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The Federal Democratic Republic of Ethiopia
Audit Services Corporation

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

We have audited the financial statements of Ethiopian Electric Power, the Eastern Electricity Highway Project, under the First Phase of the Regional Eastern Africa Power Integration Program financed under IDA Credit No. 51490 ET, which comprise the balance sheet as at 7 July 2016 and the statement of sources and uses of funds for the year then ended, and a summary of significant accounting policies and other explanatory information.

Chief Executive Officer's Responsibility for the Financial Statements

The Chief Executive Officer of Ethiopian Electric Power is responsible for preparation of financial statements that give a true and fair view under the modified cash basis of accounting as described in note 2 to the financial statements 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The Procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position as at 7 July 2016 and sources and uses of funds of Ethiopian Electric Power, The Eastern Electricity Highway Project under the First Phase of the Regional Eastern Africa Power Integration Programme financed under IDA Credit No. 51490 ET, for the year then ended 7 July 2016 in accordance with the modified cash basis of accounting described in note 2 to the financial statements.

Report on Other Requirements

In our opinion

- during the period IDA funds have been used in accordance with the conditions of the relevant financing agreement and only for the purposes for which the financing was provided;
- counterpart funds have been provided and used in accordance with the financing agreement, and only for the purposes for which the financing was provided;
- goods, works and services financed have been provided in accordance with the relevant financing agreement and disbursement letters;
- all necessary supporting documents, records and accounts have been maintained in respect of all Project activities;
- the funds disbursed covered expenditures that are eligible for financing under IDA Credit No. 51490 ET;
- there was a clear linkage between the books of account and the financial statements;
- our examination revealed no weaknesses or irregularities in the systems of internal controls over financial expenditure;
- with respect to statements of expenditure, we understand that none were submitted during the year ended 7 July 2016.

Audit Services Corporation
3 January 2017

**ETHIOPIAN ELECTRIC POWER
THE EASTERN ELECTRICITY HIGHWAY PROJECT UNDER
UNDER THE FIRST PHASE OF EASTERN AFRICA POWER
INTEGRATION PROGRAM
IDA CREDIT NO. 51490-ET
STATEMENTS OF SOURCES AND USES OF FUNDS
FOR THE YEAR ENDED 7 JULY 2016**

	2016 Ethiopian Birr
FINANCING	
Credit from IDA	
Direct payments	552,380,570
EEP's contribution	<u>22,848,442</u>
TOTAL FINANCING	<u>575,229,012</u>
PROJECT EXPENDITURES	
Compensation	15,439,780
Operating cost	<u>7,408,662</u>
	<u>22,848,442</u>
EXCESS OF FINANCING OVER EXPENDITURES	<u>552,380,570</u>

**ETHIOPIAN ELECTRIC POWER
THE EASTERN ELECTRICITY HIGHWAY PROJECT
IDA CREDIT NO. 51490-ET
BALANCE SHEET
AS AT 7 JULY 2016**

	Notes	2016 Ethiopian Birr
<u>ASSETS</u>		
CURRENT ASSETS		
Advance to contractors		<u>552,380,570</u>
<u>REPRESENTED BY</u>		
FUND BALANCE	4	<u>552,380,570</u>

**ETHIOPIAN ELECTRIC POWER
THE EASTERN ELECTRICITY HIGHWAY PROJECT
UNDER THE FIRST PHASE OF EASTERN AFRICA POWER
INTEGRATION PROGRAM
IDA CREDIT NO. 51490- ET
NOTES TO FINANCIAL STATEMENTS
7 JULY 2016**

1 PROJECT INFORMATION

The Project was established to implement IDA credit No. 51490 ET which is jointly financed by the Government of the Federal Democratic Republic of Ethiopia and the International Development Association (IDA). The main objective of these parts of the Project is to increase the volume and reduce the cost of electricity supply in the territory of Kenya and to provide revenues to the Recipient through the export of electricity from Recipient to Kenya. The amount of the Agreement is equivalent to one hundred fifty-six million eight hundred thousand Special Drawing Rights (SDR 156,800,000).

The Project was effective on 5 December 2013.

The project constitutes the first phase of the program, and consists of the following parts.

Part A: Construction of a high Voltage Direct current Transmission Interconnection between the Recipient and Kenya.

- i) Transmission
- ii) Converter substations.
- iii) Environmental and Social Management.

Part B: Project Management and capacity Building.

- i) Strengthening the capacity of the joint Project Coordination Unit.
- ii) Capacity Building and Institutional Support to EEP for Project Implementation.

2 SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

These financial statements have been prepared on a modified cash basis whereby non-monetary assets are expensed when acquired and monetary assets and liabilities are carried at fair value.

**ETHIOPIAN ELECTRIC POWER
THE EASTERN ELECTRICITY HIGHWAY PROJECT
UNDER THE FIRST PHASE OF EASTERN AFRICA POWER
INTEGRATION PROGRAM
IDA CREDIT NO. 51490-ET
NOTES TO FINANCIAL STATEMENTS
7 JULY 2016**

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Currency

These financial statements are presented in Birr. Transactions in foreign currency are translated into Birr at the approximate rate of exchange prevailing at the date of the transaction. Cash balances denominated in foreign currencies are translated into Birr at the exchange rates ruling at the balance sheet date.

3. DATE OF AUTHORIZATION

The Chief Executive Officer of Ethiopian Electric Power authorized the issue of the these financial statements on 3 January 2016.