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AUDIT SERVICES
CORPORATION

ETHIOPIAN ELECTRIC UTILITY
INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS
7 JULY 2020

ETHIOPIAN ELECTRIC UTILITY
IFRS Financial Statements
FOR THE YEAR ENDED 7 JULY 2020
CONTENTS

Management board and executive management	1
Report of the management board	2
Statement of management board's responsibilities	3
Independent auditor's report	4 - 7
Statement of profit or loss and other comprehensive income	8
Statement of financial position	9
Statement of changes in equity	10
Statement of cash flows	11
Notes to the financial statements	12 - 42



ETHIOPIAN ELECTRIC UTILITY
IFRS FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020
Management Board and executive management

Management Board

W/t Frehiwot Tamiru	Board Chairperson	Appointed July 08, 2022	
Ato Shisema G/Selassie	Board Member	Appointed July 08, 2022	
Ato Worku Gachena	Board Member	Appointed July 08, 2022	
Ato Ashebir Balcha	Board Member	Appointed July 08, 2022	
Dr. Eng. Sultan Weli	Board Member	Appointed July 08, 2022	
Ato Mengesha Dessie	Board Member	Appointed March 25, 2019	
Ato Hayelu Zewede	Board Member	Appointed March 10, 2021	
Dr. Eng. Getahun Mekuria	Board Chairperson	Appointed December 09, 2016	Replaced on July 08, 2022
Dr. Eng. Negede Abate	Board Member	Appointed December 09, 2016	Replaced on July 08, 2022
Ato Bogale Feleke	Board Member	Appointed December 09, 2016	Replaced on July 08, 2022
Ato Beyene G/Meskel	Board Member	Appointed December 09, 2016	Replaced on July 08, 2022
W/t Tsegereda Atenafu	Board Member	Appointed September 12, 2019	Replaced on July 08, 2022
W/ro Lelese Neme	Board Member	Appointed September 12, 2019	Replaced on July 08, 2022
Ato Negusu Tilahun	Board Member	Appointed September 12, 2019	Replaced on July 08, 2022
Ato Admasu Wondmangeng	Board Member	Appointed January 2017	Replaced on March 10, 2021

Executive Management

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

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

Independent Auditor
Audit Service Corporation
Addis Ababa
Ethiopia

Principal Banker
Commercial Bank of Ethiopia
Addis Ababa
Ethiopia



ETHIOPIAN ELECTRIC UTILITY
IFRS financial statements
For the year ended July 07, 2020
Report of the Management Board

The management board members submit their report together with the financial statements for the period ended July 07, 2020 to the Public Enterprises Holding and Administration Agency (PEHAA) and Ethiopian Investment Holdings.

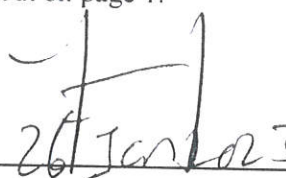
Ethiopian Electric Utility (EEU) is a public enterprise established on October 2013 by Council of Minister's Regulation No. 303/2013 following the split of Ethiopian Electric Power Corporation (EEPCo) in to two separate entities and amended by Regulation No. 382/2016.

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

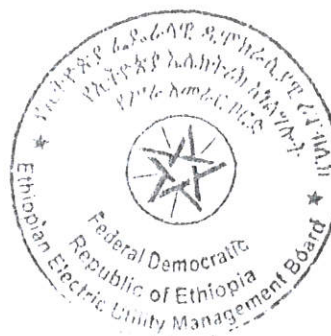
The Utility's results for the year ended July 07, 2020 are set out on page 8.

Management Board

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



W/t Frehiwot Tamiru
Chairperson Management Board



ETHIOPIAN ELECTRIC UTILITY
IFRS financial statements
For the year ended July 07, 2020
Statement of management board's responsibilities

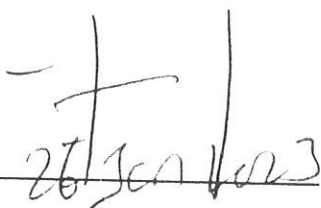
In accordance with the Financial Reporting Proclamation No. 847/2014, the Accounting and Auditing Board of Ethiopia (AABE) has directed the Utility to prepare financial statements in accordance with International Financial Reporting Standards (IFRSs).

The Utility's board of management is responsible to decide on policy issues, appointing & dismissal of the chief executive officer, approve the employment, assignment & dismissal of the officers accountable to the chief executive officer, approve internal regulations, work program and budget, approve long term loans, propose the capital of the utility, ensure that proper books of accounts are kept for the enterprise, submits books of account to the auditors and approve sales of fixed asset

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

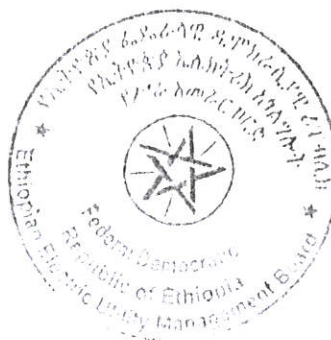
Nothing has come to the attention of the management board to indicate that the Utility will not remain a going concern for atleast twelve months from the date of this statement.

Signed on behalf of the management board by:



W/t Frehiwot Tamiru

Chairperson Management Board





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Office of the Federal Auditor General
Audit Service Corporation

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ethiopian Electric Utility (the Entity), which comprise the statement of financial position as at 7 July 2020, and the statement of profit or loss and other comprehensive income, statement of cash flow, and statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at 7 July 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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



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

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

Report on the Audit of the Financial Statements (continued)

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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Audit of the Financial Statements (continued)

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

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

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

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

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the additional information and, in so doing, consider whether the additional information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement of this additional information, we are required to report that fact. We have nothing to report in this regard.

Audit Services Corporation

26 January 2022



ETHIOPIAN ELECTRIC UTILITY
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 7 JULY 2020

	Notes	2020 ETB	2019 ETB
Revenue	4	<u>15,143,020,670</u>	<u>11,315,603,383</u>
Cost of sales (Power, Distribution , Substation and Transmission)	5	<u>(12,810,262,276)</u>	<u>(10,382,961,317)</u>
Gross profit		2,332,758,394	932,642,066
Other operating income	6	2,118,768,932	1,375,663,130
Administration expense	7a	(1,917,853,342)	(1,029,424,706)
Other operating expense	8	17,971,731	(12,503,297)
Impairment allowance	7b	<u>(138,160,569)</u>	<u>(34,916,718)</u>
Operating profit		2,413,485,145	1,231,460,474
Finance costs/charges	9	<u>(907,834,775)</u>	<u>(445,810,362)</u>
Profit before tax		1,505,650,370	785,650,113
Profit for the year		<u>1,505,650,370</u>	<u>785,650,113</u>
Other comprehensive income, net of income tax			
Items that will not be subsequently reclassified into profit or loss:			
pre-measurement gain (loss) on retirement benefits obligations		<u>-</u>	<u>(32,761,720)</u>
Total comprehensive income for the year		<u>1,505,650,370</u>	<u>752,888,393</u>

The Notes on pages 12-42 are an integral part of these Financial statements



ETHIOPIAN ELECTRIC UTILITY
STATEMENT OF FINANCIAL POSITION
AS AT 7 JULY 2020

		2020 (ETB)	2019 (ETB)
Assets	Notes		
Non-current assets			
Property, plant and equipment	11	42,990,594,532	44,285,381,672
Forest assets	12	246,523,367	161,084,000
Intangible Asset	13	1,095,929,391	894,767,016
Right use of asset - Office	14	37,383,020	28,629,909
Advance and Prepayments	17	4,671,312,782	4,537,688,209
Investment in associate	18	21,202,986	31,202,573
		49,062,946,078	49,938,753,379
Current assets			
Cash and cash equivalents		10,822,184,076	8,773,589,595
Trade receivables	16.1	4,493,852,864	2,203,801,752
Other receivable	16.2	411,904,421	49,811,810
Inventories	19	8,187,124,011	4,596,198,951
		23,915,065,373	15,623,402,108
Total assets		72,978,011,451	65,562,155,487
Equity and liabilities			
Equity			
paid up capital		44,763,102,402	36,246,642,700
legal reserve	20	118,527,857	43,245,339
Retained earnings		-	7,084,604,884
Grant & Contribution		1,582,370,754	11,845,385
Other Reserve	22	(50,342,720)	(50,342,720)
Reserve for excess of deemed cost over book value	23	11,123,966,881	11,123,966,881
Total equity		57,537,625,175	54,459,962,468
Non-current liabilities			
Lease Liability	15	13,561,522	12,377,746
Customer Deposit	24.3	511,968,967	722,626,192
Long term loans	24.2	3,142,342,442	1,894,903,279
Suppliers Credit	24.4	646,095,405	456,764,288
Bonds Payable	24.5	2,857,630,384	3,365,911,975
Contractors Retention	24.6	735,082,356	607,615,978
Post Employment benefit liabilities	26	684,661,688	576,370,000
Contract liabilities	29	2,757,843,878	1,868,721,219
		11,349,186,642	9,505,290,677
Current liabilities			
Current portion of Lease Liability	15	22,177,582	15,060,426
Trade and other payables	24.1	3,423,360,949	1,030,110,312
Current portion of bonds Payable	24.5	322,899,658	350,944,775
Other tax obligations	28	147,691,727	43,255,615
Contract liabilities - Prepaid Cards	29	89,439,183	73,626,576
Accruals and Provision	30	85,630,535	83,904,638
		4,091,199,634	1,596,902,342
Total liabilities		15,440,386,276	11,102,193,019
Total equity and liabilities		72,978,011,451	65,562,155,487

The Notes on pages 12-42 are an integral part of these Financial statements

The financial statements on pages 8 to 42 were authorized by Executive Management for issue on January 26, 2023 and signed by Ato Shiferaw Telila Chief Executive Officer of the Utility.



Shiferaw Telila
 Chief Executive Officer



ETHIOPIAN ELECTRIC UTILITY
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 7 JULY 2020

	paid up capital ETB	Legal Reserve ETB	Retained Earnings ETB	Reserve for excess of deemed cost over book value ETB	Grant and Contribution ETB	Other Reserve ETB	Total ETB
Balance at 7 July 2018	29,571,451,211	3,962,833	10,514,820,945	11,123,966,881	-	(17,581,000.00)	51,196,620,870
Profit for the year	-	-	785,650,113	-	-	-	785,650,113
Transfer to legal reserve	-	39,282,506	(39,282,506)	-	-	-	-
Other Comprehensive income for the year	-	-	-	-	-	(32,761,720)	(32,761,720)
Grant & Contribution	-	-	-	-	2,510,453,204	-	2,510,453,204
Increase in Capital	2,498,607,820	-	-	-	(2,498,607,820)	-	-
Transfer from retained earnings	4,176,583,669	-	(4,176,583,669)	-	-	-	-
Balance at 7 July 2019	36,246,642,700	43,245,339	7,084,604,883	11,123,966,881	11,845,384.99	(50,342,720)	54,459,962,468
Profit for the year	-	-	1,505,650,370	-	-	-	1,505,650,370
Transfer to legal reserve	-	75,282,518	(75,282,518)	-	-	-	-
Other Comprehensive income for the year	-	-	-	-	-	-	-
Grant & Contribution	-	-	-	-	1,572,012,337	-	1,572,012,337
Increase in Capital	1,486,968	-	-	-	(1,486,968)	-	-
Transfer from retained earnings	8,514,972,735	-	(8,514,972,735)	-	-	-	-
Balance at 7 July 2020	44,763,102,402	118,527,857	-	11,123,966,881	1,582,370,754	(50,342,720)	57,537,625,175

The Notes on pages 12-42 are an integral part of these Financial statements



ETHIOPIAN ELECTRIC UTILITY
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 7 JULY 2020

	Notes	2020 (ETB)	2019 (ETB)
Operating activities			
Profit		1,505,650,370	785,650,113
Non-cash adjustment to reconcile profit before tax to net cash flows			
Depreciation and impairment of property, plant and equipment		3,807,690,883	3,686,663,565
Amortization of the right use of assets		23,721,671	16,139,236
Amortization of intangible assets		496,437	496,437
Impairment of financial asset		138,160,569	34,916,718
Severance expense (Current service cost)		32,718,696	854,370,509
Severance expense (interest expense)		75,572,992	79,985,000
Gain in fair value Measurement of forest asset		(85,439,367)	-
Concessional loan discount (income)		(968,819,647)	-
Interest expense		832,261,784	385,482,362
Foreign exchange loss		652,686,824	84,189,600
		6,014,701,211	5,927,893,540
Working capital adjustments:			
Decrease in trade, other receivables		(2,790,304,292)	(302,207,430)
Increase in advance and prepayment		(133,624,574)	275,518,744
Decrease in inventories		(3,590,925,061)	(197,631,418)
Decrease in trade and other payables		2,515,225,253	(642,175,511)
Increase in contract liability		889,122,658	(856,458,139)
Increase in customer Deposit		(210,657,224)	277,811,719
Decrease in contractors retention		127,466,378	(6,847,923)
		2,821,004,350	4,475,903,582
Interest paid		(832,261,784)	(385,482,362)
Net cash flows from operating activities		1,988,742,566	4,090,421,221
Investing activities			
Purchase of property, plant and equipment		(2,512,903,742)	(2,269,217,668)
Purchase of intangible asset		(201,658,812)	(158,966,602)
Proceeds from the disposal of non current assets		-	-
Income from investment in associate		-	3,913,734
Loss from investment in associate		9,999,588	
Net cash flows used in investing activities		(2,704,562,967)	(2,424,270,537)
Financing activities			
Grant & Contribution		1,572,012,337	275,519,242
Proceeds from borrowings (loan , Bond and supplier Credit)		1,573,469,230	2,250,906,456
Repayment of borrowings (loan , Bond and supplier Credit)		(356,892,835)	(408,632,684)
Payment for additional leased asset		(24,173,850)	(15,314,203)
Net cash flows from/(used in) financing activities		2,764,414,883	2,102,478,811
Net increase/ (decrease) in cash and cash equivalents		2,048,594,482	3,768,629,495
Cash and cash equivalents at 7 July,		8,773,589,595	5,859,330,609
Cash and cash equivalents at 7 July		10,822,184,077	9,627,960,104

The Notes on pages 12-42 are an integral part of these Financial statements



1. General information

Ethiopian Electric Utility (EEU) is a monopoly public Utility which was established on October 2013 by the Council of Ministers Regulation No. 303/2013 following the split of Ethiopian Electric Power Corporation (EEPCo) in to two separate entities and amended by Regulation No. 382/2016. As a result EEU is mandated to deal with the operation of Substations & power transmission lines up to 66 kV, to undertake construction works & operation of off-grid electricity generation, to construct & administer electric distribution networks, to sell & purchase bulk electric power on transmission lines up to 66 kv and the Utility is mandated to initiate electric tariff amendments.

Currently the utility applies 5 (Five) categories of tariffs such as domestic tariffs, general tariff, low voltage time of day industrial tariff, high voltage time of day industrial tariff 15 KV, as well as street light tariff

The Utility is governed under public Enterprise proclamation no. 25/1992. The Supervising Authority is Ministry of Water, Irrigation & Electric.

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

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

2. Significant accounting Policies

2.1 Basis of preparation and Statement of compliance

Statement of Compliance

The financial statements for the period end 7 July 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Going Concern

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

Use of Judgments and Estimates

In preparing these Financial Statements, management has made judgments, estimates and assumptions that affect the application of the Utility's accounting policies and reported amounts of asset, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on ongoing basis. Revisions to estimates are recognized prospectively. Information about judgment, estimates and assumption that are significant to the financial statements, are disclosed in note 3.



2.2 Summary of significant accounting policies

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

2.2.1 Current versus non-current classification

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

2.2.2 Fair value measurement

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

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

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

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

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

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

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

2.2.3 Revenue recognition

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

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

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



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

2.2.4. Interest income/expense

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

2.2.5 Foreign currencies

Functional and Presentation Currency

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

Transactions and balances

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

2.2.6 Property, plant and equipment

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

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

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

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

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



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

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

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

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

2.2.7 Leases

Right-of-use asset

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

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

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

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

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

Lease liability

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

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

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

2.2.8 Intangible assets

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

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

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

Asset Class:	Theoretical Useful Life (years)
Prepaid Meter Software	15 years



2.2.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized when the Utility becomes a party to the contractual provisions of the instrument.

Classification

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

Those to be measured subsequently at amortized cost

Those to be measured subsequently at fair value (either through OCI or through profit or loss)

The classification depends on the Utility's business model for managing the financial assets/Financial Liability and the contractual term of the cash flow. The Utility business model is to hold financial assets in order to collect contractual cash flows. After initial recognition, the Utility shall measure a financial asset at amortised cost.

De-recognition

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

Measurement

All financial assets are recognized initially at fair value plus transaction cost in the case of a financial asset not at fair value through profit or loss (FVPL). The subsequent measurement of financial assets depends on their classification as described below:

i) Financial assets

Trade and Other Receivable

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

Cash and cash equivalents

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

Impairment of financial assets

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

The Utility applies simplified approach permitted by IFRS 9, which requires lifetime credit losses to be recognized from initial recognition of receivables.



ii) Financial Liabilities

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

Loans and Borrowings

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

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

Trade and Other Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method

De-recognition

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

Offsetting of financial instruments

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

2.2. 10 Borrowing cost

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

2.2.11 Inventories

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

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



2.2.12 Impairment of non-financial assets

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

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

2.2.13 Employee benefits

Short-term benefits

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

Post employment benefit

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

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

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

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

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

Termination benefit

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



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

2.2.14 Provisions

Provisions are recognized when the Utility has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.2.15 Leave accrual

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

2.2.16 Forestry Asset

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

The Income approach has been used to determine the valuation, a regular income over a specified period of time must be established through the income being received or receivable in future. From this a deduction is made to cater for annual expenses in running the plantations. As no records are available for such activities as well as lack of evidence of any sales, the alternative was to estimate the volume of the forest products available for sale and design a reasonable selling regime based on internationally acceptable standards without impacting negatively environmental protection and a forestation programs of the country

2.2.17. Concessional Loan

Loans from foreign finance providers and bonds issued to ethiopian electorci utility at a lower rate than the market interest rate and hence recognized at fair value (discounted amount using market rate).The difference between the fair value and the cash receipt(face value) is charged to profit or loss as concessional income

2.3 New or revised Standards or Interpretations

There are no new standards, amendments, interpretations that are not yet effective and that would be expected to have a material impact on the Utility in the current or future reporting years.



3. Significant accounting judgments, estimates and assumptions

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

Judgments

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

Estimates and assumptions

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

Useful life of property, plant and equipment

The Utility measures its property, plant and equipment at cost less accumulated depreciation and for the purpose of determining depreciation, the Utility estimated the use full life .

Power Purchase Agreement:

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

Employee termination benefit

The cost of post employment benefit and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, and employee turnover rates . Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a post employment benefit obligation is highly sensitive to changes in these assumptions. The actuarial valuation for post employee benefit obligation for the year 7 July 2017, 2018 and 2019 was made by professional actuary Ruparelia Consultants Limited (RCL). For the year end 7 July 2020, EEU used roll forward procedure to measure its actuarial liability and service cost by using the rate stated in the actuarial valuation report recommended to use for the year 2020 disclosure



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

4 Revenue

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

	2020 (ETB)	2019 (ETB)
Sale of electricity - local-post paid	8,849,046,011	6,138,160,105
sales of electricity -local- prepaid meter	1,855,404,532	974,593,821
Revenue from capital work	965,232,066	2,332,599,214
Service charges	1,075,582,358	579,233,900
Meter service charges	861,534,937	533,580,461
Connection fees	931,717,898	659,127,979
Sales of electricity - foreign	730,444	4,115,223
Sales of power factor correctors	603,280,086	93,637,031
Income from sales of compact fluorescent lamps	492,338	555,650
	15,143,020,670	11,315,603,383

4.1 Significant payment terms

The entity operates on both advance collection and credit arrangements

Advance collection

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

Credit arrangement

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

4.2 Information about major customers

Ethiopian Electric Utility sale electric power through out the country for industries and millions of households. No individual customer contributed 3 % or more to the Utility's revenue for FY 2020 .

4.3 Sole Producer and Distributer (Monopoly) right.

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



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

5 Cost of Goods Sold

Power Purchase - EEP	6,423,108,593	4,270,121,489
Distribution (5.1)	6,249,490,527	6,074,984,543
Substation and Transmission (5.1)	137,663,156	37,855,285
	<u>12,810,262,276</u>	<u>10,382,961,317</u>

5.1 Cost of Distribution, Substation and Transmission

	2020 (ETB)			2019 (ETB)		
	Distribution	Substation & Transmission	Total	Distribution	Substation & Transmission	Total
Salary and Wages	1,685,017,033	8,434,705	1,693,451,738	1,473,831,134	6,039,102	1,479,870,236
Depreciation	3,503,458,812	128,423,739	3,631,882,551	3,607,016,260	31,722,238	3,638,738,497
Material and supplies	433,664,181	-	433,664,181	518,309,203	33,212	518,342,415
Other personnel cost	17,331,723	-	17,331,723	1,319,918	-	1,319,918
Travel and subsistence	206,010,622	-	206,010,622	184,080,714	-	184,080,714
Fuel and lubricants	55,893,812	-	55,893,812	27,927,078	21,733	27,948,811
Rent	156,531,701	-	156,531,701	160,535,329	-	160,535,329
Communications	27,105,908	-	27,105,908	26,405,562	-	26,405,562
Insurance	2,193,216	-	2,193,216	969,988	-	969,988
Miscellaneous	162,283,519	804,712	163,088,231	74,589,357	39,000	74,628,357
	<u>6,249,490,527</u>	<u>137,663,156</u>	<u>6,387,153,683</u>	<u>6,074,984,543</u>	<u>37,855,285</u>	<u>6,112,839,828</u>



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

6 Other income

	2020 (ETB)	2019 (ETB)
Concessional loan discount (income)	968,819,647	391,679,780
Compensation for damages	490,180	96,219,126
General line	5,683,059	11,687,838
Club sales	11,701,345	18,074,758
Maintenance and service	183,563,574	473,055
Investment income	(9,999,588)	3,213,412
Fines	8,730,097	7,783,982
Miscellaneous	949,780,616	846,531,178
	2,118,768,932	1,375,663,130

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

7a Admin expense

	2020 (ETB)	2019 (ETB)
Salary, Wages and Benefits	821,588,538	471,691,392
Current Service Cost	32,718,696	19,657,000
Material and supplies	310,909,018	194,258,750
Depreciation	175,795,847	51,088,649
Other costs	330,861,106	176,966,600
Miscellaneous	245,980,137	115,762,316
	1,917,853,342	1,029,424,706

7b Impairment Allowance

	2020 (ETB)	2019 (ETB)
Bad Debt expense	138,160,569	34,916,718
	138,160,569	34,916,718

8 Other operating expense

	2020 (ETB)	2019 (ETB)
Loss on Foreign exchange	(18,218,769)	(612,315)
Commission for unified billing	-	4,636,356
Audit Fee	127,238	496,865
Board Fee	119,800	69,350
Gain or loss on settlement	-	7,913,041
	(17,971,731)	12,503,297

9 Finance cost/income

	2020 (ETB)	2019 (ETB)
Interest expense	828,234,420	382,679,117
Interest on employee termination benefit obligation (9.1)	75,572,992	60,328,000
Interest on Lease liability (9.1)	4,027,364	2,803,245
	907,834,775	445,810,362

10 Taxation

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



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

11 Cost of Property, plant and equipment

	Building ETB	Freehold land ETB	Land improve- ments ETB	Substation ETB	Motor vehicles ETB	Office Furniture and equipment ETB	Garage and workshop equipment, Construction machinery ETB	Diesel generator ETB	Distribution and Transmission line ETB	Property in transit ETB	Construction in progress ETB	Total ETB
As at 7 July 2019	652,051,603	897,027,100	43,529,238	1,318,923,600	759,306,986	225,261,317	124,564,675	114,049,000	42,368,671,635	121,384,278	4,934,335,932	51,559,105,364
Additions	108,200	-	-	-	260,098,031	151,768,604	11,500	8,690,875	96,717,273	40,172,661	1,955,336,598	2,512,903,742
Transfer	-	-	-	-	-	-	-	-	36,644,508	(919,605)	(35,724,904)	-
Disposals	-	-	-	-	-	-	-	-	-	-	-	-
As at 7 July 2020	652,159,803	897,027,100	43,529,238	1,318,923,600	1,019,405,016	377,029,920	124,576,175	122,739,875	42,502,033,417	160,637,334	6,853,947,627	54,072,009,106
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	-	-
As at 7 July 2019	41,102,787	-	6,719,257	252,953,058	131,320,896	63,831,673	11,143,205	21,046,035	6,745,606,780	-	-	7,273,723,692
Charge for the year	22,065,288	-	3,332,877	126,464,291	94,795,687	56,142,772	7,833,501	14,798,467	3,482,257,999	-	-	3,807,690,883
Disposals	-	-	-	-	-	-	-	-	-	-	-	-
As at 7 July 2020	63,168,075	-	10,052,134	379,417,350	226,116,582	119,974,445	18,976,707	35,844,502	10,227,864,780	-	-	11,081,414,574
Net book value	-	-	-	-	-	-	-	-	-	-	-	-
As at 7 July 2019	610,948,816	897,027,100	36,809,981	1,065,970,542	627,986,090	161,429,644	113,421,470	93,002,965	35,623,064,855	121,384,278	4,934,335,932	44,285,381,672
As at 7 July 2020	588,991,728	897,027,100	33,477,104	939,506,251	793,288,434	257,055,476	105,599,468	86,895,373	32,274,168,637	160,637,334	6,853,947,627	42,990,594,532



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

12 Forest assets

	(IAS 41) ETB
Basis of presentation and measurement	Fair value through P&L
At 7 July 2019	161,084,000
Increase/(decrease) in fair value of biological assets	85,439,367
At 7 July 2020	<u>246,523,367</u>

EEU's fair value of Forest assets were measured on 7 July 2020 by internal experts

13 Intangible Assets

	Billing Software ETB	ERP software in process ETB	Total ETB
Cost			
At 7 July 2019	1,985,750	893,774,141	895,759,891
Additions	-	201,658,812	201,658,812
At 7 July 2020	1,985,750	1,095,432,954	1,097,418,703
Amortization			
At 7 July 2019	992,875	-	992,875
Charge for the year	496,437	-	496,437
At 7 July 2020	1,489,312	-	1,489,312
NET BOOK VALUE			
At 7 July 2020	496,438	1,095,432,954	1,095,929,391
At 7 July 2019	992,875	893,774,141	894,767,016

14 Right of use asset (Building)

	Lease 1a	Lease 1b	Lease 2	Lease 3	Lease 4	Lease 5	Lease 6	Total ETB
Cost								
At 7 July 2019	12,578,892		13,091,797	6,498,406	18,508,459	-	-	50,677,553
Additions		12,578,892				6,430,283	13,465,607	32,474,783
Disposals	(12,578,892)	-	-	(6,498,406)	-	-	-	(19,077,298)
At 7 July 2020	-	12,578,892	13,091,797	-	18,508,459	6,430,283	13,465,607	64,075,038
Amortization and impairment								
At 7 July 2019	9,408,322		2,845,523	4,148,297	5,645,502	-	-	22,047,644
Amortization charge for the year	3,170,570	1,023,328	4,375,888	2,350,108	6,186,389	2,495,772	4,119,615	23,721,671
Disposals	(12,578,892)	-	-	(6,498,406)	-	-	-	(19,077,298)
At 7 July 2020	-	1,023,328	7,221,411	-	11,831,891	2,495,772	4,119,615	26,692,018
Net book value								
At 7 July 2020	-	11,555,563	5,870,386	-	6,676,567	3,934,511	9,345,992	37,383,020
At 7 July 2019	3,170,570	-	10,246,274	2,350,109	12,862,956	-	-	28,629,909



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

15 Lease liability (Building)

	Lease 1a	Lease 1b	Lease 2	Lease 3	Lease 4	Lease 5	Lease 6	Total ETB
Balance at 7 July 2019	2,300,165		10,077,644	2,389,714	12,670,648	-		27,438,172
Additional obligation - new contract		12,578,892		-	-	6,430,283	13,465,607	32,474,783
Finance charge	99,852	285,231	896,789	90,041	1,063,466	607,031	984,953	4,027,364
Less: Repayments	(2,400,017)	(2,400,017)	(5,058,907)	(2,479,755)	(7,043,478)	(3,680,640)	(5,138,400)	(28,201,214)
Balance at 7 July 2020	-	10,464,106	5,915,527	-	6,690,636	3,356,674	9,312,161	35,739,104

The lease agreement includes fixed lease payments. They are non-cancellable and do not contain any further restrictions. The utility has six leased offices, and each agreement is detailed below.

No.	Lessor's Name	Location (District)	Lease Term		Payment Period	Number of Payment Periods	Periodic Payment	Total Payment
			Start Date (MM DD YY)	End Date (MM DD YY)				
Lease-1	E.O.T.C.Houses & Buildings	Oromia (Adama)	9-Apr-2020	8-Apr-2023	Semi annually	6	2,400,017	14,400,103
Lease-2	Berges Clinic	UEAP Head office (A.A)	11-Nov-2018	10-Nov-2021	Quarterly	12	1,264,727	15,176,720
Lease-3	Getere share company	North Addis Ababa District	7-Aug-2017	6-Aug-2020	semi Annuly	6	1,239,878	7,439,265
Lease-4	De Leopold international Hotel plc	Oromia Head office (A.A)	7-Aug-2018	6-Aug-2021	Quarterly	12	1,760,870	21,130,434
Lease-5	Tensae kale	Hossana	9-May-2019	8-May-2022	Semi-Annually	6	1,226,880	7,361,280
Lease-6	Magbanze p.l.c	South Addis Ababa District	7-Aug-2019	6-Aug-2022	Semi-Annually	6	2,569,200	15,415,200



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

16 Financial assets :

	2020	2019
	ETB	ETB
Trade receivables	4,493,852,864	2,203,801,752
Other receivable	411,904,421	49,811,810
Total financial assets	4,905,757,285	2,253,613,562
Total current	4,905,757,285	2,253,613,562

16.1 Trade receivables

	2020	2019
	ETB	ETB
Customer Billing	4,551,926,359	2,166,028,301
New Connection	214,888,750	168,835,253
Rechargeable work	1,366,294	2,836,668
less; Allowance for credit losses 17.1.1	(274,328,538)	(133,898,471)
Net trade receivable	4,493,852,864	2,203,801,752

16.1.1 Allowance for credit losses

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

Trade receivables disclosed below include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Utility has recognized an allowance for doubtful debts. It represents only of trade debtors arising from customer billing for distribution of electric power. The Expected credit loss (ECL) is computed based on historical data, it is difficult to incorporate the expected data related to macroeconomic (inflation, GDP, unemployment) determinant to each utility customers in our country.

Age of receivables - Customer billing

	30 June 2020	30 June 2019
	ETB	ETB
1 - 90 days	4,005,132,009	1,712,437,484
91 days - 1 year	530,340,496	332,711,921
1 year - 2 years	-	43,076,812
Over 2 years	-	57,230,428
Total	4,535,472,504	2,145,456,645

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

	Individually impaired	Collectively impaired	Total
	ETB	ETB	ETB
At 7 July 2019	23,264,560	110,633,910	133,898,471
Impairment loss recognized on receivables	17,185,070	123,244,998	140,430,068
Utilized/written off	-	-	-
Unused amounts reversed/recovered	-	-	-
At 7 July 2020	40,449,630	233,878,908	274,328,538



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

16.2 Other receivable

	2020 (ETB)	2019 (ETB)
Metal and engineering corporation	94,772,962	94,772,962
Sundry Debtors	329,438,635	52,759,058
Staff receivable	94,840,349	19,293,882
VAT receivable	15,111,183	9,292,786
Cash and stock shortages	9,568,347	7,789,675
Suspense	2,173,210	2,173,210
Gross amount	545,904,686	186,081,574
Less: Impairment allowance (Others)	(134,000,265)	(136,269,763)
	411,904,421	49,811,810

17 Advance and prepayment

	2020 (ETB)	2019 (ETB)
Advance payment	4,671,325,025	4,537,700,452
Allowance for credit losses	(12,243)	(12,243)
	4,671,312,782	4,537,688,209

18 Investment in associate

	2020 (ETB)	2019 (ETB)
Balance brought forward	31,202,573	35,116,307
Add :- Investment income/Loss for the period	(9,999,588)	3,061,716
Addition Investment		
Less:- Dividend income received	-	(6,975,449)
Closing Balance	21,202,986	31,202,573

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



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

19 Inventories

	2020 ETB	2019 ETB
General Stock	7,402,528,482	4,299,389,288
Stationery	89,913,032	58,729,665
Oil and Lubricants	1,872,033	828,090
Other	97,774,249	25,035,546
	7,592,087,796	4,383,982,590
Goods In transit	595,036,215	212,216,361
Total inventories at the lower of cost and net realizable value	<u>8,187,124,011</u>	<u>4,596,198,951</u>

General stocks are those inventories in the ware houses which are used for the use of distribution and maintenance of electric services such as poles, distribution transformers, diesel spare parts etc. that do not meet criteria for capitalization as property plant and equipment. While Other stock includes Benzine, gas oil, Medicine.

There was no write down of inventory to realize value amount and recognized as expense during the year



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

20 Legal Reserve

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

21 Grant and Contribution

This is an equity reserve to which budget contribution received from the Government of the Federal democratic republic of Ethiopia is accumulated. Loan forgiven and assumed by Government are also transferred to grant.

22 Other reserve

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

23 Reserve for excess of deemed cost over book value

The reserve for excess of deemed cost is resulted from the increase in revaluation of property, plant and equipment, and freehold land at first time adoption of IFRS. However, the reserve is not available to distribution or capital increase.

24 Financial liabilities at amortized cost:

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

24.1 Trade and other payables

	2020 ETB	2019 ETB
Trade payable	1,800,825,952	934,319,172
Interest Payable - bonds	78,576,734	93,501,368
Interest Payable - Long term loan	102,088,991	52,924,515
Sundry payable	1,441,869,272	(50,634,744)
	3,423,360,949	1,030,110,312

24.2 Long term loans

	Foreign loan		
Loan type	IDA-6157	IDA-6158	Total
Interest rate	6%	6%	
Maturity	Oct-41	Oct-41	
Balance at 7 July 2019	6,508,206	1,888,395,073	1,894,903,279
Add: Disbursement	-	1,573,469,230	1,573,469,230
Forex loss	1,367,321	461,988,386	463,355,707
Less: Concessional loan	(848,894)	(788,536,880)	(789,385,774)
Less: Loan Assumed by the government			-
Balance at 7 July 2020	7,026,633	3,135,315,809	3,142,342,442

The loans are on lent through Ministry of finance (MOF) and 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 borrowing are re-payable within five to Fifty years



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

24.3 Customer Deposit

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

24.4 Supplier Credit

	Good Luck ETB	Supreme & Co ETB	Cobra ETB	Total
Balance at 7 July 2019	195,256,453	67,840	261,439,996	456,764,288
Forex loss	54,709,816	34,923	134,586,379	189,331,117
Less: Settlement	-	-	-	-
Balance at 7 July 2020	249,966,268	102,763	396,026,374	646,095,405

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

The borrowing are payable as follows

	At '2020	At '2019
not later than one year		
later than one year and not later than five years	646,095,405	456,764,288
later than five years	-	-
	646,095,405	456,764,288

24.5 Bonds Payable

	2020 ETB	2019 ETB
Balance at the beginning of the year	3,716,856,750	2,531,249,182
Less: Concessional loan	(179,433,873)	1,351,280,236
Add: Disbursement		
Less: Repayments	(356,892,835)	(165,672,668)
Balance at the end of the year	3,180,530,042	3,716,856,750

The Utility secured a loan amounting ETB 2.8 billion from Commercial bank of Ethiopia in the form of 28 unsecured bond of 100 million birr each bearing interest at the rate of 6 % per annum and repayable in 14 semi-annual installment through 2025. The loan is recognized at fair value up on release of each bond which is the present value of the bonds fair value and nominal interest at 6 % paid semi annual. An effective interest rate of 11.5 % is used to discount the bond.

	At '2020	At '2019
not later than one year	322,899,658	350,944,775
later than one year and not later than five years	2,857,630,384	3,365,911,975
later than five years	-	-
	3,180,530,042	3,716,856,750



24.6 Contractors' retention / Retention Payable

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

25 Financial Risk Management

25.1 Introduction

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

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

25.1.1 Risk management structure

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

The responsibility for risk management is decentralized. Corporate Planning Directorate office in collaboration with respective directorate offices is responsible for the development and regular update of risk management and implementing principles, frameworks, policies and risk appetite and forward for approval to management. It is also responsible for performing compliance monitoring and testing, preparing periodic risk and compliance exposure reports to management

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

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

25.1.2 Risk measurement and reporting systems

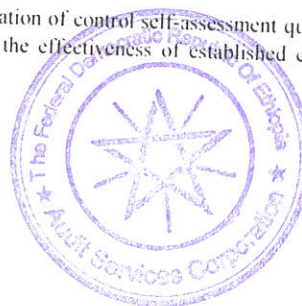
The Utility's risks are measured using methods that reflect both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical model. The models make use of probabilities derived from historical experience, adjusted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

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

25.1.3 Risk mitigation

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

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



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

25.2 Financial risk

Financial instruments by category

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

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

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

	FVTPL	Amortized Cost	Total
	ETB	ETB	ETB
7 July 2020			
Cash and balances with banks	10,822,184,076	-	10,822,184,076
Trade receivables	-	4,493,852,864	4,493,852,864
Other receivables excluding prepayments	-	411,904,421	411,904,421
Total financial assets	10,822,184,076	4,905,757,285	15,727,941,362
	FVTPL	Amortized Cost	Total
	ETB	ETB	ETB
7/7/2019			
Cash and balances with banks	8,773,589,595	-	8,773,589,595
Trade receivables	-	2,203,801,752	2,203,801,752
Other receivables excluding prepayments	-	49,811,810	49,811,810
Total financial assets	8,773,589,595	2,253,613,562	11,027,203,157

25.3 Credit risk

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

25.3.1 Management of credit risk

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

		7 July 2020	7 July 2019
	Notes	ETB	ETB
Cash and balances with banks	0	10,822,184,076	8,773,589,595
Trade receivables	16.1	4,493,852,864	2,203,801,752
Other receivables excluding prepayments	16.2	411,904,421	49,811,810
		15,727,941,362	11,027,203,157



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

25.3.2 Credit quality analysis

(a) Credit quality of cash and cash equivalents

The credit quality of cash and bank balances and short-term investments that were neither past due nor impaired at as 07 July 2020, 07 July 2019 and are held in Ethiopian banks have been classified as non-rated as there are no credit rating agencies in Ethiopia. The Utility has cash or cash equivalent that are held in foreign currency.

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

The expected loss rates are based on the payment profile for sales over the past 48 months before 7 July 2020 and 7 July 2019 respectively as well as the corresponding historical credit losses during that period.

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

(c) In 2019 ECL was computed by using four years of historical data to compute the rate which is 5%. In 2020 EEU implemented a new SAP system, and the mapping for the aging group which is important for the computation of the new rate in consistency with 2019 is in process. In addition there were no significant change during 2020 from the uncollectable balance of 2019. Hence the management of the utility decides to use the rate calculated in 2019 for the computation of ECL for the year 2020.

(d) The ECL is computed based on historical data, it is difficult to incorporate the expected data related to macroeconomic (inflation, GDP, unemployment) determinant to each utility customers in our country

On the above basis the expected credit loss for trade receivables as at 30 June 2020 and 2019 was determined as follows:

	30 June 2020	0 - 90 days	90 Days - 1 Years	1 - 2 Years	2 Years <	Total
Expected credit loss rate		0.00%	6%	78.00%	100.00%	
Gross carrying amount	11,620,523,426		233,878,908	233,878,908	23,388	
Lifetime expected credit loss	-		14,032,735	182,425,549	37,420,625	233,878,908
	30 June 2019	0 - 90 days	90 Days - 1 Years	1 - 2 Years	2 Years <	Total
Expected credit loss rate		0.00%	6.00%	78.00%	100.00%	
Gross carrying amount	1,712,437,484		332,711,921	43,076,812	57,071,282	
Lifetime expected credit loss	-		19,962,715	33,599,913	57,071,282	110,633,911

The closing balances of the trade receivables loss allowance as at 7 July 2020 and 7 July 2019 reconciles with the trade receivables loss allowance opening balance as follows:

	ETB
Loss allowance as at 7 July 2019	110,633,911
Loss allowance recognized during the year	123,244,998
Loss allowance as at 7 July 2020	233,878,908

25.4 Liquidity risk

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

The Utility's Liquidity risk management is carried out by finance and investment directorate office under policy approved by management. The main objective of the Utility's liquidity risk framework is to maintain sufficient liquidity in order to ensure that the Utility will settle maturing obligations.



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

25.4.1 Management of liquidity risk

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

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

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

25.4.2 Maturity analysis of financial liabilities

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

	0-180 days	181 - 365 days	Over 1 year	Total
	ETB	ETB	ETB	ETB
7-Jul-20				
Trade payable	2,049,416,800	1,030,110,312	607,615,978	3,687,143,090
Contract liabilities	936,845,844	-	1,868,721,219	2,805,567,063
Borrowings	3,044,040,558	1,599,471,871	2,351,667,567	6,995,179,996
Other liabilities	259,581,164	107,799,680	1,088,338,967	1,455,719,811
Total financial liabilities	6,289,884,366	2,737,381,862	5,916,343,731	14,943,609,960
7-Jul-19				
Trade payable	2,800,000,000	-	-	2,800,000,000
Contract liabilities	618,938,153	-	3,962,833	622,900,986
Borrowings	3,111,274,196	-	27,226,388,945	30,337,663,141
Other liabilities	6,223,429,729	-	75,513,992,800	81,737,422,529
Payable to EEP	-	111,040,044	-	111,040,044
Total financial liabilities	12,753,642,078	111,040,044	102,744,344,578	115,609,026,700

25.5 Market risk

Management of market risk

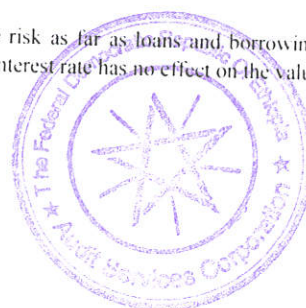
The main objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Market risk is monitored by the Sales and Marketing department on regular basis, to identify any adverse movement in the underlying variables.

(i) Interest rate risk

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

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

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



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

The table below sets out information on the exposures to fixed and variable interest instruments
7-Jul-20

	Fixed ETB	Floating interest bearing ETB	Non-interest bearing ETB	Total ETB
Assets				
Cash and bank balances	10,822,184,076	-	-	10,822,184,076
Trade receivables	-	-	4,493,852,864	4,493,852,864
Other receivables excluding prepayments	-	-	411,904,421	411,904,421
Total	10,822,184,076	-	4,905,757,285	15,727,941,362
Liabilities				
Trade payables	-	-	4,158,443,305	4,158,443,305
Borrowings	6,322,872,484	-	-	6,322,872,484
Other liabilities	-	-	673,222,217	673,222,217
Total	6,322,872,484	-	4,831,665,522	11,154,538,006

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

(ii) Foreign exchange risk

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

25.6 Capital management

The Utility's objectives when managing capital are to safeguard the Enterprise's ability to continue as a going concern and to maintain an optimal structure to reduce the cost of capital. The gearing ratios as at 2020, and 2019 were as follows.

	2020 ETB	2019 ETB
paid up capital	44,763,102,402	36,246,642,700
Legal reserve	118,527,857	43,245,339
Retained earnings	-	7,081,604,883
Other reserve	12,655,994,915	11,083,469,547
Equity	57,337,625,174	54,359,962,469
Total liability	15,140,586,276	11,102,193,019
Less: current liability	(1,691,199,634)	(1,596,902,343)
Net debt	19,531,585,910	12,699,095,361
Gearing	25%	19%



25.7 Fair value of financial assets and liabilities

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

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

25.7.1 Fair value methods and assumptions

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

25.7.2 Valuation technique using significant unobservable inputs – Level 3

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

25.7.3 Transfers between the fair value hierarchy categories

During the two 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.

25.8 Offsetting financial assets and financial liabilities

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

26 Defined benefit obligation (Severance and Electric Energy Benefit)

Valuation Approach

The provision was based on an independent actuarial valuation performed by Ruparelia Consultants Limited (RCL) using the projected unit credit method. The severance benefit and Electric Energy benefit plan is an unfunded defined benefit scheme. The key financial assumptions are the discount rate, the rate of salary increases and age of retirement. The Utility does not maintain any assets for the schemes but ensures that it has sufficient funds for the obligations as they crystallize. The actuarial valuation for post employee benefit obligation for the year 7 July 2017, 2018 and 2019 was made by professional actuary Ruparelia Consultants Limited (RCL). For the year end 7 July 2020, EEU used roll forward procedure to measure its actuarial liability, service cost and interest cost by using the rate stated in the actuarial valuation report, interest rate and assumptions recommended to use for the year 2020 disclosure. The details of the valuation approach is explained.

	7 July 2020	7 July 2019
	ETB	ETB
Defined benefits liabilities: (Note 27 a)		
Present value of funded obligation - Electric Energy Benefit	633,156,905	536,536,000
Present value of funded obligation - Severance Benefit	51,504,783	39,834,000
Defined Benefit Obligation (Asset) recognized in the SOFP	684,661,688	576,370,000
Income statement charge included in personnel expenses: (Note 27 b)		
	2020 (ETB)	2019 (ETB)
Electric Energy Benefit	96,620,905	71,917,000
Severance Benefit	11,670,783	8,068,000
Total defined benefit expenses	108,291,688	79,985,000



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

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

	2020 (ETB)	2019 (ETB)
Electric Energy Benefit	-	32,442,000
Severance Benefit	-	319,720
	<u>-</u>	<u>32,761,720</u>

There was no significant change in assumptions of actuarial assumption during the year. Therefore EEU used roll forward procedure to measure its actuarial liability and hence did not recognize any remeasurements gain or loss.

26 a Liability recognized in the financial position

	7 July 2020 ETB	7 July 2019 ETB
Electric energy benefit	633,156,905	536,536,000
Severance pay	51,504,783	39,834,000
	<u>684,661,688</u>	<u>576,370,000</u>

26 b Amount recognized in the profit or loss

	7 July 2020 ETB	7 July 2020 ETB	7 July 2019 ETB	7 July 2019 ETB
	Electric Energy Benefit	Severance Benefit	Electric Energy Benefit	Severance Benefit
Current service cost (excluding interest)	34,059,907	6,856,945	23,011,000	5,317,000
Interest cost	70,999,105	5,473,887	56,082,000	4,246,000
Benefit Paid	(7,538,108)	(660,049)	(7,176,000)	(1,495,000)
	<u>96,620,905</u>	<u>11,670,783</u>	<u>71,917,000</u>	<u>8,068,000</u>

26 c Changes in the present value of the defined benefit obligation

	7 July 2020 ETB	7 July 2020 ETB	7 July 2019 ETB	7 July 2019 ETB
	Electric Energy Benefit	Severance Benefit	Electric Energy Benefit	Severance Benefit
At the beginning of the year	536,536,000	39,834,000	432,177,000	31,446,000
Current service cost	34,059,907	6,856,945	23,011,000	5,317,000
Interest cost	70,999,105	5,473,887	56,082,000	4,246,000
Actuarial (gains)/losses on experience	-	-	32,442,000	320,000
Benefits paid	(7,538,108)	(660,049)	(7,176,000)	(1,495,000)
At the end of the year	<u>633,156,905</u>	<u>51,504,783</u>	<u>536,536,000</u>	<u>39,834,000</u>



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

26 d The principal assumptions used in determining defined benefit obligations

	7 July 2020	7 July 2019
	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

The Utility opted to use a discount rate of (7 July 2020: 12.75%, 7 July 2019: 12.75%.) based on the prevailing commercial banks lending rate as advised by the Association of Ethiopian Insurers.

(ii) Long term salary increases

A salary increase assumption of 10.75% p.a. has been assumed at 7 July 2019 and 2020. Salary increases have been assumed to occur at the end of each accounting year (i.e. at 7 July every year). The salary increase has been determined by the management as mutually compatible rate taking into account the likely future economic scenarios of the country.

(iii) Electric Energy consumption Tariff

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

(iv) Mortality rate

Mortality is normally expressed as the probability of death within the next year for an individual of a specific age. Different mortality rates are thus set for each age group (higher rates for older people) and this set of rates is referred to as a mortality table. The mortality table used for the current employees was A1949/52 as published by the Institute of Actuaries.

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

(v) Withdrawals from service

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

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



ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

(vi) *Ill-health / Disability*

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

(vii) *Duration of the plan*

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

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

The risks associated with severance benefit entitlements are as follows:

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

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

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

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

28 Other tax and obligation

Employment Income tax
 Withholding tax payable
 Vat Payable / Receivable
 Pension contribution payable



2020 ETB	2019 ETB
85,522,580	24,494,083
7,357,726	8,109,953
15,111,658	9,292,786
39,699,763	1,358,793
147,691,727	43,255,615

ETHIOPIAN ELECTRIC UTILITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 7 JULY 2020

29 Contract liabilities

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

	Customer Contribution		Prepaid	Total
	Capital ETB	Non Capital ETB	Current Liability ETB	
At 7 July 2019	209,662,445	1,659,058,774	73,626,576	1,942,347,796
Deferred during the year	1,723,819,620	6,508,822	1,868,602,091	3,598,930,533
Released to the statement of profit or loss		(826,557,343)	(1,852,789,485)	(2,679,346,828)
Transfer to other liabilities		(14,648,441)	-	(14,648,441)
At 7 July 2020	1,933,482,065	824,361,812	89,439,183	2,847,283,060

30 Accrual and Provision

	Accrual	Provision		Total
	Accrual ETB	Annual Leave ETB	Legal ETB	ETB
Balance at 7 July 2019	40,124,217	25,182,597	18,597,824	83,904,638
Provision For the year	754,728	26,132,328	28,245,878	55,132,934
Reversal/Repayment	(26,627,562)	(10,984,275)	(15,795,199)	(53,407,036)
Accrual and Provision At 7 July 2020	14,251,382	40,330,649	31,048,503	85,630,535

Included in accrual is cumulative annual leave, utility, unclaimed salary and others accrued at the reporting date. Each employee is entitled to an annual leave of 14 days for the first year of employment and keeps on increasing one day per additional year of service until it reaches the maximum amount allowed per year. However, the leave can only be carried forward for one more year. Provision for legal claims arising from litigation of labour cases, contractual and extra contractual liability and property damage claims are being recognized.

31 Related party transactions

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

Key management has been determined to be the members of the management board and the executive management of the Utility.

Management Board Compensation

The compensation of the management board personnel includes monthly allowance for chair person, each members & secretary are entitled for monthly allowances of ETB 3,500, ETB 3,000 & ETB 1,500. Compensation paid to management board members are shown below.

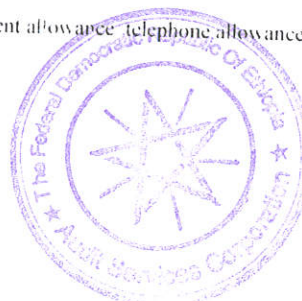
	2020 ETB	2019 ETB
Allowance	119,800	(9,350)

Key Management Compensation

The compensation paid to key management personnel shown below.

	2020 ETB	2019 ETB
	15,521,284	13,870,849

Compensation of key management includes Salary, management allowance, house rent allowance, telephone allowance, fuel and free electricity.



32 Events after reporting period

Since November 2020, the government of the Federal Democratic Republic of Ethiopia has been carrying out military operations in the northern Region of Ethiopia. The war may cause major destructions of the assets that may leads to significant decline in energy sales in the Amhara , Afar and Tigray regions .The Enterprise has not been able to assess the extent to which its assets located in the northern part of the country may have been damaged by the military operations.

Starting from October 2021 as per Proclamation No. 1263/2021 the Supervising Authority of EEU becomes Public Enterprises Holding & Administrative Agency (PEHAA). And Starting from May 2022 the Supervising Authority of EEU is Ethiopian Investment Holdings

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

33 Contingent liabilities, contingent assets, and commitments

The entity has Contingent Assets arising from legal litigation on which EEU has sued different entities for Property Damage, Contractual and Extra-Contractual Liability, Electric Power theft , etc. For the year ended 7 July 2020, the Contingent asset amounts to Birr 11,917,548. On the other hand, it has contingent liabilities arising from legislation that has been sued by different entities and individuals, but not provided for in these financial statements amounting to Birr 32,418,119.

