



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11 Property, plant and equipment

	Land Development ETB	Building ETB	Levelling & irrigation ETB	Factory plant & machinery ETB	Field equipment ETB	Office equipment & furniture ETB	Construction in progress ETB	Total ETB
<b>Deemed Cost:</b>								
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	20,405,887,403	20,856,848,046
Disposals/adjustments	-	-	-	1,872,153,386	-	-	(1,872,153,386)	-
AS AT 30 June 2018	1,250,212,381	4,838,851,000	9,453,372,963	11,875,422,258	5,564,664,485	226,298,619	83,034,501,230	116,243,322,937
Additions/transfer	-	1,401,625	-	15,793,945	258,802,704	24,106,792	16,044,645,087	16,344,750,153
Disposals/adjustments	-	-	-	-	(26,211,786)	(6,743)	-	(26,218,529)
AS AT 30 June 2019	1,250,212,381	4,840,252,625	9,453,372,963	11,891,216,203	5,797,255,403	250,398,668	99,079,146,318	132,561,854,561
<b>Accumulated depreciation</b>								
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/adjustments	-	-	-	-	-	-	-	-
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
Charge for the year	32,755,826	254,963,512	292,037,318	568,680,528	700,548,746	23,896,262	-	1,872,882,192
Disposals/adjustments	-	-	-	-	(3,955,250)	-	-	(3,955,250)
AS AT 30 June 2019	88,768,444	770,077,169	874,832,674	1,648,714,863	2,088,936,607	89,917,448	-	5,561,247,206
<b>Accumulated impairment</b>								
AS AT 30 June 2018	-	-	-	-	-	-	-	-
Charge for the year	-	-	-	-	479,814,817	38,836,840	3,503,395,855	4,022,047,511
AS AT 30 June 2019	-	-	-	-	479,814,817	38,836,840	3,503,395,855	4,022,047,511
AS AT 30 June 2018	1,194,199,763	4,323,737,343	8,870,577,606	10,795,387,924	4,172,321,374	160,277,433	83,034,501,230	112,551,002,673
AS AT 30 June 2019	1,161,443,937	4,070,175,456	8,578,540,289	10,242,501,340	3,228,503,979	121,644,380	95,575,750,463	122,978,559,844

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 including land farm development as well as infrastructure (house, hospitals, road and school, irrigation system, pipe). Through time, various activities have been carried out to build additional sugar factories. Currently, the corporation has 3 projects in progress each at different stages.

11b. Impairment review

Upon impairment review, Except for Tindaloo sugar development project, the net book value of property, plant and equipment do not exceed its recoverable value as at the end of the reporting period. Due to changes in political conditions in the region, civil war in the Northern part of the country, bad weather Condition (El Niño effect) and decisions by the regional government, operation has been temporarily suspended and most of the staff have been terminated. As a result, the project's major assets incurred significant damage and some of the movable assets have been transferred to other factories and projects of the group. Although the extent of damage incurred could not be verified due to lack of access to the project by management of the corporation by the time, Property Plant and Equipment with a carrying value of ETB 18,713,431,941 was exposed to damage in, theft and misappropriation in 2018. Subsequently, management has assessed the condition of the assets in Tenaha Sugar development Project and based on the assessment it has been concluded that assets amounting ETB 4,022,047,511 have been impaired and impairment loss has been recognized. The future fate of the project is yet to be decided by management.

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**12 Property, plant and equipment**

	Land ETB	Office - Building	Total
<b>Deemed Cost:</b>			
As at 30 June 2017	364,886,565	-	364,886,565
Additions/transfer	-	27,408,546	27,408,546
Disposals / adjustment	-	-	-
<b>AS AT 30 June 2018</b>	<b>364,886,565</b>	<b>27,408,546</b>	<b>392,295,111</b>
Additions/transfer	-	-	-
Disposals/adjustments	-	-	-
<b>AS AT 30 June 2019</b>	<b>364,886,565</b>	<b>27,408,546</b>	<b>392,295,111</b>
<b>Accumulated depreciation</b>			
As at 30 June 2017	127,810	-	127,810
Additions/transfer	127,810	13,403,905	13,531,715
Disposals / adjustment	-	-	-
<b>AS AT 30 June 2018</b>	<b>255,620</b>	<b>13,403,905</b>	<b>13,659,525</b>
Charge for the year	127,810	13,704,273	13,832,083
Disposals/adjustments	-	-	-
<b>AS AT 30 June 2019</b>	<b>383,430</b>	<b>27,108,178</b>	<b>27,491,608</b>
<b>Book Value</b>			
<b>AS AT 30 June 2018</b>	<b>364,630,945</b>	<b>14,004,641</b>	<b>378,463,028</b>
<b>AS AT 30 June 2019</b>	<b>364,503,135</b>	<b>300,368</b>	<b>364,803,503</b>

**12a. 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 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.

In 2018, The Corporation successfully re-secured the land and entered into a new lease agreement with the Addis Ababa City Administration. The construction of the headquarters has now commenced as per the new lease terms.

**12b. Right use of asset - office**

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 years commencing from July 8, 2017 G.C and expiring on July 8, 2019 E.C. The lease bears no interest. The company uses the property for storage purposes 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.

The carrying value of cane/fruit roots comprises:

	Cane	Fruit	Total
<b>Cost:</b>			
Carrying value at 30 June 2017	1,349,470,789	19,635,450	1,369,106,239
Expansion of area under cane	160,272,713	-	160,272,713
Fallow during the year	(8,525,194)	1,915,611	(6,609,583)
<b>Carrying value at 30 June 2018</b>	<b>1,072,811,988</b>	<b>20,292,164</b>	<b>1,093,104,152</b>
Expansion of area under cane	267,116,645	68,093	267,184,738
Fallow during the year	(10,338,387)	-	(10,338,387)
<b>Carrying value at 30 June 2019</b>	<b>1,329,590,246</b>	<b>20,360,257</b>	<b>1,349,950,503</b>
<b>Accumulate Depreciation:</b>			
Carrying value at 30 June 2017	138,114,530	625,573	138,740,103
Additional Charge for the period	153,443,183	683,565	154,126,747
Disposal during the year	(8,525,194)	-	(8,525,194)
<b>Carrying value at 30 June 2018</b>	<b>345,285,153</b>	<b>1,269,024</b>	<b>346,554,177</b>
Additional charge for the period cane	198,534,906	619,814	199,154,720
Fallow during the year	(10,338,387)	-	(10,338,387)
<b>Carrying value at 30 June 2019</b>	<b>533,481,673</b>	<b>1,888,838</b>	<b>535,370,510</b>
<b>Immature bearer plant:</b>			
Carrying value at 30 June 2017	150,929,569	6,677,753	157,607,322
Transfer to mature cane	(133,783,534)	(1,114,913)	(134,898,447)
Expansion of area under cane	123,747,923	3,299,126	127,047,049
<b>Carrying value at 30 June 2018</b>	<b>140,893,957</b>	<b>8,861,966</b>	<b>149,755,923</b>
Transfer to mature cane	(240,439,608)	(8,930,059)	(249,369,667)
Expansion of area under cane	249,391,879	1,894,867	251,286,745
<b>Carrying value at 30 June 2019</b>	<b>149,846,228</b>	<b>1,826,774</b>	<b>151,673,002</b>
<b>Net Carrying Value of Cane roots 2018</b>	<b>868,420,792</b>	<b>27,885,107</b>	<b>896,305,898</b>
<b>Net Carrying Value of Cane roots 2019</b>	<b>945,954,801</b>	<b>20,298,193</b>	<b>966,252,994</b>

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:

<b>Cane</b>	<b>Cane ETB</b>	<b>Fruit ETB</b>	<b>Total ETB</b>
<b>Carrying value at end of year 30 June 2017</b>	3,361,901,395	113,600,917	3,475,502,312
Cost of Harvested Cane	1,920,722,867	-	1,920,722,867
Fair value of Harvested Cane	(1,301,769,987)	-	(1,301,769,987)
Fair Value loss (gain) on harvested cane	<u>(618,952,881)</u>	<u>-</u>	<u>(618,952,881)</u>
Change in cost of standing cane	727,082,400	-	727,082,400
Change in fair value of standing cane	147,425,467	3,340,697	150,766,164
Loss of cane at Fair Value	(478,449,798)	-	(478,449,798)
Reversal of provision for possible destruction	<u>13,602,508</u>	<u>-</u>	<u>13,602,508</u>
FV gain (loss) on standing cane	<u>(409,660,577)</u>	<u>6,106,130</u>	<u>(403,554,446)</u>
<b>Carrying value at 30 June 2018</b>	<u>3,214,475,927</u>	<u>123,047,745</u>	<u>3,337,523,672</u>
Cost of harvested cane	1,751,312,505	-	1,751,312,505
FV at point of harvest	(1,523,022,627)	-	(1,523,022,627)
FV gain (loss) transfer to cost of sales	<u>(228,289,879)</u>	<u>-</u>	<u>(228,289,879)</u>
Change on cost of standing cane	1,124,768,524	-	1,124,768,524
Change in fair value of standing cane	105,706,369	1,733,717	107,440,087
Loss of cane at fair value	(125,367,275)	-	(125,367,275)
Reversal of provision for possible destruction	<u>(31,707,226)</u>	<u>-</u>	<u>(31,707,226)</u>
FV gain (loss) on standing cane	<u>(1,073,400,392)</u>	<u>(1,606,979)</u>	<u>(1,075,007,372)</u>
<b>Carrying value at 30 June 2019</b>	<u>3,108,769,558</u>	<u>121,440,765</u>	<u>3,230,210,323</u>

Growing cane is classified as immature until it is ready for harvest. The fair value measurement of growing cane has been categorized 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.

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.

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**

	2019	2018
	ETB	ETB
Cash at bank	3,354,150,268	1,682,651,231
Cash on hand	2,232,130	308,193
<b>Cash and cash equivalents</b>	<b>3,356,382,398</b>	<b>1,682,959,424</b>

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**

	2019	2018
	ETB	ETB
Trade receivables	588,451,687	404,987,003
Sundry debtors	683,196,631	657,230,205
Staff receivable	81,721,566	90,507,324
Claim receivable	28,259,993	30,358,870
Stock variance	2,250,608	2,250,608
Former associated enterprise	12,932,323	12,932,323
	1,396,812,808	1,198,266,333
Allowance for doubtful accounts - Trade and other receivable	(190,308,466)	(96,398,216)
	1,206,504,342	1,101,868,117
<b>Total financial assets</b>	<b>1,206,504,342</b>	<b>1,101,868,117</b>
<b>Total current</b>	<b>1,206,504,342</b>	<b>1,101,868,117</b>
<b>Total non-current</b>	<b>-</b>	<b>-</b>

**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.



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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 recognized an allowance for doubtful debts through individually assessing all outstanding receivables. Trade receivables disclosed below include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Corporation has recognized 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 analyzed below:

	Individually impaired ETB	Collectively impaired ETB	Total ETB
At 30 June 2018	96,398,216	-	96,398,216
Impairment loss recognized on receivables Utilized/written off	93,910,250	-	93,910,250
Unused amounts reversed/recovered	-	-	-
At 30 June 2019	190,308,466	-	190,308,466

**16 Advance and prepayment**

	2019 ETB	2018 ETB
Advance payment	15,010,231,282	15,286,691,829
Prepayments	2,968,652	6,902,514
Outgrowers	649,407,285	635,517,768
Allowance for doubtful accounts - Advance and Prepayment	(7,382,602,470)	(7,468,623,328)
	8,280,004,749	8,460,488,783

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 Outgrowers 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 Outgrowers land identified by field number are recorded in Advance to Outgrowers '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.



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**17 Tax receivable**

	2019	2018
	ETB	ETB
VAT receivable	3,653,564,826	3,365,080,364
WHT receivable	365,679,980	270,057,118
Income tax receivable	17,309,339	77,079,410
Allowance for doubtful accounts - Tax receivable	(388,921,429)	(308,114,750)
	<u>3,647,632,716</u>	<u>3,404,102,142</u>

**18 Inventories**

	2019	2018
	ETB	ETB
Protective Device & Safty Material	179,040	146,893
Factory & Construction Material	342,013,233	255,792,746
Chemical, fertilizer & Agri tools	329,374,064	285,545,250
Farm product	407,263	408,663
General store items	411,571,915	410,540,953
Construction materials	7,777,782	6,343,620
Fuel and lubricant	171,808,546	146,144,851
White sugar	1,496,691,444	1,288,550,558
Ethanol production	27,864,756	30,728,959
Fixed asset & Spare parts	1,793,233,342	1,983,014,381
Irrigation materials	768,359,729	926,400,674
Others	104,078,309	111,890,008
Materials & supplies	25,341,558	19,059,032
	5,478,700,982	5,464,566,589
Goods In transit	1,783,503,609	2,267,947,984
Pro. For Stock Obsolescence	(500,641,185)	(456,755,127)
<b>Total inventories at the lower of cost and NRV</b>	<u>6,761,563,406</u>	<u>7,275,759,447</u>



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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 authorized 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:**

	2019	2018
	ETB	ETB
Trade and other payable (27,1)	15,472,216,337	10,151,034,766
Retention payable	2,190,924,265	1,714,589,410
Interest Payable	2,726,675,328	2,380,395,313
Sugar development fund	167,514,534	218,335,357
Long term loan (27,4)	140,964,931,957	122,530,771,044
<b>Total financial liabilities</b>	<b>161,522,262,421</b>	<b>136,995,125,890</b>
<b>Total current</b>	<b>20,557,330,464</b>	<b>14,464,354,845</b>
<b>Total non-current</b>	<b>140,964,931,957</b>	<b>122,530,771,044</b>

**27.1 Trade and other payables**

	2019	2018
	ETB	ETB
Trade payable	6,067,243,308	3,253,889,423
Sundry payable	408,821,538	302,718,806
Staff payable	44,716,523	36,469,939
Payable To AL-Habesha	285,015,782	795,106,582
HAPCO HIV Fund	4,553,467	4,553,467
Payable to METEC	28,806,218	28,806,218
Former Associated enterprise-payable	6,341,419	6,341,419
Suppliers & contractors	8,626,718,083	5,723,148,912
	<b>15,472,216,337</b>	<b>10,151,034,766</b>

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.

**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.



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**27.4 Long term loans**

This represents the loans obtained from local and international banks. While the welkayit ,kuraz,kesem ,Welkayit factory project are financed by the loan obtained from China development bank and ICBC , other projects such as BELES 1 , KURAZ 1 , ARJO and KESEM 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.

	2019	2018
	ETB	ETB
<b>Balance at beginning of the period</b>	<b>122,530,771,044</b>	<b>94,745,217,610</b>
Add; Disbursement	18,204,893,390	21,943,786,446
Interest	2,335,501,448	3,375,407,931
: Forcx loss	4,347,495,402	4,296,746,455
Less: Settlement	(6,453,729,327)	(1,830,387,397)
Loan assumed by government	-	-
<b>Balance at end of the period</b>	<b>140,964,931,957</b>	<b>122,530,771,045</b>

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 '2019	At '2018
not later than one year	8,459,630,392	6,453,729,327
later than one year and not later than five years	132,505,301,565	116,077,041,717
later than five years	-	-
	<b>140,964,931,957</b>	<b>122,530,771,044</b>

27.5 Durign the 2022 fiscal year the factory obtained an interest free loan from Ministry of finance. The loan principal is ETB 129,501,708 and repayable in 11 semi annual instalments starting from July 2022. The loan will mature in July 2022. This loan was issued at below market interest rate. The has recognized a deferred income from these consessional loan amounting Birr 35,630,755.

**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 minimize potential adverse effects on its financial performance. Investment policies are in place, which help manage liquidity, and seek to maximize return within an acceptable level of interest rate risk.



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**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.

**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 amortized cost and the financial liabilities are classified into other liabilities at amortized cost.

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



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

		FVTPL ETB	Amortized Cost ETB	Total ETB
<b>30 June 2019</b>				
Cash at Bank	14	3,356,382,398		3,356,382,398
Investment securities				-
– At fair value through PL				-
– At amortized cost	16		3,992,000	3,992,000
Trade receivables	15		588,451,687	588,451,687
Other receivables	15		618,052,655	618,052,655
<b>Total financial assets</b>		<b>3,356,382,398</b>	<b>1,210,496,342</b>	<b>4,566,878,740</b>
<b>30 June 2018</b>				
Cash at Bank	14	1,682,959,424		1,682,959,424
Investment securities				-
– At fair value through PL				-
– At amortized cost	16		3,992,000	3,992,000
Trade receivables	15		404,987,003	404,987,003
Inter-company receivable	15			-
Other receivables	15		696,881,114	696,881,114
<b>Total financial assets</b>		<b>1,682,959,424</b>	<b>1,105,860,117</b>	<b>2,788,819,541</b>

**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:

		30 June 2019	30 June 2018
		ETB	ETB
Cash at Bank	14	3,356,382,398	1,682,959,424
Investment securities			
– At fair value through PL			-
– At amortized cost	16		-
Trade receivables	15	3,992,000	3,992,000
Other receivables	15	588,451,687	404,987,003



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**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 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 year-end 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. derecognized) when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the 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 year-end is made up as follows:

30 June 2019	Fully performing	Past due	Impaired	Total
Trade and other receivables	1,206,504,342	-	(190,308,466)	1,016,195,876
Cash and bank balances	3,356,382,398	-	-	3,356,382,398
	<u>4,562,886,740</u>	<u>-</u>	<u>(190,308,466)</u>	<u>4,372,578,274</u>
30 June 2018	Fully performing	Past due	Impaired	Total
Trade and other receivables	1,101,868,117	-	(96,398,216)	1,005,469,901
Cash and bank balances	1,682,959,424	-	-	1,682,959,424
	<u>2,784,827,541</u>	<u>-</u>	<u>(96,398,216)</u>	<u>2,688,429,324</u>

**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

**28.4.1 Management of liquidity risk**

Cash flow forecasting is performed by the finance department. The finance department monitors rolling forecasts of liquidity

The Corporation evaluates its ability to meet its obligations on an ongoing basis. Based on these evaluations, the Corporation devises

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.



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**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.

	Notes	0-180 days ETB	181 - 365 days ETB	Over 1 year ETB	Total ETB
<b>30 June 2019</b>					
Trade payable	28.1	6,067,243,308	-	-	6,067,243,308
Retention payable	28.3	-	-	2,190,924,265	2,190,924,265
SIDF Payable	28.2	-	-	167,514,534	167,514,534
Borrowings	28.4	-	-	140,964,931,957	140,964,931,957
Other liabilities	28.1	7,214,048,764	-	-	7,214,048,764
Inter company payable	27.4	16,519,282,729	-	-	16,519,282,729
<b>Total financial liabilities</b>		<b>29,800,574,801</b>		<b>143,323,370,756</b>	<b>173,123,945,557</b>
<b>30 June 2018</b>					
Trade payable	28.1	3,253,889,423	-	-	3,253,889,423
Retention payable	28.3	-	-	1,714,589,410	1,714,589,410
SIDF Payable	28.2	-	-	218,335,357	218,335,357
Borrowings	28.4	-	-	122,530,771,044	122,530,771,044
Other liabilities	28.1	5,182,555,933	-	-	5,182,555,933
Inter company payable	27.4	11,837,524,686	-	-	11,837,524,686
<b>Total financial liabilities</b>		<b>20,273,970,042</b>		<b>124,463,695,811</b>	<b>144,737,665,853</b>

**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

**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 optimizing the return on risk. Market risk is monitored by the Sales and Marketing department on regular basis, to identify any adverse movement in the underlying variables.

**(i) Interest rate risk**

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

The 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 borrowings are concerned. Loans and receivable assets are carried at cost, hence any movement in market interest rate has no effect on the value of such assets.



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

**30 June 2019**

	Notes	Fixed ETB	Floating interest bearing ETB	Non-interest bearing ETB	Total ETB
<b>Assets</b>					
Cash and bank balances	14	3,356,382,398	-	-	3,356,382,398
Trade receivables	15	-	-	588,451,687	588,451,687
Inter company receivable	15	-	-	-	-
Other receivables	15	-	-	618,052,655	618,052,655
<b>Total</b>		<b>3,356,382,398</b>	<b>-</b>	<b>1,206,504,342</b>	<b>4,562,886,740</b>
<b>Liabilities</b>					
Trade payables	28.1	-	-	6,067,243,308	6,067,243,308
Borrowings	28.4	140,964,931,957	-	-	140,964,931,957
Other liabilities	28.1	-	-	26,091,770,292	26,091,770,292
<b>Total</b>		<b>140,964,931,957</b>	<b>-</b>	<b>32,159,013,600</b>	<b>173,123,945,557</b>

**30 June 2018**

	Notes	Fixed ETB	Floating interest bearing ETB	Non-interest bearing ETB	Total ETB
<b>Assets</b>					
Cash and bank balances	14	1,682,959,424	-	-	1,682,959,424
Trade receivables	15	-	-	404,987,003	404,987,003
Inter company receivable	15	-	-	-	-
Other receivables	15	-	-	696,881,114	696,881,114
<b>Total</b>		<b>1,682,959,424</b>	<b>-</b>	<b>1,101,868,117</b>	<b>2,784,827,541</b>
<b>Liabilities</b>					
Trade payables	28.1	-	-	3,253,889,423	3,253,889,423
Borrowings	28.4	122,530,771,044	-	-	122,530,771,044
Other liabilities	28.1	-	-	18,953,005,386	18,953,005,386
<b>Total</b>		<b>122,530,771,044</b>	<b>-</b>	<b>22,206,894,809</b>	<b>144,737,665,853</b>



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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. The Corporation is therefore 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, regulators and rating agencies;
- 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 continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

	2019	2018
	ETB	ETB
Capital	14,083,024,490	14,083,024,490
Legal reserve	-	-
Capital contribution	418,273,766	443,712,291
Fund balance	101,054,623	101,054,623
Budget contribution	-	-
Grant/donation	18,666,049,921	16,698,166,751
Project expansion fund	-	-
Reserve for SIDA	(7,290,739,206)	(5,226,030,158)
Asset revaluation reserve	11,977,353,299	11,977,353,299
Head office account	(55,722,648,339)	(42,420,229,398)
Other reserve	3,796,029	(4,925,717)
Equity	<u>(17,767,631,446)</u>	<u>(4,342,948,101)</u>
Total liability	168,559,744,986	143,449,818,656
Less: current liability	31,953,641,394	23,236,511,185
Net debt	<u>136,606,103,593</u>	<u>120,213,307,470</u>
Gearing	115%	104%

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 categorized within the fair value hierarchy, which comprises of three levels as described below, based on the lowest level input that is significant to the fair value

**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 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: 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.

**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

**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 Offsetting 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. The Corporation employees are entitled to severance benefit. The severance benefit entitlement is provided under the labor proclamation No.3777/2003, as amended by the Labor (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 crystallize. The details of the valuation approached is is explained

*Severance Benefit:*

The actuarial liability values as at 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 is an outcome of a valuation exercise.

The current service costs for the year have been calculated using the Projected Unit Method with a one-year control period. The current service costs are outcomes of a planning exercise (with the latter service cost being required for the next disclosure. 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.

**29a Defined benefits liabilities:**

**Changes in the present value of the defined benefit obligation**

	2019	2018
	<b>ETB</b>	<b>ETB</b>
At the Beginning of the year	41,259,040	34,816,706
Current service cost	8,236,414	6,771,124
Interest cost	5,601,109	4,796,843
Actuarial (gains)/losses on:	(8,721,746)	3,399,837
Demographic assumptions	-	-
Economic assumptions	-	-
Experience	-	-
Benefits paid	(2,547,458)	(8,525,469)
<b>At the end of the year</b>	<b>43,827,359</b>	<b>41,259,041</b>



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**29b The principal assumptions used in determining defined benefit obligations**

	30 June 2019	30 June 2018
	ETB	ETB
Discount rate (p.a)	12.75%	12.75%
Long term salary increases (p.a)	10.75%	10.75%
Retirement age assumption	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 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. 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.

(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 arrangements.

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

(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%



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(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.

**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				
	(1) Base	(2) 1 + 1	(3) 1 - 1	(4) e & cpi	(5) & cpi
<b>Assumptions being varied</b>					
Discount rate (i)	12.75%	13.75%	11.75%	12.75%	12.75%
Salary increases (e) and inflation (c)	10.75%	10.75%	10.75%	11.75%	9.75%
<b>Results</b>					
30-Jun-18	41,259,040	39,161,057	43,626,033	43,478,068	39,259,270
30-Jun-19	44,901,859	42,994,588	48,422,074	48,252,569	43,107,474

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 recognized within the statement of financial position.

A 1% p.a reduction in the discount rate will increase the actuarial liability estimated 30 June 2019 to 48 422,074 Birr (with all other assumptions remaining the same). If the discount rate is increases by 1% p.a., then the actuarial liability estimated at 30 June 2019 would fall to 42,994,588 Birr.

Alternatively, a 1% increase in the salary increase assumption will increase the actuarial liability estimated June 30 2019 to 48,252,569 Birr (with all other assumptions remaining the same). If the salary increase assumption is reduced by 1% p.a., then the actuarial liability estimated 30 June 2019 would fall to 43,107,474 Birr.

The other figures in the table above can be interpreted in a similar way.

Based on the membership data, assumptions and methodology used, the duration of the liability as at 30 June 2019 is around 6.7 years. This is not an exhaustive list of the assumptions used in the valuation and neither should be sensitive be taken as extreme events (in reality future investment returns may be significantly different than that assumed at this 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 labor 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.



**ETHIOPIAN SUGAR CORPORATION**  
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**30 Other tax and obligation**

	2019	2018
	ETB	ETB
Employment Income tax	41,176,999	101,904,566
Other taxes	302,558	41,785
Excise tax payable	684,578,324	559,057,515
Withholding tax payable	29,100,202	70,149,190
Vat Payable	438,376,098	467,530,756
Pension contribution payable	21,669,683	18,959,780
	<u>1,215,203,864</u>	<u>1,217,643,593</u>

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 unearned revenue**

	2019	2018
	ETB	ETB
Contract liability	128,902,226	211,263,331
Accrual	729,351,602	294,288,819
Provision	499,159,410	231,167,835
	<u>1,357,413,238</u>	<u>736,719,985</u>

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

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



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**32 Events after reporting period**

Except as disclosed below, there were no significant events that occurred between 30 June 19 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, Kessem, 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.

**33 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. Based on the assessment, management has identified going concern issue on Welkait, Tendahoo and Omo 5

**Welkait:** 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.

**Tendaho:** 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.

**Omo 5 :** Factory construction of Omo 5 had been begun in November 2016 by the chinese JJIEC though it was halted due to financial reasons. Factory construction had reached 27.7% before its was temporary suspended. Management is yet to decide on the future fate of the project.



**ETHIOPIAN SUGAR CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

**34 Restatement of Balances**

**34.1 Statement of Financial Position**

	<b>Audit Report 2018 ETB</b>	<b>Adjustment 2018 ETB</b>	<b>Restated 2018 ETB</b>
<b>Non - Current asset</b>			
Property, plant and equipment (I,iii)	112,523,384,302	27,618,371	112,551,002,673
Right use of asset - Land (x)	358,496,066	6,134,879	364,630,945
<b>Current assets</b>			
Trade and other receivable (xv)	1,100,960,228	907,889	1,101,868,117
Stock & goods in transit (ii,iii)	7,275,878,446	(118,999)	7,275,759,447
Stock Shortage / Overage (i.)	412,728,175	(412,728,175)	-
Tax receivable (xiv)	3,351,995,417	52,106,725	3,404,102,142
Advance and prepayments (ii)	8,461,912,324	(1,423,542)	8,460,488,783
<b>Equity and liabilities</b>			
<b>Equity</b>			
Sugar Industry Development Fund (ii)	(16,689,024,042)	(9,142,709)	(16,698,166,751)
Accumulated loss (i,ix.)	41,951,109,669	469,119,729	42,420,229,398
<b>Non-current liabilities</b>			
Long term loan (iii)	(119,519,426,549)	3,442,384,832	(116,077,041,717)
Deferred tax liability ( xii.)	(4,055,003,219)	(40,003,493)	(4,095,006,713)
<b>Current liabilities</b>			
Trade and other payable ( x.)	(12,502,220,136)	2,351,185,370	(10,151,034,766)
Retention (xvii)	(1,208,892,386)	(505,697,024)	(1,714,589,410)
Interest Payable (iv)	(3,074,949,113)	694,553,800	(2,380,395,313)
Long term loan-current maturity (xiii)	-	(6,817,792,762)	(6,817,792,762)
Stock overage (i.)	(810,975,183)	810,975,183	-
Tax payable (xiv)	(1,165,536,868)	(52,106,725)	(1,217,643,593)
Contract liability (xvi)	(98,019,753)	(113,243,578)	(211,263,331)
Accrual (viii.)	(391,559,052)	97,270,234	(294,288,819)

**34.2 Statement of profit or loss**

Cost of sales ( i-x)	(6,850,090,673)	190,831,990	(6,659,258,683)
Other operating income (xviii.)	158,592,824	9,134,245	167,727,069
General & administrative (i-x)	(3,931,768,319)	2,259,214,508	(1,672,553,811)
Provision for stock obsolescence (xi)	(74,800,762)	71,884,179	(2,916,583)
Foreign currency exchange loss (iv,v,vi)	-	(2,108,981,600)	(2,108,981,600)
Fair value gain (loss) cane and fruit ( ii,iii.)	(1,069,479,483)	(600,120,537)	(1,669,600,020)
Finance costs/charges (iv)	(2,403,705,711)	(823,298,551)	(3,227,004,262)
Income tax expense ( xii.)	342,364,423	(40,003,495)	302,360,928
Remeasurement gain loss on employee benefit (xix)	3,399,837.00	(6,608,431)	(3,208,594)
<b>Total comprehensive income for the year</b>	<b>(7,164,055,958)</b>	<b>(1,047,947,692)</b>	<b>(8,212,003,650)</b>



**ETHIOPIAN SUGAR CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

**34.3 Explanation of the restatement**

- i. In 2018, discrepancies between the inventory ledger and physical stock counts were charged to the stock shortage account. However, beginning in 2019, management determined that such variances should be allocated to construction in progress, plantation (fair value gain (loss) and other expense, based on the assumption that the consumption of stock had been recorded against construction in progress, plantation (fair value gain (loss) and other expense.
- ii. In 2018, fair value loss on harvested cane were reported as part of the cost of sales. However, these amounts should have been presented separately in the fair value gain or loss.
- iii. In 2018, depreciation on field equipment was reported under administrative expenses as depreciation expense. However, these amounts should have been allocated to the cost of the crops and ultimately adjusted to reflect the fair value of the crops at the reporting date, with any resulting difference recorded as a fair value gain or loss.
- iv. The total of Interest on loan from Development Bank of Ethiopia was recorded in 2021 and the amount applicable to the years 2018 and before are now adjusted to opening balance of IFRS adjustment reserve. In addition, forex loss on accrued interest of Exim bank was not recorded in the years 2018 and before and this adjustment is also recorded to IFRS adjustment reserve.
- v. In 2018, fair value gain (loss) on growing and harvested cane & fruit was reported under cost of sales. However, these amounts should have been reported in the face of the statement of profit or loss. Also, Foreign currency exchange loss was reported under general and administrative expense, however the amounts should be shown in the statement of profit and loss as they represent a material amount of the total expenses.
- vi. In 2018, Foreign currency exchange loss was reported under general and administrative expense, however the amounts should be shown in the statement of profit and loss as they represent a material amount of the total expenses.
- vii. In 2018, cost of sugar was erroneously reported under provision for stock obsolescence, however the amounts should be charged in the cost of goods sold.
- viii. In 2018, long term loan was erroneously reported under trade and other payable. However, these amounts should have been reported under long term loan in the statement of financial position.
- ix. In 2018, intercompany receivable from existing factories amounting ETB 5,462,047,171 were reported as part of equity on the premise that they would not be recoverable. However, as the corresponding account of the branches show the balance as payable in their separate report, management decided to report these as intercompany receivable.
- x. In 2018, the leasehold land in Lideta sub city has not been recognized and the restatement is done to recognize the leasehold land along with the lease payable.
- xi. In 2018, cost of sugar was erroneously reported under provision for stock obsolescence, however the amounts should be charged in the cost of goods sold.
- xii. In 2018, cost of sugar was erroneously reported under provision for stock obsolescence, however the amounts should be charged in the cost of goods sold. As a result the calculation for deferred tax liability is changed.
- xiii. In 2018 the current maturity portion of the long term loan was shown under as part of the long term loan. However, it is now restated to be shown separately as current maturity of the long term loan.
- xiv. In 2018, tax receivable and tax payable figures were reported after net off. However, it is now shown separately as tax receivable and tax payable.
- xv. In 2018, intercompany receivable were erroneously recorded as trade receivable. However, it is now adjusted to be shown in intercompany receivable.
- xvi. In 2018, Contract liability was shown under accrual. However, it is now shown separately.
- xvii. In 2018, retention payable was wrongly reported as trade and other payable. However, it is now shown separately.
- xviii. In 2018 sales commission and other operating income elimination was overstated and this is now reported correctly.
- xix. In 2018 Remeasurement gain or loss on retirement benefit obligation was erroneously shown as an addition to the statement of profit or loss and other comprehensive income. However this is adjusted and shown now as a deduction.

