

Audited Project Financial Statements

Project Number: 49450-012
Grant Number: 0640/0641/0642
Period covered: 1 July 2019 to 30 June 2020

Tonga: Renewable Energy Project

Prepared by Tonga Power Limited

For the Asian Development Bank
Date received by ADB: 29 March 2021

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. This document is being disclosed to the public in accordance with ADB's Access to Information Policy and as agreed between ADB and Ministry of Finance and National Planning.

**Tonga Renewable Energy Project
Special Purpose Financial Statements
For the year ended 30 June 2020**

Tonga Renewable Energy Project

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Tonga Renewable Energy Project Committees' Report

The Committee presents their report together with the special purpose financial statements of the Tonga Renewable Energy Project (the "Project") for the year ended 30 June 2020 as set out on pages 8 to 10 and the auditors' report thereon.

Project Coordination Committee

The members' of the Project Coordination Committee (the "Committee") during the period and at the date of this report are:

Mrs. Bawlyn Fa'otusia (Committee Chair)

Mrs. Elizabeth Baker

Mr Setitaia Chen

Mr Steven 'Esau

Mr. Paula Maú

Mr Tevita Tukunga

Mr Sione Akauola

Mr. Tatafu Moeaki

Mr. Simon Wilson (PMU)

State of affairs

In the opinion of the Committee:

- (i) 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 Project at 30 June 2020; and
- (ii) the accompanying notes to financial statements is drawn up so as to give a true and fair view of the state of affairs of the Project at 30 June 2020.

Principal activity

The principal activity of the Project during the period was divided into three components;

- (i) Popua Power Station Battery Energy Storage system (BESS) intended to provide reserve capacity, reactive power, voltage and frequency control to the Tongatapu grid to enable increasing renewable energy in the grid;
- (ii) Villa Battery Energy Storage system (BESS) 2MW Solar; and
- (iii) Lot 1 & Lot 2 – Renewable based hybrid systems and mini grids on Outer Islands under Tonga Renewable Energy Project.

Currently, the principal activities are at the design and supply stage.

Tonga Renewable Energy Project Committees' Report (continued)

Other circumstances

At the date of this report, the Committee is not aware of any circumstances not otherwise dealt with in this report or special purpose financial statements which would render any amounts stated in the accounts to be misleading.

Unusual circumstances

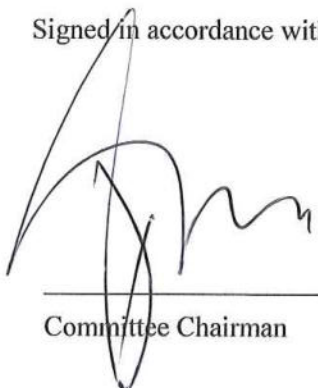
The results of the Project's operations during the financial period have not in the opinion of the Committee been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the special purpose financial statements.

Events subsequent to year end

There has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Committee, to affect significantly the operations of the Project, the results of those operations or the state of affairs of the Project in subsequent financial years.

Dated at _____ this 10th day of March 2021.

Signed in accordance with a resolution of the Project Coordination Committee.



Committee Chairman

Committee Member


Tonga Renewable Energy Project Project Coordination Committees' Declaration

In the opinion of the Committee of Tonga Renewable Energy Project:

- (a) The accompanying financial statements of Tonga Renewable Energy Project are drawn up so as to present fairly the financial position of the Project as at 30 June 2020;
- (b) The operations of Tonga Renewable Energy Project have been carried out in accordance with its Project Agreement dated 13 September 2019, as amended and in compliance with the requirements of the subsequent variations to the Project Agreement during the year ended 30 June 2020; and
- (c) The financial statement has been prepared in accordance with the basis of accounting described in Note 1, and the provisions of the Project Agreement dated 13 September 2019 as amended.

Date at _____ this 10th day of March 2021

Signed in accordance with a resolution of the Project Coordination Committee.



Committee Chairman

Committee member



Independent Auditors' Report

To the Members of the Tonga Renewable Energy Project

Report on the Audit of the Special Purpose Financial Statements

Opinion

We have audited the accompanying special purpose financial statements of the Project entitled, "Tonga Renewable Energy Project", which comprise the statement of financial position as at 30 June 2020, and a summary of significant accounting policies. The special purpose financial statement has been prepared by the Project's Management using the basis of accounting described in Note 1 to the special purpose financial statement.

In our opinion, the accompanying special purpose financial statements is prepared in all material respects, in accordance with the accounting policies described in Note 1 to the special purpose financial statements to meet the requirements of the Project Agreement between the Government of Tonga and the Asian Development Bank dated 13 September 2019.

Basis for Opinion

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

Emphasis of matter – Basis of Accounting and Restrictions on Use and Distribution

We draw attention to Note 1 to the special purpose financial statements, which describe the basis of accounting. The special purpose financial statements are prepared to assist the Project comply with the financial reporting provisions of the Project Agreement referred to above. As a result, the special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the Project Committee and shared with the Government of Tonga and the Asian Development Bank. It should not be used by or distributed to parties other these organisations and their members. Our opinion is not modified in respect of this matter.

Other Information

The Committee is responsible for the other information. The other information comprises the information included in the Committees' report, but does not include the special purpose financial statements and our auditors' report thereon. Our opinion on the special purpose financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



Independent Auditors' Report

To the Members of the Tonga Renewable Energy Project

Report on the Audit of the Special Purpose Financial Statements (continued)

Other Information (continued)

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

Responsibilities of Committee and Those Charged with Governance for the Special Purpose Financial Statements

The Committee is responsible for the preparation of special purpose financial statements that give a true and fair view in accordance with accounting policies as set out in Note 1, and for such internal control as the Committee determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these special purpose financial statements.

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

- Identify and assess the risks of material misstatement of the special purpose 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.



Independent Auditors' Report

To the Members of the Tonga Renewable Energy Project

Report on the Audit of the Special Purpose Financial Statements (continued)

Auditors' Responsibilities for the Audit of the Special Purpose Financial Statements (continued)

- 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 Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Committee.
- Conclude on the appropriateness of the Committee'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 Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the special purpose 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 auditors' report. However, future events or conditions may cause the Project to cease to continue as a going concern.

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

10 March, 2021

Nadi, Fiji

KPMG

Chartered Accountants

Tonga Renewable Energy Project
Statement of financial position
As at 30 June 2020

	<u>Notes</u>	2020 TOP
Assets		
Work in Progress	2	12,649,703
Leasehold land	3	2,004,960
Total assets		<u><u>14,654,663</u></u>
 Contributions received	 4	 <u><u>14,654,663</u></u>

Signed for and on behalf of the Project Coordination Committee.



 Committee Chairman



 Committee member

The statement of financial position is to be read in conjunction with the notes to the special purpose financial statements set out on pages 8 to 10.

Tonga Renewable Energy Project

Notes to the special purpose financial statements

For the year ended 30 June 2020

1. Statement of accounting policies

Tonga Renewable Energy Project (“the Project”) is an initiative between the Government of Tonga and the Asian Development Bank to reduce Tonga’s dependency on imported fossil fuel for power generation and to expand access to clean, resilient and affordable energy for the people of Tonga at a lower cost. The Project Management is located in the Kingdom of Tonga and managed by Tonga Power Limited.

The Project is constituted by a Project Agreement dated 13 September 2019 and its subsequent variations. The Project is overseen by the Project Coordination Committee.

(a) Statement of compliance

The special purpose financial statements of the Project have been prepared for use by the Committee and to fulfil the Committee’s responsibilities under the Project Agreement to prepare financial statements.

The special purpose financial statements were approved by the Committee on -
10th March 2021.

The special purpose financial statements have been prepared in accordance with the recognition and measurement aspects of all applicable International Accounting Standards (IASs) adopted by the International Accounting Standards Board (IASB) that have a material effect described below.

The special purpose financial statements do not include the disclosure requirements of the following pronouncements having a material effect:

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 7 *Statement of Cash Flows*
- IAS 16 *Property, plant and equipment*
- IAS 24 *Related Party Disclosures*
- IAS 32 *Financial Instruments: Presentation*
- IAS 40 *Investment Property*

(b) Functional and presentation currency

The financial statements are presented in Tongan Pa'anga, rounded to the nearest dollar, which is the Projects functional currency.

Tonga Renewable Energy Project
Notes to the special purpose financial statements
For the year ended 30 June 2020

1. Statement of accounting policies (continued)

(c) Income tax

The Project is exempt from paying income tax under the Project Agreement between the Government of Tonga and Asian Development Bank.

(d) Work in progress

Work in progress includes the cost of purchase of goods and services relating to the project. Cost includes the cost of bringing the project to its existing condition and location and will be transferred to Tonga Power Limited on completion of the project.

All expenses and capital items purchased by the project management team have been classified as work-in progress as the project is expected to be completed by July 2023.

(e) Contribution received

Contribution received included all grants received from Asian Development Bank and Tonga Power Limited in relation to funding of the capital project.

	2020
	TOP
2. Work in progress	
Project Management Solar IPP 6MW	358,545
Project Management GCF TREP 1 & 2	94,990
TREP consultants	502,527
POPUA POWER BESS 2MW	6,960,992
VILLA BESS 2MW	4,732,649
	<u>12,649,703</u>
3. Leasehold land	
5 acres Neiafu & 5 acres Holonga, Fualu & Liukava	1,600,000
8 acres Kolovai & Haútu	353,000
3 acres in Eua	51,960
	<u>2,004,960</u>

Tonga Renewable Energy Project
Notes to the special purpose financial statements
For the year ended 30 June 2020

2020
TOP

4. Contribution received

Asian Development Bank	12,196,167
Tonga Power Limited	2,458,496
	<hr/>
	14,654,663
	<hr/>

5. Subsequent events

There has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Committee, to affect significantly the operations of the Project, the results of those operations or the state of affairs of the Project in subsequent financial years.