Solomon Islands Electricity Authority

Annual Report 2012

Powering the Nation

Our Vision

Powering the Nation.

Our Mission

To provide a safe, reliable and economic supply of electricity to meet our stakeholders' needs.

Our Values

- *Respect for our customers and our people*
- *Improvement through change*
- *Meeting our service quality commitments*
- *Care for the environment*
- *Ownership and responsibility for our actions*
- *Honesty*

Contents

LETTER TO THE MINISTER

30th March, 2013

The Honourable Moses Garu
Minister of Mines, Energy and Rural Electrification
P.O. Box G37,
Honiara,
Solomon Islands.

Dear Sir,

Solomon Islands Electricity Authority
Annual Report 2012

On behalf of the Board of Directors of the Solomon Islands Electricity Authority, I have the honour to submit to you the Authority's Annual Report , in accordance with Section 25 (I) of the Solomon Islands Electricity Act, Cap 128, and Section 14 (1) (a) (b) of the State Owned Enterprises Act 2007.

The Report incorporates the audited Statement of Accounts and the major developments, activities and achievements of the Authority for the financial period.

On behalf of SIEA, I take this opportunity to thank you for your on-going understanding and cooperation, and look forward to your continuing support.
Yours faithfully,

Adrian Wickham
Chairman

SIEA teamwork and effort makes every project a complete one.

2012 Highlights

- 2011 Accounts cleared by the Auditors with only one minor disclaimer
- Three new Board Members appointed
- Significant progress made on sorting out 'old' accounts
- Restructuring of the organisation carried out
- CSO payments received from SIG without any penalties
- Offices refurbished at Lungga
- New SIEA customer offices established in Gizo, Auki, Kirakira and Munda
- LAN extended to Auki, Gizo, Tulagi, Kirakira and Noro
- Asset Review completed
- Outstation Development Plans updated
- 2 X 1.5 MW generators for Honiara ordered
- Customer Survey of Honiara completed
- New Fuel Contract negotiated
- Soltuna PPA signed and implemented
- Outside Plant Review completed
- Commenced the refurbishing of SIEA houses
- Brought the vehicle fleet up to date
- Completed Feeder No 2 in Gizo
- Management Development training provided, both local and overseas
- Extended radio coverage to FM stations

Plans for 2013

- New CFO to be appointed
- Tariff Review to be undertaken
- New 11KV Switchboards to be installed at Honiara Station
- New 33KV cable to be installed between Lungga and Ranadi
- Line extensions and upgrades in the Outstations
- New Appraisal and bonus system to be implemented
- Pilot solar system planned
- New small model station to be installed at Malu'u
- New large model station to be installed at Noro
- New remotely controlled gensets for Malu'u and Kirakira
- Refurbishment of SIEA's Headquarters building
- Completion of the line to GGPOL
- Order to be placed for 2 X 5MW gensets
- Mobile Top Up for Cash Power
- A Safety Awareness Programme to be introduced
- Emergency Response arrangements to be put in place
- New Integrated Customer Management System to be installed
- 2 X 1.5 MW gensets to be commissioned in Honiara
- Linesman training, including Safety, to be carried out for all line staff
- Smart meters to be introduced
- LAN to be extended to Buala, Malu'u and Munda

About Solomon Islands Electricity Authority

Who we are

Solomon Islands Electricity Authority (SIEA) is a State Owned Enterprise,.

Our objectives

Under Section 4 of the State Owned Enterprises Act, the principal objective of the Company is to 'operate as a successful business, and to this end, be:

- As profitable and efficient as comparable businesses that are not owned by the Crown.
- A good employer.
- An organisation that exhibits a sense of social responsibility by having regard to the interests of the community it which it operates.

To meet these objectives, SIEA works to

Be as profitable and efficient as comparable businesses by

- Within the Electricity and State Owned Enterprises Acts, installing, operating and maintaining electricity supply systems that meet the needs of connected customers.
- Developing and implementing capital investment plans, to improve electricity system performance and increase the network coverage of agreed areas.
- Seeking to recover efficient costs of the service provision.
- Improving the efficiency of services, whilst improving asset reliability and availability.

Be a good employer by

- Maintaining a well-qualified and motivated staff.
- Adopting HR policies that treat employees fairly and properly in all aspects of recruitment, retention and employment.
- Promoting a high level of safety throughout the organisation.

Act in a socially responsible manner by

- Building effective relationships with landowners, customer groups and interest groups that are affected by our activities.
- Improving environmental reporting and performance on issues that are caused by our electricity supply activities.
- Incorporating sustainability into our business activities, and working to improve sustainable outcomes in terms of resource management.

Nature and scope of our activities SIEA's principal commercial activities, as defined under the electricity Act, are the

- Generation and distribution of electrical supply to connected customers in approved areas,
- Operation, maintenance and development of assets that are necessary to achieve these outcomes on a long term, sustainable basis,
- Approved expansion of services to increased areas of operation.

Other regulatory functions

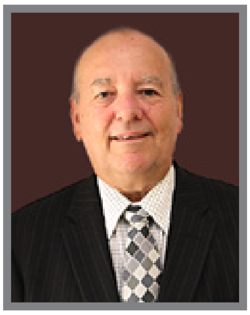
The Company is also mandated by the Electricity Act to perform the following regulatory functions:

- Be responsible for the registration of Electrical Contractors.
- Ensure that industries and contractors comply with the Electricity Act and the AS/NZS Wiring Standards, by inspecting all electrical installations before connecting to SIEA mains.
- Be responsible for the licensing of standby generators, Independent Power Producers (IPP) and Cogeneration of power.

The Solomon Islands Electrical Authority Head Office.

Members of the Board

Adrian Wickham
Chairman



David Laurie
External Director

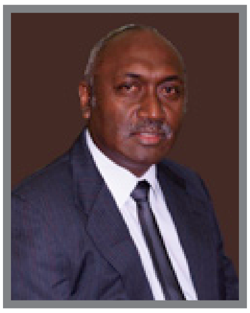
Henry Tobani
Director

Douglas Alex
Director

Henry Kapu
Director

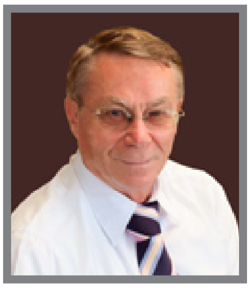
Nanette Tutua
Director

Sebastian Ilala
Director



Harry Zoleveke
Director

Executive Management



Norman Nicholls
General Manager

Martin Sam
Chief Engineer

David Blue
Chief Financial Officer

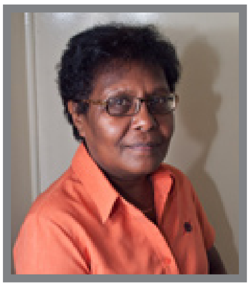
Dadily Posala
Manager Generation

Mathew Korinihona
Manager Distribution

Levan Respioh
Manager Corporate Services

John Kofela
Manager Outstations

Gordon Denty
Manager IT



Jan Sanga
Manager Customer Services

Barnabas Upwe
Legal Officer

Chairman's letter

As the Chairman of SIEA it gives me great pleasure to issue this Annual Report. For the first time in many years we have achieved international quality, both in terms of the financial performance of the Authority, and the standard of our Annual Report. Both achievements are in keeping with the new image of quality that is becoming the hallmark of the Authority.

As a result of the initiatives we have taken, SIEA is now financially stable and is investing in the infrastructure that we need to 'keep the lights on', not only in Honiara, but also in our Outstations. We have moved quickly to initiate the purchase of several generators, as well as introduce several other major projects that will improve the reliability of our service, details of which are covered in this report.

These improvements have been the result of our dedicated team in SIEA, supported by a strong Board. I particularly want to thank my Board and the staff of SIEA for their commitment and the great effort they have made, to the benefit of all of our customers.

I am also pleased to welcome three new Board Members; Sebastian Iiala, Henry Kapu, and Harry Zoleveke, who have already made a major contribution to our organisation and will, no doubt be of considerable assistance in helping us achieve our new goals.

Sadly, we have lost one of our most respected senior executives, Mike Payne, our Chief Financial Officer, who died suddenly last November. The Farewell Dinner for his wife and daughter, hosted by the Authority in late November, reflected the regard in which he and his achievements for SIEA were held.

I am pleased that the support given to SIEA by the Solomon Islands Government (SIG) and the World Bank continues. The Solomon Islands Sustainable Energy Project (SISEP), which was developed by the World Bank in consultation with SIG, has been one of the major factors in the improvements achieved over the past three years in SIEA. It is excellent news that it has been extended for another two years.

SIEA is positioning itself to be an organisation that all Solomon Islanders can be proud of, and that can support the growth that we all want to see our country make. We are making very good progress, but there is still much to be done.

Adrian Wickham
Chairman

The generators at Lungga Power Station.

General Manager's letter

The 2012 financial year has been one of continued development for SIEA, with improvements being made in several areas that have had benefits for:

- **Our customers,** by continuing to provide improved customer service, and more timely information;
- **Our staff,** by carrying out a major restructuring of the Company, and continuing to provide several levels of training ;
- **The Outstations,** by providing additional resources and training for staff, as well as opening new offices in several Outstation locations to better serve our customers,
- **The Company's finances,** by revaluing our assets, pursuing our creditors, streamlining our logistics, and setting up more supply agreements. These moves have enabled us to approach the commercial banks with the confidence that we can raise sufficient debt to make major purchases, such as our new generators.

Of particular note is the new fuel supply agreement we have negotiated with South Pacific Oil (SPO) which radically changes the way we deal with fuel, our largest item of expenditure. It has also given us long-term savings that we can pass on to our customers and it will also ensure that we have sufficient supplies of fuel, even in the event of major events, such as cyclones.

We have also had the first major customer survey undertaken by an independent agency, to assess how our customers rate us, and to determine their priorities in regard to our service. This has been a 'benchmark' survey that will be repeated each year so that we can assess how well we are meeting our customers' expectations. Although we did not expect to receive a very high rating initially, there were some very positive responses in regard to the improvements we are making and in the performance of our staff, so that we have an excellent platform on which to build improved performance in the future.

We have continued to receive Community Service Obligation (CSO) payments from Government to support the provision of services by SIEA in uneconomic areas. This has enabled us to undertake a review of our development plans for all of the Outstations, so that we can meet their needs reliably and extend our networks in these areas.

One of the major challenges facing SIEA is the low penetration of electricity throughout the country. At 15%, it is one of the lowest in the Pacific. The Government wants to achieve 100% penetration by 2050, and SIEA will be doing all it can to reach this goal. It is most important for the future development of the Solomon Islands.

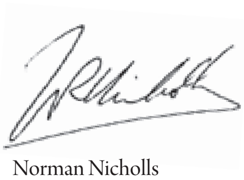
Our improved financial position has enabled us to start planning and implementing those things we have needed to do for some time, including:

- Purchasing more generators
- Improving our network
- Extending our network
- Improving the tools and equipment our staff need to carry out their work
- Refurbishing our facilities
- Extending our computer network to our Outstations.

I wish to thank our Chairman and the Board for the excellent support they have given the Executive Team over the past year. I also want to thank my Executive Team for the excellent work they have done in the past year for SIEA.

We were all saddened by the death of our friend and colleague, Mike Payne. He will be sorely missed for his dedication, bright cheery smile and, of course, those braces!

SIEA is looking forward to a busy and exciting year ahead with many new investments and initiatives, projects that are covered in this report.



Norman Nicholls
General Manager

Because of the inherent danger in dealing with Electricity, extensive education and training are essential to ensure the safety of SIEA workers.

Solomon Islands Electricity Authority Engineering Highlights for 2012

Overview

The first six months of 2012 presented SIEA with several challenges, especially that of keeping the lights on in Honiara. This was due to the very marginal reserve generation capacity, a situation that was aggravated by the prolonged delays in the completion of the major overhaul of the L7 Wartsila 4.2MW and the L9 Mitsubishi 4.2MW generators.

The mechanical failure of two peak load machines, the L6 Mirlees 2.8MW and L5 Mirlees 1.5MW, also contributed to a further shortage of generation capacity in Honiara. However, with the completion of the L7 Wartsila overhaul, and the completion of repairs to the L5 and L6 generators in April and May, all generators were available, providing relatively stable power generation for Honiara in the third and fourth quarters of 2012.

Transmission and distribution were affected by the 33KV underground cable between Lungga /Ranadi/Honiara being down on several occasions. This meant having to extend Feeders 2 and 11 to connect parts of the network that are usually connected to the Ranadi Substation.

Generation

The Generation Operations and Maintenance Department carried out major mechanical repairs to the L5 Mirlees generator, which is a peak load machine that is also used for 'black start' when there is a total shutdown of the Lungga Power Station. Following its repairs, the generator was able to generate up to 900Kw of power into the system.

The L6 Mirlees, which is rated at 2.83MW, had its crankshaft completely rebuilt and refitted with nearly all new parts, after it had been damaged. This work, the first rebuild supervised and carried out by our mechanical and electrical fitters, took about three months to complete. Following its rebuild, the generator was able to generate up to 2.5MW, and is used as one of the base load machines at the Lungga Power Station.

Major overhauls of the L7 Wartsila and the L9 Mitsubishi generators also took place. As these are base load machines, rated at 4.2MW each, Honiara had to be put on scheduled load shedding during the periods that the maintenance was carried out. Thanks to the availability of L5 and L6 generators, load shedding was minimised.

As and when they fell due during the year, a scheduled one thousand hours' maintenance were also carried out on the main generators at Lungga.

Outstations

In comparison with 2009 and 2010, power generation was basically stable at the Outstations with most being able to maintain power throughout 2012 with no major interruptions. This is as a result of new generators being installed at Gizo, Auki and Lata in 2010 and 2011, and the installation of a new generator for Tulagi in 2012. Replacement generators, with new, automated switchboards, have also been ordered for Kirakira and Malu'u, and are expected to be installed during the first quarter of 2013.

Major overhauls were carried out on engines at Auki, Gizo, Kirakira, Tulagi and Buala, and scheduled maintenance was also carried out by SIEA mechanical and electrical fitters at the various Outstations

Power Purchase Agreement

Soltuna, a fishing company based at Noro, is supplying power under a Power Purchase Agreement (PPA) between that company and SIEA.

Alternative energy trials

The Coconut Oil (CNO) trial project at Auki was completed during the year with a maximum blend of CNO to diesel at 40%. A technician hired by the Asia Development Bank carried out an assessment, and found the 400WM Cummins gen set engine to be in good mechanical condition. Wider use of this technology is currently under consideration.

Distribution

The 2012 financial year saw the Distribution Operations and Construction Sections undertake major activities that included the extension of the high voltage line from Foxwood to Ngalimbiu, east of Honiara. Construction made good progress, with 95% of the line being pulled. Indeed, this work could have been completed by the third quarter of 2012, but had to be stopped while issues were sorted out that related to access to land along the road.

1. Linesmen meet once a week to review line project updates.
2. Preparing lamp posts for rural electrification.
3. In-house training for linesmen is essential to the team at SIEA.

The diversion and upgrade of Feeder 2 at Gizo took place, so the line will be able to service the newly developed areas, as well as provide the capacity to cater for the larger loads expected from the new Gizo hospital, prison and hotel developments.

A number of distribution transformers in Honiara and Auki were upgraded in order to meet the load demand, while a number of repairs were carried out to the 33KV underground cable in the sections between the Lungga Power Station and Ranandi, and Ranandi and the Honiara Power Station.

The Distribution team also carried out repair and maintenance to both the Honiara and Outstation networks, and new service connections were made.

A total of 276 new domestic and 94 commercial installations in Honiara and the Outstations were inspected by the Inspections Division.

Power System Reliability

SIEA Power System Reliability in Honiara is measured using the internationally accepted performance indicators as follows:

- **The System Average Interruption Duration Index (SAIDI).** This is a measure of the average total length of time (in minutes) that a customer is without power over a one year period. For Honiara, this was measured to be 619 minutes, an improvement over the 2011 measurement of 1075 minutes.

- **The System Average Interruption Frequency Index (SAIFI).** This is a measure of the average number of times that the system is interrupted in a year. This was measured to be 12.9 times for Honiara, compared with 9.0 times in 2011. Although there has been an increase, it is still close to the regional benchmark of 10 times per year.

SIEA is enhancing its vehicle fleet to allow it to carry out linework more effectively.

- **The Customer Average Interruption Duration Index (CAIDI).** A measure of the average time in minutes that a customer in Honiara is without power per interruption is measured to be 103 minutes per interruption. This is an improvement compared with the average time of 118 minutes per interruption in 2011.

Power outages

There are four main reasons for power outages, the first being an insufficient generation capacity. This results in scheduled load shedding having to be carried out until sufficient capacity is available. This occurred mainly during the major overhauls of the main generators at the Lungga Power Station.

Generators experiencing either mechanical or electrical faults can cause outages is the second reason, and thirdly, outages may occur as the result of trees touching or falling on the lines, hardware failure, or from machines or vehicles knocking down poles. Finally, there are planned outages. These are necessary in order that required essential repairs and or planned maintenance on parts of the network can be completed.

Reliability and Efficiency

The plans to improve the reliability and efficiency of the power supply system include increasing generation capacity to G-2, by installing two1.5MW generators in the Honiara powerhouse by the first quarter of 2013, with an additional two 5MW generators to be installed at the Lungga Power Station by late 2014 or early 2015.

The implementation of effective maintenance programmes for both the generation and network infrastructures will also contribute to the reliability and efficiency of supply, as will the use of appropriate technologies and equipment to detect, diagnose and remedy faults in parts of the transmission and distribution network so that the power supply can be quickly restored.

The use of appropriate technologies to efficiently carry out the operations of the Honiara East, Ranadi, and the White River Zone Substations would also minimise the duration of outages.

Generation Statistics

Energy Produced

SIEA produced a total of 84.03Gwh in 2012, compared with the 83.86Gwh produced in 2011. Energy production was, however, affected by the load shedding during the first and second quarters of the year as well as by delays in the completion of the overhaul of L7 Wartsila and L9 Mitsubishi generators. Of the energy produced in 2012, 75.3Gwh (89.6%) was for Honiara and 8.7Gwh (10.4%) was for the Outstations.

Maximum Demand

The 2012 maximum demand for electricity in Honiara peaked at 14,240 Kilowatts, compared with the 20 11 figure of 13,870 Kilowatts. This increase is at a rate of about 2.6% lower than the anticipated rate of 6%. This is because one of the large users of electricity, Pacific Casino Hotel, has been licenced to generate its own power. However, it is expected that the demand will increase when new buildings currently under construction are connected, and when power supply reliability improves.

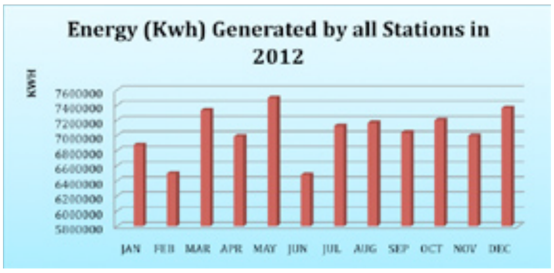


Fig. 1.0: Energy Generated by all Stations 2012

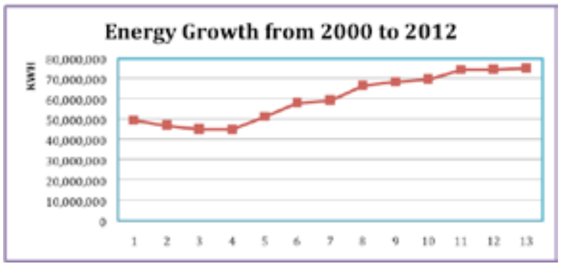


Fig 2.0: SIEA Energy Growth from year 2000 to 2012

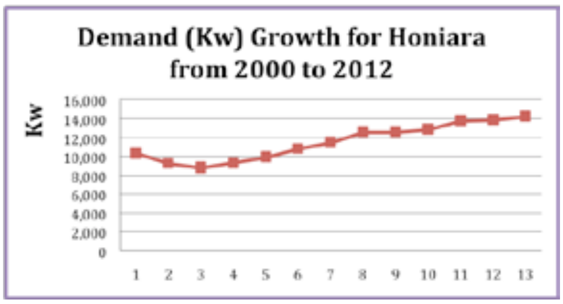


Fig. 3.0: Demand Growth in Honiara from year 2000 to 2012

The backup generator at SIEA Head Office receives regular checks.

Corporate Services

The core function of the SIEA Corporate Services Department is to provide support services to other departments through Human Resources, Training, Safety Awareness, Property Management and Fleet Services.

Human Resources

2012 saw the completion of the Comprehensive Human Resources Review that had been initiated in 2011. At the end of the review process, all staff members were issued with a notification of appointment to their position, a revised job description, a copy of the HR Policies and Procedures Manual, and a copy of the SIEA Staff Handbook. A relevant performance appraisal programme for all employees has been finalised and will be put into practice in 2013.

The number of staff employed by SIEA by the end of 2012 totalled 193. During the year, recruitment for 12 positions led to 18 new employees joining the Authority.

Only two employees left SIEA during 2012, with one resignation, and one termination of employment.

Staff Location

The majority of staff, 102, are employed at the Ranandi Station, which is also the site of the SIEA head office where the Distribution, Customer Services, Corporate Services and Finance Departments are located.

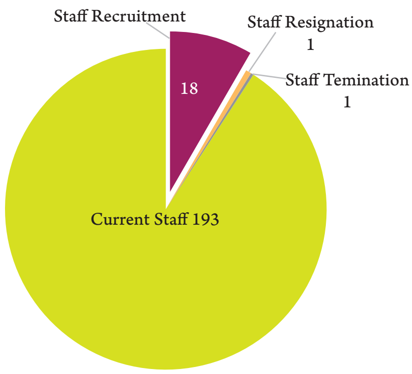
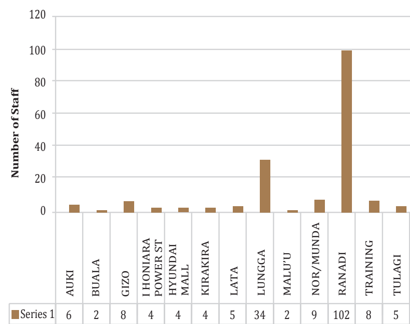


Fig 4.0 Total employment figures



	AUKI	BUALA	GIZO	I HONIARA POWER ST	HYUNDAI MALL	KIRAKIRA	LATA	LUNGGA	MALU'U	NOR/MUNDA	RANADI	TRAINING	TULAGI
Series 1	6	2	8	4	4	4	5	34	2	9	102	8	5

Fig 5.0 Staff Work Location

Lungga Station accounts for the second largest group of employees with 34. Most of these are Generation staff, responsible for the main power plant that supplies energy to Honiara. The Honiara Power Station helps distribute power from its location in the city.

Staff by Department/Section for 2012:

The total Outstation staff of 45 include those working at the Honiara office and the Tulagi, Buala, Kirakira, Lata, Noro/Munda, Gizo, Auki and Malu'u Outstations.

The Engineering Section mainly consists of Graduate Engineers. They are recruited for a two year term, during which they rotate to all departments to gain experience, before their placement is made permanent.

Training and development

SIEA places great importance on having skilled and appropriately trained staff, both for the benefit of the company, and for the individual employee's personal growth. This emphasis has resulted in eight staff members furthering their tertiary studies at educational institutions, both locally and overseas.

Sponsorships and scholarships

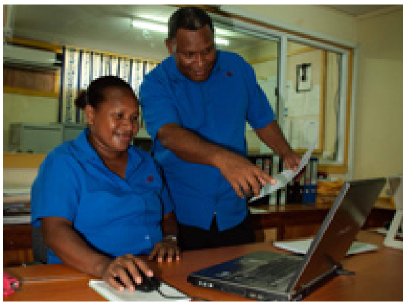
Five employees have received SIEA sponsorship to attend the Solomon Island College of Higher Education to study for the Certificate in Electrical Studies, and are in the second of four years of study.

Two employees have received Solomon Island Government Scholarships. One is in the first year of study towards a degree in Electrical Engineering at the Fiji National University, the other, also a first year student, is undertaking a Bachelor's degree in Business Studies at the Fiji campus of the University of the South Pacific.

Another SIEA employee is the recipient of an AusAID Scholarship, and is in the second year of study for a Bachelor's degree in Electrical Engineering, at the University of Southern Queensland.

International conferences and short courses

There was also the opportunity for personnel to attend in-house training, conducted by both local and overseas consultants, as well as international conferences and short-term training sessions held in Fiji, Indonesia and Malaysia.



SIEA Administration and Finance Department staff attend to their daily work.

Occupational Health and Safety

SIEA has begun the recruitment process necessary to engage a qualified Occupational Health and Safety consultant, to train staff, raise awareness, and ensure the implementation of OHS compliance by all staff in the execution of their daily responsibilities. It is planned that this position will be filled in early 2013.

Property Management

A staff housing renovation and repair programme was undertaken with the renovation of two staff houses at Lungga and four at Koloale, while general repair and maintenance was carried out in the Honiara housing estate, and at the Outstation. Identifying survey work was carried out at the Lengakiki residence of the Manager, Generation.

Land issues were coordinated, including the acquisition and registration of land for the extension of the Lungga Power Station, and the completion of the Honiara and Tasahe sub-divisions surveys, both of which are awaiting title registration.

Land submissions at Henderson, Panatina and Koloale, as well as arrears in land rents and property rates, were followed up on.

SIEA Fleets

The SIEA fleet consisted of 48 vehicles in 2012, including four Outstation motor cycles, one fork-lift, and one excavator machine. The Fleet Service objective is to ensure that all vehicle mileage servicing, inland vehicle registration, third party insurance and comprehensive motor vehicle insurance is implemented and managed.

The Customer Service front desk at SIEA Head Office plays a major role in making sure that questions are answered.

Customer Services

Customer Service is the key commercial function of SIEA. 2012 proved to be a year of transition, with many challenges to be met. It was the first year of operation for the Department following its creation at the end of 2011, as a part of the major restructuring of the Company. Customer Services handles all matters pertaining to customer enquiries and complaints.

Structure

The Department is headed by the Customer Services Manager, who began with 30 staff, growing to 32 by year's end.

The Department is divided into the following sections: metering, which is the technical arm of the Department; cashiering; customer enquiries, and public relations.

Customer outlets are located at the Ranadi Head office and Hyundai Mall in Honiara, and in each of the nine Provincial Outstations.

Prior to the restructure, customer services issues had been dealt with on an ad-hoc basis, by the Finance Department, so customer service policies and procedures were drawn up and implemented throughout 2012.

One of the biggest challenges for the new department was the inheritance of 'old' accounts. Despite the lack of an integrated customer management system, and local area network coverage to the provincial outstations contributing to a delay in sorting out customer accounts, significant progress was made. By the end of the year, five of the provincial outstations, namely Auki, Gizo, Tulagi, Kirakira and Noro, were connected to the system.

Plans are underway to have the remaining three stations, Buala, Malu'u and Munda connected, and to have an integrated customer management system in place by 2013.

An SIEA technician showing a customer how to use the cash power system after installation.

For the moment, customer records and billings are managed through the two independent systems, the Cash Power system and the NCS system.

To ensure customer service is carried out quickly and efficiently, appropriate office locations with layouts that have suitable customer space were carried out over the year. A new office lay-out and décor took place at the Ranadi Head Office, while new office locations were established in Gizo, Munda, Auki and Kirakira. Office relocation at Buala and Munda and Malu'u is still pending.

SIEA uses two types of meters to measure and/or collect revenue from its customers; the conventional kilowatt meter and the pre-paid 'Cash Power' meter. Plans are underway to have smart meters installed by 2013 at difficult to access locations.

At present, all power bill payments are made over the counter, plans are also underway for the introduction of mobile top-ups, making it much more convenient for customers to pay their power bills.

The first-ever Customer Survey of Honiara was carried out by Tebbutt Research in 2012. We look forward to using this survey result as a benchmark for the years ahead. The survey revealed that while there had been much improvement, there was still a lot of work to be done.

The improvement demonstrates the fact that customers are more aware of SIEA expectations and customer requirements through the Authority's weekly national radio programme, media notices and the extended radio coverage to FM stations. The introduction of a mass awareness programme is planned for 2013.

The Customer Service Despartment has introduced a cash power metering system allowing customers to purchase their power with prepaid cards, and so better control their power usage.

Corporate Governance Practices

Role of the Board

As required by Section 6 (4) of the State Owned Enterprises Act 2007, the Board is responsible for charting the Company's strategic direction, for the setting of objectives, policy guidelines, goals management, and for monitoring the achievement of these matters.

The Board is also responsible for reviewing the Business Plan, Corporate Plan and Statement of Corporate Intent, and approves Operating and Capital Budgets each year. The Board also reviews matters of a major or unusual nature, which are not in the ordinary course of business.

Composition of the Board

The Board Directors, appointed under the State Owned Enterprises Regulation 2010, (Part 2, Prescribed Process of Appointment of Directors) are as follows:

Name	Position	Appointment	Re-appointment	Term
Mr Adrian Wickham	Chairman	4th Aug 2011		3 years
Mr David Laurie	Overseas Director	April 2010		3 years
Mr Henry Kapu	Director	30 June 2012		3 years
Mr Harry Zoleveke	Director	30 June 2012		3 years
Mr Sebastian Ilala	Director	30 June 2012		3 years
Ms Nanette Tutua	Director	Feb 2008	30 June 2012	2 years
Mr Henry Tobani	Director	8th Feb 2008	30 June 2012	2 years
Mr Douglas Alex	Director	8th Feb 2008	30 June 2010	1 year

Prior to the implementation of the SOE Act in 2012, appointment of the Board and number of Directors was decided by the Ministers Accountable and was not regulated. With the implementation of the SOE Act in 2012, appointment was regulated, and the number of positions on the Board was reduced from 12 to eight.

Until the new Board of Directors was appointed, the following Directors and the existing Board remained in place until the change that took place April 2012.

Mr Adrian Wickham	Chairman (appointed in August 2011 for 3 years)
Mr Anthony Makabo	Deputy Chairman
Mr David Laurie	Overseas Director (appointed May 2010)
Ms Nanette Tutua	Director
Mr Henry Tobani	Director
Mr Douglas Alex	Director
Mr Stephen Panga	Director

Directors' Duties

The role and duties of the Directors are defined in regulations 17 to 27 of the SOE Regulations, 2010.

A key responsibility of the Directors is to achieve the principal objective of the Authority, as stated in Section 5 of the SOE Act:

The principal objective of every State Owned Enterprises shall be to operate as a successful business and to this end, to be

(a) As profitable and efficient as comparable businesses that are not owned by the Crown or established as a statutory bodies by an Act of Parliament,

(b) A good employer, and

(c) An organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates.

Statutory Duties of the Board

In addition to the above duties, the Board of Directors of SIEA collectively and individually have agreed on the fulfilment of the following duties toward the company:

- When exercise powers or performing duties, Directors must act in good faith and in what the Director believes to the best interests of the State Owned Enterprise.
- A Director of a State Owned Enterprise, when exercising a power as Director, must exercise that power for a proper purpose.
- A Director of a SOE must not:

(a) Agree to the business of the SOE being carried out on or in a manner likely to create a substantial risk of serious loss to the SOE creditors or,

(b) Cause or allow the business of a SOE to be carried out on or in a manner likely to create substantial risk of loss to the SOE creditors.

- A Director must not agree to the SOE incurring an obligation unless the Director believes at the time, on reasonable grounds, that the SOE will be able to perform the obligation when it required to do so.
- A Director of a SOE, when exercising powers or performing duties, must exercise the care, diligence, and skills that a reasonable Director would exercise in the same circumstances.
- Another controlling measure imposed on Directors is the requirement to enter in a register any conflict of interest in an interests register.

Fiduciary Duties of Directors

The Directors of SIEA also owe the following duties to the company. These fiduciary duties form the code of ethics of SIEA.

A fiduciary relation imposes an obligation of utmost good faith on Directors by putting the interests of the Company first, and the SIEA Directors have pledged to uphold this principle at all times.

The Fiduciary Duties of the Directors include the following:

- To act in good faith in the best interest of the company,
- To exercise powers for a proper purpose,
- To retain discretion
- To avoid conflicts of interest.

Board Meetings

The Board held 10 meetings during its financial year, which ended 31st December 2012. Seven of these were scheduled, and three were extraordinary meetings. The regular business of the Board covers corporate governance, financial performance and risk management, business investment and strategic matters.

Board Committees.

There are three Board Sub-Committees; Finance and Audit, Technical, and Human Resources, that are responsible for deliberating detailed issues and making suitable recommendations to the Board. The Sub-Committees meet as and when required.

Finance & Audit

Membership:
Mr Adrian Wickham – Chairman
Mr David Laurie – Member
Mr Sebastian Ilala – Member
Mr Douglas Alex – Member
Number of meetings: 3

Technical

Membership:
Mr Adrian Wickham – Chairman
Mr David Laurie – Member
Mr Henry Kapu – Member
Mr Harry Zoleveke – Member
Number of meetings: 2

Human Resources

Membership:
Ms Nanette Tutua – Chairperson
Mr Henry Tobani – Member
Mr Henry Kapu – Member
Number of meetings: 3

Directors Remuneration

Section 7 of the Electricity Act (Cap 128) retains the ultimate authority for the Minister to determine the remuneration and benefits given to the Directors.

A total of $105,100.00 was paid to the Directors for their services during the year in accordance with their remunerations and benefits determined by the Minister of Finance and Treasury. A further sum of $22,278.80 was paid for other expenses, mainly costs relating to the Board meetings. Travel and accommodation were not covered as all Directors are resident in Honiara.

Legal Department

Role

The Legal Department is responsible for ensuring that legislation relating to the operation of the Authority is complied with. This legislation includes the Electricity Act (Cap 128), the State Owned Enterprises Act 2007, the Labour Act, the Employment Act, and the Safety At Work Act.

The Legal Department also tenders advice, both to the Board and the Management, on any legal issues that the Board or Management may face. Should a legal matter involve complex technical issues, outside assistance is sought, either locally or internationally, as appropriate.

Major contracts

The Legal Department also oversees the drawing up and signing of contracts, with SIEA signing two major contacts in 2012. The first was with SPO Ltd for supply and fuel management, the second with Soltai, for the power purchase agreement at Noro.

Bypass customers

The most challenging task faced by the legal section is prosecuting bypass customers. Bypass customers are those people who deliberately bypass SIEA's meter. Once discovered by our Audit teams they are immediately disconnected.

The second group are those customers whose cash power meters, were bypassed because a cable was connected from the mains to supply a power point circuit, before the cash power meters were installed.

To be reconnected, customers must pay at least 75%, if not the full amount, of the assessed bypass bills.

Of the bypass cases that were filed in the Magistrate Court, two bypass customers pleaded guilty and were fined $100 and $200, respectively. Fives cases are still pending in court.

Three High Court Cases are also still pending.

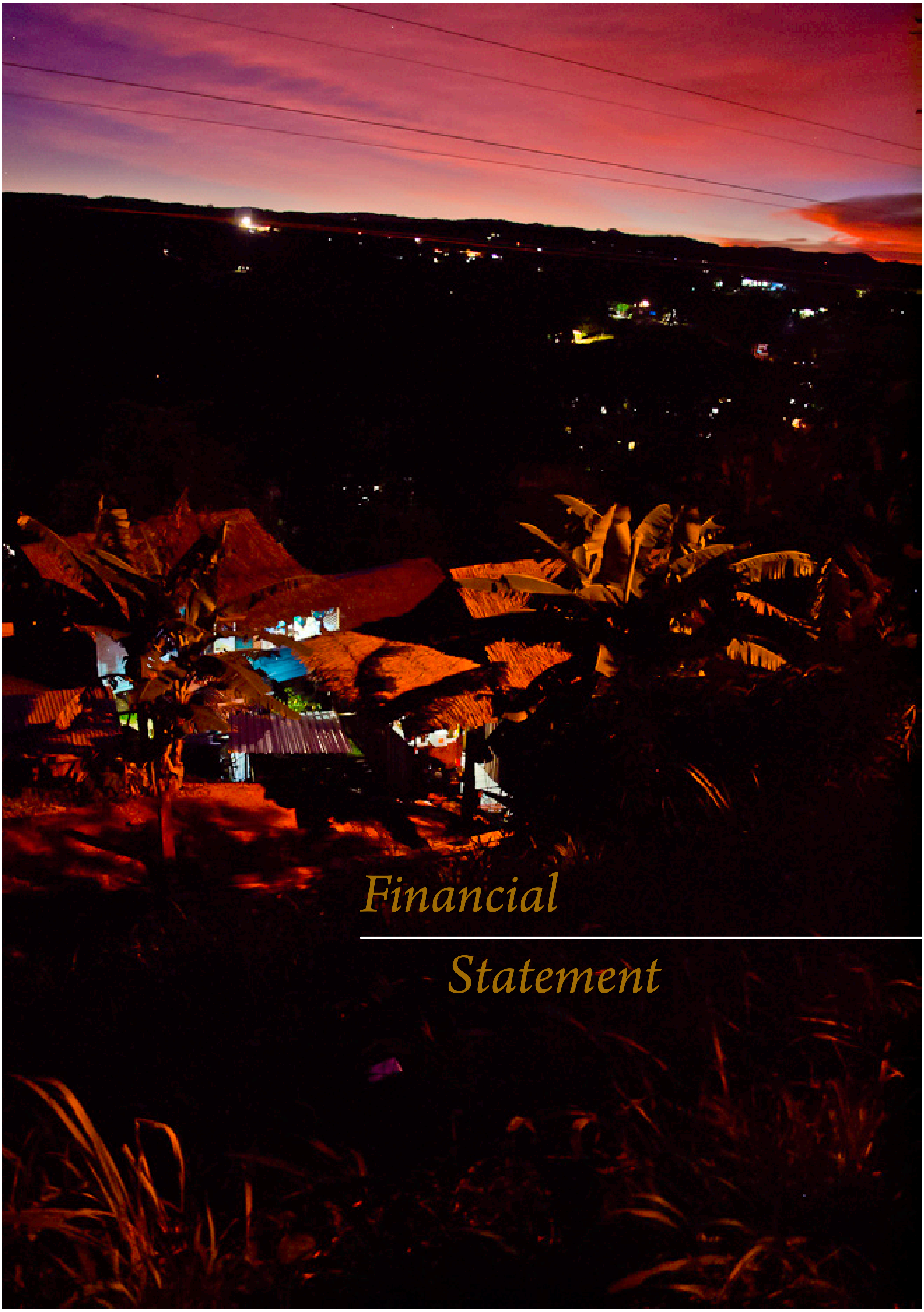
Trade Dispute Panel

Two cases lodged by former employees were dismissed. Only two cases are still pending.

Outstanding claims.

A claim was received, and denied, for $685,300.00 for breach of contract from the coconut oil supplier at Auki for the CNO Trial Project. This claim is yet to be filed in the High Court.

The other outstanding claim is in the Trade Dispute Panel, Luke Makiawa v SIEA, for unfair dismissal. As the in-house lawyer is one of the witnesses in this case, an outside solicitor, of Rano and Company, has been engaged.


Financial
Statement

Contents

SOLOMON ISLANDS ELECTRICITY AUTHORITY

Directors' report

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Solomon Islands Electricity Authority (the "Authority") as at 31 December 2012 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

Directors

The Directors in office at the date of this report and at any time during the financial year and up until the date the financial statements were authorised for issue are as follows:

Name

Adrian Wickham - Chairman (appointed August 2011)
Anthony Makabo - (resigned June 2012)
David Laurie - (appointed April 2010)
Douglas Alex - (appointed February 2010, reappointed June 2012)
Harry Zoleveke - (appointed June 2012)
Henry Kapu - (appointed June 2012)
Henry Tobani - (appointed February 2008, reappointed June 2012)
Mamu Paza - (resigned June 2012)
Nanette Tutua - (appointed February 2008, reappointed June 2012)
Sebastian Ilala - (appointed June 2012)
Stephen Panga - (resigned June 2012)

State of affairs

In complying with the Electricity Act (Cap 128) and the State Owned Enterprises Act of 2007, the Directors hereby submit the financial statements of the Authority consisting of the statement of financial position as at 31 December 2012, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Authority for the year then ended.

Principal activity

The principal activity of the Authority during the year was the generation and distribution of electricity to the Solomon Islands.

Results

The net profit for the year was SBD 62,715,982 (2011: profit of SBD 50,557,403).

Dividends

The Directors recommended that no dividends be declared or proposed for the year.

Directors' report cont'd

Significant events

On 31 May 2012 a debt settlement agreement was signed between Solomon Islands Government (SIG), Solomon Islands Water Authority (SIWA) and the Authority, under which the parties agreed to settle the SIWA debt owing to the Authority by way of payments over a number of years. The agreement also resulted in a write off by the Authority which was covered by an existing provision.

Subsequent Events

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

Dated at 3pm this 21st day of March 2013.

Signed in accordance with a resolution of the Directors.

Director

Director

Somon Islands Office
of the Auditor-General

INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Electricity Authority

I was engaged to audit the accompanying financial statements of the Solomon Islands Electricity Authority ("the Authority"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes 3 to 21.

Directors and management's responsibility for the financial statements

Directors and Management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such 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.

Auditors' responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 my 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, I consider internal control relevant to the Authority's preparation of financial statements that give a true and fair view 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 the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Audit Opinion

In my opinion, the financial statements of the Solomon Islands Electricity Authority give a true and fair view of the financial position of the Authority as at 31 December 2012 and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

The Authority has complied with Section 14 of the State Owned Enterprises Act 2007 which requires the Authority to provide audited financial statements to the responsible Minister within 3 months of the financial year end.

Edward Ronia
Auditor-General

Office of the Auditor General
Honiara, Solomon Islands

25 March 2013

SOLOMON ISLANDS ELECTRICITY AUTHORITY

Statement of comprehensive income For the year ended 31 December 2012

	Note	2012 SBD	2011 Restated SBD
Operating income			
Electricity sales		397,574,602	351,476,721
Other operating income	5	16,382,894	25,778,452
Total operating income		**413,957,496**	**377,255,173**
Less expenses			
Generation and distribution	6	265,904,450	262,084,210
Administration	7	38,638,345	34,104,002
Depreciation	8	27,645,159	11,584,061
Bad debts written off		-	29,999,287
Allowance for uncollectability	14	(4,178,999)	(27,886,761)
Inventory write-off		106,936	4,579,138
Impairment loss/revaluation decrement - property, plant and equipment	11	-	2,387,857
Operating expenses	10	22,222,816	9,831,559
Gain / (loss) from operations		63,618,789	50,571,820
Foreign exchange losses		902,806	14,417
Net profit / (loss) for the year		62,715,982	50,557,403
Other comprehensive income			
Revaluation (decrement) / increment		4,985,383	173,343,210
Total comprehensive income / (loss) for the year		**67,701,365**	**223,900,613**

The notes on pages 33 to 48 are an integral part of the financial statements.

SOLOMON ISLANDS ELECTRICITY AUTHORITY

Statement of changes equity
For the year ended 31 December 2012

	Contributed capital SBD	Asset reserves revaluation SBD	Accumulated losses SBD	Total SBD
Balance at 1 January 2011	**249,306,687**	**58,430,245**	**(154,588,342)**	**153,148,590**
Impact of restatement of JICA debt	44,159,999		(10,020,695)	34,139,304
Restated	293,466,686	58,430,245	(164,609,037)	187,287,894
Total comprehensive loss for the year				
Net profit for the year	-	-	50,557,403	50,557,403
Other comprehensive income	-	173,343,210	-	173,343,210
Transaction with owners of the Authority directly recognised in equity				
Grant received during the year	3,739,177	-	-	3,739,177
Balance at 31 December 2011	**297,205,863**	**231,773,455**	**(114,051,634)**	**414,927,684**
Total comprehensive income for the year				
Net profit for the year	-	-	62,715,982	62,715,982
Prior period adjustment	-	4,985,383	-	4,985,383
Grant received during the year	7,260,744	-	-	7,260,744
Balance at 31 December 2012	**304,466,607**	**236,758,838**	**(51,335,652)**	**489,889,793**

The notes on pages 32 to 48 are an integral part of the financial statements.

SOLOMON ISLANDS ELECTRICITY AUTHORITY

Statement of financial position
For the year ended 31 December 2012

Assets	Note	2012 SBD	2011 SBD Restated
Non-current assets			
Property, plant and equipment	11	318,346,242	328,611,390
Receivables	14	6,562,500	-
Total non-current assets		**324,908,742**	**328,611,390**
Current assets			
Cash and cash equivalents	12	99,823,333	19,459,307
Inventories	13	8,421,876	10,469,647
Receivables	14	82,890,567	67,390,902
Total current assets		**191,135,776**	**97,319,856**
Total assets		**516,044,518**	**425,931,246**
Equity			
Contributed capital	15	304,466,607	297,205,863
Reserves		236,758,838	231,773,455
Accumulated losses		(51,335,652)	(114,051,634)
Total equity		**489,889,793**	**414,927,684**
Non-current liabilities		-	-
Employee benefits		-	375,471
Total non-current liabilities		**-**	**375,471**
Current liabilities			
Trade and other payables	17	26,154,724	10,628,091
Total current liabilities		**26,154,724**	**10,628,091**
Total liabilities		**26,154,724**	**11,003,562**
Total equity and liabilities		**516,044,518**	**425,931,246**

Signed for and on behalf of the Board of Directors

Director **Director**

SOLOMON ISLANDS ELECTRICITY AUTHORITY

Statement of cash flows
For the year ended 31 December 2012

	Note	2012 SBD	2011 SBD
Operating activities			
Cash received from customers		395,171,524	359,231,224
Cash paid to suppliers and employees		(302,412,871)	(345,183,159)
Net cash provided by operating activities		**92,758,654**	**14,048,065**
Investing activity			
Net payments for property, plant and equipment	11	(12,394,628)	(7,496,050)
Net cash used in investing activity		**(12,394,628)**	**(7,496,050)**
Net increase in cash and cash equivalents		**80,364,026**	**6,552,015**
Cash and cash equivalents at 1 January		19,459,307	12,907,292
Cash and cash equivalents at 31 December	**12**	**99,823,333**	**19,459,307**

The notes on pages 33 to 48 are an integral part of the financial statements.

Notes to the financial statements For the year ended 31 December 2012

1. Reporting entity

Solomon Islands Electricity Authority (the "Authority") is a state owned enterprise established under the Solomon Islands Electricity Authority Act 2007. The Authority's registered office and principal place of business is Ranadi Complex, East Honiara, Solomon Islands. The principal activity of the Authority during the year was the generation and distribution of electricity to the Solomon Islands. There were no significant changes in the nature of the activities of the Authority during the financial year.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved by the Board of Directors on 18th March 2013.

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis except where stated. The accounting policies have been consistently applied by the Authority and are consistent with those used in the previous year. Certain comparative amounts have been reclassified to conform with the current year's presentation.

(c) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Authority except for IFRS 9 Financial Instruments and IFRS 13 Fair Value Measurement, which become mandatory for the Authority's 2015 financial statements and could change the classification and measurement of financial assets.

(d) Functional and presentation currency

The financial statements are presented in Solomon Island Dollars ("SBD"), which is the Authority's functional and presentation currency.

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these results.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 11 - Property, plant and equipment
Note 14 - Receivables
Note 19 - Contingent liabilities

Notes to the financial statements For the year ended 31 December 2012

3. Significant accounting policies

The principal accounting policies adopted by the Authority are stated to assist in a general understanding of the financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Solomon Island Dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Solomon Island Dollars at the exchange rate at that date. The foreign currency gain or loss on translation is recognised in the profit or loss.

(b) Financial instruments

(i) Non derivative financial assets

The Authority initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Authority becomes a party to the contractual provisions of the instruments.

The Authority derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Authority is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Authority has a legal right to offset the amounts and intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

The Authority classifies non-derivative financial assets into loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank balance.

Receivables

Trade receivables and other assets are measured at initial recognition at fair value. Subsequently, appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Non derivative financial liabilities

All financial liabilities are recognised initially on the trade date, which is the date that the Authority becomes a party to the contractual provisions of the instrument. The Authority derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Authority has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Authority classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise trade and other payables.

(iii) Contributed capital

Contributed capital represents funds contributed by the Government to establish the Authority as a statutory enterprise and other subsequent contributions by Government.

(c) Property, plant and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(ii) Subsequent expenditure

The cost 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 within the component will flow to the Authority and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is based on either the cost or revalued amount of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. The estimated useful lives are as follows:

Land	**Not depreciated**
Buildings	2.0%
Plant and equipment	5.7%
Distribution network	5.0%
Tools	10.5%
Office furniture and equipment	15.0%
Motor vehicles	20.0%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(iv) Revaluation

Land, property, plant and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation of assets. The fair values are recognised in the financial statements of the Authority, and are reviewed at the end of each reporting period to ensure that the carrying value of assets is not materially different to their fair values.

Any revaluation increase arising on the revaluation of assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of assets is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve, is transferred directly to retained earnings.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

3. Significant accounting policies (continued)

(e) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Authority on terms that the Authority will not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

(ii) Loans and receivables

The Authority considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment the Authority uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic conditions and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease is reversed through profit or loss.

(iii) Non-financial assets

The carrying amounts of the Authority's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Notes to the financial statements
For the year ended 31 December 2012

3. Significant accounting policies (continued)

(f) Income tax

The Authority is exempt from income tax under the Solomon Islands Electricity Authority Act 2007.

(g) Exceptional items

Exceptional items are those that in Management's view need to be disclosed by virtue of their size or incidence. Such items are included on the income statement caption to which they relate, and are separately disclosed in the notes to the financial statements.

(h) Employee benefits

i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Authority deducts and pays 5 percent of the employees' gross salaries and contributes 7.5 percent of employees gross salaries to the Solomon Islands National Provident Fund. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in the profit or loss as the related service is provided.

(i) Trade payables, provisions and other payables

Trade and other payables are stated at cost. A provision is recognised in the statement of financial position when the Authority 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Revenue recognition

Revenue earned from the provision of electricity services is measured at the fair value of the consideration received or receivable. Revenue is recognised when the service has been provided to the customer and the consideration is recoverable.

(k) Finance income and expenses

Finance income comprises of unrealised foreign exchange gains and losses.

(l) Grants

An unconditional grant related to an asset is recognised in profit or loss as other income when the grant becomes receivable. Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Authority will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate the Authority for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

3. Significant accounting policies (continued)

(m) Comparative figures

Because of a change in the Authority's chart of accounts on 1 January 2012 some of the 2011 figures in the statement of comprehensive income and associated notes are not strictly comparative to the 2012 figures. Where possible, and if considered appropriate, some of the 2011 amounts have been amended to make them more comparable to the 2012 amounts.

4. Financial risk management

Overview

The Authority has exposure to the following risks from its use of financial instruments:

(i) Credit risk
(ii) Liquidity risk
(iii) Market risk
(iv) Interest rate risk

This note presents information about the Authority's exposure to each of the above risks and the Authority's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Authority's risk management framework. The Authority's risk management policies are established to identify and analyse the risks faced by the Authority, 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 conditions and the Authority's activities. The Authority, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Authority's Board oversees how Management monitors compliance with the Authority's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Authority.

The above risks are limited by the Authority's financial management policies and procedures as described below:

(i) Credit risk

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

<u>Receivables</u>

The Authority's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, Management also considers the demographics of the Authority's customer base, including the default risk of the industry as these factors may have an influence on credit risk.

4. Financial risk management (continued)

(i) Credit risk (continued)

The Authority establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified, and a collective component in respect of estimated losses incurred but not yet identified.

The Authority's maximum exposure to credit risk is as follows:

	2012 SBD	2011 SBD
Cash at bank	99,782,333	19,422,807
Receivables - current	68,828,930	54,390,902
Receivables - non current	6,562,500	-
	175,173,763	73,813,709
Receivables are determined impaired as follows:		
Trade and other receivables		
Gross receivables	103,816,017	93,556,987
Provision for impairment	(34,987,087)	(39,166,085)
	68,828,930	54,390,902

(ii) Liquidity risk

Liquidity risk is the risk that the Authority will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Authority'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 Authority's reputation.

Typically the Authority ensured that is has sufficient cash on hand to meet operational expenses including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities:

31 December 2012

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
Financial liabilities				
Trade and other payables	26,154,724	26,154,724	-	-
	26,154,724	26,154,724	-	-

Notes to the financial statements
For the year ended 31 December 2012

4. Financial risk management (continued)

(ii) Liquidity risk (continued)

31 December 2012

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
Financial liability				
Trade and other payables	10,628,091	10,628,091	-	-
	10,628,091	10,628,091	-	-

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Authority'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.

The Authority is subject to a tariff review on a regular basis with the next one being due in 2013. The outcome of such a review on the pricing of electricity cannot be presently determined.

(iv) Interest rate risk

Interest rate risk is the risk that a change in interest rates will impact net interest costs and borrowings. The Authority has no borrowings and therefore interest rate risk is minimal.

	2012 SBD	2011 SBD
Other operating income		
Included in other operating income are the following:		
Community service obligation	11,248,016	7,848,016
Installation fees	3,314,930	-
Drum deposits refund	-	2,546,760
Reconnections	24,280	253,833
Amortisation of consumer capital contribution	-	14,274,633
Other	1,795,668	855,210
	16,382,894	25,778,452

5. Generation and distribution

Included in generation and distribution expenses are the following:		
Repairs and maintenance and lubricants	38,796,862	15,660,661
Distribution lines	1,639,976	1,189,263
Fuel	212,879,191	227,900,876

Notes to the financial statements
For the year ended 31 December 2012

	2012 SBD	2011 SBD
6. Administration		
Included in administration expenses are the following:		
Board fees and expenses	125,601	163,645
Computer bureau charges	624,600	642,221
Customs and port charges	-	5,159,569
Electricity rebate	927,482	582,662
Freight	121,593	2,213,878
Fuel stock adjustments	-	4,908,595
Electricity	1,248,876	5,130,430
Customs duty & GST	-	4,621,386
Printing and stationery	1,520,311	844,721
Repairs and maintenance	-	2,949,738
Rent	709,030	159,604
Travel and accommodation	1,209,587	1,272,701
7. Depreciation		
Generation	15,358,235	8,748,449
Distribution	5,931,268	1,442,431
Administration	6,355,656	1,393,181
	27,645,159	11,584,061
8. Personnel expenses		
Wages and salaries expense	17,732,692	14,304,100
Key management compensation	1,423,604	1,855,804
National Provident Fund contributions	1,713,338	1,140,859
Housing allowance and shift allowances	1,934,029	1,498,213
Other staff related costs	2,776,180	1,484,829
	25,579,842	20,283,805
9. Operating expenses		
Included in operating expenses are the following:		
Customs and port charges	511,097	-
Repairs and maintenance	10,790,415	-

Notes to the financial statements
For the year ended 31 December 2012

11. Property, plant and equipment

	Land & Buildings operational	Land & Buildings non-operational	Generators	Plant and equipment	Distribution network	Office furniture and equipment	Motor vehicles	Tools	Work in progress	Total
	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD
Cost / Revaluation										
Balance as 1 January 2011	17,522,760	13,985,470	-	144,543,234	28,878,995	2,416,714	8,554,503	298,282	59,037	216,258,995
Additions	-	-	-	4,006,845	1,323,463	1,154,623	547,633	168,038	295,448	7,496,050
Off set of accumulated depreciation as a result of a revaluation	-	-	-	(44,451,339)	(10,018,006)	-	(4,889,829)	(199,970)	-	(59,559,144)
Revaluation increment	-	-	-	42,822,011	130,308,984	-	-	212,215	-	173,343,210
Revaluation decrement	-	-	-	-	-	-	(1,871,805)	-	-	(1,871,805)
Balance at 31 December 2011	17,522,760	13,985,470	-	146,920,751	150,493,436	3,571,337	2,340,502	478,565	354,485	335,667,306
Off set of accumulated depreciation as a result of a revaluation	(4,022,109)	-	-	-	-	-	-	-	-	(4,022,109)
Adjustment to asset revaluation reserve resulting from a revaluation	1,025,142	3,960,241	-	-	-	-	-	-	-	4,985,383
Reclassifications	-	-	115,410,018	(115,565,575)	-	-	-	155,557	-	-
Additions	-	-	197,670	90,250	1,540,960	2,069,913	5,632,773	246,819	2,616,243	12,394,628
Work in progress capitalised	-	-	-	-	1,669,468	-	-	-	(1,669,468)	-
Balance at 31 December 2012	14,525,793	17,945,711	115,607,688	31,445,425	153,703,864	5,641,250	7,973,276	880,941	1,301,260	349,025,208
Breakdown of cost/revaluation										
2010 Valuation	14,525,793	17,945,711	-	-	-	-	-	-	-	32,471,504
2011 Valuation	-	-	115,410,018	31,355,175	152,162,903	-	2,340,502	634,122	-	301,902,721
Cost	-	-	197,670	90,250	1,540,960	5,641,250	5,632,773	246,819	1,301,260	14,650,983
Balance at 31 December 2012	14,525,793	17,945,711	115,607,688	31,445,425	153,703,864	5,641,250	7,973,276	880,941	1,301,260	349,025,208
Depreciation and impairment loss										
Balance as 1 January 2011	4,209,267	65,609	-	36,035,839	8,567,361	1,449,167	4,019,739	167,965	-	54,514,947
Depreciation	151,872	316,720	-	8,415,500	1,450,645	347,229	870,090	32,005	-	11,584,061
Off set of accumulated depreciation as a result of a revaluation	-	-	-	(44,451,339)	(10,018,006)	-	(4,889,829)	(199,970)	-	(59,559,144)
Impairment loss	-	-	-	-	-	516,052	-	-	-	516,052
Balance at 31 December 2011	4,361,139	382,329	-	-	-	2,312,448	-	-	-	7,055,916
Depreciation	339,030	935,659	15,358,235	3,004,855	5,931,268	556,001	1,444,594	75,517	-	27,645,159
Off set of accumulated depreciation as a result of a revaluation	(4,022,109)	-	-	-	-	-	-	-	-	(4,022,109)
Balance at 31 December 2012	678,059	1,317,988	15,358,235	3,004,855	5,931,268	2,868,448	1,444,594	75,517	-	30,678,966
Carrying amounts										
At 1 January 2011	13,313,493	13,919,861	-	108,507,395	20,311,634	967,548	4,534,764	130,317	59,037	161,744,048
At 31 December 2011	13,161,621	13,603,141	-	146,920,751	150,493,436	1,258,890	2,340,502	478,565	354,485	328,611,390
At 31 December 2012	13,847,733	16,627,723	100,249,453	28,440,570	147,772,596	2,772,802	6,528,682	805,424	1,301,260	318,346,242

Notes to the financial statements For the year ended 31 December 2012

10. Property, plant and equipment (continued)

During 2009 the Authority engaged Sinclair Knights Mertz (SKM) to carry out an independent valuation of the following classes of assets:

Plant and equipment
Distribution network
Motor vehicles
Tools

The valuation excluded land, property and buildings owned by the Authority.

The valuation methodology utilised by SKM was the optimised depreciated replacement cost (ODRC) approach which is generally considered to represent the minimum cost of replacing the service potential embodied in the network with modern equivalent assets in the most efficient manner from an engineering perspective given the service requirements, the age and condition of the existing assets.

The valuation was effective 1 January 2012 and was adopted in the financial statements as at 31 December 2011.

During 2012 the Authority also revalued land and buildings based on valuation reports prepared by Value Solutions Appraisal in 2010 and 2011. The result of this revaluation is a increase in land and buildings and a increment to the asset revaluation reserve of $4,985,383 as shown in the table above.

	2012 SBD	2011 SBD
11. Cash and cash equivalents		
Cash on hand	41,000	36,500
Cash at bank	99,782,333	19,422,807
	99,823,333	19,459,307
12. Inventories		
Fuel and lubricants	2,461,596	5,532,281
Electrical and mechanical	5,960,280	4,937,366
	8,421,876	10,469,647

13. Receivables

Current		
Trade receivables - kilowatt (Kwh)	66,894,078	80,423,475
Allowance for impairment - kilowatt (Kwh)	(25,276,161)	(29,426,551)
Trade receivables - CashPower	14,799,195	9,620,517
Allowance for impairment - CashPower	(9,620,517)	(9,620,517)
Related party receivable - Solomon Islands Water Authority	15,937,500	-
Staff advances	375,623	377,803
Allowance for impairment- staff advances	(90,408)	(119,017)
Unread meters	14,061,636	13,000,000
Other debtors	5,809,620	3,135,192
	82,890,567	67,390,902
Non - current		
Related party receivable - Solomon Islands Water Authority	6,562,500	-
	6,562,500	-

In the prior year trade receivables and allowance for impairment in relation to CashPower receivables were netted off and shown as nil value. The presentation in the current year shows the amounts grossed up and therefore this change has also been made to the prior year comparatives.

On 31 May 2012 an agreement was signed between Solomon Islands Government (SIG), Solomon Islands Water Authority (SIWA) and Solomon Islands Electricity Authority (SIEA) where debt owed by SIWA of $7,500,000 was converted into a loan with 0% interest rate for a term of 8 years commencing on 1 January 2013.

	2012 SBD	2011 SBD
Allowance for impairment		
Balance at 1 January	39,166,085	57,432,329
Impairment recognised re Kwh receivables	(4,178,999)	2,112,526
Impairment recognised re CashPower receivables	-	9,620,517
Bad debts written off during the year	-	(29,999,287)
Balance at 31 December	34,987,087	39,166,085

Notes to the financial statements
For the year ended 31 December 2012

	2012	2011
14. Contributed capital		
Contributed capital	304,466,607	297,205,863

Capital represents Government's contribution on the establishment of Solomon Islands Electricity Authority. This is not in the form of shares.

In 2012 the Government of Solomon Islands provided a grant amounting to $4,028,740 (2011: $3,739,177) under the Solomon Islands Sustainable Energy Project. This has been accounted for as a capital transaction as the government has provided this grant in its capacity as a shareholder.

15. Restatement

In 2007 the Government of Japan entered into an agreement with Solomon Islands Government to fund the construction of the Lungga Generator and Power Station on behalf of the Authority. The funding of these capital works is a non-reciprocal grant. The value of the capital works was approximately $48 million and has been up til 2012 accounted for by the Authority as a non-current asset with a corresponding amount taken to deferred income . The deferred income was being amortised over the life of the power station.

During 2012 the Authority reviewed the terms of the agreement and determined that it was more correctly treated as a contribution from Solomon Islands Government given the nature of the agreement. The impact of this change on the statement of financial position and income statement for 2011 is set out below.

	SBD Original	SBD Adjustment	SBD Restated
Grant revenue	2,505,234	(2,505,234)	-
Deferred income	31,634,071	(31,634,071)	-
Accumulated loss	(101,525,705)	(12,525,929)	(114,051,634)
Contributed capital	253,045,685	44,159,999	297,205,684

The impact on opening accumulated losses and contributed capital is shown in the statement of changes in equity.

16. Trade and other payables	2012 SBD	2011 SBD
Current		
Trade creditors	22,960,825	4,499,719
Other payables and accruals	2,389,183	6,014,546
Consumer deposits	804,716	113,826
	26,154,724	10,628,091

Notes to the financial statements
For the year ended 31 December 2012

17. Related parties

(a) Directors

The Directors in office during the financial year were as follows:

Name

Adrian Wickham - Chairman (appointed August 2011)
Anthony Makabo - (resigned June 2012)
David Laurie - (appointed April 2010)
Douglas Alex - (appointed February 2010, reappointed June 2012)
Harry Zoleveke - (appointed June 2012)
Henry Kapu - (appointed June 2012)
Henry Tobani - (appointed February 2008, reappointed June 2012)
Mamu Paza - (resigned June 2012)
Nanette Tutua - (appointed February 2008, reappointed June 2012)
Sebastian Ilala - (appointed June 2012)
Stephen Panga - (resigned June 2012)

Directors fees and expenses are disclosed in Note 7.
The Authority's transactions with Directors were on normal terms and conditions.

(b) Identity of related parties

As the Authority is the sole provider of electricity in the Solomon Islands all Government and Government related entities are its related parties. Other related parties include Directors and employees of the Authority.

Notes to the financial statements
For the year ended 31 December 2012

17. Related parties (continued)

(c) Amounts receivable from related parties

Included in trade receivables are the following amounts receivable from related entities:

	2012	2011
	SBD	SBD
Central Provincial Government	3,706	25,703
Commodity Export Marketing Authority	122,485	225,583
Home Finance Corporation	30,034	61,918
Honiara City Council	345,295	163,969
Makira/Ulawa Provincial Government	776	6,032
Malaita Provincial Government	315,186	1,206,589
Provincial Hospital	3,401,861	2,576,292
Solomon Airlines Limited	133,525	3,527
Solomon Islands Broadcasting Corporation	4,398,289	3,432,536
Solomon Islands College of Higher Education	312,537	444,442
Solomon Islands Government	16,136,635	5,153,725
Solomon Islands Ports Authority	75,115	260,528
Solomon Islands Postal Corporation	968	192,802
Solomon Islands Printers Limited	-	275,100
Solomon Islands Water Authority	24,104,287	27,500,000
Soltai Fishing and Processing Limited	-	3,288,172
Temotu Provincial Government	108,614	80,480
Western Provincial Government	193,858	427,689
Ysabel Provincial Government	63,437	40,880
	49,746,607	45,365,967

17. Related parties (continued)

(d) Transactions with key management personnel

Key management personnel comprises of the General Manager, Chief Financial Officer, Chief Engineer, Legal Officer, Manager Generation, Manager Administration and Manager Customer Services.

In addition to their salaries, the Authority also provides non-cash benefits to key management personnel.

Key management compensation to Executive Management is disclosed in Note 9.

Transactions with key Management personnel are no more favourable than those available, or which might be reasonably be expected to be available, on similar transactions to third parties at arm's length.

18. Commitments and contingencies

Capital commitments

The Authority undertakes capital works and purchases assets according to an approved budget when Management consider sufficient funds available. Capital commitments as at 31 December 2012 amounted to $169,000,000 (2011: $96,000,000). These commitments are in relation to property, plant and equipment.

Contingent liabilities

The Authority is a party to five minor legal trade related cases. The Directors do not expect the outcome of any action to have a material effect on the Authority's financial position.

19. Capital management

The Authority's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.
In order to maintain or adjust the capital structure, the Authority may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.
The Authority is not subject to any externally imposed capital requirements.

20. Subsequent events

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