

ELECTRIC POWER CORPORATION



"The Power for the Nation"



ANNUAL REPORT 2016 - 2017



Government of Samoa

OFFICE OF THE MINISTER

MINISTRY OF WORKS, TRANSPORT AND INFRASTRUCTURE

(ELECTRIC POWER CORPORATION, SAMOA WATER AUTHORITY,
SAMOA AIRPORT AUTHORITY, SAMOA PORTS AUTHORITY,
SAMOA SHIPPING CORPORATION, LAND TRANSPORT AUTHORITY, HOUSING COMMITTEE)

STATEMENT TO PARLIAMENT

The Honourable Speaker
Legislative Assembly of Samoa
TUANAIMATO

I am pleased to present the Electric Power Corporation's Annual Report for the year ended 30 June 2017, for presentation to the Legislative Assembly of Samoa.

Ma le fa'aaloalo,

A handwritten signature in blue ink, appearing to read 'Papali'itele Unasa Niko Lee Hang'.

Papali'itele Unasa Niko Lee Hang

**MINISTER OF WORKS TRANSPORT AND INFRASTRUCTURE &
RESPONSIBLE MINISTER FOR THE ELECTRIC POWER CORPORATION**

Vision 2025

"To be the cheapest electricity provider in the region"

Immediate Vision

"Clean energy sources for sustainable and affordable electricity supply for Samoa"

Mission

"To provide and maintain quality electricity services through innovative, sustainable and environmentally sound practices in developing renewable energy sources, generation and distribution infrastructure network, in partnership with customers and stakeholders, to support the development of Samoa"

STREET ADDRESS

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POSTAL ADDRESS

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FOR MORE INFORMATION

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Board of Directors

Pepe Fia'ailetoa Christian Fruean

CHAIRMAN

Appointed in February 2016

Member – EPC Policies Committee

Member – PPA Reviewing Committee

Ulumalautea Papalii J Ryan

DIRECTOR

Chairman – Finance & Audit Committee

Member – PPA Reviewing Committee

Fiu Peni Asi

DIRECTOR

Member – Finance & Audit Committee

Member – Working Committee

Matamū James Moeono

DIRECTOR

Member – Finance Committee

Member – Working Committee

Su'a Helene Wallwork Lamb

DIRECTOR

Chairperson – EPC Policies Committee

Appointed in June 2016

Seuamuli Taele Sapiō Tooala

DIRECTOR

Member – Finance Committee

Appointed in June 2016

Vaai Lealaiauloto Polataivao Simon Potoi

DIRECTOR

Member – Tender Reviewing Committee

Appointed in June 2016

Lavea Tupaimatuna Iulai Lavea

Chief Executive Officer – Ministry of Finance

Ex-Officio Director

Management

Tologatā Galumalemana Lupematasila Tagaloatele Togia Tile Leī'a

Tuimalealiifano

GENERAL MANAGER

Tu'u'u Tauiliili Ekiumeni Oka Fauolo

CHIEF ENGINEER POWER GENERATION

Asiata Tavu'i T. M Tafu Salevao

CHIEF ENGINEER DISTRIBUTION & UTILIZATION

Fui Tupai Mau Simanu

CHIEF ENGINEER QUALITY ASSURANCE & DEVELOPMENT

Fiu Moeona Leo

MANAGER SAVAII OPERATIONS

Appointed in May 2017

Afamasaga Victor Elia Afamasaga

CHIEF ENGINEER NATIONAL CONTROL CENTRE

Appointed in May 2017

Palelēmafuta Sofia Silipa

MANAGER FINANCE & COMMERCE

Punafelutu Toleafoa Tuiafelolo Luamanuvae A John Stanley

MANAGER CORPORATE GOVERNANCE

Appointed in July 2016

Edwin Ulberg

MANAGER INFORMATION & COMMUNICATIONS TECHNOLOGY

Luatuanuu Salafai Ah Tong

MANAGER INTERNAL AUDIT AND INVESTIGATION

Fonoti Afamasaga Perelini S. Perelini

PROJECT MANAGER

POWER SECTOR EXPANSION PROJECT

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Chairman's Remarks

On behalf of the Electric Power Corporation's Board of Directors, I present the Corporation's thirty fifth Annual Report for the year ended 30 June 2017.

In summary, the Corporation faced a financially challenging year, while delivering on a range of projects and community service obligations, and achieving its objectives of improving service delivery and network reliability, whilst ensuring affordable electricity for all Samoans.

Financial

The Corporation ended the year with a net profit of \$4.088 million Tala, down 53% or \$4.559 million Tala from the previous year's (restated) profit. The most significant factors driving this negative variance were:

- Lower hydro generation. Hydro generation was 18% lower compared to 2016 (primarily due to weather and the delayed commissioning of the damaged hydro power stations). This meant the Corporation had to run its diesel generation more in 2017, and this increased the variable costs of diesel generation by approximately \$3,250 million Tala.
- Higher maintenance costs. The Corporation incurred a substantial increase in repair and maintenance costs of 289% or \$4.861 million Tala due to the lack of an accrual for the 16,000 hrs scheduled maintenance of the Fiaga diesel generators. The Corporation's board has directed management to ensure that these important recurring costs are properly accrued in future.

Notwithstanding the above challenges, the Corporation delivered on its objective of improving the affordability of electricity for the people of Samoa, by reducing pricing year on year by 2 sene for households and businesses.

Renewables

The Corporation remains committed to increasing the diversity of its renewable energy generation sources, particularly where this will lower the costs of electricity for the people of Samoa. In particular, the proposed fourth quarter 2017 commissioning of the refurbished Fale ole fee and Lotosamasoni hydro power plants damaged during cyclone Evan (December 2012) will help to mitigate the substantial direct cost increases experienced during the 2017 financial year. Also during the year, solar PV generation increased significantly to record levels of production which helped meet the 9% increase in electricity demand and contributed to Independent Power Producers (IPP) costs increasing significantly.

Whilst the record IPP 15 million kW-h solar PV generation is impressive, there remains an incorrect perception that solar energy is cheap or free. In reality the cost of solar PV generation is 12% more costly than the avoided diesel costs due to the fact that solar PV infrastructure is very capital intensive, and the current IPPs have a significant return on capital for their infrastructure which impacts on the feed-in tariff paid by the Corporation to the IPP. This feed-in-tariff is greater than the current cost of the Corporation's own diesel generation notwithstanding that contract clauses have enabled the Corporation to cap those payments to the price of its diesel generation.

This price needs to be paid to IPPs, even if they are generating at times when the amount of solar, wind and run-of-river hydro generation is greater than Samoa's demand for electricity. In contrast, if demand is low and the Corporation does not need to run its diesel generation, it does not incur any costs. As the proportion of renewables increases, paying for IPP generation at times when supply exceeds demand will be a challenge the Corporation will increasingly need to address to ensure that the cost of generation does not rise excessively.

The lack of battery storage for the solar generation also meant that the Corporation was forced to run its Fiaga diesel generators at a higher capacity on standby mode in order to cover for the variability of the IPP solar PV generation (for example, when clouds quickly sweep across the solar farms) thus contributing to the increasing diesel costs.

The Corporation is committed to continuing to develop generation so as to meet Samoa's electricity needs and, at the same time, increase the proportion of renewables but only to the extent that this will not materially increase electricity costs to the people of Samoa or adversely affect the reliability of our electricity system.

Other projects

In respect of important projects launched during the year, the Corporation announced the completion of the Afulilo Aeration Project, 80kw solar system for the Mapuifagalele Home for the Aged at Vailele, rehabilitation of the Alaoa hydro station, and breaking ground for new small hydro plants to be built at Fuluasou, Tafitoala and Vailoa Palauli Savaii. Meanwhile, normal operations continued with rehabilitation works at Samasoni and Fale ole Fee hydro plants and upgrade of 33kV tieline transformers at the Lalomauga and Tanugamanono plants.

As part of its ongoing support to Government, the Corporation continued with the implementation of the Government's Community Service Obligation, through installation of new streetlights, and high voltage (HV) and low voltage (LV) line extensions. About 86 percent of approved applications for new HV and LV extensions and streetlights in both Upolu and Savaii were completed at a total cost of approximately \$4.4 million.

Governance

As part of its obligations as a state-owned enterprise, the Corporation completed and submitted to Parliament its Annual Report 2013-2014, and Government Responses to Reports of the Infrastructure Sector Committee on EPC Annual Report 2014 and Statement of Corporate Objectives 2017-2020, as well as Quarterly Reports and Annual Report 2015-2016 to the Ministry of Public Enterprise for review.

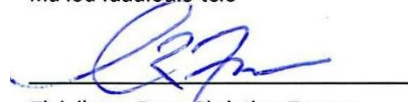
Three new directors were appointed in June 2016, giving the Corporation a total of seven directors. Throughout the year, ten regular board meetings and ten special board meetings were held.

Closing remarks

Notwithstanding the challenges currently being faced, and managed, by the Corporation, we remain committed to its vision of improving service delivery and network reliability, whilst ensuring affordable electricity for all Samoans. These objectives can be realised through a structured rollout of the Corporation's renewable energy program and focused operational optimisation.

On behalf of the Corporation's Board of Directors, I extend our sincere appreciation and a big faamalo lava to the Government of Samoa for all its support, the Corporation's management and staff for their commitment to serve Samoa, our development partners and stakeholders who have contributed to the significant network improvements, and especially to all our customers for their support during the past year. We look forward to continuing to improve our services in order to serve our Samoan people better.

Ma lou faaaloalo tele



Fia'ailetoa Pepe Christian Fruean

Chairman

EPC Board of Directors

General Manager's Report

I am pleased to report on the achievements of this financial year 2016/2017 as required under the provision of the Public Bodies (Performance and Accountability) Act 2001.

The report is divided into seven (7) sections that summarise the works the EPC engaged in during this financial year, as well as its audited financial accounts.

1. Highlights

Key Achievements

1. Electricity Tariff Rates

The continuous efforts by the Corporation to meet its immediate vision of “clean energy sources for sustainable and affordable electricity supply for Samoa” as well as its long term vision of “to be the cheapest electricity provider in the region”, resulted in a revised tariff structure with further reduction of up to 22 sene (49%) of the base tariff for prepaid lifeline consumers with an increase in the bandwidth from 50 to 100 units as well as up to 13 sene (26%) reduction for non domestic consumers. This effort to reduce tariff plus reduction in hydro production due to damages to Lalomauga and Taelefaga generators as well as major overhaul of Fiaga generators ended the year with net profit of \$4.088 million Tala, down 53% or \$4.559 million Tala from the previous year (restated) profit. Shortfall in hydro production was substituted by solar and diesel. As of 1st August 2016, new electricity rates came into effect as per Regulator's approval on Order No.2016/E40.

The revised tariff structure maintains the three (3) components of the tariff i) Debt Charge, ii) Energy Charge and iii) Usage Charge. The Energy Charge is subject for review and approval of the Regulator on a monthly basis, depending on the continuous fluctuation of world oil prices, EPC's own renewable energy production and contribution by Independent Power Producers (IPPs) every month.

Postpaid consumers with a flat rate for both household and commercial consumers. Prepaid – 2 tier for household consumers and flat rate for commercial consumers.

Table 1: Electricity Tariff Rates

End of FY 2017			
Induction Meter Users			
Domestic	Debt	Usage	Base Tariff
All Units	0.10	0.26	0.36
Non Domestic	Debt	Usage	Base Tariff
All Units	0.10	0.36	0.46
Prepayment Meter Users			
Domestic	Debt	Usage	Base Tariff
1 – 100	0.10	0.12	0.22
101 and over	0.10	0.26	0.36
Non Domestic	Debt	Usage	Base Tariff
All Units	0.10	0.26	0.36

2. Renewable Energy Developments

This financial year saw the completion of;

1. Three (3) ground breaking ceremonies for construction of small hydro plants at Fuluasou, Tafitoala-Fausaga and Vailoa Palauli Savaii in March.
2. The Afulilo Aeration Project with the construction of an aeration and bubble technology system inside the Afulilo Dam to remove the formation of gas odor from organic materials and lack of oxygen at the bottom of the dam to improve water quality.
3. The construction of 80kW solar system for Mapuifagalele Home for the Aged at Vailele.
4. The rehabilitation of the Alaoa and Fale-ole-Fee Hydro Plants following damages from Cyclone Evan in 2012.
5. Full deployment of three Independent Power Producers to generate electricity from solar and sell to EPC with a total production of 15.7 million units of electricity compared to 6.8 million in 2015.

3. Electricity Capacity Improvement

1. The 16,000 hour service (major overhauls) of all four (4) generators at Fiaga completed.
2. The 6,000 hour service of Salelologa Kohler generators completed.

4. Strategic Direction

EPC during this financial year steadily progressed with implementing activities for the first year of the Corporate Plan 2017-2020. There is an increasing awareness and well coordinated effort to ensure reporting obligations are met.

Key Issues

1. Renewable Energy Developments

- This financial year saw the Corporation in negotiation pending but inconclusive for hydro developments in Sili and Faleaseela villages.
- EPC is struggling to strike a good deal for Salelologa Solar System IPP lower than diesel avoided cost.

2. Financial Instability

- There is a delay in reimbursement of \$6 million shortfall of VAGST of Fuel VAGST from the Ministry of Finance.
- There is a delay in reimbursement of VAGST by the Ministry for Revenue for the last 6 months (January – June 2017) of the financial year.
- It is a great challenge for the Corporation to achieve its obligation as a state owned enterprise, to meet 7% Return on Equity (ROE) under the Public Finance Management Act 2001 and at the same time reduce cost of electricity for the country. Cabinet endorsed (F.K 10 (33)) the Order of the Regulator for new tariff rates for cheaper electricity without 7% ROE under Public Finance Management Act 2001. Hence EPC's performance should not be measured against the 7% ROE benchmark as this was not included and approved in the revised tariff.
- Government departments and ministires to pay their electricity power bills on time and clear their outstanding arrears.

2. Operating Performance and Results

Production

EPC has increased its capacity for production from renewable energy sources, as such 30% of electricity generated as at the end of the financial year 2017 totaled at 154,375,784 kWh from Upolu, Savaii and Apolima.

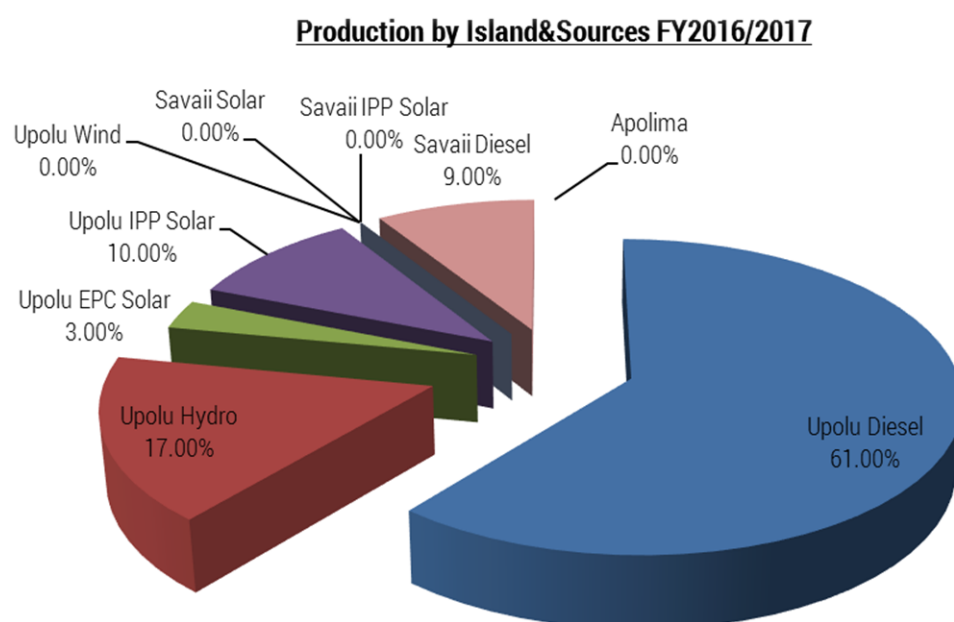
The below chart and tables provide an overview of the production of electricity with the previous financial year figures/values for comparative purposes.

Table 2: Electricity Production by Island/Source

Island/Source	FY 2016-2017		FY 2015-2016	
	kWh	Contribution %	kWh	Contribution %
Upolu Island				
Diesel	93,583,712	61.00%	82,622,025	58%
Hydro	26,425,903	17.00%	34,502,645	24%
Solar (EPC)	4,145,287	3.00%	4,207,368	3%
Solar (IPP)	15,673,381	10.00%	6,760,244	5%
Wind	155,100	0.00%	281,000	0%
Upolu Total	139,983,383	91.00%	128,373,282	91%
Apolima Island				
Solar	10,331	0.00%	11,054	0.01%
Apolima Total	10,331	0.00%	11,054	0.01%
Savaii Island				
Diesel	14,033,996	9.00%	12,839,182	9%
Solar (EPC)	339,120	0.00%	407,700	0.29%
Solar (IPP)	8,954	0.00%	-	-
Savaii Total	14,382,070	9.00%	13,246,882	9%
Grand Total	154,375,784	100%	141,631,218	100%

Diesel production increased by 11% contributing 107,617,708 kwh to total production, an increase from 95,461,207 in the previous year, while renewable energy sources both from Independent Power Producers and EPC generated solar, hydro and wind increased by 1.25% with a total of 46,758,076 kWh compared to 46,170,011 kwh in the previous year.

Figure 01: Production FY 2016/2017



Consumer base & Consumption

EPC has a total of 39,107 consumers both prepayment meter and non-prepayment meter users to date. There is a significant decrease in the number of induction meter users and an increasing consumer base for prepaid meters. This is further detailed in the table below;

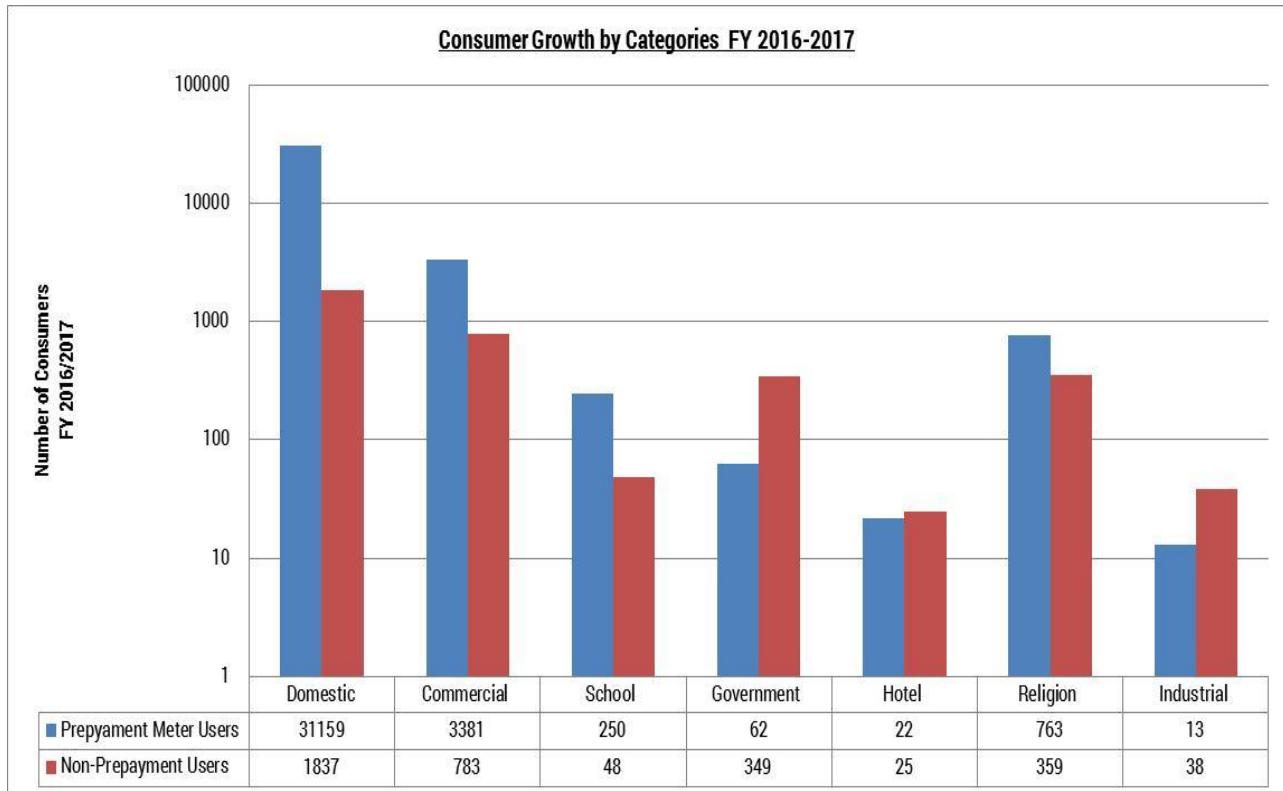
Table 3: Total users by Meter type and island & total consumption.

Category	Users by Meter Type	Total Users Per	Total Users	% per meter used
Domestic	Prepayment Meter Users	31,159	32,996	94%
	Non-Prepayment Meter Users	1,837		6%
Commercial	Prepayment Meter Users	3,381	4,164	81%
	Non-Prepayment Meter Users	783		19%
School	Prepayment Meter Users	250	298	84%
	Non-Prepayment Meter Users	48		16%
Government	Prepayment Meter Users	62	411	15%
	Non-Prepayment Meter Users	349		85%
Hotel	Prepayment Meter Users	22	47	47%
	Non-Prepayment Meter Users	25		53%
Religion	Prepayment Meter Users	763	1,122	68%
	Non-Prepayment Meter Users	359		32%
Industrial	Prepayment Meter Users	13	51	25%
	Non-Prepayment Meter Users	38		75%
Streetlights	Non-Prepayment Meter Users	18		
Total number of users (Upolu,Savaii,Apolima,Manono)				39,107
Total consumption in kWh				138,377,723.00

The number of consumer accounts mainly domestic users increased by 4 percent, from 37,706 in June 2016 to 39,107 in June 2017. Consumer accounts are categorised into domestic (84%), commercial (10.65%), religion (2.87%), government (1.05%), schools (0.76%), industrial (0.13%), hotel (0.12%) and streetlights which are now added as non-prepayment users making up 0.05%. The increase in the number of consumer accounts is a result of the rise in domestic user accounts increasing by 1,005 (3%) consumer accounts from June 2016

Consumption of electricity increased by 12 percent from 122,311,092 kWh units in June 2016 to 138,377,723 kWh units in June 2017.

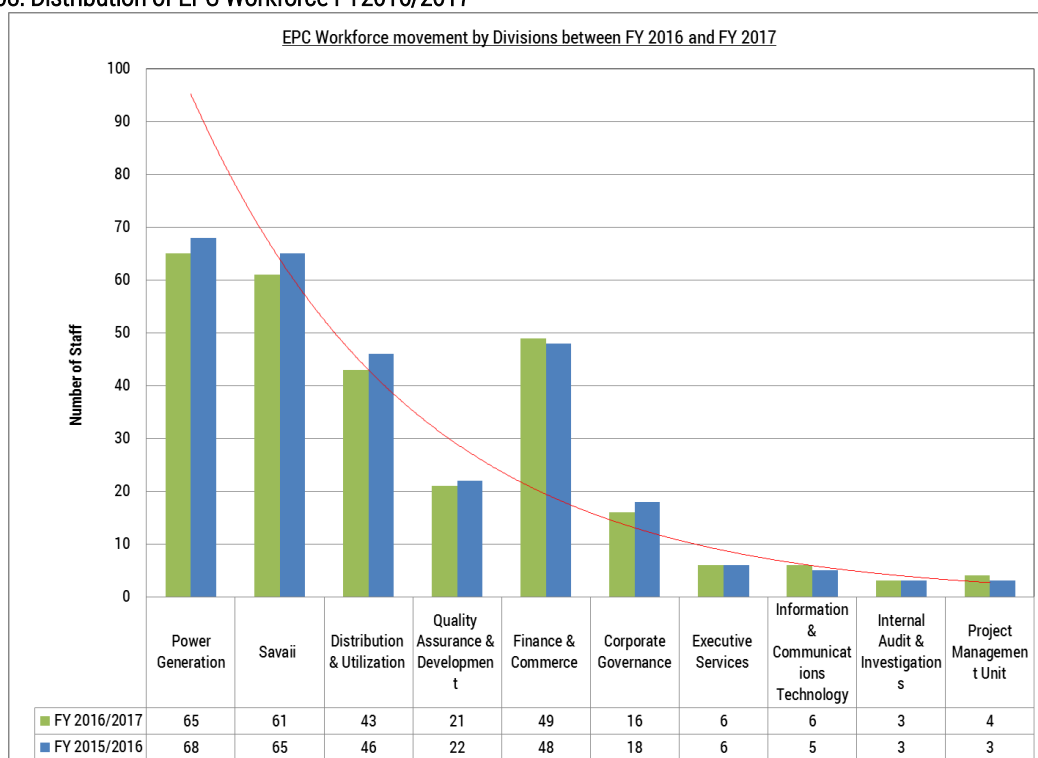
Figure 02: Consumer by Categories Graph FY 2016/2017



Human Resources Management & Development

EPC as at the end of June 2017 employed a total of 274 staff, inclusive of contract and permanent staff. Figure 03 below shows the distribution by division of this number from technical Divisions that are Power Generation, Distribution/Utilization, Quality Assurance & Development, Savaii and the Support Services that are Finance & Commerce, Corporate Governance, Internal Audit & Investigations, Information & Communications Technology, Project Management Unit and Executive Services.

Figure 03: Distribution of EPC Workforce FY2016/2017



Financial Performance

The Corporation ended the fiscal year as at 30 June 2017 with net profit of \$4.088 million Tala, down 53% of \$4.559 million Tala from the previous year (restated) profit.

Electricity Sales of \$112.88 million Tala represents 96 percent of Total Income for the period, compared to \$107.39 million in 2016. Imported diesel fuel of \$51.5 million Tala is the major expenditure for this period and accounts for 60 percent of the Total Electricity costs of \$86.4 million Tala.

3. Progress with Corporate Plan

The progress of the Corporate Plan 2017-2020 is reported against each quarterly reports submitted to the Ministry for Public Enterprises on the designated time frames in the period July 2016-June 2017. The summarized indicators both financial and non-financial indicate that the Corporation is progressing steadily in achieving its objectives in its Key Outputs 1 to 7.

The table below lists the progress at the end of the period June 2017 against the objectives, strategies and targets set for the financial year.

Table 4 : Progress of Corporate Plan 2017-2020

Measures	Output	FY 2017	
		TARGET	PROGRESS
Reliable Electricity Supply	System Average Interruption Duration Index (SAIDI) improved	Upolu 1120 mins. Savaii 1600 mins.	Upolu – 1057 mins. improved Savaii – 1521 mins. improved
	System Average Interruption Frequency (SAIFI) improved	Upolu 20 times Savaii 200 times	Upolu – 15.93 times. improved Savaii – 24.5 times. improved
	Reduce Losses	System Losses	System Losses -10%
	Sufficient generation capacity available	Generator availability Factor – 80% Capacity Factor - < 40%	Upolu & Savaii combined 29%
	Increased contribution from renewable energy sources	Upolu – 50% Savaii – 3.14%	
	Affordable electricity supply	Electricity Rates reduced	Energy Charge increased Debt Charge reduced Usage Charge reduced
Satisfied customers and stakeholders	Customer service charter launched Complaints reduced Improved rating of customer satisfaction	Customer Satisfaction maintained at 87%	Complaints management Framework is 80% completed pending Board submission for approval as at the end of this financial year
Sound commercial management performance	Improved profitability	Electricity Sales \$107m Non-Electricity Sales \$13.2m	\$112m \$0.32m
	Accounts Receivable turnover less than 50 days Reduced number of debtors	Electricity Arrears - \$11m Non-Electricity Arrears - \$1.5m	\$11.4m \$0.59m
	Accountable financial reporting	\$10 NP	\$1.97m
Strong strategic direction and leadership	Efficiency, sustainability and stability enhanced and maintained through effective performance management	Quarterly Reports 30 days after each quarter Annual Reports/Accounts 30 th October after every FY	<i>On-going and 1 out of 4 reports complied with time frames FY 2015/2016 AR delayed submission</i>

There have no been significant changes in the current financial year since the development of the Corporate Plan as this report is the first year of the current Corporate Plan 2017-2020.

4. Capital Expenditure and Projects FY 2016/2017

The financial position and cash flow statement results reflect a \$25.2 million additional capital expenditure during the financial year. This amount is represented by \$19.10 million PSEP funds paid directly from donors to vendors and accounted as loan and government capital in Corporation's book, and \$6.1 million was funded from the EPC's own cash flow. The bulk of this fund covers 96 percent of the generation function, especially the renewable energy and power sector rehabs and 4 percent accounted as distribution and consultancy costs.

5. Outlook

It is anticipated that in the coming financial year, the determination of electricity rates will continue to have an impact on financial results of the Corporation in light of the mandatory obligations for return of 7% on equity as a state owned enterprise.

There will also be a steady increase in the contribution of renewable energy sources to the generation of electricity despite the challenges faced with the infrastructure and improvements in technology to enable the smooth transition to a 100% renewable energy sourced Samoa.

The improvements made in human resources governance and systems will also add value in the creating of a well qualified and competent workforce to deliver the outputs in the Corporate Plan for EPC, that are in line with central government, approved internal policies and procedures.

6. Future Risks and Assumptions

The continuing adverse effects of climate change on the reliability of electricity supply is and will also be a future risk that is unavoidable. However, EPC in collaboration with stakeholders in Disaster Management has in place plans and counter-measures to ensure impacts in the event of natural and/or man made disasters are kept to a minimum.

EPC in the nearest financial year, will encounter risks related to accommodating village lands that are to be used for renewable energy developments.

7. Community Service Obligation Implementation

We outline hereunder in Table 5 Project costs incurred relating to the Corporation's current support to the Government under the Community Service Obligation for this period, in comparison to the previous financial year:

Table 5: Community Service Obligation 2016/2017

	2016/2017	2015/2016
• Rural Electrification Project	1,469,003.10	2,692,106
• Streetlights Installation	475,326.92	599,229
• Repair & Maintenance of Street Lights	-	303,362
• Street Lights – Consumption	2,391,433.56	2,434,448
• Electricity consumption Mapuifagalele	78,000.00	78,000
• Diesel Fuel VAGST Refund	-	4,800,000
TOTAL FUNDING FOR COMMUNITY SERVICE OBLIGATION	4,413,763.58	10,907,145

8. Acknowledgement

Overall, the Corporation continued to uphold its vision of providing sustainable and affordable electricity supply to all of Samoa, despite the many challenges it faced at all levels of its operations.

I acknowledge with gratitude the continuous support and commitment of our staff, Management and the Board of Directors during this financial year. Additionally, the ongoing partnership with our valued customers, stakeholders, international and regional aid agencies, Government and its ministries is greatly appreciated, hoping that it will continue to be in the coming years, for the betterment of our country.

Soifua ma ia manuia.



Tologatā Gaumalemana Lupematasila Tagaloatele Togia Tile Le'i'a Tuimalealiifano
General Manager

Annual Accounts

Management's Report

For the year ended 30 June 2017

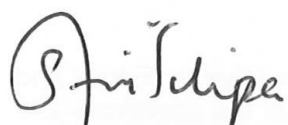
Management's responsibility for financial reporting

The accompanying financial statements are the responsibility of the Board of directors and management. The financial statements have been prepared according to International Financial Reporting Standards and include amounts based on the Board of directors and management's best estimates and judgments.

The Board of Directors and management have established and maintained accounting and internal control systems that include written policies and procedures. These systems are designed to provide reasonable assurance that financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The board of directors oversees management's responsibilities for financial reporting. The financial statements have been reviewed and approved by the board of directors on recommendation from management.

The Government Controller and Chief Auditor, have audited our financial statements. The accompanying independent auditors' report outlines the scope of their examination and their opinion.



Palelēmafuta Sofia Silipa

Manager Finance and Commerce



Tologata G. T. L. Tile Le'i'a Tuimalealiifano

General Manager

Dated: 26 January 2018

Directors Report

For the year ended 30 June 2017

The Directors present their report together with the financial statements of the Electric Power Corporation ("the Corporation") for the year ended 30 June 2017 as set out on the accompanying pages and the auditors' report thereon in accordance with the Public Finance Management Act and the Public Bodies (Performance and Accountability) Act 2001.

Directors

The Directors of the Corporation at the date of this report are:

Pepe Fiaailetoa Christian Fruean
Ulumalautea Papalii John Ryan
Fiu Peni Asi
Matamu James Moeono
Su'a Hellene Wallwork
Vaai Lealaiauloto Polataivao Simon Potoi
Seuamuli Taele S To'ovala
Lavea Tupaimatuna Iulai Lavea (ex-officio)

Principal Activity

The principal activity of the Electric Power Corporation is the generation, sale and distribution of electrical energy. There has been no change in the principal activity of the Corporation during the year.

State of Affairs

In the opinion of the directors:

- (i) the accompanying Statement of Financial Performance, Statement of Changes in Equity and Statement of Cash Flows are drawn up so as to give a true and fair view of the operations and results of the Corporation for the year ended 30 June 2017;
- (ii) the accompanying Statement of Financial Position is drawn up so as to give a true and fair view of the state of affairs of the Corporation as at 30 June 2017.

Operating Results

The net profit/(loss) for the year is \$4,088,817; 2016 restated: \$8,647,896

Dividends

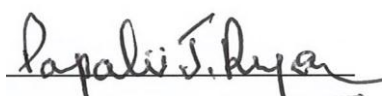
In accordance with Government's Public Bodies (Performance and Accountability) Act 2001 and Cabinet directive FK (10)33 of 25 August 2010, the Corporation has not declared a final dividend for the year ended 30 June 2017 based on a modified formula to calculate the Adjusted Net Profit.

Dated at Apia this:

Signed in accordance with a resolution of the Directors.



DIRECTOR



DIRECTOR

Telephone: 27751
Fax: 24167
Email: info@audit.gov.ws
Website: www.audit.gov.ws

P.O Box 13
APIA, SAMOA

Please address all correspondences
to the Controller and Auditor General



AUDIT OFFICE

REPORT OF THE AUDIT OFFICE

TO THE GOVERNING BODY IN CHARGE OF GOVERNANCE – ELECTRIC POWER CORPORATION

Report on the Audit of the Financial Statements

We have audited the accompanying Financial Statements of the Electric Power Corporation which comprise the Statement of Financial Position as at 30 June 2017, and Statements of Comprehensive Income, Changes in Equity, and Cash Flows for the year then ended, and a Summary of Significant Accounting Policies and Other Explanatory Notes. The Accounting Firm of Lesā ma Penn, Chartered Accountants, assisted in the audit. The Engagement Partner on the audit resulting in this Independent Auditor's Report is Mataualil'itia Afa Lesā.

Audit Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 30 June 2017, and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of financial statements in Samoa, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Responsibilities of Those Charged with Governance for the Financial Statements

Directors and Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with requirements of the Corporation's internal control as the directors and management determine 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, the Directors and Management are responsible for assessing the Corporation'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 the Directors and Management either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

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

Auditor's 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 International Standards on Auditing 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 these International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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P.O Box 13
APIA, SAMOA



AUDIT OFFICE

*Please address all correspondences
to the Controller and Auditor General*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors and management.
- Conclude on the appropriateness of the directors and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures, are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Directors and Management with a Statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationship and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Under Section 104 of the Public Finance Management Act 2001, a public body shall submit to the Minister for Finance and the responsible Minister the audited financial statements within four months after the end of the public body's financial year. The Corporation has not complied with Section 104 of the Public Finance Management Act 2001 as it has not submitted its audited financial statements for the year ended 30 June 2017 by the deadline of 31 October 2017.

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Our audit was completed on the 9th January 2018 and our opinion is expressed as at that date.

Apia, Samoa
5 February 2018

ACTING CONTROLLER AND AUDITOR GENERAL

Statement of Financial Position

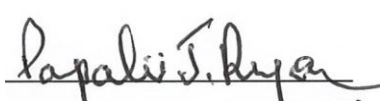
As at 30 June 2017

	Notes	2017 \$	Restated 2016 \$
ASSETS			
Non-current assets			
Property, plant and equipment	17	379,157,889	373,467,074
Prospect development costs	15	218,452	218,452
Total non-current assets		379,376,341	373,685,527
Current Assets			
Cash at bank and on hand	20	2,246,573	7,857,205
Term deposits	21	30,687,805	31,103,554
Trade receivables	18	10,279,959	5,422,954
Other receivables and prepayments	19	17,818,113	8,499,139
Inventory	16	15,618,420	12,802,918
Total current assets		76,650,870	65,685,769
TOTAL ASSETS		456,027,211	439,371,296
EQUITY AND LIABILITIES			
Equity			
Government of Samoa Capital	22	150,395,961	119,793,769
Assets Revaluation Reserves	23	86,634,243	86,634,243
Self-Insurance Reserves	28	10,000,000	7,500,000
Accumulated Profit / (Losses)		14,843,259	13,254,443
Total Equity		261,873,464	227,182,455
Non-current liabilities			
Borrowings	24	129,287,890	162,166,353
Deferred Income	25	47,396,327	33,001,784
Total non-current liabilities		176,684,217	195,168,137
Current liabilities			
Trade creditors		4,605,876	4,447,127
Provisions and accruals	26	606,169	562,673
Current portion of deferred income	25	1,773,536	1,526,954
Current portion of borrowings	24	10,483,949	10,483,950
Total current liabilities		17,469,531	17,020,704
TOTAL EQUITY AND LIABILITIES		456,027,211	439,371,296

Signed on behalf of the Board:



Director



Director

Date: 26 January 2018

Date: 26 January 2018

The accompanying notes form an integral part of the above financial statement

Statement of Financial Performance

For the year ended 30 June 2017

	Notes	2017 \$	Restated 2016 \$
INCOME			
Electricity Sales	5,6	112,875,999	107,394,911
Non electricity energy sales		325,931	614,403
Fuel levy subsidy		-	4,100,000
Other income	7	4,512,345	3,628,828
		117,714,274	115,738,142
EXPENSES			
Administration Costs		7,811,345	8,024,637
Direct costs electricity energy sales	9	86,217,976	70,712,624
Direct costs non electricity energy sales		-	282,634
Selling and distribution costs	10	18,261,543	24,105,811
		112,290,864	103,125,706
Net finance costs	11	1,334,594	3,964,540
Net profit/(loss)		4,088,817	8,647,896
Less:PSEP Counterpart Funding		(4,550,775)	(2,592,855)
EPC Funded Capital Expenditures		(6,067,113)	(6,600,365)
Loan Repayments		(7,863,316)	(10,441,146)
Adjusted Net Profit/(Loss)		(14,392,387)	(10,986,470)

The accompanying notes form an integral part of the above financial statement.

Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from customers		107,734,547	108,738,202
Receipts from VAGST fuel levy		3,136,856	4,100,000
Interest received		643,406	592,546
UNCC / Sundry Income		1,500,886	3,679,524
Payments to suppliers and employees		(105,501,155)	(77,391,553)
Net cash flows from operating activities		7,514,540	39,718,718
Cash flows from investing activities			
Proceeds from drawdown of term deposits		20,643,467	11,887,794
Proceeds from sale of property, plant and equipment		149,400	33,650
CSO for distribution line construction costs		2,575,000	1,614,455
Payment for term deposits		(20,227,719)	(31,530,101)
PSEP Loan to Grant Conversion – refer note 22		(25,819,778)	-
PSEP payment direct to vendors – refer note below		(685,474)	(3,837,730)
PSEP & REDPSRP funds paid directly to vendors – refer note 22 & 25		(18,448,536)	(7,712,937)
Payments for property, plant and equipment		(6,067,113)	(6,600,365)
Net cash flows from investing activities		(47,880,753)	(36,145,234)
Cash flows from financing activities			
Dividend paid		-	(1,000,000)
PSEP Loan to Grant Conversion		25,819,778	-
PSEP funds paid directly to vendors recognized as borrowings		685,474	3,837,730
PSEP & REDPSRP funds paid directly to vendors recognized as capital		18,448,536	7,712,937
Repayment of borrowings		(10,198,207)	(15,442,665)
Net cash flows from financing activities		34,755,581	(4,891,998)
Net increase/(decrease) in cash balances		(5,610,632)	(1,318,514)
Cash balances brought forward		7,857,205	9,175,719
Ending cash balance	20	2,246,573	7,857,205

Power Sector Expansion Project (PSEP) and Renewable Energy Development Power Sector Rehabs Project (REDPSRP) investment and financing activities \$19,134,010.

In relation to the PSEP and REDPSRP for the financial year ended 30th June 2017, a total of \$19.13 million (2016: \$11.5 million) tala was recognized as assets, \$0.69 million (2016: \$3.8million) tala recognized as borrowing and \$18.44 million (2016: \$7.7 million) recognized as capital and deferred income by the Corporation. Of this amount, \$19.13 million tala was paid directly by the lending consortium and government to third party contractors and suppliers involved with the PSEP and REDPSRP.

The PSEP Loan to Grant Conversion amount of US\$10 million equivalent to SAT\$25.8 million recognized as capital and also reduced the PSEP loan balance. The disclosure of these non-cash transaction in the Statement of Cash Flows is for informational purposes only as they do not represent direct cash flow transaction of the Corporation.

The accompanying notes form an integral part of the above financial statement

Statement of Changes in Equity

For the year ended 30 June 2017

	Notes	Government of Samoa capital	Asset Revaluation Reserve	Self-Insurance Reserves	Accumulated Profit/(Loss)	Total Equity
		\$	\$		\$	\$
Balance at 30 June 2015		119,723,981	86,634,243	5,000,000	6,906,546	218,264,771
Reverse Life Accident Benefit Scheme (LABS) provision					200,000	200,000
Net Profit for the year					17,137,682	17,137,682
Restatement of assets write off relate to prior periods	29				(8,489,786)	(8,489,786)
Restated Net profit for the year					8,647,896	8,647,896
Self Insurance Reserves	28			2,500,000	(2,500,000)	-
Contribution during the year	22	69,788				69,788
Restated Balance at 30 June 2016		119,793,769	86,634,243	7,500,000	13,254,443	227,182,455
PSEP Loan to Grant Conversion	22	25,819,778				25,819,778
		1.8..1				
Net Profit for the year					4,088,817	4,088,817
Self-Insurance Reserves	28			2,500,000	(2,500,000)	-
Contribution during the year	22	4,782,414				4,782,414
Balance at 30 June 2017		150,395,961	86,634,243	10,000,000	14,843,259	261,873,464

The accompanying notes form an integral part of the above financial statement

Notes to, and forming parts of, the Accounts

For the year ended 30 June 2017

1. General information

The Electric Power Corporation (the Corporation) is a wholly owned Government Corporation (Trading Body) which is involved in the generation, distribution and selling of electricity through diesel generator, hydro and solar power.

The Corporation was established by the Electric Power Corporation Act 1972. It is governed by an eight member board of directors (the Board) with its own Chairman. The Board includes the Chief Executive Officer of the Ministry of Finance as an *ex-officio*.

The Corporation's main office is located on the 5th floor of the Tui Atua Tupua Tamasese Efi Building, Sogi and its postal address is PO Box 2011.

The Corporation is designated as a public trading body under the Public Bodies (Performance and Accountability) Act 2001. As a public trading body, the Corporation is required to follow the requirements of the Public Finance Management Act 2001.

These financial statements were authorised for issue by the Board of Directors at 9 January 2018.

2. Statement of significant accounting policies

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

a. Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Public Finance Management Act 2001 which requires the adoption of International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) in preparing its financial statements.

b. Basis of preparation

The financial statements have been prepared on the historical cost basis unless otherwise stated. The principal accounting policies are stated to assist in a general understanding of these financial statements.

c. Foreign currency transactions

Items included in the financial statements of the Corporation are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency is the Samoan Tala (SAT).

Transactions in foreign currencies are translated to functional currency at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rates ruling at the dates the fair value was determined.

d. Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of material and direct labour, any other costs directly attributable to bringing the asset into working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The costs of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with that part will flow to the company and its cost can be measured reliably. The costs of the day to day servicing of the property, plant and equipment are recognised in profit and loss as incurred.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The rates at which depreciation is charged annually are as follows:

• Buildings	2.50%
• Power plants and distribution assets	
Diesel stations	vary from 2.50% - 10.00%
Hydro station	vary from 2.00% - 5.00%
Distribution lines	4.00%
Power plant access infrastructure	vary from 1.3% - 2.50%
Tools and radio equipment	10.00%
• Office equipment and furniture	vary from 1.00% – 50.00%
• Motor vehicles	20.00%

The residual value is reassessed annually.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains – net, in the income statement.

e. Prospect development costs

The Corporation accumulates costs associated with renewable electricity generation projects and electric site prospect development activities. Recovery of these costs is dependent upon the successful completion of the related projects. Costs associated with the successful projects are reclassified as property, plant and equipment and amortised over the useful life of the projects. Costs of unsuccessful projects are written off in the year the prospect is abandoned.

f. Inventories

Inventories are valued at the lower of cost (using first in first out (FIFO) for inventory of fuel and weighted average for all other items of inventory) and net realisable value. The cost of purchased inventory comprises direct material and where applicable, direct labour and other direct variable costs incurred in order to bring inventories to their present location and condition. Net realisable value is the estimated amount the inventories are expected to be realised in the ordinary course of business.

g. Financial assets

The Corporation classifies its financial assets in the loans and receivables category. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans and receivables are classified as trade and other receivables, cash at bank and on hand and term deposits in the current assets section of the balance sheet. The Corporation assesses at each balance sheet date whether there is an objective evidence that a financial asset or group of assets is impaired.

h. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at cost, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

i. Contributed capital

Capital contributed by the Government classified as equity. Contributed capital also includes reimbursements made by the Government to the Corporation for capital works performed by the Corporation under the Government's Community Service Obligation (CSO).

j. Loans payable

Loans payable are recognised initially at fair value, net of transaction costs incurred. Loans payable are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

k. Provisions

A provision is recognised in the balance sheet when the Corporation has a present legal or constructive obligation as a result of past event, and it is more likely that an outflow of economic benefits will be required to settle the obligation, and the amount has been reliably estimated.

l. Accounts payable

Trade accounts payables and other accounts payable are recognised when the Corporation becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are recognised at cost which is the fair value of the consideration to be paid in the future for goods and services received. Given the short term nature of most payables, the carrying amounts approximate fair value.

m. Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits and term deposits with maturities less than 90 days net of bank overdrafts for the purposes of the statement of cash flows.

n. Impairment

The carrying amounts of the Corporation's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized immediately in the profit or loss.

Calculation of recoverable amount

Recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discounted rate that reflects current market assessments of the time value of money and the risk specific to the asset.

Reversals of impairment

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

o. Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Corporation's activities. Revenue is shown net of returns, rebates and discounts.

Revenue from electrical energy sales are recognised at the time of generation and delivery to the customer as metered at the point of interconnection with the distribution system.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance date as measured by progress invoices raised to customers in conjunction with an assessment of costs incurred to date.

Interest revenue is recognised in the income statement as it accrues, using the effective interest rate method.

p. Government grants

Government grants are not recognised until there is reasonable assurance that the Corporation will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Corporation should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit or

loss on a systematic and rational basis over the useful lives of the related assets unless instructed by the shareholder to treat government grants as contributed capital.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Corporation with no future related costs are recognised in profit or loss in the period in which they become receivable.

q. Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure incurred in the creation of a new asset (which includes the acquisition and installation of a new unit of plant) and any expenditure that results in a significant restoration or increased service potential for existing assets. Constructed assets are included in property, plant and equipment as each becomes operational and available for use.

Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the Corporation.

r. Employee benefits

The Corporation contributes towards the Samoa National Provident Fund, a defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of contribution. Obligations for contributions to the defined contribution plan are recognised immediately in profit or loss.

Liabilities for annual leave are accrued and recognised in the balance sheet. Annual leave are recorded at the undiscounted amount expected to be paid for the entitlement earned.

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

On resignation or cessation of service other than by misconduct, an employee is entitled to compensation (termination grant) based on the employee's salary and wage at the time of ceasing employment. The liability for ceasing employment (termination grant) is measured on an undiscounted basis and expensed as they become due.

s. Net finance costs

Net finance costs comprises interest on long term borrowings, realised and unrealized foreign exchange gains and losses, interest income on short term deposits, bank charges and bank overdraft fees that are recognised in profit or loss.

t. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

u. Value added goods and services tax

As a Public Trading Body the Corporation does not charge VAGST on its electricity energy sales.

On January 2016, the Corporation registered as zero rate under the VAGST Act 2015 and the VAGST paid from onward is recognised as receivable from the Government in the statement of financial position. VAGST paid starts from July 2015 to December 2015 is recognised as part of the related asset or expense.

v. Income tax

The Corporation shall not be liable to taxation by virtue of section 20 of the Electric Power Corporation Act 1980.

w. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Finance leases

Assets held under finance leases are initially recognised as assets of the Corporation at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation under borrowings.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Corporation's general policy on borrowing costs (see above).

x. Dividend distribution

Cabinet directive FK (10) 33 dated August 25th, 2010 allows the Corporation to calculate dividends based on an adjusted net profit basis. The Corporation only recognizes a dividend payable if the modified basis on which dividends are calculated show that a dividend is payable to the Government.

y. Comparatives

Where necessary previous periods comparatives have been changed to conform with the presentation of financial information for the current year. The changes to the prior year amounts are a result of correction of a prior year accounting error. The material changes for the comparatives are restated to reflect the corresponding changes to the prior year figures.

z. Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations issued by the IASB to those standards have been published that are mandatory for the Corporation's accounting periods beginning on or after 1 April 2008 or later periods but which the Corporation has not earlier adopted.

Not yet adopted:

- Amendments to IAS 1: Presentation of Financial Statements which are mandatory for reporting periods beginning on or after 1 January 2009 – The revised IAS 1 requires an entity to present all owner changes in equity, separately from non-owner changes in equity, in a statement of changes in equity. All non owner changes

in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (an income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. Management is yet to determine the impact of this standard on future financial statements.

3. Financial risk management

3.1 Financial risk factors

The Corporation's activities are exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Corporation's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Corporation's financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of non-derivative financial instruments, and investment of excess liquidity.

Market Risk

Interest rate risk

Interest rate risk is the risk that the value of the Corporation's assets and liabilities will fluctuate due to changes in market interest rates. The Corporation has interest bearing debt (government borrowings and finance leases) that are subject to fixed interest rates. Borrowings issued at fixed rates expose the Corporation to fair value interest rate risk. The Corporation's policy is to keep primarily 100% of its borrowings at fixed rates.

The Corporation has no significant interest bearing assets. Therefore the Corporation's income and expenses and operating cash flows are substantially independent of changes in market interest rates.

Foreign currency risk

Foreign currency risk is the risk that the value of the Corporation's assets and liabilities or revenues and expenses will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to currency risk as a result of transactions that are denominated in a currency other than Samoan Tala. The Corporation's policy does not hedge any material foreign currency exposure.

Sensitivity analysis

		2017	
Carrying Amount (USD)		49,691,593	127,316,405
		0.3903 (ANZ Rate)	\$SAT equivalent
		Loan Balance	Exchange Gain/Loss
USD – Loan Accounts	5%	121,253,719	(6,062,686)
USD – Loan Accounts	- 5%	134,017,269	6,700,863
USD - Loan Accounts	10%	115,742,187	(11,574,219)
USD – Loan Accounts	-10%	141,462,673	14,146,267
USD – Loan Accounts	15%	110,709,918	(16,606,488)
USD – Loan Accounts	-15%	149,784,006	22,467,601

Price risk

The Corporation is not exposed to any significant price risk.

Liquidity Risk

Liquidity risk represents the risk that the Corporation may not have the financial ability to meet its contractual obligations. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Corporation's short, medium and long-term funding and liquidity management requirements. The Corporation manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Forecasted liquidity reserve per 30 June 2017 is as follows:

	2017 – 2018	2018 - 2019
	\$	\$
Opening balance for the period	2,246,573	459,833
Operating proceeds	134,109,930	138,133,228
Operating cash outflows	(112,581,311)	(115,958,750)
Cash outflow for investments	(18,369,993)	(18,921,093)
Proceeds from sales of investments and interest received	1,250,811	1,288,335
Financing proceeds	3,983,000	4,102,490
Payments of debts and dividends	(10,179,177)	(10,484,553)
	<u>459,833</u>	<u>(1,380,510)</u>

The table below analyses the Corporation's financial assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

2017	At Call	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total
Borrowings	-	(10,483,949)	(17,000,000)	(51,000,000)	(61,287,890)	(139,771,839)
Trade and other payables	-	(5,212,045)	-	-	-	(5,212,045)
Cash	2,246,573	-	-	-	-	2,246,573
Term Deposits	-	30,687,805	-	-	-	30,687,805
Accounts receivable	-	28,098,072	-	-	-	28,098,072
	<u>2,246,573</u>	<u>43,089,883</u>	<u>(17,000,000)</u>	<u>(51,000,000)</u>	<u>(61,287,890)</u>	<u>(83,951,434)</u>

Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist principally of cash at bank and short term bank deposits and trade receivables.

The Corporation places its cash and short term deposits with high credit quality financial institutions and sovereign bodies and limits the amount of credit exposure to any one financial institution in accordance with its board-approved cash management policy.

Trade receivables consist of a large number of customers. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Corporation has significant credit risk exposure to a single counterparty. The Corporation defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk is defined as counterparty revenue exceeding 5% of gross revenues. Included in electricity sales of \$112,875,999 (2016: \$107,394,911) are revenues of \$10,158,840 (2016: \$9,665,542) or 9% of total revenues relating to a single counterparty.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Corporation's maximum exposure to credit risk without taking account of the value of any collateral obtained.

3.2 Capital risk management

The Corporation's policy is to maintain a strong capital base to ensure that it will be able to continue as a going concern and to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Corporation recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The capital structure of the Corporation consists of debt, which includes the borrowings disclosed in note 24, cash and cash equivalents and contributed equity by the Government, asset revaluation reserves and accumulated funds as disclosed in notes 20, 22 and 23 respectively.

The Corporation's policies in respect of capital management are reviewed regularly by the board of directors. Consistent with others in the industry the Corporation monitors capital on the basis of the gearing ratio. The Corporation has a target gearing ratio of 20% to 45% determined as the proportion of net debt to equity.

The gearing ratio at the year-end was as follows:

	2017	2016
	\$	\$
Debt (i)	139,771,839	172,650,302
Less Cash equivalents and short term deposits	(32,934,379)	(38,960,759)
Net debt	106,837,460	133,689,543
Equity (ii)	261,873,464	235,672,240
Net debt to equity ratio	41%	57%

(i) Debt is defined as long and short term borrowings as detailed in note 24.

(ii) Equity includes contributed capital, asset revaluation reserve and accumulated funds.

3.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

4. Critical accounting estimates and judgments

Preparing financial statements to conform with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgments about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognized in the year if the change affects only that year, or into future years if it also affects future years. In the process of applying the Corporation's accounting policies, management has made the following judgments, estimates and assumptions that have had the most significant impact on the amounts recognized in these financial statements.

The Corporation operates an extensive integrated electricity distribution network comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an

ongoing maintenance/refurbishment programmed, consistent with the Corporation's approved network asset management plan. The costs associated with recording and tracking all individual components replaced and removed from the network substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the network in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network.

The Corporation invoices its customers monthly for electricity energy sales. For electricity energy sales to customers during June 2017 it will be invoiced in June 2017, and therefore management has no estimated accrued revenue at year end.

Property, plant and equipment are long-lived assets that are amortised over their useful lives. Useful lives are based on management's estimates of the period over which the assets will generate revenue. The values of property, plant, equipment and assets with indefinite lives are reviewed annually for impairment.

If the useful economic lives had been longer by an average of one year during the period ended 30 June 2017 (annualised), then the Corporation's depreciation charge would have been approximately \$2,043,988 lower if the useful lives had been longer by an average of one year, or approximately \$1,845,431 higher if the useful lives had been an average of one year shorter.

5. Electricity energy sales

Details of electricity energy sales and gross margins are specified as follows:

	2017	2016
	\$	\$
Electricity energy sales through monthly billings	77,334,684	72,854,367
Electricity energy sales through cash power	35,541,315	34,540,544
Total sales	112,875,999	107,394,911
Less direct costs of electricity energy sales	(86,217,976)	(68,236,811)
Gross margin on electricity energy sales	26,658,023	39,158,100

6. Information about market concentrations

Total electricity sales are divided among the following market segments:

	2017	2016
	\$	\$
Commercial	27,049,479	35,263,056
Domestic	27,180,646	28,153,951
Government Departments	36,855,622	25,152,872
Hotels	4,590,807	3,089,444
Industrial	9,244,307	8,367,615
Religion	5,909,929	5,458,850
School	2,045,207	1,909,124
	112,875,999	107,394,911

7. Other income

Details of other income are specified as follows:

	2017 \$	2016 \$
Connection/reconnection fees	586,877	589,433
Service line receipts	16,645	35,895
JICA's donation	-	35,459
Deferred income – CSO (refer note 26)	739,460	627,741
Deferred income for solar and wind energy	750,608	635,130
Deferred income for poles/lights from China	239,018	179,264
Interest on overdue accounts	239,100	375,397
Proceed from sales of assets	884	56,376
Gain on disposal of fixed assets	108,727	62,908
Dark fibre and pole sharing with Bluesky	370,439	385,958
Pole relocation	43,112	236,582
Avoided Cost of Diesel from Solar for Samoa	1,237,437	-
Others	180,040	408,646
	<u>4,512,345</u>	<u>3,628,828</u>

8. Auditors remuneration

The remuneration of auditors for the year is allocated as follows:

	2017 \$	2016 \$
Audit of EPC financial statements	59,144	68,016
PSEP Audit fee	17,391	20,000
Government Audit Office tariff audit	27,773	-
Audit office review fee	3,000	3,450
Audit fee – Red ma le PSRP	6,939	7,980
Under provided from prior year	298	7,980
	<u>114,545</u>	<u>107,426</u>

9. Direct costs electricity energy sales

Direct costs electricity energy sales are specified as follows:

	2017 \$	Restated 2016 \$
Cost of diesel fuel and oil less ACC levy rebate	51,525,415	46,313,152
Depreciation expenses	9,034,573	8,613,716
Insurance Costs	629,643	419,187
IPP costs	10,215,885	4,064,388
Motor Vehicle Costs (fuel, repairs & maintenance)	112,090	129,114
Operating expenses	1,055,849	1,407,936
Labour Costs	2,523,292	2,066,893
Local consumption	4,334,531	3,541,565
Loss on disposal of assets (note 29)	-	2,475,813
SCADA operational expenses	245,315	816
Repair and maintenance	6,541,383	1,680,043
	<u>86,217,976</u>	<u>70,712,624</u>

10. Selling and distribution costs

Selling and distribution costs are specified as follows:

	2017 \$	Restated 2016 \$
Installation and inspection costs	99,730	78,044
Operating costs	1,268,543	1,053,946
Labour costs	3,156,466	3,802,396
Loss on disposal of assets (noted 29)	-	6,003,854
Motor vehicle costs	452,986	517,837
Repair and maintenance	3,928,160	3,065,406
Depreciation	9,355,658	9,584,329
	<u>18,261,543</u>	<u>24,105,811</u>

11. Net finance costs

Net finance costs are specified as follows:

	2017 \$	2016 \$
Interest income on short term deposit	(1,607,108)	(1,038,796)
<i>Less finance costs relating to:</i>		
Interest on borrowings – Afulilo	690,253	786,900
Interest on borrowings – PSEP	2,247,460	4,214,619
Interest on bank overdraft	832	-
Bank charges	3,156	1,817
Net finance costs	<u>1,334,594</u>	<u>3,964,540</u>

12. Personnel costs

Personnel costs are specified as follows:

	2017 \$	2016 \$
<i>Personnel Costs</i>		
General Manager's Office	480,417	506,339
Internal Audit	175,217	216,547
Corporate Governance	710,939	723,611
Information, Communication & Technology	274,856	270,849
Finance & Commerce	1,510,009	1,445,113
Generation	1,911,879	2,013,668
Distribution & Utilisation	1,192,772	1,572,075
Project Management Unit	166,799	178,993
Quality Assurance & Development	924,083	914,788
Savaii	1,673,337	1,799,479
<i>Employers Contribution to:</i>		
National Provident Fund	589,126	606,080
Accident Compensation Corporation	85,054	103,116
	<u>9,694,489</u>	<u>10,350,659</u>

The average number of persons employed during the year is 274 (2016: 284).

13. Directors and executive management compensation

i. Directors

The Directors of the Corporation during the financial period were:

Pepe Fiaailetoa Christian Fruean (Chairman of the Board)
Ulumalautea Papalii John Ryan (member of Board)
Fiu Peni Asi (member of Board)
Matamu James Moeono (member of Board)
Su'a Hellene Wallwork (member of Board)
Vaai Lealaiauloto Polataivao Simon Potoi (member of Board)
Seuamuli Taele S To'oala (member of Board)
Lavea Tupaimatuna Iulai Lavea (ex-officio)

Directors fees of \$130,489 (2016: \$115,500) were paid during the year while sitting allowances paid were \$nil (2016:\$9,142). Board expenses amounted to \$24,613 (2016: \$24,349). Directors appointed from Government Corporations and Ministries receive a director's fee but no longer receive a sitting allowance. Government regulations specify that directors' fees are \$18,000 per annum, \$22,500 for chairman.

	2017	2016
	\$	\$
<i>Directors and executive management compensation</i>		
Directors fees – current	130,489	115,500
Sitting allowances	-	9,142
Catering for board meeting	9,265	8,729
Membership fees	9,160	9,890
Other	6,188	5,730
	<u>155,102</u>	<u>148,992</u>

ii. Key management personnel costs

The remuneration of key members of management during the year was as follows:

	2017	2016
	\$	\$
Salaries and short term employment benefits	849,845	823,774
<i>Employers contribution to :</i>		
National Provident Fund	59,489	49,426
Accident Compensation Corporation	8,498	8,238
	<u>917,832</u>	<u>881,439</u>

14. Operating leases

The total future minimum lease payments under operating lease rentals are payable as follows:

	2017	2016
	\$	\$
Not later than 1 year	661,693	661,697
Later than 1 year but not later than 5 years	1,985,080	1,985,092
Later than 5 years	-	-
	<u>2,646,773</u>	<u>2,646,789</u>

The Corporation leases on the level one and five of TATTE building. It pay a monthly rent of \$55,141 (VAGST inclusive) to the Ministry of Finance accordance with it mutual undertaking with EPC specified in the MOU commencing on 1st July 2012.

During the current period, amounts of \$661,693 (2016:\$ \$661,697) for the Corporation were recognised as an operating expense in the income statement in respect of operating leases.

15. Prospect development costs

Prospect development costs are comprised of the following:

	2017 \$	2016 \$
Savaii Hydro Project	362,783	362,783
Less: provision for doubtful debts	(144,331)	(144,331)
	<u>218,452</u>	<u>218,452</u>

16. Inventory

Inventories are specified as follows:

	2017 \$	2016 \$
Stationery	-	206
Utilisation and distribution inventory	14,381,176	11,956,631
Less: Provision for obsolete stock	(388,930)	(388,930)
	<u>13,992,246</u>	<u>11,567,907</u>
Scratch card – cash power	47,979	49,999
Fuel and oil inventory	1,578,195	1,185,012
	<u>15,618,420</u>	<u>12,802,918</u>

The cost of utilisation and distribution inventories recognised as expense and included in 'selling and distribution costs' was \$5,277,185 (2016: \$4,099,973). The cost of fuel and oil inventories recognised as expense and included in 'direct costs electricity energy sales' was \$51,818,773 (2016: \$46,565,498). The cost of scratch card recognised as expense and included in 'selling and distribution costs' was \$60,763 (2016: \$112,583).

17. Property, plant and equipment

	Land & Buildings	Power plants & distribution assets	Office equipment & furniture	Motor vehicles	Total
Gross carrying amount					
Cost at 1 st July 2015	48,845,593	424,562,461	4,387,037	12,546,433	490,341,524
Revaluation at 1 st July 2015	-	-	-	-	-
Cost and revaluation at 1 st July 2015	48,845,593	424,562,461	4,387,037	12,546,433	490,341,524
Additions	7,975,215	12,626,223	360,675	2,425,620	23,387,732
Disposals	(25,806)	(23,401,382)	(450,374)	(2,222,683)	(26,100,245)
Restated balance at 30 th June 2016	56,795,002	413,787,301	4,297,338	12,749,370	487,629,011
Additions	793,933	5,240,312	197,857	80,614	6,312,717
Disposals	(174,782)	-	-	(1,274,808)	(1,449,590)
Balance at 30 th June 2017	57,414,153	419,027,613	4,495,195	11,555,177	492,492,138
Accumulated Depreciation					
Balance at 1 st July 2015	6,564,611	107,178,909	3,389,658	8,437,283	125,570,461
Depreciation charge for the year	1,493,809	15,718,892	393,849	1,366,036	18,972,586
Disposals	(15,688)	(14,902,882)	(440,539)	(1,490,680)	(16,849,789)
Restated Balance at 30 th June 2016	8,042,732	107,994,920	3,342,967	8,312,639	127,693,258
Depreciation charge for the year	2,213,764	15,959,692	399,379	1,325,106	19,897,941
Disposals	(144,268)	-	-	(1,263,099)	(1,407,367)
Balance at 30 th June 2017	10,112,228	123,954,611	3,742,347	8,374,646	146,183,833
Capital works in progress 2016	-	13,531,321	-	-	13,531,321
Capital works in progress 2017	-	32,849,583	-	-	32,849,583
Net book value					
As at 30 June 2016	48,752,269	319,323,702	954,370	4,436,731	373,467,074
As at 30 June 2017	47,301,924	327,922,585	752,849	3,180,530	379,157,889

18. Trade receivables

Trade debtors are specified as follows:

	2017 \$	2016 \$
Customers from electricity energy sales	11,477,525	8,216,515
Customer from non electricity energy sales	1,823,661	896,218
	13,301,186	9,112,733
Less allowance for doubtful debts	(3,021,227)	(3,689,779)
Net trade debtors	10,279,959	5,422,954

The average credit period on electricity energy and non-electricity energy sales is 30 days. No interest is charged on the trade receivables for the first 30 days from the date of the invoice. Thereafter, interest is charged at 2% on any outstanding balance from \$10 tala upwards. The Corporation has provided fully for all receivables over 90 days because historical experience is such that receivables that are past due beyond 90 days are generally not

recoverable. Trade receivables between 30 days and 90 days are provided for based on estimated irrecoverable amounts from the sale of revenue, determined by reference to past default experience.

Included in the Corporation's trade receivable balance are debtors with a carrying amount of \$2,035,608 (2016: \$1,771,082) which are past due at the reporting date for which the Corporation has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

Ageing of past due but not impaired

	2017 \$	2016 \$
1 to 30 days	1,048,850	993,868
31 to 60 days	703,696	510,884
61 to 90 days	283,063	266,330
	<u>2,035,608</u>	<u>1,771,082</u>

Movement in the allowance for doubtful debts

	2017 \$	2016 \$
Opening balance	3,689,779	3,959,808
Amounts written off	(668,552)	(270,029)
Doubtful debts	-	-
Closing balance	<u>3,021,227</u>	<u>3,689,779</u>

In determining the recoverability of a trade receivable, the Corporation considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

As of 30 June 2017, trade receivables of \$2,846,592 (2015: \$3,322,549) were impaired and identified as part of the provision for doubtful debts consisting mainly of independent customers, which are in unexpectedly difficult economic situations and certain project receivables. It was assessed that a portion of these receivables are expected to be recovered.

Ageing of impaired trade receivables

	2017 \$	2016 \$
Over 90 days and over 360 days	<u>2,846,592</u>	<u>3,322,549</u>

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Corporation does not hold any collateral as security.

19. Other receivables and prepayments

Other debtors and prepayments are specified as follows:

	2017	2016
	\$	\$
Accrued revenue	-	1,807,111
Prepayments	305,222	663,864
Other debtors	721,828	24,961
Interest receivable on term deposit	734,707	496,650
**VAGST Receivable	16,056,355	5,506,552
	<u>17,818,113</u>	<u>8,499,139</u>

** VAGST Receivable

Given that EPC is exempted from VAGST ie cannot pass VAGST to its customers, the corporation is now registered under the VAGST Act 2015 as zero rate and this receivable will be recovered from the Ministry for Revenue through its VAGST returns on a bi-monthly basis.

20. Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the cash flow statement can be reconciled to the related items in the balance sheet as follows:

	2017	2016
	\$	\$
Cash on hand	2,630	2,630
Cash at bank (overdraft)	2,243,943	7,854,575
	<u>2,246,573</u>	<u>7,857,205</u>

21. Short term deposits

Short term deposits are specified as follows:

	2017	2016
	\$	\$
Total short term deposits	<u>30,687,805</u>	<u>31,103,554</u>

The short term deposits have an average maturity of 365 days (2016: 337 days) and a weighted average interest rate of 5.28% (2016: 4.28%) per annum. The carrying value of the short term deposits equal their fair value.

22. Government capital contributions

Capital contributions from the Government during the year were received for the following projects:

	2017	2016
	\$	\$
Opening balance	119,793,769	119,723,982
: AusAid contribution for Power Sector Expansion Project	4,782,414	69,788
: PSEP Loan to Grant Conversion **	25,819,778	-
Total capital contributions received	<u>30,602,192</u>	<u>69,788</u>
Total government capital contribution	<u>150,395,961</u>	<u>119,793,769</u>

** The amount of US\$10 million equivalent to SAT\$25,819,778 for the Loan2368/Grant0087-Sam under the PSEP program converted into grant. The conversion dated effective on the signed amendments which is the 12 July 2016 and also used the ANZ daily exchange rate on the same day.

23. Asset revaluation reserve

	2017 \$	2016 \$
Opening balance	86,634,243	86,634,243
Net Asset Revaluation for the year	-	-
Total Assets revaluation reserve	86,634,243	86,634,243

The asset revaluation has been conducted by the Rodney Hyman Asset Services (RHAS) of Australia based on cost and fair value of all Electric Power Corporation assets as at 30 June 2013. The valuation report was ready and signed by the valuer on 18th December 2013. The total cost of \$173,257.60 was fully funded by the Government (Ministry of Finance) in 2014 recognized as an income and expenditure in the statement of financial performance.

24. Borrowings

	2017 \$	2016 \$
Non Current		
Government borrowing	10,479,693	11,829,319
Power sector expansion borrowing	118,808,197	150,337,035
	129,287,890	162,166,354
Current		
Government borrowing	1,975,741	1,975,741
Power sector expansion borrowing	8,508,208	8,508,208
	10,483,949	10,483,949
Total borrowing	139,771,839	172,650,303

(i) Government borrowing

In 2002 the Government assisted the Corporation in restructuring its borrowings totaling \$70.77 million tala with the Asian Development Bank (ADB) by assuming the repayments of the loans directly with the ADB. The Corporation then entered into a loan agreement with the Government in 30 June 2001 for a period of 20 years which matures on 30 June 2021. Principal loan repayments are \$5 million tala per annum with interest to be charged at the rate of 5% per annum after a 5 year grace period that expired in June 2007 but has been extended to 30 June 2009. Therefore from 1st July 2009 the Corporation will be recognizing interest expense. The Government bears the foreign currency exchange risk on the repayment of the loans to the principal lender being ADB.

Loan repayment during the year of \$10,198,207 is covering both principal and interest. An advance interest payment of \$119,156 is not accounted in the loan balance but will be accounted in the next financial year 2018.

BORROWINGS MOVEMENT SUMMARY

	Opening Balance	New and additional loans	Interest during period	Repayments & loan to grant conversion	Balance 30/06/17	Interest Rate
Government Loans :	\$	\$	\$	\$	\$	%
ADB loan No. 752 SAM-SF	13,805,060	-	690,253	(2,039,878)	12,455,434	5.00%
PSEP borrowing	158,845,243	685,474	1,644,638	(33,858,950)	127,316,405	2.00%
Total Government loans	172,650,303	685,474	2,334,891	(35,898,829)	139,771,839	

Total Government Loans

2017	2016
\$	\$
Total	Total
139,771,839	172,650,303

(ii) Power sector expansion project borrowing (PSEP)

On 16th June 2008 the Corporation signed a Subsidiary Financing Agreement with the Government of Samoa for the Power Sector Expansion Project. The total cost of the project is equivalent to US\$100 million dollars. The financing components of the power sector expansion project and the cumulative drawdown balance at year end are as follows:

<i>Financing consortium</i>		<i>Financing components</i>	<i>30 June 17 balance foreign currency</i>	<i>30 June 17 balance local currency</i>
		\$m	\$m	\$m
Asian Development Bank	ADF Loan	US\$26.61	US\$25.2	SAT\$64.5
Asian Development Bank	ADF Grant	US\$15.39	US\$13.2	SAT\$33.8
Japan Bank for International Cooperation	Loan	US\$38.00	US\$37.8	SAT\$96.8
Total repayable borrowings		US\$80.00	US\$76.2	SAT\$195.1
Government of Australia (Aus Aid)	Grant	US\$8.00	US\$7.7	SAT\$19.7
EPC counterpart financing		US\$12.00	US\$10.0	SAT\$24.2
Total project financing		US\$100.00	US\$93.9	SAT\$239.0
<i>NB. Loan interest not included</i>				

The main Financing Agreement is between the Government of Samoa and the Asian Development Bank. Total repayable borrowings as part of the Power Sector Expansion Project amount to \$US80 million dollars. EPC counterpart financing is funded from internal sources of the Corporation. The grant from the Government of Australia is to be recognised as equity in the accounts of the Corporation (refer to Note 22). The original subsidiary financing agreement relates to the financing of the Power Sector Expansion Project which was expected to be implemented over the next 8 years with an expected completion date in 2016 has been revised during current period and is pending approvals to be completed in December 2017.

The transactions during the year are converted at ADB exchange rates to ensure the USD amount agrees with what is recorded by ADB as disbursed under the Loan. The loan drawdowns is recognized when ADB disbursed funds in a form of payments directly to contractor's accounts and is recorded in SAT\$ equivalent amounts in the PSEP on-lending account with MOF as per subsidiary financing agreement between Government of Samoa and EPC.

Items included in the financial statements of the Corporation are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency is the Samoan Tala (SAT).

24, b. Below the market rate of interest

The interest rate of 2% on borrowings from the Government of Samoa is considered "Below the Market rate of interest" in terms of International Accounting Standards (IAS) 20 and IAS 39 which requires all loans to be recognized and measured at fair value, thus requiring interest to be imputed to loans with a below market rate of interest. The Board of International Accounting Standard believed that the imputation of interest provides more relevant information to a user of the financial statement. However, based on discussions with the Ministry of Finance as the Lender for Government Loans, the interest rates as approved by Cabinet in the public interest from time to time is the market rate for interest, as currently they don't have any policies/procedures for setting the market rate of interests for these types of loans.

Interest of \$2,247,460 has been accrued in the current financial year which is recognized in the statement of financial performance. The interest rate is reduce from 6.5% to 2.0% as per FK(15)02 approved on 14 January 2015 and was back dated to year 2008.

Repayments

The repayments fall into two separate tranches – the first tranche has a repayment period of 25 years commencing in 2013 with a grace period of 5 years at an interest rate of 2.0% per annum. The second tranche has a repayment period of 28 years commencing in 2016 including a grace period of 8 years and an interest rate of 2.0%.

Financial covenants

The loan shall have priority over all other debts of the Corporation. Certain financial matters that the Corporation needs to comply with as part of loan conditions are:

- **Accounts Receivable:** Maintaining accounts receivable equivalent to not more than two months equivalent of annual income for electricity energy and non-electricity energy sales –The Corporation has not achieved this loan covenant at 2.95 months of billings.
- **Self-Financing Ratio:** (i) from 2008 to 2015, cash from internal sources shall not be less than 12% of the annual average of capital expenditures incurred. The Corporation has achieved this loan covenant at 43.9%. (ii) After 2015 cash from internal sources shall not be less than 20% of the annual average of capital expenditures incurred;
- **Debt Service Ratio:** No debt to be incurred unless a reasonable forecast of revenues and expenditures show that estimated free cash flows are at least 1.3 times the estimated debt service requirements on the debts of the borrower – The Corporation has achieved as debt service ratio is 1.58

The fair value of the borrowings approximates the carrying value as the borrowings attract a fixed interest rate.

25. Deferred income

	2017 \$	2016 \$
Summary		
Current versus non-current balance		
Current portion		
- (i) CSO	397,069	397,069
- (ii) CSO Tsumani	230,672	230,672
- (iii) Solar energy & wind projects	692,869	635,130
- (iv) Poles/Streetlights from China	239,018	179,264
- (v) Cash power Scratch Card	112,485	35,834
- (vi) Cash power Evend	101,423	48,986
	<u>1,773,536</u>	<u>1,526,954</u>
Non current portion		
- (i) CSO	11,167,444	9,101,232
- (ii) CSO Tsunami	4,015,988	4,246,660
- (iii) Solar energy & wind projects	7,661,090	8,469,437
- (iv) Poles/Streetlights from China	2,210,918	2,509,690
- (v) Renewable energy and power sector rehabs	22,340,887	8,674,765
	<u>47,396,327</u>	<u>33,001,784</u>
Total	<u><u>49,169,863</u></u>	<u><u>34,528,738</u></u>

	2017 \$	2016 \$
(i) Unamortised balance – JICA		
Opening balance	9,498,302	8,280,916
Rural electrification project claims	2,575,000	1,614,455
Installation of streetlights	-	-
Amortisation charge	(508,788)	(397,069)
Closing balance	11,564,513	9,498,302
(ii) Unamortised balance – CSO Tsunami		
Opening balance	4,477,331	4,708,003
Amortisation charge	(230,672)	(230,672)
Closing balance	4,246,660	4,477,331
(iii) Unamortised balance – Solar & wind projects		
Opening balance	9,104,566	9,739,696
Amortisation charge	(750,608)	(635,130)
	8,353,958	9,104,566
(iv) Unamortised balance – Poles/Streetlights from China		
Opening balance	2,688,954	2,868,218
Amortisation charge	(239,018)	(179,264)
	2,449,936	2,688,954
(v) Unamortised balance – Cash Power scratch cards		
Opening balance	35,834	44,525
Sales during the year	2,722,737	4,270,376
Amortisation charge	(2,646,085)	(4,279,067)
Closing balance	112,485	35,834
(vi) Unamortised balance – E-vend		
Opening balance	48,986	17,941
Sales during the year	18,331,395	12,626,995
Amortisation charge	(18,278,958)	(12,595,950)
Closing balance	101,423	48,986

- The corporation is carrying out rural electrification work and installation of streetlight on behalf of government. Expenses are claimed for reimbursement from government as they are incurred. On the receipt of the reimbursement from government, capital expenses are treated as deferred liability and amortised to income over the same years which is the same rate at which the asset is depreciated.
- In 2011, government approved \$2.4 million for reimbursement of electrification work of the Tsunami damage. This reimbursement is also treated as deferred liability and amortised to income over the same years and rate at which the asset is depreciated
- The solar and wind energy grant projects funded by Ausaid which accounted as an assets and deferred income and amortised to income and expenditure statement using the same rates at which these assets depreciated.
- Grant of poles & street lights from China through the ministry of MNRE accounted as an assets and deferred income and amortised to income and expenditure statement using the same rates at which these assets depreciated
- This grant relates to renewable energy and hydro rehabs project (REDPSRP) is currently on progress. It will only amortised when the project is completed and transfer to fixed asset register.

26. Provisions and accruals

Provisions and accruals are specified as follows:

	2017 \$	2016 \$
Other creditors and accruals	363,642	312,714
Provision for audit fees	76,475	106,327
Provision for untaken annual leave	131,080	104,637
Provision for long service leaves	34,973	38,995
	<u>606,169</u>	<u>562,673</u>

Untaken annual leave recognised as an expense for the current year in the profit and loss was \$322,420 Tala (2016:\$276,533).

The Life Accident Benefit scheme provision has been reversed in the Statement of Equity because the policy is no longer in existence. It is superseded by the government corporate insurance to cover the EPC, Ministry of Police and Samoa Fire & Emergency Authority technical staff.

27. Community Service Obligation (CSO) Funding

Funds received from Government during the year for Community Service Obligation (CSO) funding was allocated as follows:

	2017 \$	2016 \$
CSO for operational expenses	-	-
CSO for payments of accounts receivable	1,300,708	2,434,449
CSO for capital expenditures (note 25)	2,575,000	1,614,455
	<u>3,875,708</u>	<u>4,048,904</u>

CSO for operational costs are recognised as income in the financial statements and matched against the expenditure that has been incurred. CSO for capital expenditures are amortised to income at the same rate on which the related asset has been depreciated.

28. Self-Insurance Fund

As per FK (15) 23, a Self-Insurance Fund was set up for EPC assets. The amount for this Fund was increased from \$1.5m to \$5m following Board Resolution dated 22nd October 2015 when the revised budget was approved given the projected financial situation for the year ending 30th June 2016, as well as the Board of Director's concerns with the risk on the corporation's assets. It was also approved that yearly contribution to the Fund be \$2.5m per annum.

29. Restated prior year balance

Represented by:

	2016 \$
Fixed assets write off-Cost	23,378,324
Less:Accumulated depreciation write back	<u>(14,888,539)</u>
Loss on disposal of fixed assts	<u>8,489,786</u>

These write off of assets relate to old distribution lines from prior periods that were replaced during a new project for underground cables. It also represented old generators that were no longer operating in both Upolu and Savaii.

30. Commitments for expenditure

Commitments for expenditure are specified as follows:

	2017 \$	2016 \$
Power plants & distribution assets	-	-
Other property, plant and equipment	661,693	661,693
Total commitments for expenditure	661,693	661,693

31. Contingent liabilities

There is legal claim against the Corporation by George Meredith & Associates (GMA) at an amount of \$3 million which the Corporation is vigorously opposing.

The Corporation is listed as a 4th Respondent in a case between Canny Zinck and Ors vs Eteuati Faaivivi and Ors. The claim seeks damages of \$150,000 and was called for first mention on 31st July 2017.

32. Subsequent events

On 31st August 2017, Louis Berger formally put the Government of Samoa on Notice that it intended to file a claim against the Corporation for an unspecified amount for (a). Breach of a process contract (b). Proprietary estoppel. It was not possible to quantify the potential damage to the Corporation the company may be seeking at this time.