SOLOMON ISLANDS POSTAL CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

Solomon Islands Postal Corporation

Index

Solomon Islands Postal Corporation
State Owned Enterprise Information

The Solomon Islands Postal Corporation (trading as Solomon Post) is a State Owned Enterprise incorporated under the Solomon Islands Postal Corporation Act 1996, commencing operations on 1st January 1997 and domiciled in the Solomon Islands.

The functions of the Corporation are to:
a) Provide postal services within Solomon Islands and other countries;
b) Carry on any business or activity relating to postal services; and
c) Carry on any business or activity which is incidential to those mentioned in paragraphs (a) and (b)

Registered Office

PO Box 1930
Honiara

Principal Place of Business

GPO Building
Mendana Avenue
Honiara

Directors

The Directors at any time during or since the end of the financial year are listed in the Directors' Report.

Solomon Islands Postal Corporation
Directors' Report

The Directors present their report together with the financial statements of Solomon Islands Postal Corporation ('the Corporation') for the Year ended 31 December 2013 and the Independent Audit Report thereon.

Directors

The Directors at any time during or since the end of the financial year:

Name	Date of Appointment	Position	Date of Revocation
2011			
Mr. Robert Bokelema	03-09-04	Chairman (AG)	Current
Mr. Alex Nindi	11-03-10	Member	Current
Mr. Gideon Zoleveke	29-09-05	Member	Current
Ms Susan Votu	19-11-09	Member	Current
Mr. Harrison Tahimana	02-02-05	Member	Current
2012			
Mr. Robert Bokelema	13-09-08	Chairman	Current
Mr. Alex Nindi	11-03-10	Member	Current
Mr. Gideon Zoleveke	29-09-05	Member	Current
Ms Susan Votu	19-11-09	Member	Current
Mr. Harrison Tahimana	02-02-05	Member	30-09-12
Christian Siale	10-10-12	Member	Current
Patrick Taloboe	10-10-12	Member	Current
2013			
Mr. Robert Bokelema	13-09-08	Chairman	Current
Mr. Alex Nindi	11-03-10	Member	15-09-13
Mr. Gideon Zoleveke	16-09-13	Member	Current
Ms Susan Votu	19-11-09	Member	16-09-13
Christian Siale	10-10-12	Member	Current
Patrick Taloboe	10-10-12	Member	Current
Benjamin O Aitoroi	16-09-13	Member	Current
George S Kiriau	06-09-13	Member	Current

Principal activities

The principal activity of the Corporation during the course of the financial year ended 31 December 2013 was the provision of Postal services.

Operating and financial review

The Corporation recorded a net loss for the year amounting to $3,058,654 (2012: net loss of 3,857,147)

Dividends

No dividends have been paid or declared since the end of the previous financial year, and the Directors do not recommend the declaration of a dividend.

Solomon Islands Postal Corporation
Directors' Report - cont'd

Significant Changes in the State of Affairs

In July 2007 the Solomon Island Government passed the State Owned Enterprises Act 2007 and listed Solomon Islands Postal Corporation as a State Owned Enterprise under the jurisdiction of the Act.

Compliance with the Act could impact on the future operations of Solomon Islands Postal Corporation. Significant impact could include:

- The Minister of Finance and the Responsible Minister (the "accountable Ministers") can direct SIPC to perform a community service obligation (Section 8, 1):
- The accountable Ministers can determine the amount of any dividend payable by SIPC (Section 12, 1b);
- The requirement to issue a Statement of Corporate Objectives that provides disclosure of intended activities, accounting policies, performance targets, dividends and taxes to be paid during the period in question (Section 13, 2):
- The requirement to issue the audited consolidated financial statements of the group within 3 months after the end of the financial year (Section 14, 1b); and
- This act shall prevail where there is any inconsistency in requirements with the Solomon Islands Postal Corporation Act 1996 (Sectin 26, 7 and 8)

A State Owned Enterprises (SOE) Regulation was gazetted on April 2010 named the SOE Regulation 2010. The SOE Regulation was to administer the administration of the SOE Act 2007. The effecting of the Regulation can have significant impact on the following:

- Appointment of Directors (Part 2)
- Disqualification and Removal of Directors (Part 3)
- Directors Duties (Part 4)
- Community Service Obligations (Part 6)

On 30 August 2012, the Universal Postal Union (UPU) applied automatic suspension to Solomon Islands for failing to settle outstanding mandatory membership contribution arrears totalling CHF177,438. This automatic suspension affects greatly the operations of Solomon Posts as it is denied the privilege to benefit from a number of projects from the UPU earmarked for the 2012 financial year as well as any future projects under the DOHA Postal Strategy for the period 2013 2016. The settlement of the UPU annual mandatory contribution is the responsibility of the Solomon Islands Government (SIG) as the signatory to the Universal Postal Services Charter and as the regulator of postal services in Solomon Islands.

Apart from the automatic suspension from UPU, there has not arisen in the interval between the end of the financial yea and the date of this report any other item, transaction or event of a material or unusual nature likely to affect significantly the operations of the Corporation, the results of its operations, or the state of affairs of the Corporation in future financial years.

Signed in accordance with a resolution of the Directors.

RBokelema

Name: Robert Bokelema
Director

Name: GIDEON ZOLOVEKE
Director

Dated at Honiara this 11th day of November 2014.

Independent Auditor Report

Solomon Islands Office
of the Auditor-General

INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Postal Corporation

Report on the Financial Statements

I was engaged to audit the accompanying financial statements of the Solomon Islands Postal Corporation ("SIPC"), which comprise the balance sheet as at 31 December 2013, and the profit and loss statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 6-22.

Board of Director's responsibility for the financial statements

The Board of Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

Because of the matters discussed in the basis for disclaimer opinion paragraph, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion in accordance with International Auditing Standards.

Basis for Disclaimer of Opinion

The basis for disclaimer of opinion on the 2013 financial statements is attributed to the following:

Opening Balances

A disclaimer of opinion was issued on the 2012 financial statements. I therefore could not determine the accuracy of the opening balances as at 1 January 2013, and the effect of any misstatements therein on the profit and loss statement, statement of changes in equity and cash flow statement for the year ended 31 December 2013. As a result of these matters, I was unable to determine whether any adjustments might have been necessary in respect to the profit for the year reported in the profit and loss statement and statement of changes in equity and the net cash flows from operating activities reported in the cash flow statement.

Revenue

There was an unjustified receipt number 109700 of $38,696.57 and a delay in deposit totaling to $441,168.66. As a result I am unable to verify the accuracy and completeness of revenue collected and recorded for the year ended and the accuracy and completeness of the revenue balances as at 31 December 2013. Further, Receipts totaling $58,666.08 were unable to be vouched back to the bank statements. As a result I am unable to verify and confirm the accuracy, existence and occurrence of the reported revenue balance as at 31st December 2013. I was unable to determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Expenditure

A total of 15 payment vouchers totaling $492,527.31 were missing and could not be located during the audit. As a result I am unable to confirm or verify by alternative means the accuracy and occurrence of the reported expenditure balance included in the financial statements for the year ended 31 December 2013.

Trade Receivables

I was unable to obtain sufficient appropriate audit evidence regarding the accuracy of the receivable balances as at 31 December 2013 financial year. Accordingly, I am not able to ascertain what adjustments, if any, might be necessary to the amounts and disclosures in the financial statements.

Inventory

The inventory stock take records used to document the stocktake and substantiate the reported inventory balance were incomplete. They did not detail either the unit cost or total cost columns. Due to the absence of such significant columns that carries the value the inventory counted, I was unable to verify and confirm the completeness, accuracy, valuation and validity of the inventory valuations as at 31 December 2013.

Investment Property

The last valuation on the investment property was performed by an independent valuer in December 2007. Due to the length of time passed since the last valuation was performed on valuation of the investment property. I was therefore unable to satisfy myself as to the accuracy, completeness and valuation of the carrying value of the investment property at 31 December 2013 and determine whether any adjustments might be necessary to the reported balances disclosed in the financial statements to substantiate that investment property is reported at fair value.

Property, Plant and Equipment

The last independent valuation of property plant and equipment was undertaken as at 1 January 2010. SIPC also did not review the useful lives and residual value of the property, plant and equipment as at reporting date. I was therefore unable to satisfy myself as to the fair value of property plant and equipment as at 31 December 2013. I was also unable to determine whether adjustments to property, plant and equipment and the associated charges to depreciation in the financial statements were necessary. As a result I am unable to confirm or verify by alternative means the movement in property, plant and equipment balances carrying amount of property plant and equipment included in the financial statements as at 31 December 2013 and determine whether any adjustments might be necessary to the amounts and disclosures in the financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements of the Solomon Islands Postal Corporation for the financial year ended 31 December 2013.

Emphasis of Matter

Going concern

I draw attention to note 1(c) to the financial statements and that the SIPC continuation as a going concern is dependent on its ability to obtain appropriate financing and on the ongoing support of the Solomon Islands Government in order to meet its obligations. Current liabilities are exceeding Current assets resulting in a working capital loss of $73,644,765. The directors believe that the going concern basis is appropriate as the SIPC is a state owned enterprise and the Solomon Islands have indicated to SIPC that it will provide financial support to enable it to pay its debts as and when they fall due for a period of 12 months from the date the Directors approved these financial statements.

Report on Other Legal and Regulatory Requirements

Lack of compliance with the State Owned Enterprises Act 2007

I draw your attention to the fact that SIPC has not complied with Section 14 (1) (b) and (c) of the *State Owned Enterprises Act* 2007 which require audited consolidated financial statements and the auditor's report thereon to be presented to the accountable minister within three months of the end of the financial year. The management signed financial statements were not presented to me until 11 November 2014.

Robert Cohen
Acting Auditor-General

Office of the Auditor-General
Solomon Islands

12 November 2014

Solomon Islands Postal Corporation
Statement by Directors

In accordance with the resolution of the Board of Directors of Solomon Islands Postal Corporation, we state that in the opinion of the Directors:

(a) the financial statements and notes set out on pages 6 to 22:

(i) give a true and fair view of the Corporation's financial position as at 31 December 2013 and of its performance for the financial year ended on that date, and

(ii) comply with International Financial Reporting Standards;

(b) there are reasonable grounds to believe that the corporation will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

RBokelema

Name: Robert Bokelema
Director

Name: GIDEON ZOLEVEKE
Director

Dated at Honiara this 11th day of November 2014.

Solomon Islands Postal Corporation

Statement of Comprehensive Income for the year ended 31 December 2013

	Notes	2013 $	2012 $
Revenue from Continuing Operations			
Stamp sales		262,722	198,005
Bulk Postage		1,331,764	681,601
Remailing fees		599,616	-
Terminal Dues		696,334	899,357
Post Box Rentals		879,379	890,435
Property Rentals		1,698,745	1,353,851
Post shop sales		914,834	1,106,819
Other Income		1,321,678	1,155,655
Foreign currency sales		1,445,240	1,828,607
Finance revenues		4,479	39,266
SIG Grant (CSO funding)		1,000,000	1,500,000
Total revenue from continuing operations		10,154,790	9,653,596
Expenses from Continuing Operations			
Advertising, Printing and Stationery		41,616	103,530
Board expenses		72,136	74,340
Cost of goods purchased for resale		1,088,933	1,375,464
Depreciation		1,422,251	1,454,972
Operating expenses		812,892	391,788
Maintenance and repairs		300,106	1,006,496
Office expenses		302,315	536,065
Terminal dues expenses		5,457	596,514
Rent expense		1,104,485	1,095,512
Seminars, conferences and training		77,518	270,149
Travel and transport		348,435	336,745
Utilities		1,254,676	1,454,079
Employment Expense		4,080,835	4,522,073
Mail freights		266,085	293,015
Finance expenses		1,317,781	-
Tax expenses		717,923	-
Total Expense from continuing operations		13,213,444	13,510,742
Net profit / (loss) for the year		(3,058,654)	(3,857,146)

The Statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

Solomon Islands Postal Corporation

Statement of Changes in Equity for the year ended 31 December 2013

	Notes	2013 $	2012 $
Balance at 1 January 2012		(50,022,706)	(46,165,560)
Net Profit for the year			
Balance as at 31 Dec 2012 as previously reported		(50,022,706)	(46,165,560)
Correction of Prior year error	2	(6,186,456)	
Balance at 31 December 2012, as restated		(56,209,162)	(46,165,560)
Net profit / (loss) for the year		(3,058,654)	(3,857,146)
Balance at 31 December 2013		(59,267,816)	(50,022,706)

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

Solomon Islands Postal Corporation
Statement of Financial Position as at 31 December 2013

	Note	2013 $	2012 $
CURRENT ASSETS			
Cash on hand and at bank	3	1,439,255	664,763
Trade and other receivables	4	2,206,962	6,641,629
Investments	5	0	149,632
Inventories	6	2,136,977	7,797,156
TOTAL CURRENT ASSETS		5,783,194	15,253,180
NON-CURRENT ASSETS			
Property & Investments	7	2,775,000	2,775,000
Property, plant and equipment	8	11,632,165	13,011,005
TOTAL NON-CURRENT ASSETS		14,407,165	15,786,005
TOTAL ASSETS		20,190,359	31,039,185
CURRENT LIABILITIES			
Trade and other payables	9	79,427,959	80,706,775
TOTAL CURRENT LIABILITIES		79,427,959	80,706,775
NON - CURRENT LIABILITIES			
Trade and other payables	9	30,217	355,116
TOTAL NON-CURRENT LIABILITIES		30,217	355,116
TOTAL LIABILITIES		79,458,176	81,061,891
NET ASSETS		(59,267,816)	(50,022,706)
SHAREHOLDERS' EQUITY			
Retained earnings / (Accumulated losses)		(59,267,816)	(50,022,706)
TOTAL SHAREHOLDERS' EQUITY		(59,267,816)	(50,022,706)

The Statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

Solomon Islands Postal Corporation

Statement of Cashflow for the year ended 31 December 2013

	Note	2013 $	2012 $
Cash Flows From Operating Activities			
Cash receipts from customers		10,154,790	10,232,214
Cash payments to suppliers and employees		(9,486,519)	(14,448,162)
Cash generated from / (used in) operations		668,271	(4,215,948)
Interest received		-	9,544
Net cash provided by / (used in) operating activities	14(b)	668,271	(4,206,404)
Cash Flows From Investing Activities			
Acquisition of property, plant and equipment		(43,411)	(216,183)
Acquisition of term deposits		-	-
Withdrawal of term deposits		149,632	2,123,074
Net cash provided by / (used in) investing activities		106,221	1,906,891
Net increase / (decrease) in cash and cash equivalents		774,492	(2,299,513)
Cash and cash equivalents at the beginning of the financial year		664,763	2,964,276
Cash and cash equivalents at the end of the financial year	3	1,439,255	664,763

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statement set out on pages 10 to 22.

Solomon Islands Postal Corporation
Notes to and forming part of the accounts

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations adopted by the International Accounting Standards Board as adopted by the Institute of Solomon Islands Accountants.

(b) Basis of Preparation

The financial statements have been prepared primarily on the historical cost basis except that investment properties and financial instruments classified as available for sale have been stated at their fair value.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of a financial report in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, Income & Expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgement about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods.

The accounting policies have been consistently applied by the Corporation and they are consistent with those of the previous year.

The financial statements are presented in Solomon Islands currency, the Solomon Islands dollar ($).

(c) Going Concern

The financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Corporation's current liabilities exceed its current assets. As a going concern, the Corporation is dependent upon the continuing support of the Solomon Islands Government, its bankers and creditors.

The Directors have concluded that the going concern basis is appropriate as the Solomon Islands Government has indicated that it will provide the Corporation with financial support to enable it to pay its debts as and when they fall due for a period of 12 months from the date the Directors approved these financial statements.

(d) Foreign Currency

The functional currency adopted in the preparation of the financial statements is the Solomon Islands currency, the Solomon Islands dollar ($). Transactions in foreign currencies are recorded at the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income. Foreign currency monetary assets and liabilities are translated at the exchange rate at the balance date. Resulting exchange differences are recognised in the Statement of Comprehensive Income for the year. Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate at the date of the transaction.

Solomon Islands Postal Corporation
Notes to and forming part of the accounts

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment

Items of property, plant and equipment are stated at original cost, deemed cost or valuation less accumulated depreciation and impairment losses. Construction cost for self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an apppropriate proportion of production overheads.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassifed as investment property. When the construction or development of a self-contructed investment property is completed and will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount is recognised in Statement of Comprehensive income. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The Corporation recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Corporation and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive income as an expense as incurred.

Leases in terms of which the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception fo the lease, less accumulated depreciation and impairment losses (see accounting policy f). The property held under finance leases and leased out under operating lease is classified as investment property and stated at the fair value model. Lease payments ar accounted for as described in accounting policy (v). Property held under operating leases that would otherwise meet the

Depreciation is charged to the Statement of comprehensive income on a straight line basis over the estimated useful live of each part of an item of property, plant and equipment. Fixed assets are first depreciated in the year of acquisition, or, in the case of construction, in the year of substantial completion of the asset. The estimated useful life in current and comparative periods are as follows:

• buildings	20 years
• plant and equipment	5 years
• Fixtures and fittings	10 years
• motor vehicles	5 years

(f) Impairment

The carrying amounts of all assets carried at cost are reviewed at each balance date to determine whether there is any indication of impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive income.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Inventories

Inventory for resale and consumable materials are valued at the lower of purchase cost, which is based on invoice prices and includes expenditure incurred in acquiring the goods and bring them to their existing condition and location, and net realisable value. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

(i) Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recorded at the net proceeds received. Any discount, premium or other difference between the net proceeds and the redemption value is amortised and included in finance costs over the term of the loan.

If debt is repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the Statement of Comprehensive income.

(j) Provisions

Provisions are recognised when the Corporation has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(k) Revenue

Revenue from the sale of goods is recognised in the Statement of comprehensive income when the significant risks and rewards of ownership has been transferred to the buyer.

Revenue from services rendered is recognised in the Statement of comprehensive income in proportion to the stage of completion of the transaction at the balance date.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(l) Trade and other payables

Trade and other payables are stated at cost.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Taxation

Tax on the profit or loss for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferre tax liability. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the Statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

(n) Investment Property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value.

The valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and where relevant, associated costs. A yield which reflects the specific risks inherent in the net cash flows is then applied tı the net annual rentals to arrive at the property valuation. Valuations reflect, where appropriate; the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accomodation and the market's general perception of their credit-worthiness; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and where appropriate counter notices have been served validly and within appropriate time.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is recognised in the income statement on straight line basis over the term of the lease.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, fixtures and fittings and its fair value at the date of reclassification becomes its cost for accounting purposes of subsequent recording. When the Corporation begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on a fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by property basis when the Corporation holds it to earn rentals or for capital appreciation or both. Any such property interest under an operating lease classified as an investment property is carried at fair value. Lease payments are accounted for as described in accounting policy (v).

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Cash and cash equivalent

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management are included as componet of cash and cash equivalents for the purpose of the statement of cash flows.

(p) Employee benefits

The Corporation's obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their services in the current and prior periods.

Liabilities for employee benefits for wages, salaries, annual leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employee's services provided to reporting date, are calculated at amounts based on remuneration wage and salary rates that the Corporation expects to pay as at reporting date including related on-costs.

(q) Expense

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability

Financial costs

Financial costs comprise interest payable on borrowings calculated using the effective interest method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

(r) Financial income

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the Corporation's right to receive payments is established which in the case of quoted securities is ex-dividend date. The interest expense component of finace lease payments is recognised in the income statement using the effective interest method.

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

	2013 $	2012 $
2. PRIOR YEAR ADJUSTMENTS		
Overstatement of Trade Debtors	(20,512)	-
Overstatement of Trade Creditors	278,863	-
Understatement of Salary Advance	6,687	-
Unreimbursed Postshop expenses	(1,903)	
Unrecorded BSP CSO account opening balance	131	-
Unrecorded Withhollding tax deductions	(78,278)	-
Cleared unpresented cheques and outstanding deposits	112,977	-
Overstatement of LSB and Basic Rates payables	115,748	-
Overstatement of Fixed Asset	-	626,000
Write off Prior years leave travel Imprest	-	(121,023)
Write off SIWA arrears incorrectly taken up in 2010	-	(104,180)
Understatement (Overstatement) of 2012 Philatelic inventory	(6,600,169)	4,768,595
	(6,186,456)	5,169,392

The prior year adjustment on Philatelic inventory was undertaken in 2013 due to the overstatement of the Philatelic Inventory in 2011 and 2012 financial years. This adjustment was necessary as the inventory valuation undertaken in 2011 and 2012 was based on the face value of the stamps rather than the average cost method as applied from 2005 to 2010. Applying the average cost method on philatelic stocks in 2013, a significant difference in the stock value was noted giving rise to an investigation into the matter which identified the cause of the significant jump in inventory value for the 2 years. The prior year adjustment is as highlighted below:

Stock Take as at 31/12/2012 Prior Year Adjustments			
LOCATIONS	**2012 Face Value**	**2012 Ave. Cost**	**PYA**
PB Counter	62,931.75	7,026.32	(55,905.43)
PB GBR	56,043.65	5,390.97	(50,652.68)
PB Strong Room	0.00	0.00	-
PB Vault	6,724,556.52	660,273.46	(6,064,283.06)
GPO Counter 5 & 6, Registrar/Parcel	250,676.80	45,822.98	(204,853.82)
			-
Provincial Offices			-
Auki	131,342.86	24,905.71	(106,437.15)
Buala	0.00	0.00	-
Kirakira	0.00	0.00	-
Munda	195,757.04	77,719.78	(118,037.26)
Noro	0.00	0.00	-
GZ/LT/TL/TR	0.00	0.00	-
TOTAL	$7,421,308.62	$821,139.23	(6,600,169.39)

The average cost per unit of each category of philatelic items are:

- Stamp Pieces & Sets (SP) $ 0.60
- Souvenir Sheets & Sets (SSS) $ 1.08
- First Day Covers (FDC) $ 1.58
- Miscellaneous (MISC) $ 0.60

These average costs were derived from stamp printing invoices incurred in 2006 to 2010. After 2010, SIPC outsourced stamp printing to a stamp agent, Stampijira Ltd of Europe.

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

		2013	2012
3.	**CASH AND CASH EQUIVALENTS**	$	$
	Petty Cash (Cash imprest)	361,764	237,566
	Cash at bank	1,077,491	427,197
		1,439,255	664,763

The corporation has no approved overdraft facility. Management advise that any overdraft position at the bank is temporary.

		2013	2012
4.	**TRADE AND OTHER RECEIVABLES**		
	Trade debtors	3,538,556	7,919,401
	Less: Provision for doubtful debts	(1,342,973)	(1,342,973)
	Staff advance	6,576	14,833
	CBSI - Treasury Bills Receivable	-	50,368
	Other Debtors and prepayments	4,804	-
		2,206,962	6,641,629
5.	**INVESTMENTS**		
	Term Deposit	-	149,632
6.	**INVENTORIES**		
	Stores and consumable materials	2,136,977	7,797,156
	Less: Provision	-	-
		2,136,977	7,797,156
7.	**INVESTMENT PROPERTY**		
	Opening Balance	2,775,000	2,775,000
	Fair Value adjustments	-	-
	Closing Balance	2,775,000	2,775,000

The carrying amount of investment property is the fair value of the property as determined by independent valuers in December 2007. Revaluation of the investment property is expected to be done very three (3) years. In 2010 it was noted that SIPC never accrue rentals from one fo the investment property (Trade Dispute building) over the years. The value of the Trade Dispute Building was $243,000 as per the 2007 valuation.

Solomon Islands Postal Corporation
Notes to and forming part of the accounts (continued)

8. PROPERTY, PLANT AND EQUIPMENT

Cost	Note	Leasehold land at Revalued amount $	Buildings at Revalued amount $	Office and Postal Equipments $	Furnitures and Fittings $	Computer Assecories $	Motor Vehicles $	Total $
At 1 January 2012		3,255,000	11,619,867	3,144,466	439,157	544,271	1,048,007	20,050,768
Additions during the year				98,748	5,630	111,805		216,183
Disposals during the year		-	-	-	-	-	-	-
At 31 December 2012		3,255,000	11,619,867	3,243,214	444,787	656,076	1,048,007	20,266,951
Balance at 1 January 2013		3,255,000	11,619,867	3,243,214	444,787	656,076	1,048,007	20,266,951
Additions during the year		-	-	23,210		20,200		43,410
Disposals during the year								-
Balance as at 31 December 2013		3,255,000	11,619,867	3,266,424	444,787	676,276	1,048,007	20,310,361
Accumulated depreciation								
At 1 January 2012		-	3,521,434	1,989,100	145,697	110,055	660,688	6,426,974
Depreciation		-	580,993	551,173	44,479	127,488	150,839	1,454,972
Disposals during the year		-	-	-	-	-	-	-
Prior Year Error	2		(298,127)	(291,816)	(22,037)	836	(14,856)	(626,000)
At 31 December 2012		-	3,804,300	2,248,457	168,139	238,379	796,671	7,255,946
Balance at January 2013		-	3,804,300	2,248,457	168,139	238,379	796,671	7,255,946
Depreciation		-	580,993	525,191	44,479	134,585	137,001	1,422,249
Disposals		-	-	-	-	-	-	-
Balance at 31 December 2013		-	4,385,293	2,773,648	212,618	372,964	933,672	8,678,195
Carrying Amounts								
At 31 December 2012		3,255,000	7,815,567	994,757	276,648	417,697	251,336	13,011,005
At 31 December 2013		3,255,000	7,234,574	492,776	232,169	303,312	114,335	11,632,165

9. TRADE AND OTHER PAYABLES

	2013 $	2012 $
Current Liabilities		
Trade creditors	78,508,024	80,334,612
Accruals	86,854	-
Deposits and other liabilities	833,081	372,163
	79,427,959	80,706,775
Non current Liabilities		
Trade creditors		
Accruals	-	-
Deposits and other liabilities	30,217	355,116
	30,217	355,116

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

	2013	2012
10. RELATED PARTY TRANSACTIONS	$	$

A. Controlled entities

The corporation does not control any other entities

B. Outstanding Balances

The following Balances were owing to/(by) the corporation:

	2013 $	2012 $
Government house	3,783	-
Ministry of agriculture	2,730	2,782,434
Ministry of Commerce (Trade & dispute panel)	1,978	1,224,000
Ministry of Finance	437,352	553,107
Ministry of Youth Sport Women & Children's Affairs	419	-
Ministry of Development Palnning & Coordination	71	-
Ministry of Education & Human Resources	4,438	-
Ministry of Environment Conservation & Meteorology	2,075	-
Ministry of Forestry & Research	1,977	-
Ministry of Health & Medical Services	19,662	-
Ministry of Home Affairs	970	-
Ministry of Infrustructure & Development	2,671	-
Ministry of Justice and Legal Affairs	32,826	-
Ministry of Lands & Survey	8,213	-
National Pariliament house	536	-
	519,701	4,559,541

Transaction

The following revenues(expense) were incurred by the corporation:

	2013 $	2012 $
Auditor general	-	(612,000)
Directors remuneration and expenses	(72,136)	(74,340)
	(72,136)	(686,340)

C. Key Management Compensation

Key management includes, Chief Executive officer, Deputy Chief executive officer-coperate services, Deputy Chief Executive Officer-Operations.

The compensation paid or payable to key management for their service rendered to the corporation are as follows:

	2013 $	2012 $
• Wages & salaries	306,000	306,000
• Other employment benefits	303,000	303,000
• Termination benefit	67,500	67,500
	676,500	676,500

All transactions with related parties are concluded on an arm's length basis.

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

11. EMPLOYMENT BENEFITS

On 20 October 2008, the SIPC Board introduced a long service benefit entitling staff to three months leave after 10 years of service. The entitlement was effective from 1 January 2008. At 31 December 2013 the long service benefit liability was $36,810 (2012: $139,852). The decrease in liability stems from the fact that LSB entitlement applies to any employee onces only on the completion of a 10 year service rather than continous as calculated in prior years.

On 3 November 2009, the SIPC Board endorsed the Retirement Benefit policy entitling staff to retirement benefits through early retirement or normal retirement. The following being summaries of retirees since the policy became effect in 2009:

- In 2010 there were 8 staff retired with gross retirement benefit totalling $373,829.81
- In 2011 there were 5 staff retired with gross retirement benefit totalling $314,303.30
- In 2012 there were 3 staff retired with gross retirement benefit totalling $121,158.62
- In 2013 there were no staff on retirement

12. SUBSEQUENT EVENTS

On 30 August 2012, the Universal Postal Union (UPU) applied automatic sanction to Solomon Islands for failing to settle outstanding mandatory membership contribution arrears totalling CHF177,438. This automatic sanction affects greatly the operations of Solomon Posts as it is denied the privilege to benefit from a number of projects from the UPU earmarked for the 2012 financial year as well as any future projects under the DOHA Postal Strategy for the period 2013 2016. The settlement of the UPU annual mandatory contribution is the responsibility of the Solomon Islands Government (SIG) as the signatory to the Universal Postal Services Charter and as the regulator of postal services in Solomon Islands.

Apart from the automatic sanction from UPU, there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material or unusual nature likely to affect significantly the operations of the Corporation, the results of its operations, or the state of affairs of the Corporation in future financial years.

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

13. FINANCIAL RISK MANAGEMENT

Overview

The Corporation has exposures to the following risks arising from financial instruments:

- Credit risk; Liquidity risk; and Market risk

This note presents information about the Corporation's exposure to each of the above risks, and the Corporation's objectives, policies and processes for measuring and managing risk.

Risk Management Framework

The Board of Directors have overall responsibility for the establishment and oversight fo the Corporation's risk management framework. The Corporation's risk management policies are established to identif and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market and conditions and the Corporation's activities.

Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from customers.

<u>Trade and other receivables</u>

The Corporation's exposure to credit risk is influenced mainly by individual characteristics of each customer. However, the Corporation has established a credit policy under which each new customer is analysed individually for creditworthiness before the Corporation's standard payment and delivery terms and conditions are offered.

The Corporation establishes an allowance for impairment that represents its estimate of incurred losses in respect o trade and other receivables. The main component of this allowance are specific loss component that relates to individually significant exposures, and a collective loss component established for similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historica data of payment statistics for similar financial assets.

<u>Exposure to credit risk</u>

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to the credit risk at the reporting date was as follows:

	2013	2012
	$	$
Cash at bank	1,439,255	664,763
Trade receivables	3,538,556	7,919,401
Other receivables	4,804	65,201
Investments	-	149,632
	4,982,614	8,798,997

<u>Impairment losses</u>

The ageing of trade receiveables at reporting date that were not impaired was as follows:

	2013	2012
Not past due	1,061,000	912,992
Past due 31-60 days	18,075	26,937
Past due 61-90 days	335,362	25,305
Past due more than 90 days	2,124,120	6,954,167
	3,538,556	7,919,401

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

13. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation. The Corporation does not operate any bank overdraft facilities.

The following are the contractual maturities of financial liabilities:

31 December 2013

	Carrying Amount $	6 months or less $	6 - 12 months $	1 - 2 years $	More than 2 years $
Financial liabilities					
Trade, other payables and accrued expenditures	$79,427,961	$653,241	$38,083	$36,973	$78,699,663
	$79,427,961	$653,241	$38,083	$36,973	$78,699,663

31 December 2012

	Carrying Amount $	6 months or less $	6 - 12 months $	1 - 2 years $	More than 2 years $
Financial liabilities					
Trade, other payables and accrued expenditures	$80,706,775	$225,260	$12,705	$29,330	$80,439,480
	$80,706,775	$225,260	$12,705	$29,330	$80,439,480

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return

Currency risk

The Corporation is exposed to foreign currency risks on revenue, expenses and borrowings that are denominated in a currency other than the Solomon Islands Dollar. The Corporation for its international mail activities bills in SDR and settles in USD. Other currency of billing and settlements are AUD and FJD.

As at year end, assets, liabilities denominated in foreign currencies include trade receivables and trade payables. Significant foreign exchange exposures are as follows:

31 December 2013

	USD/SBD $	AUD/SBD $	FJD/SBD $
Financial assets			
Trade receivables	2,023,999	539,678	-
	2,023,999	539,678	-
Financial liabilities			
Trade and other payables	77,726,219	-	50,746
	77,726,219	-	50,746

31 December 2012

	USD/SBD $	AUD/SBD $	FJD/SBD $
Financial assets			
Trade receivables	2,196,941	905,688	-
	2,196,941	905,688	-
Financial liabilities			
Trade and other payables	76,468,264	-	-
	76,468,264	-	-

Solomon Islands Postal Corporation

Notes to and forming part of the accounts (continued)

13. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

Currency risk (continued)

A strengthening of the Dollar as indicated below against SDR, USD, AUD, and FJD at 31 December would have increased (decreased) profit after tax by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Corporation considered to be reasonably possible at the reporting date. This assumes that all other variables are constant:

	2013	2012
Financial assets		
Impact on profit after tax if 1% increase in USD fx rate against SBD	20,240	21,969
Impact on profit after tax if 1% decrease in USD fx rate against SBD	(20,240)	(21,969)
Impact on profit after tax if 1% increase in AUD fx rate against SBD	5,397	9,057
Impact on profit after tax if 1% decrease in AUD fx rate against SBD	(5,397)	(9,057)
Financial liabilities		
Impact on profit after tax if 1% increase in USD fx rate against SBD	777,262	764,683
Impact on profit after tax if 1% decrease in USD fx rate against SBD	(777,262)	(764,683)
Impact on profit after tax if 1% increase in FJD fx rate against SBD	507	-
Impact on profit after tax if 1% decrease in FJD fx rate against SBD	(507)	-

14. NOTES TO THE STATEMENT OF CASH FLOWS

	2013 $	2012 $
(a) Reconciliation of cash		
For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:		
Cash and short term deposits	1,439,255	664,763

(b) Reconciliation of operating profit after income tax to net cash provided by operating activities	2013 $	2012 $
Operating profit / (loss) after income tax	(3,058,654)	(3,857,146)
Add / (deduct) non-cash items:		
Depreciation	1,422,251	1,454,972
Foreign currency loss/Gain	1,317,781	(29,722)
Decrease/Increase in provision	-	(80,267)
Prior period adjustments	(6,186,456)	
Net cash provided by operating activities before changes in assets and liabilities	(6,505,078)	(2,512,163)
Changes in assets and liabilities:		
(Increase) / decrease in inventories	5,660,179	(1,773,956)
(Increase) / decrease in trade debtors	3,116,886	785,997
Increase / (decrease) in trade creditors	(1,603,715)	(706,282)
Net cash provided by / (used in) operating activities	668,271	(4,206,404)