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AUDIT SERVICE CORPORATION

**DEFENCE CONSTRUCTION ENTERPRISE**  
**INDEPENDENT AUDITOR'S REPORT**  
**AND**  
**FINANCIAL STATEMENTS**  
**30 JUNE 2023**

DEFENSE CONSTRUCTION ENTERPRISE  
REPORTS AND ANNUAL FINANCIAL STATEMENTS  
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FOR THE YEAR ENDED 30 JUNE 2023

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**DEFENSE CONSTRUCTION ENTERPRISE  
REPORTS AND ANNUAL FINANCIAL STATEMENTS  
MANAGEMENT, PROFESSIONAL ADVISORS AND REGISTERED OFFICE  
FOR THE YEAR ENDED 30 JUNE 2023**

**Company TIN number**

Business Registration no.

MT/AA/5/0009621/2004

**Business License No.**

MT/AA/14/706/23002

**Excutive Board of Directors(as of 30  
JUNE 2023**

| <b>Name</b>                        | <b>Position</b> | <b>Date of assignment</b> |
|------------------------------------|-----------------|---------------------------|
| L/G Desta Abichu                   | Chair           | 22/11/2021                |
| Honorable Ato Getachew Hailemariam | Member          | 22/11/2021                |
| Dr. Eng. Webshet Ziqale            | Member          | 22/11/2021                |
| W/rt Eyerusalem Taye               | Member          | 22/11/2021                |
| Mj. Abdukedir Kalayou              | Member          | 22/11/2021                |
| Honorable Ato Yetemgeta Aserat     | Member          | 22/11/2021                |

**Excutive management (as of 30 JUNE  
2023**

| <b>Name</b>         | <b>Position</b> | <b>Date of assignemnt</b> |
|---------------------|-----------------|---------------------------|
| Eng. Solomon Demeke | CEO             | 1/12/2021                 |
| Eng. Tibebe Kebede  | DCEO            | 1/12/2021                 |
| Eng. Muhudin Shafi  | DCEO            | 1/12/2021                 |
| Ato shiferaw Bekele | DCEO            | 1/12/2021                 |
| AtoDereje Tefera    | DCEO            | 1/12/2021                 |

**Independent auditors**

Audit Service Corporation

P.O. Box 5720

xth Floor, xxx Building

Addis Ababa

Ethiopia

**Head office**

Tell:011-4-42-22-60

E-mail: info@dce-et.com

Website: <http://www.dce-et.com/en/>

P.O. Box 3414

Addis Ababa

Ethiopia

Company TIN number 0004445651

**Principal Banks**

Commercial Bank of Ethiopia

P.O. Box 255

Addis Ababa

Cooperative Bank of Oromia (COOP)

P.O. Box 16936

**Addis Ababa**



**DEFENSE CONSTRUCTION ENTERPRISE  
REPORTS AND ANNUAL FINANCIAL STATEMENTS  
REPORT OF THE MANAGEMENT  
FOR THE YEAR ENDED 30 JUNE 2023**

Management has the pleasure of presenting their report on the affairs of Defense Construction Enterprise the financial statements for the year ended 30 June 2023, to the Company of Defense construction Enterprise. This report discloses the financial performance and state of affairs of the Company.

This annual financial statement is prepared and presented for the Company which is Defense Construction Enterprise. The statement is a general purpose statement prepared with the intention of helping the users of this financial statement to make an informed economic decision.

**Incorporation and address**

Defense Construction Enterprise was public enterprise under Ministry of National Defense up Until the beginning of 2010.

**Operating Results**

The Company's results for the year ended 30 June 2023 are set out on page 8. the profit for the year has been transferred to retained earnings. The summarized results are presented below

**2023**

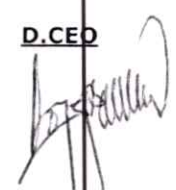
|                                      |               |
|--------------------------------------|---------------|
| Income from Continued Operations     |               |
| Revenue                              | 2,313,088,489 |
| Profit (Loss) before tax             | (165,980,610) |
| Tax income(expense)                  | 53,102,417    |
| Profit (Loss) after tax for the year | (112,878,193) |

The management who held office during the year and to the date of this report are set out on the above page.

**Finance Manager**

  
Bahiru Musema Serur  
Financial Management  
Department Manager

**D.CEO**

  
Shiferaw Bekele Dema  
Corporate Service  
Deputy Chief Executive Officer



**DEFENSE CONSTRUCTION ENTERPRISE  
REPORTS AND ANNUAL FINANCIAL STATEMENTS  
statement OF MANAGEMENT RESPONSIBILITY.**

The financial reporting proclamation 847/2014 requires the Company to prepare financial statements that represent the state of affairs of the company at the end of the financial year and the operating results of the company for that year by using International Financial Reporting Standard (IFRSs) as issued by the International Accounting Standard Board("IASB")

The Management is responsible for the preparation and presentation of these financial statements that give useful information about the financial position of the Company at the reporting date and of its comprehensive income in the manner required by the IFRS, 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, The responsibilities include; designing, implementing and maintaining such internal control as they determine necessary to enable the:-

A) presentation of financial statements that are free from material misstatement, whether due to error or fraud;

B) Selecting suitable accounting policies supported by reasonable and prudent judgments and estimates, that are consistently applied; and

C) Keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company

The Management further accepts responsibility for the maintain of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The management is of the opinion that the financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

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

Signed in Behave of the Management By;

**Finance Manager**

*Bahiru Musema Serur*  
Financial Management  
Department Manager



**D.CEO**

*Shiferaw Bekele Dema*  
Corporate Service  
Deputy Chief Executive Officer



# ASC.

PUBLIC ACCOUNTABILITY | SHARED GROWTH

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Audit Service Corporation

## INDEPENDENT AUDITOR'S REPORT TO THE SUPERVISING AUTHORITY OF DEFENCE CONSTRUCTION ENTERPRISE

### Report on the Audit of the Financial Statements

#### *Qualified Opinion*

We have audited the financial statements of Defence Construction Enterprise (the Enterprise), which comprise the Statement of Financial Position as at 30 June 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Enterprise as at 30 June 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Commercial Code of Ethiopia of 2021.

#### *Basis for Qualified Opinion*

- Trade and Other Receivables** – Trade and other receivables presented in the statement of financial position include long-outstanding balances totalling Birr 675,178,909, which also comprise abnormal credit balances amounting to Birr 68,834,301. Furthermore, a discrepancy of Birr 60,956,357 was identified between the June VAT report and the corresponding ledger balance as at June 30, 2023. In addition, supporting documentation for adjustments totalling Birr 61,814,158 was not provided, and management was unable to provide sufficient and appropriate explanations. Consequently, we were unable to obtain adequate audit evidence to satisfy ourselves as to the accuracy and completeness of the Trade and other receivables balance of Birr 1,828,443,773 reported in the statement of financial position.
- Cash and Bank Balances** – We did not obtain bank statement, bank reconciliation and bank confirmation for Birr 36,386,436. Moreover, the Enterprise's bank reconciliations show checks and Deposit in transit for more than one year that were not cleared in the subsequent period, amounting to Birr 183,454,187 and 262,314,766, respectively. We had no alternative procedures that would enable us to satisfy ourselves the Accuracy of these cash and bank balance of Birr 836,112,291 reported in the statement of financial position as at 30 June 2023.

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**INDEPENDENT AUDITOR'S REPORT  
TO THE SUPERVISING AUTHORITY OF  
DEFENCE CONSTRUCTION ENTERPRISE**

**Report on the Audit of the Financial Statements**

**Basis for Qualified Opinion (continued)**

3. **Creditors (Trade and Other Payables)** – Creditors presented in the statement of financial position include long-outstanding balances totalling Birr 535,056,089, as well as abnormal debit balances amounting to Birr 105,972,092. Management did not provide sufficient and appropriate explanations as to why these balances have not been cleared. Consequently, we were unable to determine whether any adjustments may be necessary in respect of the creditors balance of Birr 1,707,946,772 reported in the statement of financial position
4. **Expenses and Other Discrepancies** – We noted that machinery and vehicle insurance expenses amounting to Birr 8,133,767 were not supported by appropriate documentation. Moreover, no satisfactory explanation was provided for the variance of Birr 13,966,646 identified between the fuel ledger and the consumption report. Furthermore, during the audit we identified a discrepancy of Birr 9,954,616 between the sales ledger and the VAT report on sales. As a result, we were unable to obtain sufficient and appropriate audit evidence to substantiate the loss of Birr 112,878,193 reported in the statement of profit or loss and other comprehensive income.

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

**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. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

**Revenue Recognition from Construction Contracts**

Revenue from construction contracts was considered to be a key audit matter due to the significance of revenue to the financial statements and the level of management judgment involved in determining the stage of completion of contracts. The Enterprise recognizes revenue over time based on the percentage of completion method, which requires management to estimate total contract costs, assess project progress, and evaluate potential variations or claims. These estimates involve significant judgment and may have a material impact on the amount and timing of revenue recognized.

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INDEPENDENT AUDITOR'S REPORT  
TO THE SUPERVISING AUTHORITY OF  
DEFENCE CONSTRUCTION ENTERPRISE  
Report on the Audit of the Financial Statements

***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 in the manner required by the Commercial Code of Ethiopia of 2021, 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 Enterprise'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 Enterprise or to cease operations, or has no realistic alternative but to do so.

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

***Auditors' Responsibilities for the Audit of the Financial Statements***

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Enterprise's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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**INDEPENDENT AUDITOR'S REPORT  
TO THE SUPERVISING AUTHORITY OF  
DEFENCE CONSTRUCTION ENTERPRISE**

*Auditors' Responsibilities for the Audit of the Financial Statements (Continued)*

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Enterprise'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 Enterprise to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Redeat Berhan.

*Audit Service Corporation*

**DEFENSE CONSTRUCTION ENTERPRISE**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2023**

|                                                | Notes | 30 Jun. 2023<br><u>ETB</u> | 30 June 2022<br><u>ETB</u> |
|------------------------------------------------|-------|----------------------------|----------------------------|
| <b>Revenue</b>                                 |       |                            |                            |
| Construction Income                            | 5     | 2,313,088,489              | 1,526,118,690              |
| <b>Cost</b>                                    |       |                            |                            |
| Cost of sales                                  | 6     | (2,322,589,764)            | (1,186,278,480)            |
| Gross profit                                   |       | <b>(9,501,275)</b>         | <b>339,840,210</b>         |
| Other income                                   | 7     | 241,005,006                | 13,328,591                 |
|                                                |       | 231,503,731                | 353,168,801                |
| Operating Expenses                             |       |                            |                            |
| General and administrative expenses            | 8     | (397,484,342)              | (493,329,019)              |
|                                                |       | (397,484,342)              | (493,329,019)              |
| Profit before tax                              |       | (165,980,610)              | (140,160,219)              |
| Income tax expense                             | 9.1   | 53,102,417                 | 38,254,530                 |
| Profit after tax for the year                  |       | (112,878,193)              | (101,905,688)              |
| <b>Total comprehensive income for the year</b> |       | <b>(112,878,193)</b>       | <b>(101,905,688)</b>       |

The notes on pages 8 to 41 are an integral part of these financial statements.

**DEFENCE CONSTRUCTION ENTERPRISE  
STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2023**

|                                      | Notes | 30 June 2023<br>ETB         | 30 June 2022<br>ETB         |
|--------------------------------------|-------|-----------------------------|-----------------------------|
| <b>ASSETS</b>                        |       |                             |                             |
| <b>Non-current assets</b>            |       |                             |                             |
| Property, plant and equipment        | 10    | 1,156,119,155               | 1,257,467,757               |
| Contract Asset                       | 13    | 2,196,293,748               | 2,013,899,971               |
| Deferred tax Asset                   | 9.4.5 | <u>97,246,651</u>           | <u>22,298,422</u>           |
| <b>Total non-current assets</b>      |       | <b><u>3,449,659,554</u></b> | <b><u>3,293,666,149</u></b> |
| <b>Current assets</b>                |       |                             |                             |
| Inventories                          | 12    | 1,357,902,649               | 989,328,442                 |
| Trade and other receivables          | 14-15 | 1,828,443,773               | 1,489,791,610               |
| Prepayments                          | 16    | 4,164,404                   | 19,707,212                  |
| Cash and bank balances               | 17    | <u>836,112,291</u>          | <u>623,257,875</u>          |
| <b>Total current assets</b>          |       | <b><u>4,026,623,117</u></b> | <b><u>3,122,085,139</u></b> |
| <b>Total Assets</b>                  |       | <b><u>7,476,282,671</u></b> | <b><u>6,415,751,289</u></b> |
| <b>EQUITY AND LIABILITIES</b>        |       |                             |                             |
| <b>Equity</b>                        |       |                             |                             |
| State Paid Up Capital                | 18    | 800,000,000                 | 800,000,000                 |
| Retained earnings                    |       | 292,495,719                 | 405,373,912                 |
| Revaluation Reserve                  |       | 425,212,666                 | 425,212,666                 |
| Legal reserve                        |       | <u>47,385,358</u>           | <u>47,385,358</u>           |
| <b>Total equity</b>                  |       | <b><u>1,565,093,743</u></b> | <b><u>1,677,971,936</u></b> |
| <b>Non-current liability</b>         |       |                             |                             |
| Contract Liability                   | 19    | 2,694,110,369               | 2,358,808,435               |
| Retirement benefit obligation        | 20    | <u>14,575,120</u>           | <u>14,473,672</u>           |
| <b>Total non-current liability</b>   |       | <b><u>2,708,685,489</u></b> | <b><u>2,373,282,107</u></b> |
| <b>Current liabilities</b>           |       |                             |                             |
| Trade and other payables             | 21    | 1,707,946,772               | 1,489,367,020               |
| Contract Liability- Current maturity | 19    | <u>1,494,556,667</u>        | <u>875,130,226</u>          |
| <b>Total current liabilities</b>     |       | <b><u>3,202,503,439</u></b> | <b><u>2,364,497,246</u></b> |
| <b>Total liability</b>               |       | <b><u>5,911,188,928</u></b> | <b><u>4,737,779,353</u></b> |
| <b>Total equity and liabilities</b>  |       | <b><u>7,476,282,671</u></b> | <b><u>6,415,751,289</u></b> |

The notes on pages 8 to 41 are an integral part of these financial statements.

**DEFENCE CONSTRUCTION ENTERPRISE**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2023**

|                                                   | Notes | 30 June 2023<br>ETB | 30 June 2022<br>ETB  |
|---------------------------------------------------|-------|---------------------|----------------------|
| <b>Cash flows from operating activities</b>       |       |                     |                      |
| Profit before income tax                          |       | (165,980,609)       | (140,160,218)        |
| Depreciation of property, plant and equipment     | 10    | 180,966,253         | 285,704,013          |
| <b>Changes in working capital:</b>                |       |                     |                      |
| Change in inventory                               | 12    | (368,574,207)       | 50,118,000           |
| Change in trade and other receivables             | 14-15 | (319,316,376)       | (311,037,959)        |
| Change in prepayments                             | 16    | 15,542,808          | (1,267,277)          |
| Change in Defined Benefit Plan                    | 20    | 101,447             | 1,360,488            |
| Change in trade and other payables                | 21    | 140,248,451         | (24,041,359)         |
| Change in Contract Liabilities-current            | 19    | 619,426,441         | 316,603,661          |
| Movement in Contract asset                        | 13    | (201,729,558)       | (5,923,247)          |
| Movement in Contract liability-non current        | 19    | 335,301,934         | (120,007,968)        |
| Income tax paid                                   | 9.3   | 32,816,846          | (19,335,787)         |
| <b>Net cash inflow from operating activities</b>  |       | <b>268,803,429</b>  | <b>32,012,346</b>    |
| <b>Cash flows from investing activities</b>       |       |                     |                      |
| Purchase of property, plant and equipment         | 10    | (79,617,651)        | (170,201,469)        |
| <b>Net cash outflow from investing activities</b> |       | <b>(79,617,650)</b> | <b>(170,201,469)</b> |
| <b>Net cash outflow from financing activities</b> |       | <b>189,185,779</b>  | <b>(138,189,123)</b> |
| Cash and cash equivalents as at 01 July           |       | 646,926,512         | 785,115,635          |
| <b>Cash and cash equivalents at 30 June</b>       |       | <b>836,112,291</b>  | <b>646,926,512</b>   |

The notes on pages 8 to 41 are an integral part of these financial statements.

DEFENSE CONSTRUCTION ENTERPRISE  
STATEMENT OF CHANGES IN EQUITY  
AS AT 30 JUNE 2023

|                                         | Notes | State Capital<br>ETB | Legal<br>reserve<br>ETB | Revaluation<br>Reserve<br>ETB | Retained<br>earnings<br>ETB | Total<br>ETB  |
|-----------------------------------------|-------|----------------------|-------------------------|-------------------------------|-----------------------------|---------------|
| As at 30 June 2022                      | 18    | 800,000,000          | 47,385,358              | 425,212,666                   | 405,373,912                 | 1,677,971,936 |
| Profit/Loss for the year                |       |                      |                         | -                             | (112,878,193)               | (112,878,193) |
| Total comprehensive income for the year |       | 800,000,000          | 47,385,358              | 425,212,666                   | 292,495,719                 | 1,565,093,743 |
| As at 30 June 2023                      | 18    | 800,000,000          | 47,385,358              | 425,212,666                   | 292,495,719                 | 1,565,093,743 |

The notes on pages 8 to 4 are an integral part of these financial statements.

**DEFENSE CONSTRUCTION ENTERPRISE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023**

**1 General information**

Defense Construction Enterprise was established in 2010 by Council of Ministers regulation No 185/2010 as public enterprise and national defense as supervising authority of the enterprise. The authorized capital of the Enterprise is Birr 800,000,000.00 (Eight hundred million) which is paid up in cash and in kind.

Prior to its establishment as an Enterprise, it was structured as an Engineering Department under the Ministry of National Defense responsible for the construction of Army Hospitals, Depot, Camps, access roads and other infrastructure activities owned by the Ministry of National Defense.

Henceforth its establishment, the enterprise has mainly been undertaking various infrastructural projects to satisfy national defense infrastructural needs. In parallel, it has also been engaged in the construction of mega road, dams, irrigation infrastructures and buildings projects that have been undertaken in different parts of the country.

The enterprise is located at Kirkos sub-city Woreda 02 around the place commonly known as Wollo Sefer in front of Ambassel building in Addis Ababa, Ethiopia. It manages various projects located at both Addis Ababa and across different corners of the country.

**2 Summary of significant accounting policies**

**2.1 Introduction to summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.2 Basis of preparation**

The financial statements for the year ended 30 June 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information required by the Commercial Code of Ethiopia 1960 are included where appropriate.

The financial statements comprise the statement of profit or loss and other comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the financial statements.

The financial statements for the year ended 30 June 2018 are the first the enterprise has prepared in accordance with International Financial Reporting Standards (IFRS). Refer to note 30 for information on how the enterprise adopted IFRS.

The financial statements have been prepared in accordance with the going concern principle under the historical cost concept.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the enterprise's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The management believes that the underlying assumptions are appropriate and that the enterprise's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

**2.2.1 Going concern**

The financial statements have been prepared on a going concern basis. The Management has no doubt that the enterprise would remain in existence for the next 12 months.

**2.2.2 Changes in accounting policies and disclosures**

**2.2.2.1 New Standards, amendments, interpretations issued but not yet effective**

At the date of authorization of these financial statements, new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. With the exception of IFRS 15, IFRS 9 and IFRS 16 these Standards, amendments or Interpretations have not been adopted early by the Enterprise. Management anticipates that all relevant new standards and pronouncements will be adopted for the first period beginning on or after their effective date.

**DEFENSE CONSTRUCTION ENTERPRISE  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2023**

*New and Amendments to standards*

**IFRS 17 Insurance Contracts**

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

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

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

*Effective for annual periods  
beginning on or after*

1 January 2021

1 January 2019

1 January 2019

1 January 2019

**IFRS 17 'Insurance Contracts'**

IFRS 17 Insurance Contracts will replace IFRS 4 Insurance Contracts which will provide the recognition, measurement, presentation and disclosure requirements for insurance contracts.

The standard will be effective for annual reporting periods beginning on or after 1 January 2021. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, the standard's applicability to the Enterprise's assets is too limited as it does not principally deal with insurance contracts.

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

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

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

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

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

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

**2.2.2.1 New Standards, amendments, interpretations issued but not yet effective**

**Uncertainty over Income Tax Treatments**

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

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

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

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

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

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

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**2.2.2.2 New Standards adopted as at 1 July 2017**

**IFRS 15 'Revenue from Contracts with Customers'**

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue',

IAS 11 'Construction Contracts', and several revenue-related Interpretations. Although only mandatory for annual reporting periods beginning on or after 1 January 2018, the Enterprise has elected to apply IFRS 15 early, on 1 July 2016. The new Standard has been applied retrospectively, with the cumulative effect of initial application recognized as an adjustment to the opening balance of retained earnings at 1 July 2016. In accordance with the transition guidance, IFRS 15 has only been applied to contracts that are incomplete as at 1 July 2016.

**IFRS 9 'Financial Instruments'**

The new Standard for financial instruments (IFRS 9) replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

**IFRS 16 'Leases'**

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

Although only mandatory for annual reporting periods beginning on or after 1 January 2019, the Enterprise has elected to apply IFRS 15 early, on 1 July 2016. In accordance with the transition guidance, IFRS 16 has only been applied to contracts that are incomplete as at 1 July 2016.

**2.3 Foreign currency translation**

a) *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in

b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than the enterprise's functional currency are recognized in profit or loss within other (loss)/income. Monetary items denominated in foreign currency are translated using the closing rate as at the reporting date.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets measure at fair value, such as equities classified as available for sale, are included in other comprehensive income.

**2.4 Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses if any. Such cost includes the cost of replacing part of the 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 enterprise recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. All other repair and maintenance costs are recognized in the statement of profit or loss as incurred.

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

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Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| <b>Asset class</b>                | <b>Estimated Useful Lives</b> |
|-----------------------------------|-------------------------------|
| Building                          | Up to 20 Years                |
| Land Improvement                  | Up to 20 Years                |
| Plant                             | Up to 10 Years                |
| Construction Machinery            | Up to 10 Years                |
| Motor vehicles                    | Up to 10 Years                |
| Construction Equipment            | Up to 5 Years                 |
| Computer and accessories          | Up to 5 Years                 |
| Furniture and Fixtures equipment  | Up to 5 Years                 |
| Office and Household Equipment    | Up to 5 Years                 |
| Workshop and Laboratory Equipment | Up to 5 Years                 |
| Tools and Cases                   | Up to 5 Years                 |

The enterprise commences depreciation when the asset is available for use. The right of use land is not depreciated.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

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.

Properties in the course of construction are carried as work in progress at cost, less any recognized impairment loss. Cost includes professional fees. Such properties are reclassified to the appropriate categories of asset when completed and ready for intended use.

## **2.5 Impairment of non-financial assets**

The enterprise assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the enterprise estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

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.

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**2.6 Financial assets**

**Recognition and derecognition**

Financial assets and financial liabilities are recognized when the enterprise becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

**2.7 Financial instruments - initial recognition and subsequent measurement**

**Classification and initial measurement of financial assets**

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

In the periods presented the enterprise does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

**Subsequent measurement of financial assets**

*Financial assets at amortized cost*

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The enterprise's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

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***Financial assets at fair value through profit or loss (FVTPL)***

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply (see below).

The category also contains an equity investment. The enterprise accounts for the investment at FVTPL and did not make the irrevocable election to account for the any equity investment at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

The enterprise accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognized in other comprehensive income (OCI) will be recycled upon derecognition of the asset.

**Impairment of financial assets**

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses – the 'expected credit loss (ECL) model'. This replaced IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortized cost and FVOCI, trade receivables, contract assets recognized and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the enterprise first identifying a credit loss event. Instead the enterprise considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

**Impairment of financial assets**

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognized for the first category while 'lifetime expected credit losses' are recognized for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

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**Trade and other receivables and contract assets**

The enterprise makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the enterprise uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The enterprise assess impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 4.4 for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

**Classification and measurement of financial liabilities**

The enterprise's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the enterprise designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

**Derecognition of financial liabilities**

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished.

**Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where The enterprise has a legally enforceable right to offset the recognized amounts, and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legal enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the enterprise or the counterparty.

**2.8 Other assets**  
**(a) Prepayments**

Prepayments are payments made in advance for services to be enjoyed in future. The amount is initially capitalized in the reporting period in which the payment is made and subsequently amortized over the period in which the service is to be enjoyed.

**(b) Other receivables**

Other receivables are recognized upon the occurrence of event or transaction as they arise and cancelled when payment is received. The enterprise's other receivables are staff advances and other receivables from debtors.

**2.9 Cash and cash equivalents**

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with Banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings as current liabilities in the statement of financial position.

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**2.10 Revenue recognition**

Revenue is measured based on the consideration to which the enterprise expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The enterprise recognizes revenue when it transfers control of a product or services to customers. Revenues of the enterprise mainly arise from the provision of construction services. In recognizing revenue, the enterprise follows IFRS 15- revenue recognition and measurement requirements.

The enterprise recognizes revenue overtime using percentage of completion. In doing this, the stages of completion of the contract is assessed relying on input method, i.e. based on the costs incurred to date for work performed as a proportion of the estimated total costs to finish the contract. Simply put, for each project the revenue recognized for the period is computed using the percentage of completion approach based on the following three steps.

- 1) Percentage of completion (a) = Cost incurred to date/ estimated total cost to finish
- 2) Revenue (b) = Percentage of completion \* Estimated contract price
- 3) Revenue recognized for the period [C]= "b" minus revenue recognized in the prior periods.

Of the total revenue recognized, which is Br. 2,313,088,489, the revenue recognized from building project amounts to Br.1,306,194,257 and the remaining Br. 1,006,894,232 is the revenue from the road and dam construction projects.

**Investment income**

Interest income is recognized in the statement of profit or loss as it accrues and is calculated by using the EIR method. Fees and commissions that are an integral part of the effective yield of the financial asset are recognized as an adjustment to the EIR of the instrument. Investment income also includes dividends when the right to receive payment is established.

**Dividend income**

This is recognized when the enterprise's right to receive the payment is established, which is generally when the shareholders approve and declare the dividend.

**2.11 Employee benefits**

The enterprise's only post-employment schemes is defined contribution pension plans.

**(a) Wages, salaries and annual leave**

Wages, salaries, bonuses, other contributions, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by employees of the enterprise.

**(b) Defined contribution plan**

The enterprise operates defined contribution plan;  
Pension scheme in line with the provisions of Ethiopian pension of private organization employees proclamation 715/2011. Funding under the scheme is 7% and 11% by employees and the enterprise respectively;

Once the contributions have been paid, the enterprise retains no legal or constructive obligation to pay further contributions if the Fund does not hold enough assets to finance benefits accruing under the retirement benefit plan. The enterprise's obligations are recognized in the profit and loss account.

**2.12 Fair value measurement**

The enterprise measures financial instruments classified as available-for-sale at fair value at each statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are, summarized in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions note 4.6.1.
- Quantitative disclosures of fair value measurement hierarchy note 4.6.2.
- Financial instruments (including those carried at amortized cost) note 4.6.2.

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

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

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

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 enterprise 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 enterprise determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The enterprise's Management determines the policies and procedures for both recurring fair value measurement, such as available-for-sale financial assets.

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

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**2.13 Provisions**

Provisions are recognized when the enterprise has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as other operating expenses.

**2.14 Leases**

Recognition of a lease

The Enterprise has the right to direct the use of the asset. The Enterprise has this right when it has decision-making rights that are the most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Enterprise has the right to direct the use of the asset if either. The Enterprise has the right to operate the asset; or The Enterprise designed the asset in a way that predetermines how and for what purpose it will be used.

**Enterprise as a lessee**

Leases that do not transfer to the enterprise substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which it is incurred.

**Enterprise as a lessor**

At the commencement date, the exchange recognized a right-of-use asset at cost and a lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, if the interest rates implicit in the lease is not readily determined, the exchange uses the lessee's incremental borrowing rate. The exchange used the lessee's incremental borrowing rate.

Subsequently, the right-of-use asset is depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the carrying amount of the right of use asset is reduced by any impairment losses and adjusted for certain re-measurements of the lease liability. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is re-measured to reflect any lease modifications or reassessments.

A lease refers to a contract in which one party, the lessor, grants another party, the lessee, the right to possess and use property for a specified period of time in exchange for consideration, typically rent.

The main types include financial leases, operating leases, skip leases, deferred payment leases, prepaid purchase leases, and subleases. Financial leases transfer most ownership risks and benefits to the lessee and typically span the useful life of the asset.

**2.15 Income taxation**

**(a) Current income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Ethiopia.

**(b) Deferred tax**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

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**3 Significant accounting judgements, estimates and assumptions**

The preparation of the enterprise's financial statements requires the Management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the enterprise's exposure to risks and uncertainties includes:

- Financial risk management and policies note 4.2

**3.1 Judgements**

In the process of applying the enterprise's accounting policies, Management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

**3.2 Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation 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 enterprise 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 beyond the control of the enterprise. Such changes are reflected in the assumptions when they occur.

***Fair value measurement of financial instruments***

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques using inputs from unobservable sources. A degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See note 3.2 for further disclosures.

***Income taxes***

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgement by the Directors is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

***Fair value estimation (Judgement)***

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the enterprise for similar financial instruments.

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**Impairment testing (Estimate)**

The enterprise reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

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**4 Financial risk management**

**4.1 Introduction**

**4.1.1 Risk measurement and reporting systems**

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

**4.1.2 Risk mitigation**

The enterprise uses various risk mitigating techniques to reduce its risk to the level acceptable. Among the major risk mitigation techniques are avoidance when the risk is not bearable and watching and monitoring risks before it actually happens. Risk controls and mitigation techniques, identified and approved for the enterprise, are documented for existing and new processes and systems.

The adequacy of these mitigation techniques are 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.

**4.2 Financial risk**

**Financial instruments by category**

The enterprise's financial assets are classified into the following categories: at amortized cost and at fair value through P&L and the financial liabilities are classified into liabilities at amortized cost.

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

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

|                                 | Notes | At fair value through<br>profit or loss<br>ETB | At amortized cost<br>ETB    | Total<br>ETB                |
|---------------------------------|-------|------------------------------------------------|-----------------------------|-----------------------------|
| <b>30 June 2023</b>             |       |                                                |                             |                             |
| Cash and balances with banks    | 18    | -                                              | 836,112,291                 | 836,112,291                 |
| Trade receivables               | 16    | -                                              | 519,058,223                 | 519,058,223                 |
| Other receivables excluding pre | 16.2  | -                                              | <u>1,309,385,550</u>        | <u>1,309,385,550</u>        |
| <b>Total financial assets</b>   |       | -                                              | <b><u>2,664,556,064</u></b> | <b><u>2,664,556,064</u></b> |

According to the details, Birr 55,672,033 out of Birr 1,309,388,491 has not been setteled on worke for more than two years. Becouse of security problems have been reported and many are being employed in the near future.

| Account ID     | Account Description            | Amount                      |
|----------------|--------------------------------|-----------------------------|
| 12205-PPS00032 | Saba Dimentional Stones Plc    | 3,691,953.22                |
| 12205-PPS00036 | Kality con.Material prod       | 22,215,786.47               |
| 12205-PPS00254 | Zequalla Steel Rolling Mill    | 7,510,002.70                |
| 12205-PPS00221 | Orix Conistruction             | 2,881,318.26                |
| 12205-PPS00315 | Biruh Tesfa Irrigation & water | 1,247,851.19                |
| 12205-PPS00577 | Addis Ababa Institute of Techn | 1,594,404.00                |
| 12205-PPS00654 | FEKADU BOGALE                  | 3,943,760.56                |
| 12205-PPS01466 | E.W.N.K Stone production plc   | 6,086,956.52                |
| 12205-PPS01471 | RAK Engineering & Con.PLC      | <u>6,500,000.00</u>         |
|                |                                | <b><u>55,672,032.92</u></b> |

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**4 Financial risk management (continued)**

**4.3 Credit risk**

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

**4.3.1 Management of credit risk**

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

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

|                                         | 30 June 2023         | 30 June 2022         |
|-----------------------------------------|----------------------|----------------------|
|                                         | ETB                  | ETB                  |
| Cash and balances with banks            | 836,112,291          | 623,257,875          |
| Trade receivables                       | 519,058,223          | 509,955,183          |
| Other receivables excluding prepayments | 1,309,385,550        | 979,836,428          |
|                                         | <b>2,664,556,064</b> | <b>2,113,049,485</b> |

**4.4 Credit risk**

**4.4.1 Credit quality analysis**

**(a) Credit quality of cash and cash equivalents**

The credit quality of cash and bank balances and short-term investments that were neither past due nor impaired at as 30 June 2022 are held in banks have been classified as non-rated as there are no credit rating agencies in Ethiopia.

**(b) Credit quality of Trade and other receivables**

**(i) Trade receivables**

The enterprise applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location and nature of customers.

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

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The closing balances of the of the trade receivables loss allowance as at 30 June 2023 and 30 June 2022 reconciles with the trade receivables loss allowance opening balance as follows:

|                                         | 30 June 2023<br>ETB |
|-----------------------------------------|---------------------|
| Trade receivables                       | 556,181,008         |
| IFRS 9 transition adjustments           | 519,058,223         |
| Loss allowance as at 30 June 2022       | 34,434,205          |
| Loss allowance reversal during the year | 2,688,580           |
| Loss allowance as at 30 June 2022       | 37,122,785          |

(ii) **Allowance for impairment**

The enterprise establishes an allowance for impairment losses that represents its estimate of incurred and expected losses in its receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance, established for Companies of homogeneous assets in respect of losses that have been incurred and expected to incurred but have nct been identified on receivables subject to assessment for impairment.

|                            | 30 June 2023<br>ETB | 30 June 2022<br>ETB |
|----------------------------|---------------------|---------------------|
| Expected (reversal) / loss | 2,688,580           | 15,807,411          |
|                            | 2,688,580           | 15,807,411          |

**4.4.3 Credit concentrations**

The enterprise monitors concentrations of credit risk by sector, location and purpose. An analysis of concentrations of credit risk at 30 June 2023 which it concentrates all in Ethiopia are;

|                              | Public<br>ETB | Private<br>ETB | Total<br>ETB |
|------------------------------|---------------|----------------|--------------|
| 30 June 2023                 |               |                |              |
| Cash and balances with banks | 836,112,291   | =              | 836,112,291  |
|                              | 836,112,291   | =              | 836,112,291  |

**4.5 Capital management**

the enterprise managing its capital to ensure that it meets the regulatory and market requirements of the business.

- The enterprise’s objectives in managing its capital are :
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
  - to maintain financial strength to support new business growth;
  - to satisfy the requirements of its policyholders, regulators and rating agencies;
  - to retain financial flexibility by maintaining strong liquidity;
  - to allocate capital efficiently to support growth;
  - to safeguard the enterprise’s ability to continue as a going concern ; and
  - to provide an adequate return on investment.
- An important aspect of the enterprise’s overall capital management process is the setting of target risk-adjusted rate of return which is aligned to performance objectives and ensures that the enterprise is focused on the creation of value for shareholders.
- IFRS 13 requires an entity to classify measured or disclosed fair values according to a hierarchy that reflects the significance of observable inputs.

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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.

**4.6 Fair value of financial assets and liabilities**

**4.6.1 Valuation models**

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

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) .This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation technique in
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all assets and liabilities for which the valuation technique includes inputs not based on observable date and the unobservable inputs have a significant effect on the asset or liability's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

|                              | <u>30 June 2023</u>         |                             | <u>30 June 2022</u>         |                             |
|------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                              | <b>Carrying amount</b>      | <b>Fair value</b>           | <b>Carrying amount</b>      | <b>Fair value</b>           |
|                              | <b>ETB</b>                  | <b>ETB</b>                  | <b>ETB</b>                  | <b>ETB</b>                  |
| <b>Financial assets</b>      |                             |                             |                             |                             |
| Cash at Bank                 | 836,112,291                 | 836,112,291                 | 623,257,875                 | 623,257,875                 |
| Trade receivables            | 519,058,223                 | 519,058,223                 | 509,955,183                 | 509,955,183                 |
| Other receivables            | <u>1,309,385,550</u>        | <u>1,309,385,550</u>        | <u>979,836,428</u>          | <u>979,836,428</u>          |
| <b>Total</b>                 | <b><u>2,664,556,064</u></b> | <b><u>2,664,556,064</u></b> | <b><u>2,113,049,485</u></b> | <b><u>2,113,049,485</u></b> |
| <b>Financial liabilities</b> |                             |                             |                             |                             |
| Trade payables               | 1,359,978,546               | 1,359,978,546               | 941,529,762                 | 941,529,762                 |
| Other liabilities            | <u>347,968,227</u>          | <u>347,968,227</u>          | <u>547,837,258</u>          | <u>547,837,258</u>          |
| <b>Total</b>                 | <b><u>1,707,946,773</u></b> | <b><u>1,707,946,773</u></b> | <b><u>1,489,367,020</u></b> | <b><u>1,489,367,020</u></b> |

**4.6.2 Fair value methods and assumptions**

Loans and receivables including 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.

**4.6.3 Valuation technique using significant unobservable inputs – Level 3**

The enterprise has no financial asset measured at fair value on subsequent recognition owing to lack of activ market for shares that the enterprise holds.

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4.6.4      **Transfers between the fair value hierarchy categories**

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

4.7      **Offsetting financial assets and financial liabilities**

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

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|             |                                                                                                                                                                                              |                      |                      |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>5</b>    | <b>Revenue</b>                                                                                                                                                                               | <b>30 June 2023</b>  | <b>30 June 2022</b>  |
|             |                                                                                                                                                                                              | <u>ETB</u>           | <u>ETB</u>           |
|             | Construction Revenue                                                                                                                                                                         | 2,313,088,489        | 1,526,118,690        |
|             | <b>Total Revenue</b>                                                                                                                                                                         | <b>2,313,088,489</b> | <b>1,526,118,690</b> |
|             | <b>Disaggregation of Revenue</b>                                                                                                                                                             |                      |                      |
|             | Information in respect of the sectors from which revenue is recognised is disclosed in the table below:                                                                                      |                      |                      |
|             | <b>Sector</b>                                                                                                                                                                                | <b>30 June 2023</b>  | <b>30 June 2022</b>  |
|             |                                                                                                                                                                                              | <u>ETB</u>           | <u>ETB</u>           |
|             | <i>Building and civil engineering</i>                                                                                                                                                        | 1,306,194,257        | 1,065,857,802        |
|             | <i>Roads, earthwork and Infrastructure</i>                                                                                                                                                   | 1,006,894,232        | 460,260,886          |
|             |                                                                                                                                                                                              | <u>2,313,088,489</u> | <u>1,526,118,688</u> |
|             | <b>REMAINING TRANSACTION PRICE ALLOCATED TO UNSATISFIED PERFORMANCE OBLIGATIONS</b>                                                                                                          |                      |                      |
|             | The following table discloses construction revenue expected to be recognised in the future-related to performance obligations that are unsatisfied or partially unsatisfied at 30 June 2023. |                      |                      |
|             |                                                                                                                                                                                              | <b>2023</b>          | <b>2024</b>          |
|             |                                                                                                                                                                                              |                      | <b>2025</b>          |
|             | <i>Building and civil engineering</i>                                                                                                                                                        | 1,306,194,257        | 2,220,530,237        |
|             | <i>Roads, earthwork and Infrastructure</i>                                                                                                                                                   | 1,006,894,232        | 1,711,720,195        |
|             |                                                                                                                                                                                              |                      | 2,567,580,292        |
| <b>6</b>    | <b>Cost of sales</b>                                                                                                                                                                         | <b>30 June 2023</b>  | <b>30 June 2022</b>  |
|             |                                                                                                                                                                                              | <u>ETB</u>           | <u>ETB</u>           |
|             | Cost of Materials                                                                                                                                                                            | 617,757,577          | 271,238,139          |
|             | Salary and Benefits                                                                                                                                                                          | 341,582,880          | 272,094,404          |
|             | Subcontractors                                                                                                                                                                               | 755,152,277          | 348,269,847          |
|             | Rental of Machineries                                                                                                                                                                        | 95,259,871           | 63,445,457           |
|             | Depreciation                                                                                                                                                                                 |                      |                      |
|             | Cost of Fuel and Lubricants                                                                                                                                                                  | 316,849,848          | 117,085,717          |
|             | Cost of Spare parts                                                                                                                                                                          | 82,648,611           | 24,278,243           |
|             | Stationary and Supplies                                                                                                                                                                      | 25,834,513           | 11,336,009           |
|             | Freight, Loading and Unloading                                                                                                                                                               | 12,075,535           | 11,339,061           |
|             | Per-diem and Traveling                                                                                                                                                                       | 21,154,002           | 10,567,471           |
|             | Consultancy Cost                                                                                                                                                                             | 10,545,919           | 6,721,888            |
|             | Insurance                                                                                                                                                                                    | 5,396,746            | 8,046,569            |
|             | Other Costs                                                                                                                                                                                  | 6,098,383            | (773,744)            |
|             | Utilities                                                                                                                                                                                    | 18,391,712           | 5,854,469            |
|             | Repair and Maintainance                                                                                                                                                                      | 7,494,557            | 1,897,639            |
|             | Penalty                                                                                                                                                                                      | 14,906               | 32,856,368           |
|             | Entertainment                                                                                                                                                                                | 6,332,425            | 2,020,941            |
|             |                                                                                                                                                                                              | <b>2,322,589,764</b> | <b>1,186,278,480</b> |
| <b>7</b>    | <b>Other income</b>                                                                                                                                                                          | <b>30 June 2023</b>  | <b>30 June 2022</b>  |
|             |                                                                                                                                                                                              | <u>ETB</u>           | <u>ETB</u>           |
|             | Micellaneous Income                                                                                                                                                                          | 89,190,376           | 5,064,418            |
|             | Rent Income                                                                                                                                                                                  | 1,813,333            | -                    |
|             | Sales of Scrap and Other Material                                                                                                                                                            | 150,001,297          | 8,264,173            |
|             | <b>Total other income</b>                                                                                                                                                                    | <b>241,005,006</b>   | <b>13,328,591</b>    |
| <b>7.2.</b> | <b>Impairment gains/loss/</b>                                                                                                                                                                | <b>30 June 2023</b>  | <b>30 June 2022</b>  |
|             |                                                                                                                                                                                              | <u>ETB</u>           | <u>ETB</u>           |
|             | Reversal of Expected Credit Loss                                                                                                                                                             | 2,688,580            | 15,807,411           |
|             | <b>Total Impairment gains/loss/</b>                                                                                                                                                          | <b>2,688,580</b>     | <b>15,807,411</b>    |

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| <b>8</b>   | <b>General and administration expenses</b>                                                                                                             | <b>30 June 2023</b> | <b>30 June 2022</b> |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
|            |                                                                                                                                                        | <b>ETB</b>          |                     |
|            | Salary and Benefits                                                                                                                                    | 90,927,187          | 78,738,316          |
|            | Insurance Expense                                                                                                                                      | 14,960,903          | 27,978,452          |
|            | Spare Parts                                                                                                                                            | 25,468,814          | 17,798,723          |
|            | Depreciation Expense                                                                                                                                   | 180,966,252         | 285,704,013         |
|            | Rental Expense                                                                                                                                         | 6,684,364           | 5,542,120           |
|            | Stationary and Other Supplies                                                                                                                          | 8,925,879           | 3,702,374           |
|            | Penalties                                                                                                                                              | 269,069             | 5,631,715           |
|            | Fuel and Lubricants                                                                                                                                    | 15,701,781          | 8,768,263           |
|            | Per-diem and Traveling                                                                                                                                 | 6,772,891           | 4,444,955           |
|            | Miscellaneous Expenses                                                                                                                                 | 4,394,535           | 19,268,307          |
|            | Consultancy and Subcontract cost                                                                                                                       | 170,226             | 1,576,868           |
|            | Freight, Loading and Unloading                                                                                                                         | 12,007,448          | 5,875,496           |
|            | Entertainment Expense                                                                                                                                  | 4,237,549           | 1,737,197           |
|            | Communication                                                                                                                                          | 2,014,867           | 1,613,375           |
|            | Materials                                                                                                                                              | 1,858,198           | 1,705,464           |
|            | Repair and Maintenance                                                                                                                                 | 11,032,915          | 3,560,191           |
|            | Accrued annual leave                                                                                                                                   | 651,951             | (89,963)            |
|            | Membership and Registration Fee                                                                                                                        | 4,482,008           | 1,277,804           |
|            | Utilities                                                                                                                                              | 1,630,824           | 1,102,623           |
|            | Severance Expense                                                                                                                                      | 101,487             | 1,360,488           |
|            | Board Fees                                                                                                                                             | 26,000              | 127,000             |
|            | Donations and Sponsorship                                                                                                                              | 282,000             |                     |
|            | Expected credit loss                                                                                                                                   | 2,688,580           | 15,807,411          |
|            | Loss on write-down of Inventories                                                                                                                      | 1,229,015           | 97,828              |
|            | <b>Total general and administrative expenses</b>                                                                                                       | <b>397,484,342</b>  | <b>493,329,019</b>  |
| <b>9</b>   | <b>Income and deferred tax</b>                                                                                                                         |                     |                     |
| <b>9.1</b> | <b>Current income tax</b>                                                                                                                              | <b>30 June 2023</b> | <b>30 June 2022</b> |
|            |                                                                                                                                                        | <b>ETB</b>          |                     |
|            | Current taxation based on taxable profit (note 9.2)                                                                                                    | (32,816,846)        | 14,934,497          |
|            | Deferred income tax charge(credit) to profit or loss (note 9.2)                                                                                        | (20,285,571)        | (53,189,027)        |
|            | Total charge to profit or loss                                                                                                                         | (53,102,417)        | (38,254,530)        |
|            | Total tax in statement of comprehensive income                                                                                                         | (53,102,417)        | (38,254,530)        |
| <b>9.2</b> | <b>Current taxation based on taxable profit</b>                                                                                                        |                     |                     |
|            | The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows: |                     |                     |
|            |                                                                                                                                                        | <b>30 June 2023</b> | <b>30 June 2022</b> |
|            |                                                                                                                                                        | <b>ETB</b>          |                     |
|            | Profit before tax                                                                                                                                      | (165,980,610)       | (140,160,219)       |
|            | <b>Non-deductible expenses</b>                                                                                                                         |                     |                     |
|            | Depreciation and amortization per accounting policy                                                                                                    | 180,966,252         | 285,704,013         |
|            | Loss on writedown of inventories                                                                                                                       | 1,229,015           | 97,828              |
|            | Donation                                                                                                                                               | 282,000             | -                   |
|            | Severance Expense                                                                                                                                      | 101,487             | 1,360,488           |
|            | Accrued annual leave expense                                                                                                                           | 651,951             | (89,963)            |
|            | Entertainment                                                                                                                                          | 10,570,073          | 3,758,139           |
|            | Penalty                                                                                                                                                | 283,975             | 38,488,083          |
|            |                                                                                                                                                        | <b>28,104,143</b>   | <b>189,158,369</b>  |
|            | <b>Less:</b>                                                                                                                                           |                     |                     |
|            | Reversal of expected credit loss                                                                                                                       | (2,688,580)         | (15,807,411)        |
|            | Depreciation per tax law                                                                                                                               | (134,805,048)       | (123,569,302)       |
|            | Taxable income                                                                                                                                         | (109,389,485)       | 49,781,656          |
|            | Current Tax Expense (30%)                                                                                                                              | (32,816,846)        | 14,934,497          |

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|                                                                         |                     |                     |
|-------------------------------------------------------------------------|---------------------|---------------------|
| <b>9.3 Current income tax liability</b>                                 |                     |                     |
| Balance at the beginning of the year                                    | (23,668,643)        | (19,267,353)        |
| Charge for the year (note 11.2)                                         | (32,816,846)        | 14,934,497          |
| Advance profit tax paid (Withholding Tax)                               | (21,845,812)        | (19,335,787)        |
| Payment during the year                                                 | -                   | -                   |
| Balance at the end of the year                                          | <u>(78,331,301)</u> | <u>(23,668,643)</u> |
| <b>9.4 Deferred income tax</b>                                          | <b>30 June 2023</b> | <b>30 June 2022</b> |
|                                                                         | <b>ETB</b>          |                     |
| <b>9.4.1 Property, plant and equipment (PPE)</b>                        |                     |                     |
| Carrying amount of PPE (Note 10)                                        | 730,906,489         | 832,255,090         |
| Less: Tax written-down value                                            | (732,018,410)       | (770,419,435)       |
| Total temporary difference                                              | <u>(1,111,921)</u>  | <u>61,835,656</u>   |
| Total Deferred Tax Liability (asset) on PPE                             | <u>(333,576)</u>    | <u>18,550,697</u>   |
|                                                                         | <b>30 June 2023</b> | <b>30 June 2022</b> |
| <b>9.4.2 Inventory (Loss on Writedown)</b>                              | <b>ETB</b>          |                     |
| Carrying amount                                                         | 1,214,672,743       | 846,098,535         |
| Less: Tax Base                                                          | (1,219,913,141)     | (850,109,919)       |
| Deductible Temporary Difference                                         | (5,240,399)         | (4,011,384)         |
| Deferred Tax Liability (asset)                                          | <u>(1,572,120)</u>  | <u>(1,203,415)</u>  |
|                                                                         | <b>30 June 2023</b> | <b>30 June 2022</b> |
| <b>9.4.3 Trade Receivable (Expected Credit Loss)</b>                    | <b>ETB</b>          |                     |
| Carrying amount                                                         | 519,058,223         | 509,955,183         |
| Less: Tax Base                                                          | (556,181,008)       | (544,389,388)       |
| Deductible Temporary Difference                                         | (37,122,785)        | (34,434,205)        |
| Deferred Tax Liability (asset)                                          | <u>(11,136,835)</u> | <u>(10,330,261)</u> |
|                                                                         | <b>30 June 2023</b> | <b>30 June 2022</b> |
| <b>9.4.4 Defined benefit obligation (DBO):</b>                          | <b>ETB</b>          |                     |
| Carrying amount                                                         | 14,575,120          | 14,473,672          |
| Less: Tax Base                                                          | -                   | -                   |
| Total temporary difference                                              | <u>14,575,120</u>   | <u>14,473,672</u>   |
| Total Deferred Tax Liability (asset) on DBE                             | <u>(4,372,586)</u>  | <u>(4,342,102)</u>  |
|                                                                         | <b>30 June 2023</b> | <b>30 June 2022</b> |
| <b>9.4.5 Trade and Other Payables</b>                                   | <b>ETB</b>          |                     |
| Carrying amount                                                         | 1,707,946,773       | 1,489,367,020       |
| Less: Tax Base                                                          | (1,702,945,880)     | (1,485,018,028)     |
| Deductible Temporary Difference                                         | 5,000,943           | 4,348,992           |
| Deferred Tax Liability (asset) on Accrued Annual Leave                  | <u>(1,500,283)</u>  | <u>(1,304,698)</u>  |
| Total Deferred Tax Liability (asset)                                    | <u>(18,915,350)</u> | <u>1,370,221</u>    |
| Amount Transferred to SFP                                               | <u>97,246,651</u>   | <u>22,298,422</u>   |
| <b>The analysis of deferred tax assets/(liabilities) is as follows:</b> |                     |                     |
| To be recovered after more than 12 months                               | (18,915,350)        | 1,370,221           |
| To be recovered within 12 months                                        | -                   | -                   |
|                                                                         | <u>(18,915,350)</u> | <u>1,370,221</u>    |

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9.4.6 Deferred income tax liabilities/ (assets)

The movement in deferred income tax assets (liabilities) and deferred income tax charge/(credit) in profit or loss, in equity and other comprehensive income are as follows:

Due to the loss of our company this year, the calculated profit tax return of 78,331,301 has been changed from last year and included and presented as deferred tax assets SFP.

It should be noted that the birr 23,668,643 that was incorrectly placed last year has been transferred to Deferred Assets for the comparison purposes.

| Deferred income tax liabilities/(as         | 30 June<br>2022  | Credit/ (charge) to<br>profit or loss | 30 June<br>2023     |
|---------------------------------------------|------------------|---------------------------------------|---------------------|
|                                             |                  | ETB                                   | ETB                 |
| Property, plant and equipment               | 18,550,697       | (18,884,273)                          | (333,576)           |
| Inventory (Loss on Writedown)               | (1,203,415)      | (368,704)                             | (1,572,119)         |
| Trade Receivable (Expected Credit Lo        | (10,330,261)     | (806,574)                             | (11,136,835)        |
| Post employment benefit obligation          | (4,342,102)      | (30,434)                              | (4,372,536)         |
| Trade and Other Payables                    | (1,304,698)      | (195,585)                             | (1,500,283)         |
| <b>Total deferred tax liabilities/(asse</b> | <b>1,370,221</b> | <b>(20,285,571)</b>                   | <b>(18,915,350)</b> |

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| 10                       | Property, plant and equipment | Building    |              |             |               |                        |                |                        |                                     |                          |                                         |                        |               |
|--------------------------|-------------------------------|-------------|--------------|-------------|---------------|------------------------|----------------|------------------------|-------------------------------------|--------------------------|-----------------------------------------|------------------------|---------------|
|                          |                               | Camp. Owned | Right of Use | Plant       | Land Improve. | Construction Machinery | Motor Vehicles | Construction Equipment | Workshop Equipment, Tools and Cases | Computer and Accessories | Furniture, Office & Household Equipment | Fixed Asset In Transit | Total         |
|                          |                               | EIB         | EIB          | EIB         | EIB           | EIB                    | EIB            | EIB                    | EIB                                 | EIB                      | EIB                                     | EIB                    | EIB           |
| Cost                     |                               |             |              |             |               |                        |                |                        |                                     |                          |                                         |                        |               |
| As at 30 June 2022       |                               | 462,842,707 | 42,897,798   | 166,863,465 | 2,889,267     | 866,360,505            | 845,535,096    | 77,910,525             | 180,482,916                         | 13,411,948               | 48,977,305                              | 8,919,238              | 2,717,090,771 |
| Additions                |                               | -           | -            | -           | -             | 72,755,798             | -              | -                      | 1,365,931                           | 1,407,575                | 4,088,348                               | -                      | 79,617,651    |
| Disposal                 |                               | =           | =            | =           | =             | =                      | =              | =                      | =                                   | =                        | =                                       | =                      | =             |
| As at 30 June 2023       |                               | 462,842,707 | 42,897,798   | 166,863,465 | 2,889,267     | 939,116,302            | 845,535,096    | 77,910,525             | 181,848,846                         | 14,819,524               | 53,065,653                              | 8,919,238              | 2,796,708,422 |
| Accumulated depreciation |                               |             |              |             |               |                        |                |                        |                                     |                          |                                         |                        |               |
| As at 30 June 2022       |                               | 16,823,596  | 9,510,710    | 149,848,279 | 1,155,707     | 545,623,539            | 466,161,182    | 77,787,662             | 143,808,713                         | 11,816,574               | 37,087,053                              | -                      | 1,459,623,014 |
| Charge for the year      |                               | 4,461,583   | -            | 121,043     | 144,463       | 92,540,235             | 62,969,186     | -                      | 16,652,594                          | 1,347,143                | 2,730,005                               | -                      | 180,966,253   |
| Disposal                 |                               | -           | -            | -           | -             | -                      | -              | -                      | -                                   | -                        | -                                       | -                      | -             |
| Adjustment               |                               | =           | =            | =           | =             | =                      | =              | =                      | =                                   | =                        | =                                       | =                      | =             |
| As at 30 June 2023       |                               | 21,285,178  | 9,510,710    | 149,969,322 | 1,300,170     | 638,163,773            | 529,130,368    | 77,787,662             | 160,461,307                         | 13,163,717               | 39,817,058                              | -                      | 1,640,589,267 |
| Net book value           |                               |             |              |             |               |                        |                |                        |                                     |                          |                                         |                        |               |
| As at 30 June 2022       |                               | 446,019,111 | 33,387,089   | 17,015,186  | 1,733,560     | 320,736,966            | 379,373,914    | 122,863                | 36,674,202                          | 1,595,374                | 11,890,253                              | 8,919,238              | 1,257,467,757 |
| As at 30 June 2023       |                               | 441,557,529 | 33,387,089   | 16,894,143  | 1,589,097     | 300,952,529            | 316,404,728    | 122,863                | 21,387,539                          | 1,655,806                | 13,248,595                              | 8,919,238              | 1,156,119,155 |

10.1 Impairment review

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

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11 The building value also includes the non depreciable amount of Birr 425,212,666 which is the value of the land incorporated and attached to the buildings. The lands related to each building are valued by internal valuation experts though IPS (Industrial Project Services) approval. By looking the substance over form of the matter, the management decided to recognize the valued amount as an asset associated with buildings as their respective locational value since all the criteria under the conceptual framework to be recognized as asset are well met.

The Company has various building and Compaweds that are under its control in Addis Ababa.The area where the buildings rested is presented as follows;

|   | Location                                                               | Area (m <sup>2</sup> ) |
|---|------------------------------------------------------------------------|------------------------|
| 1 | Surroundinig Ethio-Chaina Firendship Road infront of Ambasel Buildind. | 71,900                 |
| 2 | Kaliti Infront of King Hotel                                           | 67,163                 |
| 3 | Kality Surrounding Worku Sefer                                         | 31,057                 |

|    |                                        | 30 June 2023                | 30 June 2022              |
|----|----------------------------------------|-----------------------------|---------------------------|
| 12 | Inventories                            | <u>ETB</u>                  | <u>ETB</u>                |
|    | Construction Materials                 | 930,910,851                 | 568,113,394               |
|    | Fuel and Lubricants                    | 30,309,432                  | 27,248,455                |
|    | Other Stock                            | 12,773,632                  | 11,901,633                |
|    | Spare Parts                            | <u>245,919,226</u>          | <u>242,846,437</u>        |
|    | <b>Gross amount</b>                    |                             |                           |
|    | Allowance for Writedown of Inventories | (5,240,399)                 | (4,011,384)               |
|    | Goods in Transit                       | <u>143,229,906</u>          | <u>143,229,906</u>        |
|    |                                        | <b><u>1,357,902,649</u></b> | <b><u>989,328,442</u></b> |

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|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | 30 June 2023         | 30 June 2022         |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | ETB                  | ETB                  |
| 13   | <b>Contract Assets</b>                                                                                                                                                                                                                                                                                                                                                                                                   |                      |                      |
|      | Construction in Progress                                                                                                                                                                                                                                                                                                                                                                                                 | 1,589,972,001        | 1,507,373,344        |
|      | Retention Receivable                                                                                                                                                                                                                                                                                                                                                                                                     | 606,321,747          | 506,526,627          |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>2,196,293,748</b> | <b>2,013,899,971</b> |
| 14   | <b>Trade receivables</b>                                                                                                                                                                                                                                                                                                                                                                                                 |                      |                      |
|      | Construction Receivable                                                                                                                                                                                                                                                                                                                                                                                                  | 556,181,008          | 544,389,388          |
|      | Less: Allowance for Expected Credit Loss                                                                                                                                                                                                                                                                                                                                                                                 | (37,122,785)         | (34,434,205)         |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>519,058,223</b>   | <b>509,955,183</b>   |
| 15   | The average credit period on rendering of services is 30 days. No interest is charged on trade receivables. The Company has recognized an allowance for doubtful debts based on the expected credit loss. In measuring the expected credit losses, the trade receivable have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on their age profiles. |                      |                      |
| 15.1 | The movements in impairment allowance for trade receivable is analyzed below:                                                                                                                                                                                                                                                                                                                                            |                      |                      |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | 30 June 2023         | 30 June 2022         |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | ETB                  | ETB                  |
|      | Balance at the beginning of year                                                                                                                                                                                                                                                                                                                                                                                         | 34,434,205           | 18,626,794           |
|      | Impairment loss recognized on receivables                                                                                                                                                                                                                                                                                                                                                                                | 2,688,580            | 15,807,411           |
|      | Impairment loss reversed                                                                                                                                                                                                                                                                                                                                                                                                 | =                    | =                    |
|      | <b>Balance at end of the year</b>                                                                                                                                                                                                                                                                                                                                                                                        | <b>37,122,785</b>    | <b>34,434,205</b>    |
| 15.2 | <b>Other receivables</b>                                                                                                                                                                                                                                                                                                                                                                                                 | 30 June 2023         | 30 June 2022         |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | ETB                  | ETB                  |
|      | Advance and Claims                                                                                                                                                                                                                                                                                                                                                                                                       | 780,853,675          | 555,190,485          |
|      | Creditors with Debit Balance                                                                                                                                                                                                                                                                                                                                                                                             | 208,324,640          | 53,862,232           |
|      | Staff Debtor                                                                                                                                                                                                                                                                                                                                                                                                             | 23,412,619           | 14,670,837           |
|      | Sundry Debtor                                                                                                                                                                                                                                                                                                                                                                                                            | 157,660,223          | 272,185,827          |
|      | Withholding Tax Receivable                                                                                                                                                                                                                                                                                                                                                                                               | -                    | -                    |
|      | VAT Receivable                                                                                                                                                                                                                                                                                                                                                                                                           | 139,134,392          | 83,927,047           |
|      | <b>Gross amount</b>                                                                                                                                                                                                                                                                                                                                                                                                      | <b>1,309,385,550</b> | <b>979,836,428</b>   |
|      | Collective impairment                                                                                                                                                                                                                                                                                                                                                                                                    | =                    | =                    |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>1,309,385,550</b> | <b>979,836,428</b>   |
|      | <b>Maturity analysis</b>                                                                                                                                                                                                                                                                                                                                                                                                 |                      |                      |
|      | Current                                                                                                                                                                                                                                                                                                                                                                                                                  | 1,309,385,550        | 979,836,428          |
|      | Non- current                                                                                                                                                                                                                                                                                                                                                                                                             | =                    | =                    |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | <b>1,309,385,550</b> | <b>979,836,428</b>   |
|      | Total Trade and other receivables                                                                                                                                                                                                                                                                                                                                                                                        | <b>1,828,443,773</b> | <b>1,489,791,610</b> |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | 30 June 2023         | 30 June 2022         |
|      |                                                                                                                                                                                                                                                                                                                                                                                                                          | ETB                  | ETB                  |
| 16   | <b>Prepayments</b>                                                                                                                                                                                                                                                                                                                                                                                                       |                      |                      |
|      | Prepaid Insurance                                                                                                                                                                                                                                                                                                                                                                                                        | 4,164,404            | 19,707,212           |

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| 17 | Cash and bank balances | 30 June 2023       | 30 June 2022       |
|----|------------------------|--------------------|--------------------|
|    |                        | <u>ETB</u>         | <u>ETB</u>         |
|    | Cash on hand           | -                  | -                  |
|    | Cash at bank           | 836,112,291        | 623,257,875        |
|    |                        | <b>836,112,291</b> | <b>623,257,875</b> |

For the purpose of the cashflow statement, cash and cash equivalent is made up of the following:

|                | 30 June 2023       | 30 June 2022       |
|----------------|--------------------|--------------------|
|                | <u>ETB</u>         | <u>ETB</u>         |
| Cash on hand   | -                  | -                  |
| Cash at bank   | 836,112,291        | 623,257,875        |
| Bank overdraft | =                  | =                  |
|                | <u>836,112,291</u> | <u>623,257,875</u> |

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**18 State Paidup capital**

The Company has authorized and fully paid capital as follows. The shares have equal voting rights and share equal in the distribution of profit.

|                                                | <b>30 June 2023</b>       | <b>30 June 2022</b>       |
|------------------------------------------------|---------------------------|---------------------------|
| <b>Authorized:</b>                             | <b><u>ETB</u></b>         | <b><u>ETB</u></b>         |
| At the beginning of the year                   | 800,000,000               | 800,000,000               |
| Capitalized Retained Earning                   | -                         |                           |
| Ordinary shares with par value of ETB 100 each | <u>800,000,000</u>        | <u>800,000,000</u>        |
| <b>Issued and fully paid:</b>                  |                           |                           |
| Ordinary shares with par value of ETB 100 each | <b><u>800,000,000</u></b> | <b><u>800,000,000</u></b> |

**19 Contract Liabilities**

Contract liabilities resulted from the Mobilization Advance payment made by the client to the contractor for initial expenditure in respect of site mobilization.

|                                  | <b>30 June 2023</b>         | <b>30 June 2022</b>         |
|----------------------------------|-----------------------------|-----------------------------|
|                                  | <b><u>ETB</u></b>           | <b><u>ETB</u></b>           |
| Contract liabilities-Current     | 1,494,556,667               | 875,130,226                 |
| Contract liabilities-non current | <u>2,694,110,369</u>        | <u>2,358,808,435</u>        |
|                                  | <b><u>4,188,667,036</u></b> | <b><u>3,233,938,661</u></b> |

**20 Retirement benefit obligation**

|                                                         | <b>30 June 2023</b>      | <b>30 June 2022</b>      |
|---------------------------------------------------------|--------------------------|--------------------------|
|                                                         | <b><u>ETB</u></b>        | <b><u>ETB</u></b>        |
| <b>Defined benefits liabilities:</b>                    |                          |                          |
| - Severance benefit plan                                | <u>14,575,120</u>        | <u>14,473,672</u>        |
| <b>Liability in the statement of financial position</b> | <b><u>14,575,120</u></b> | <b><u>14,473,672</u></b> |
| <b>Income statement charge</b>                          |                          |                          |
| - Severance benefit plan                                | <u>101,447</u>           | <u>1,360,488</u>         |
| <b>Total defined benefit expenses</b>                   | <b><u>101,447</u></b>    | <b><u>1,360,488</u></b>  |

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20.1 Retirement benefit obligation

Severance benefit plan

The severance benefit plan is an unfunded defined benefit scheme. The Company does not maintain any assets for the schemes but ensures that it has sufficient funds for the obligations as they crystallize.

The severance benefits are based on the statutory severance benefit as set out in Labour Proclamation No. 377/2003, as amended by the Labour (Amendment) Proclamation No. 494/2006. Employees who have served the Company for 5 years and above and are below the retirement age (i.e. has not met the requirement to access the pension fund) are entitled for the benefit. The final pay-out is determined by reference to final monthly salary and number of years in service computed as one month salary of the first year in employment plus one-third of monthly salary for subsequent years to a maximum of twelve months salary.

20.2 The principal assumptions used in determining defined benefit obligations

|                                  | 30 June 2023 | 30 June 2022 |
|----------------------------------|--------------|--------------|
|                                  | <u>ETB</u>   | <u>ETB</u>   |
| Discount rate (p.a)              | 18.00%       | 18.00%       |
| Long term salary increases (p.a) | 12.0%        | 12.00%       |

(i) Discount rate

In Ethiopia, there is no liquid market for bonds including government bonds of Ethiopia. Based on this we have assumed a long-term rate of discount based on the prevailing commercial banks lending rate as advised by the Association of Ethiopian Insurers.

The Company therefore opted to use a discount rate of (30 June 2023: 18%) based on a rate that brings the real rate to an reasonable level.

(ii) Long term salary increases

The salary increase assumption rate of 12% p.a has been applied

(iii) 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.

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|    | Male  | Female |
|----|-------|--------|
|    | %     | %      |
| 20 | 0.111 | 0.111  |
| 25 | 0.112 | 0.111  |
| 30 | 0.116 | 0.113  |
| 35 | 0.132 | 0.120  |
| 40 | 0.188 | 0.147  |
| 45 | 0.330 | 0.231  |
| 50 | 0.599 | 0.420  |
| 55 | 1.035 | 0.750  |
| 60 | 1.720 | 1.272  |

(iv) *Withdrawals from service*

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

|    | Male  | Female |
|----|-------|--------|
|    | %     | %      |
| 20 | 15.00 | 15.00  |
| 25 | 12.00 | 12.00  |
| 30 | 6.00  | 6.00   |
| 35 | 2.50  | 2.50   |
| 40 | 1.80  | 1.80   |
| 45 | 1.00  | 1.00   |
| 50 | 0.00  | 0.00   |
| 55 | 0.00  | 0.00   |
| 60 | 0.00  | 0.00   |

(v) *Ill-health / Disability*

|    | Male  | Female |
|----|-------|--------|
|    | %     | %      |
| 20 | 0.040 | 0.040  |
| 25 | 0.040 | 0.040  |
| 30 | 0.040 | 0.040  |
| 35 | 0.040 | 0.040  |
| 40 | 0.600 | 0.050  |
| 45 | 0.110 | 0.080  |
| 50 | 0.200 | 0.014  |
| 55 | 0.350 | 0.250  |
| 60 | 0.570 | 0.420  |

**20.3 Risk exposure**

Through its post-employment benefit schemes, the Company is exposed to a risk. The most significant is detailed below:

(i) *Liquidity risk*

The defined liabilities are unfunded and as a result, there is a risk of the Company not having the required cash flow to fund future defined benefit obligations as they fall due.

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ii) *Legal Risk*

The benefits are defined as per the Labour Proclamation. Amendments to the Labour Proclamation could change these benefits and materially change the costs of the Company.

iii) *Life Expectancy*

Severance Benefits is payable where an employee's contract of employment is terminated by the initiation of the employer against the provision of Law. The actual cost to the Company of the benefits is therefore subject to the demographic movements of employees.

iv) *Market Risk*

Market risk arises from market reaction to the course and outcome of the project. It is independent of the enterprises control. The possible cause of market risk for the enterprise includes inflation, political turmoil, change in interest rate, natural disaster and terrorist attacks.

|                                    | 30 June 2023                | 30 June 2022                |
|------------------------------------|-----------------------------|-----------------------------|
|                                    | <u>ETB</u>                  | <u>ETB</u>                  |
| <b>21 Trade and other payables</b> |                             |                             |
| Trade Creditors                    | 1,359,978,546               | 941,529,762                 |
| Accruals                           | 42,465,006                  | 168,709,491                 |
| Retention Payable                  | 97,378,725                  | 80,430,330                  |
| Debtors with Credit Balance        | 68,335,124                  | 33,696,184                  |
| Sundry Creditors                   | 50,593,717                  | 233,984,683                 |
| Value added tax payable            | -                           | -                           |
| Payroll Tax Payable                | 43,624,230                  | 27,738,352                  |
| Suspense Payable                   | -                           | (25,601,345)                |
| Withholding Tax Payable            | <u>45,571,425</u>           | <u>28,879,563</u>           |
|                                    | <b><u>1,707,946,773</u></b> | <b><u>1,489,367,020</u></b> |

The average credit period on purchases of certain goods from suppliers is 2 months. No interest is charged on the trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

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**22 Related party transactions**

Transactions were entered into with related parties, particularly with the key management of the enterprise, in the normal course of business. These are presented as hereafter.

***Key management compensation***

Key management has been determined to be the members of Executive Management of the Company. The compensation paid or payable to key management is shown below.

|                                                 | <b>30 June 2023</b>       | <b>30 June 2022</b>       |
|-------------------------------------------------|---------------------------|---------------------------|
|                                                 | <b><u>ETI</u></b>         | <b><u>ETB</u></b>         |
| Salaries and other short-term employee benefits | 168,948,006               | 149,511,509               |
| Post-employment benefits                        | =                         | =                         |
|                                                 | <b><u>168,948,006</u></b> | <b><u>149,511,509</u></b> |

**23 Contingent liabilities**

***Claims and litigation***

The Company is subjected to litigation arising in the normal course of business. The Management is of the opinion that the pending litigation as at the reporting date will not have a material effect on the financial position or profits of the Company. At the year end the Company is not involved in any cases .

**24 Operating lease commitments - Company as lessee**

All leased assets are treated as if finance lease except short-term and small value leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

All other leases are treated as operating leases. Where the Enterprise is a lessee, payments on operating lease agreements are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.