



# SOLOMON ISLANDS ELECTRICITY AUTHORITY

Powering the Nation



## POWERING THE NATION

HONIARA

TULAGI

AUKI

MALU'U

GIZO

MUNDA

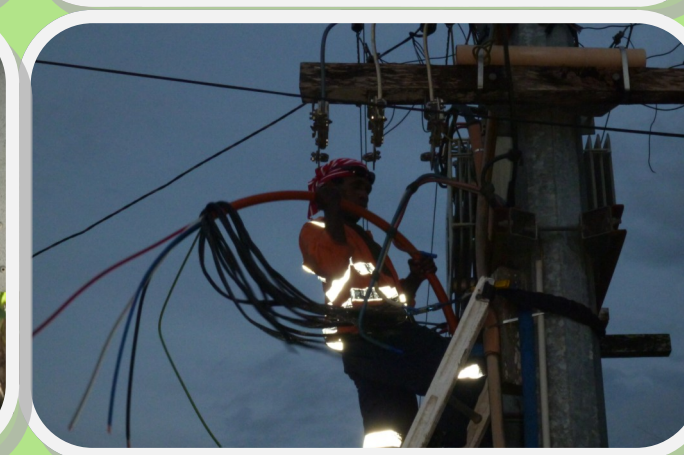
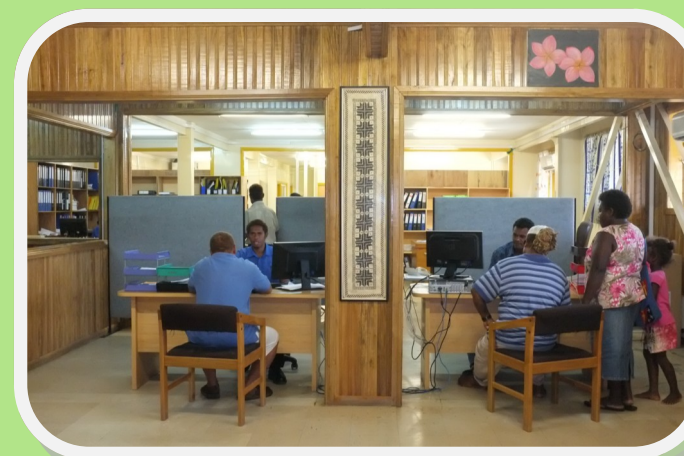
NORO

BUALA

LATA

KIRA KIRA

© SIEA



**ANNUAL REPORT**  
**2011**



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



CONTACT DETAILS:

Come into the Honiara Ranadi Head Office and  
speak with Customer Services Officers.  
Contact SIEA call center in Honiara on 166.

**After Hours/Emergencies: 30237**

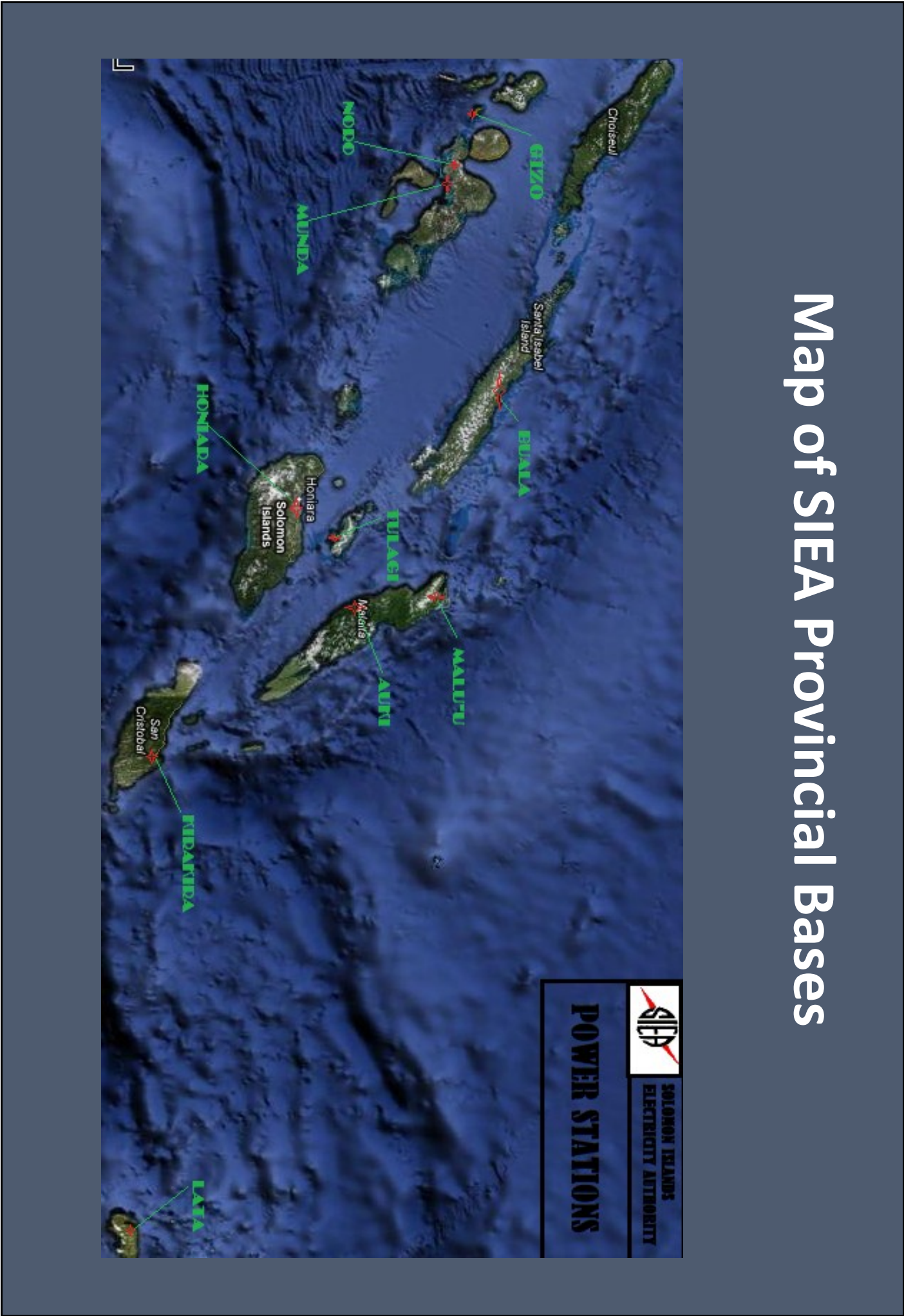
Other Offices: Hyundai Mall: 21711; Auki:  
40114 or 40042; Noro:61251; Gizo 60146 or  
60465; Munda 62191; Lata: 53056; Kira Kira  
50032; Buala: 35042 and Tulagi: 32126.

ADDRESS:

**Solomon Islands Electricity Authority**  
**Ranadi, Honiara**

**PO Box 6**  
**Honiara, Solomon Islands**

[www.siea.com.sb](http://www.siea.com.sb)





# Map of Honiara SIEA Bases



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**SOLOMON ISLANDS ELECTRICITY AUTHORITY**

**RANADI ROAD  
HONIARA**

**PO BOX 6, HONIARA, SOLOMON ISLANDS**

**Telephone: (677) 30495**

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**E-mail: aewickham@trimarinegroup.com**

**Your Ref:**

**Our Ref:**

Correspondence should  
be addressed to the Chairman.

Mr. Moses Garu  
Honorable Minister,  
Ministry of Mines, Energy and Rural Electrification  
P.O. Box G37,  
Honiara,  
Solomon Islands

Dear Sir,

**SOLOMON ISLANDS ELECTRICITY AUTHORITY ANNUAL REPORT 2011**

In accordance to section 25(1) of the Solomon Islands Electricity Act, Cap 128 and section 14 (1) (a) (b) of the State Owned Enterprises Act 2007, I have the honor to submit to you, on behalf of the Board of Directors of the Solomon Islands Electricity Authority, the Annual Report for the Financial Year ended 31<sup>st</sup> December 2011 which incorporates the Statement of Accounts and major development events and activities of the Authority during the financial period.

Thank you and we duly appreciate your continuous understanding and cooperation.

Yours Faithfully,

SOLOMON ISLANDS ELECTRICITY AUTHORITY

Mr. Adrian Wickham  
Chairman  
Board of Directors

Cc: Hon Rick Houenipwela, Ministry of Finance & Treasury

**Solomon Islands Electricity Authority  
Notes to the financial statements  
For the year ended 31 December 2011**

**19. Commitments and contingencies (continued)**

Contingent liabilities (continued)

The Authority maintains a letter of credit of SBD12,000,000 for the purchase of spare parts for the diesel generator and motor vehicles from Japan with ANZ Banking Group Limited - Solomon Islands Branch. The letter of credit had not been utilised by the Authority and expired on 23 March 2012.

**20 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.

**21 Subsequent 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 results in a write off of by the Authority which is caused by the existing provision.

Apart from this event, 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.



**Solomon Islands Electricity Authority**  
**Notes to the financial statements**  
**For the year ended 31 December 2011**

**18. Related parties (continued)**

**(c) Amounts receivable from related parties (continued)**

	2011 SBD	2010 SBD
Solomon Islands Ports Authority	260,528	219,346
Solomon Islands Postal Corporation	192,802	55,527
Solomon Islands Printers Limited	275,100	65,770
Solomon Islands Tourist Authority	-	7,391
Solomon Islands Water Authority	27,500,000	22,635,612
Soltai Fishing and Processing Limited	3,288,172	1,616,576
Temotu Provincial Government	80,480	36,862
Western Provincial Government	427,689	902,060
Ysabel Provincial Government	40,880	445,962
	<u>45,365,967</u>	<u>38,194,618</u>

**(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

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 arms length.

**19. 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 2011 amounted to SBD96,000,000 (2010: SBD96,107,213). These commitments are in relation to property, plant and equipment.

Contingent liabilities

The Authority is defendant in two cases relating to unfair dismissal of employees. The Directors do not expect the outcome of any action to have a material effect on the Authority's financial position.

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# SIEA HIGHLIGHTS FOR 2011

- A new Chairman, Mr Adrian Wickham, was appointed under the new SEO Regulations. This was the first appointment made under these new regulations.
- The position of Chief Financial Officer was established (to replace the previous Commercialisation Manager) and Mr Mike Payne was appointed to the position.
- To give more focus to customers and their needs, a Customer Services Division was established and the former Administration Manager, Mrs Jan Sanga, was appointed to the position.
- The MYOB Financial system was implemented to improve the financial reporting within SIEA.
- A Human Resources Review was commenced to review the entire structure of SIEA.
- The Community Service Obligation (CSO) contract, as detailed in the SOE Act, was implemented as a trial in SIEA. This required SIEA's Out Stations to meet certain performance criteria, which they did and, as a result, SIEA benefitted from a subsidy of \$9.1m.
- A review of the Logistics and Stores area commenced which has enabled a major reduction in the number and value of items in stock. It also resulted in a significant write down of old obsolescent and missing inventory.
- In Auki a new generator was installed, with funding assistance from the ADB, for a trial using coconut oil (CNO). While the trial has been most successful, the high cost of CNO puts its use in doubt.
- As the result of an audit by SKM into system losses, a major Meter Audit was carried out. This audit is now on-going to identify damaged, faulty, by-passed, or unrecorded meters.
- To improve information to the community regular radio programmes were implemented giving information and providing call back opportunities for customers. Media coverage for events and out-age information was also implemented.
- There has been a growth of 6% in power requirements for the city of Honiara which is still a challenge for SIEA to meet at times when generator maintenance is required.
- There has been a significant increase in the price of fuel (35%) which has placed a major burden on SIEA's finances.
- In spite of the cost of oil, which is over 80% of SIEA's costs, the cash flow has improved to the extent that SIEA was able to pay off all of its outstanding debts.

# FUTURE PLANS FOR 2012

- The construction of a new high voltage line to Foxwood will be completed.
- A new 33KV Cable will be installed to link the power station at Lungga with the Ranadi Sub Station to replace the unreliable cable that was installed some years ago and to cater for the increased load in the Ranadi industrial area.





Newly restructured Supply Chain “Stores”

- A new 11KV Switchboard will be installed for the Honiara Power Station to replace the existing one that is old and prone to faults.
- An Asset Review will be undertaken of all plant and equipment assets. This is another part of the project to establish SIEA with a ‘clean’ Balance Sheet.
- A New Fuel Contract will be advertised and established as the existing contract will expire in early 2012.
- New generators will be ordered to meet the increasing load in Honiara. Initially two 1.5MW ‘packaged’ units will be purchased for Honiara Station to assist in holding the peak load during each business day. Subsequently two 5MW generators will be purchased for Lungga Power station to ensure that there is secure power for Honiara at all times.
- New generators will be installed in Malu’u and Kirakira.
- A number of ‘Smart Meters’ will be installed at major commercial customers. These will enable meter readings to be taken without having to visit the customer’s premises.
- All of our Outstations will be linked to the corporate LAN. This will enable better communication with the outstations and improved customer service, particularly for the issuing of Cash Power vouchers.
- Under the SOE Act, a New Board will be selected as the term of several of the Board members will expire in early 2012.



Solomon Islands Electricity Authority  
Notes to the financial statements  
For the year ended 31 December 2011  
17. Trade and other payables (continued)

Consumer capital contributions relate to fees collected from customers for the establishment of distribution networks. During the year a review was performed of this balance and the amortisation period was reduced due to there being no requirement to refund the contributions to the customer. From 1 January 2012 these contributions are being taken to Profit or Loss when received.

18. Related parties

(a) Directors

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

Name
Adrian Wickham - Chairman
Alex Douglas
Anthony Makabo - (resigned June 2012)
David Laurie
Henry Tobani
Mamu Paza - (resigned June 2012)
Nanette Tutua
Stephen Panga - (resigned June 2012)

Directors fees and expenses are disclosed in Note 8.

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.

(c) Amounts receivable from related parties

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

	2011 SBD	2010 SBD
Central Provincial Government	25,703	-
Commodity Export Marketing Authority	225,583	-
Home Finance Corporation	61,918	-
Honiara City Council	163,969	115,306
Makira/Ulawa Provincial Government	6,032	822,202
Malaita Provincial Government	1,206,589	1,239,663
Provincial Hospital	2,576,292	-
Sasape Marina Limited	-	54,891
Solomon Airlines Limited	3,527	55,915
Solomon Islands Broadcasting Corporation	3,432,536	2,409,247
Solomon Islands College of Higher Education	444,442	1,835,224
Solomon Islands Government	5,153,725	5,677,064



**Solomon Islands Electricity Authority**  
**Notes to the financial statements**  
**For the year ended 31 December 2011**

	2011 SBD	2010 SBD
<b>14. Receivables (continued)</b>		
<u>Allowance for impairment</u>		
Balance at 1 January	(57,432,329)	-
Impairment recognised	(2,112,526)	(57,432,329)
Bad debts written off during the year	29,999,287	-
Balance at 31 December	<u>(29,545,568)</u>	<u>(57,432,329)</u>

	2011 SBD	2010 SBD
<b>15. Contributed capital</b>		
Contributed capital	<u>253,045,865</u>	<u>249,306,688</u>

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

In 2011 the Government of Solomon Islands provided a grant amounting to \$3,739,177 (2010: \$2,373,518) 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.

	2011 SBD	2010 SBD
<b>16. Deferred income</b>		
Balance at 1 January	34,139,305	36,644,539
Grant income recognised in profit and loss	(2,505,234)	(2,505,234)
Balance at 31 December	<u>31,634,071</u>	<u>34,139,305</u>

In 2007 the Government of Japan entered into an agreement with Solomon Islands Government to fund the construction of 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 \$48million and has been accounted for by the Authority as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised over the life of the power station.

	2011 SBD	2010 SBD
<b>17. Trade and other payables</b>		
<u>Current</u>		
Trade creditors	4,499,716	26,068,776
Other payables and accruals	6,014,546	10,564,106
Consumer deposits	113,826	66,909
	<u>10,628,088</u>	<u>36,699,791</u>
<u>Non current</u>		
Consumer capital contributions	-	12,997,412

## Chairman's Message

It has been an honour and a privilege for me to be appointed as the Chairman of SIEA. I knew that the task would be a challenge, but I am pleased to say that we have faced up to that challenge and that great progress has been made.

We now have an organisation that is financially stable as a result of the initiatives we have taken. Indeed, we have reached the position when we can plan major capital investments that were well overdue. In particular we have moved quickly to initiate the purchase of several generators to ensure that the lights will always be on in Honiara, as well as several other major projects that will improve service in our Outstations and provide a more reliable network. Details of these plans are covered elsewhere in this report.

These improvements have been the result of having a dedicated team in SIEA with a positive attitude, supported by a strong Board. I particularly want to thank my Board and the staff of SIEA for the great effort that they have put in to get the organisation back on its feet, to the benefit of all of our customers. I also make particular mention of Director Anthony Makabo who, as Interim Chairman for much of 2011, helped steer the organisation in the right direction.

I would also like to acknowledge the excellent support given to SIEA by the Solomon Islands Government (SIG) and the World Bank. 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 being made in SIEA.

I can confidently say that the future for SIEA is looking bright and that we are building up SIEA to be an organisation that all Solomon Islanders can be proud of.

Adrian Wickham

Chairman







## General Managers Message

2011 has been a ‘turnaround’ year for SIEA. We have managed to turnaround our:

- Finances, paying off all of our debts and being able to make major payments for overhaul parts
- Staff, who have developed a positive attitude through the training we have provided
- Customers, by providing improved customer service and more information
- Outstations, by providing more capability to meet the needs of their customers.

of our Outstations: it brings benefits by way of income, but there are financial penalties for poor performance. I am pleased to say that our staff rose to the challenge and we suffered no penalties. No doubt the targets will get harder to meet in future, but I am sure that we will meet them. If we do not, the CSO is crafted in such a way that the Government can offer the contract to others.

Now that we are in a better financial position we can start planning to do all of the things we have been wanting to do for some time, including:

- Purchasing more generation capacity
- Fixing weaknesses in our network
- Extending our network
- Improving the tools and equipment our staff need to carry out their work
- Refurbishing some of our facilities.

Of particular note is the radio programme we have been using every week to reach out to the population and give them more information about safety, energy conservation, service applications, the benefits of pre-paid Cash Power, etc. We also provide ‘call-in’ opportunities so that customers can ask questions and obtain direct feedback.

We have also been communicating better with our staff through our newsletter ‘Watts Up’. Each issue has featured an area of SIEA so that all staff obtain greater insights into all areas of our operation and the dedication our staff bring to their job.

This year saw the introduction of the Community Service Obligation (CSO) which is a contract between Government and SIEA to provide service in uneconomic areas. This has been a challenge for all

I particularly want 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 that Team for the excellent work they have done to make this a ‘turnaround’ year for SIEA.

The future for SIEA looks bright and we can look forward to an exciting year ahead with many new developments and initiatives. Several of these projects are covered elsewhere in this report.

**Norman Nicholls**

**General Manager**

### Solomon Islands Electricity Authority Notes to the financial statements For the year ended 31 December 2011

#### 11 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 has been adopted in the financial statements as at 31 December 2011.

	2011 SBD	2010 SBD
<b>12. Cash and cash equivalents</b>		
Cash on hand	36,500	17,000
Cash at bank	19,422,807	12,890,292
	<u>19,459,307</u>	<u>12,907,292</u>
	2011 SBD	2010 SBD
<b>13. Inventories</b>		
Fuel and lubricants	5,532,281	4,749,962
Electrical and mechanical	4,937,366	6,859,666
	<u>10,469,647</u>	<u>11,609,628</u>
	2011 SBD	2010 SBD
<b>14. Receivables</b>		
<u>Current</u>		
Trade receivables	80,423,475	92,006,745
Allowance for impairment - trade receivables	(29,426,551)	(57,315,926)
Staff advances	377,803	625,751
Allowance for impairment- staff advances	(119,017)	(116,403)
Unread meters	13,000,000	16,293,729
Other debtors	3,135,192	-
	<u>67,390,902</u>	<u>51,493,896</u>



Solomon Islands Electricity Authority  
Notes to the financial statements  
For the year ended 31 December 2011

11. Property, plant and equipment

	Land and building operational SBD	Land and building non operational SBD	Plant and equipment SBD	Distribution network SBD	Office furniture and equipment SBD	Motor vehicles SBD	Tools SBD	Work in progress SBD	Total SBD
<b>Cost / Revaluation</b>									
Balance as 1 January 2010	17,190,200	13,406,260	105,275,105	23,790,618	2,186,624	6,851,407	229,899	-	168,930,113
Adjustment for prior period errors	-	405,371	38,500,603	1,519,445	(99,441)	46,150	16,223	-	40,388,351
Additions	332,560	13,960	767,526	3,568,932	329,532	1,656,946	52,160	59,037	6,780,653
Off set of accumulated depreciation as a result of revaluation	-	(3,762,546)	-	-	-	-	-	-	(3,762,546)
Revaluation increment	-	3,922,425	-	-	-	-	-	-	3,922,425
Balance at 31 December 2010	17,522,760	13,985,470	144,543,234	28,878,995	2,416,715	8,554,503	298,282	59,037	216,258,996
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 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	3,571,338	2,340,502	478,565	354,485	335,667,307
Breakdown of cost/revaluation - 2010 Valuation									
- 2011 Valuation									
- Cost	17,522,760	13,985,470	146,920,751	150,493,436	3,571,338	2,340,502	478,565	354,485	335,667,307
Balance at 31 December 2011									
<b>Depreciation and impairment loss</b>									
Balance as 1 January 2010	3,102,292	3,431,929	27,523,258	7,119,351	1,120,503	3,194,055	110,509	-	45,601,897
Depreciation	368,622	337,997	8,201,165	1,326,268	234,291	769,027	20,068	-	11,257,438
Off set of accumulated depreciation as a result of revaluation	-	(3,762,546)	-	-	-	-	-	-	(3,762,546)
Impairment loss	738,353	-	-	-	-	-	-	-	738,353
Adjustment for prior period errors	-	58,229	311,416	121,742	94,374	56,657	37,388	-	679,806
Balance at 31 December 2010	4,209,267	65,609	36,035,839	8,567,361	1,449,168	4,019,739	167,965	-	54,514,948
Depreciation	151,872	316,720	8,415,500	1,450,645	347,229	870,090	52,005	-	11,584,061
Off set of accumulated depreciation as a result of 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	-	-	2,312,449	-	-	-	7,055,917
<b>Carrying amounts</b>									
At 1 January 2010	14,087,908	9,974,331	77,751,847	16,671,267	1,066,121	3,657,352	119,390	-	123,328,216
At 31 December 2010	13,313,493	13,919,861	108,507,395	20,311,634	967,547	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	1,258,889	2,340,502	478,565	354,485	328,611,390

SIEA as a State Owned Enterprise: The Objectives for SIEA under the State Owned Enterprises Act:

SIEA’s principal objective as set out under Section 4 of the SOE Act is: “to operate as a successful business and, to this end, to be:

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

To meet this objective, SIEA will:

Work to be as profitable and efficient as comparable businesses:

- Within the Electricity and SOE Acts, to install, operate and maintain electricity supply systems that meet the needs of connected customers;
- Develop and implement capital investment plans to improve electricity system performance and increase the network coverage of agreed areas;
- Seek to recover efficient costs of the service provision;
- Improve the efficiency of its services, whilst improving asset reliability and availability.
- Be a good employer;
- Maintain a well-qualified and motivated staff, and adopt HR policies that treat employees fairly and properly in all aspects of recruitment, retention and employment; and
- Promote a high level of safety throughout the organisation.
- Act in a socially responsible manner:

- Build effective relationships with landowners, customer groups and interest groups that are affected by SIEA’s activities;
- Improve environmental reporting and performance on issues that are caused by its electricity supply activities;
  - Incorporate sustainability into SIEA’s business activities and work to improve sustainable outcomes in terms of resource use.

Nature and Scope of Activities to be undertaken by SIEA, as defined under the Electricity Act:

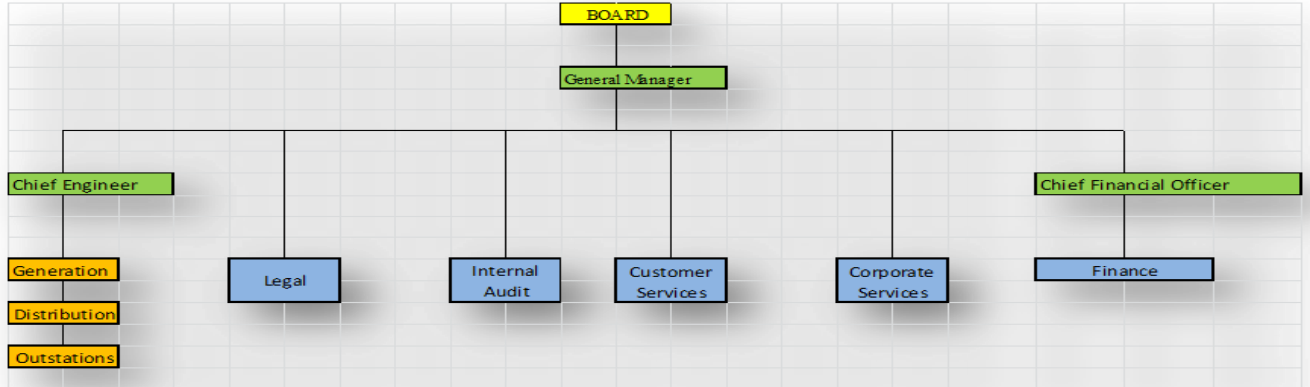
SIEA’s principal commercial activities are:

- Generation and distribution of electricity 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;
- The approved expansion of services to increased areas of operation.

In addition SIEA is required, under the Electricity Act, to:

- Enforce all appropriate Regulations promulgated under the Act;
- Licence any person or organisation that generates electricity;
  - Carry out inspections of any electrical installations in the country.

STRUCTURE OF SIEA





Solomon Islands Electricity Authority Board,  
at the end of 2011



Adrian Wickham  
Chairman of Board



Anthony Makabo  
Vice Chairman



David Laurie  
External Director



Douglas Alex  
Director



Nanette Tutua  
Director



Henry Tobani  
Director



Mamu Paza  
Director



Hon. Stephen Panga  
Director



Natalie Kairi  
Secretary to the Board

Solomon Islands Electricity Authority  
Notes to the financial statements  
For the year ended 31 December 2011

	2011 SBD	2010 SBD
<b>7. Distribution</b>		
Included in distribution expenses are the following:		
Depreciation	1,442,431	1,434,698
Distribution lines	1,189,263	1,606,706
<b>8. Administration</b>		
Included in administration expenses are the following:		
Board fees and expenses	163,645	431,679
Computer bureau charges	642,221	1,770,624
Customs and port charges	5,159,569	4,350,118
Depreciation	1,393,181	1,319,018
Allowance for impairment - staff debtors	2,614	116,403
Electricity rebate	582,662	1,411,232
Freight	2,213,878	1,358,966
Fuel Stock Adjustments	4,908,595	393,557
Electrical stock adjustment	-	3,145,733
Electricity	5,130,430	-
Customs Duty & GST	4,621,386	4,350,118
Printing and stationery	844,721	611,014
Repairs and maintenance	2,949,738	1,721,319
Rent	159,604	226,226
Travel and accommodation	1,272,701	1,646,926
<b>9. Personnel expenses</b>		
Wages and salaries expense	15,697,632	16,119,092
Key management compensation	1,855,804	1,616,357
National Provident Fund contributions	1,140,859	1,105,743
Housing allowance and shift allowances	1,498,213	1,748,160
Other staff related costs	1,484,829	592,059
	21,677,337	21,181,411
<b>10. Finance income</b>		
Unrealised foreign exchange gains	14,417	138,038



**Solomon Islands Electricity Authority  
Notes to the financial statements  
For the year ended 31 December 2011**

**4. Financial risk management (continued)**

**(ii) Liquidity risk (continued)**

**31 December 2010**

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
<u>Financial assets</u>				
Cash at bank	12,907,292	12,907,292	-	-
Trade and other receivables	35,200,167	35,200,167	-	-
	<u>48,107,459</u>	<u>48,107,459</u>	<u>-</u>	<u>-</u>
<u>Financial liability</u>				
Trade and other payables	49,697,203	36,699,791	-	12,997,412
	<u>49,697,203</u>	<u>36,699,791</u>	<u>-</u>	<u>12,997,412</u>

**(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.

**Tariff review**

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.

	2011 SBD	2010 SBD
<b>5. Other operating income</b>		
Included in other operating income are the following:		
Community Service Obligation	7,848,016	-
Drum deposits refund	2,546,760	-
Reconnections	253,833	34,256
Amortisation of consumer capital contribution	14,274,633	538,389
Other	<u>855,210</u>	<u>819,298</u>
<b>6. Generation</b>		
Included in generation expenses are the following:		
Depreciation	8,748,449	8,689,125
Engines and lubricants	15,660,661	17,031,387
Fuel	<u>227,900,876</u>	<u>174,456,188</u>



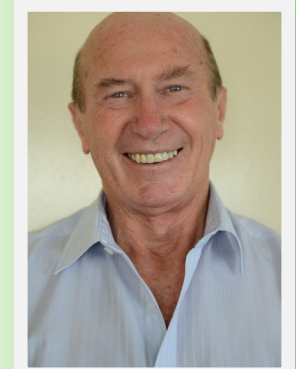
# Solomon Islands Electricity Authority Management 2011



**General Manager,  
Mr. Norman Nicholls**



**Chief Engineer,  
Mr. Martin Sam**



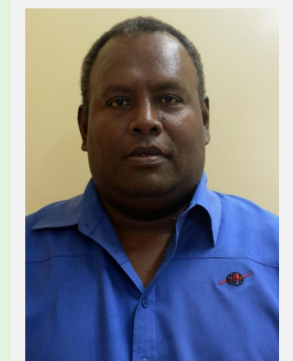
**Chief Financial Officer,  
Mr. Mike Payne**



**Manager Outstations,  
Mr. John Kofela**



**Manager Generation,  
Mr. Dadily Posala**



**Manager Distribution,  
Mr. Matthew Korinihona**



**Manager Corporate Services (Ag)  
Mr. Leven Respiroh**



**Manager IT,  
Mr. Gordon Denty;**



**Manager Customer Service ,  
Mrs. Jan Sanga;**



**Legal Officer,  
Mr. Barnabas Upwe**

# Engineering:

## Power Generation:



SIEA is strengthening its generation capacity to bring the available generation to a level that is comfortably higher than the current demand.

There has been a 6% increase in load to around 13.8MW during peak times. There has been a steady increase in load reflecting industrial and business development in the greater Honiara areas.

In response to this increase in demand, SIEA is planning to expand generation capacity significantly through the purchase installation of two smaller 1.5MW engines for the Honiara Power House during 2012, and the purchase of two 5 MW engines scheduled in 2013. This will significantly improve the security and generation capacity of Honiara's power supply and ensures that SIEA will be ready to support the development of the Solomon Islands.

As Financial conditions improved in late 2011 this allowed SIEA order replacement parts for the smaller L5 engine and to rebuild L6. Parts are expected to be ready for works to begin early 2012.

During 2011, the available generation capacity for

Honiara has been around 17MW. The demand for Honiara during 2011 was around 13.8MW.

Consequently, SIEA can only afford to hold one of the 4.2MW generators out of service at any one time. Should a second engine not run, then load shedding is inevitable. For the months of May, June, July and August, Honiara experienced a prolonged load shedding due to the delay (awaiting replacement parts) in completing the major overhaul of L7 Wartsila generator, coupled with the fact that the two smaller support gen sets, L5 and L6 Mirrlees, were down with mechanical failures.

The power situation for Honiara was normalised when the L7 Wartsila major overhaul was completed in late August. Parts required to repair L5 and to rebuild L6 Mirrlees are on order.

In a positive initiative that SIEA hopes will help the organisation recruit and employ staff that have been required specialised experience and knowledge we have created a pilot engineering students program that is expected begin in early 2012.

This program will enable students to gain valuable field experience, it also benefits SIEA as we are able to train future potential employees in specific areas.

This is a new project for SIEA and one that we are proud to be supporting with these new students.

The price of diesel in 2011 rose by 35%, having a significant impact on power pricing and therefore customer affordability.

## Issues and Challenges for SIEA:

The major challenge that SIEA faced with respect to generation continued to be keeping the lights on

## Solomon Islands Electricity Authority Notes to the financial statements For the year ended 31 December 2011

### 4. Financial risk management (continued)

#### (i) Credit risk (continued)

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

	2011 SBD	2010 SBD
Cash at bank	19,422,807	12,890,292
Receivables - current	54,390,902	35,200,167
	<u>73,813,709</u>	<u>48,090,459</u>

Receivables are determined impaired as follows:

	2011 SBD	2010 SBD
<u>Trade and other receivables</u>		
Gross receivables	83,936,470	92,632,496
Provision for impairment	(29,545,568)	(57,432,329)
	<u>54,390,902</u>	<u>35,200,167</u>

#### (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 it 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 and financial assets:

31 December 2011	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
<u>Financial assets</u>				
Cash and cash equivalents	19,459,307	19,459,307	-	-
Receivables	54,390,902	54,390,902	-	-
	<u>73,850,209</u>	<u>73,850,209</u>	<u>-</u>	<u>-</u>
<u>Financial liability</u>				
Trade and other payables	10,628,088	10,628,088	-	-
	<u>10,628,088</u>	<u>10,628,088</u>	<u>-</u>	<u>-</u>



Solomon Islands Electricity Authority  
Notes to the financial statements  
For the year ended 31 December 2011

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.

Receivables

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.

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 asset 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.

throughout 2011. There is a growing demand for power in and around Honiara as families choose to connect to power, and business and industry in and around Honiara and the outstations continues to grow. SIEA must ensure that it is ready to meet and cater for this demand. The energy growth rate for Honiara averages around 6% per annum and, in order to meet the demand, additional generation capacity is urgently required.



Power System Reliability:

For the first time SIEA is able to measure its Honiara power system reliability using the internationally accepted performance indicators as follows:

The System Average Interruption Duration Index (SAIDI), a measure of the average total length of time (in minutes) that a customer is without power over a one year period for Honiara SAIDI was measured to be 1075 minutes compared to 584 minutes for 2010.

The System Average Interruption Frequency Index (SAIFI), a measure of the average number of times

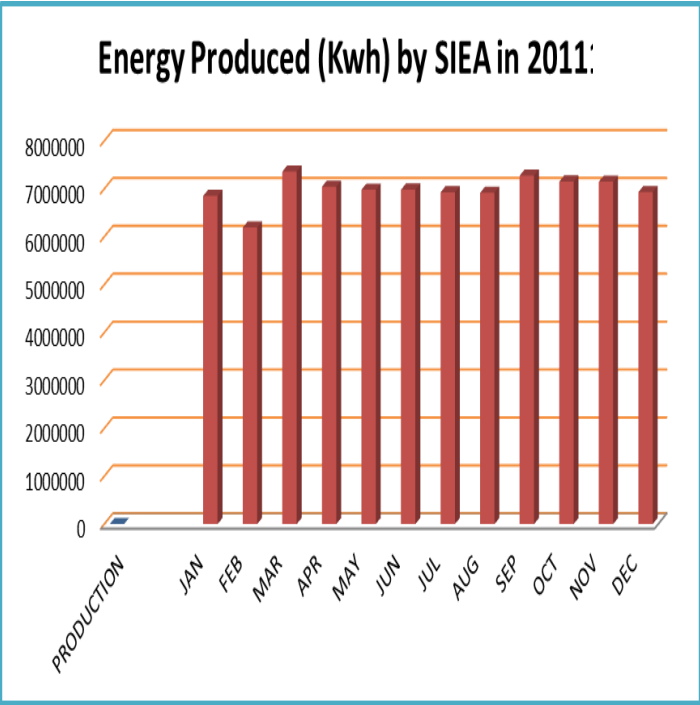
that a customer’s power is interrupted in a year and for Honiara SAIFI, is measured to be 9 times compared to 7.7 times for 2010.

The Customer Average Interruption Duration Index (CAIDI), a measure of the average time (minutes) that a customer is without power per interruption for Honiara CAIDI, is measured to be 117.9 minutes per interruption compared to 70 minutes in 2010.

Generation Statistics:

Energy Produced:

SIEA produced a total of 83.86Mwh in 2011 compared to 83.6 GWh for the 2010 production. Energy production however, was affected by the load shedding during the months of May, June, July and August, due to the delays in the overhaul of the L7 Wartsila generator. Of the energy SIEA produced, 74.67Mwh (88%) came from Lungga and Honiara



Power Stations and 9.1Mwh (12%) came from the



Outstations.

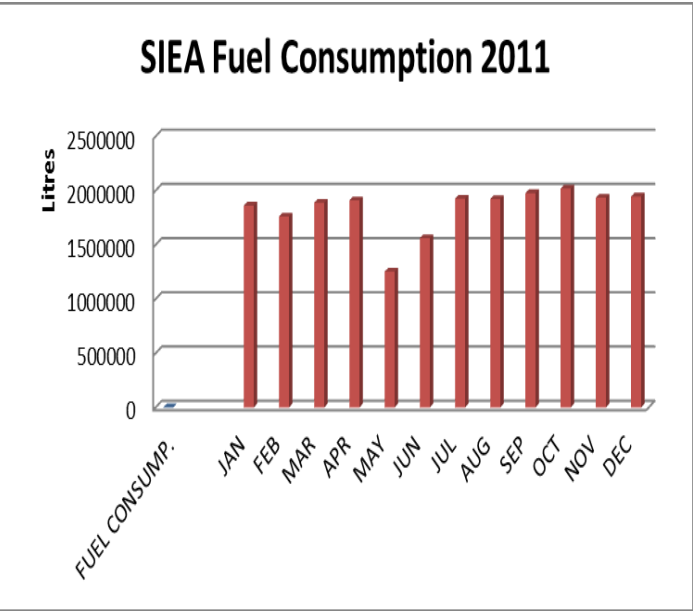
Maximum Demand:

Maximum Demand for Honiara in 2011 peaked around 13,870 Kilowatts compared to 13,780 Kilowatts in 2010.



Diesel Fuel Usage:

Fuel usage for 2011 was 22.3 Mega litres, 84% (19.3 Mega litres) is used in the Honiara operation and the remaining 16% (3.0 Mega litres) is used by the Outstations operations.



Solomon Islands Electricity Authority  
Notes to the financial statements  
For the year ended 31 December 2011

3. Significant accounting policies (continued)

(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 7.4 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 consideration is recoverable.

(k) Finance income

Finance income comprises of unrealised foreign exchange gain.

(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.



**Solomon Islands Electricity Authority**  
**Notes to the financial statements**  
**For the year ended 31 December 2011**

**3. Significant accounting policies (continued)**

**(e) Impairment (continued)**

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 in impairment loss is reversed through profit or loss.

**(ii) 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.

**(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.

# Distribution:

## Distribution:



Distribution experienced significant changes as a result of a major restructuring Human Resources review project, as well as initiating a number of major projects.

A major outcome of the HR Review was the merging of linesmen and electrical inspectors into a newly designed Distribution Department. The creation of a Planning Engineer position will also allow for a dedicated focus in this area. SIEA will therefore be able to plan and expand its network in line with the natural increase in domestic and commercial/industrial demand for power in and around Honiara. This new face and shape of Distribution puts it in a positive position to help develop the Solomon Islands.

The Distribution Operations and Construction Crews were involved in the following major activities:

Extending the HV lines from Foxwood to Ngalmibiu (East of Honiara). Progress was slow

due to land access issues and the shortage of line materials. The line was about 60% complete by the end of the year (with pole and stay erection completed). The full restoration of the GPPOL HV lines will continue toward completion in 2012.

Extension of the Auki grid to Lilisiana in an ADB funded project. The line was completed by the end of the year.

The recommendations of the SKM Loss Reduction Study Report were implemented by swapping a number of under loaded distribution transformers with those that are over loaded.

A mass meter audit was also carried out in Honiara as part of the loss reduction exercise.

Several repairs had to be made to the 33KV underground cable between Ranadi Substation and the Lungga Power Station.

## Issues and Challenges facing

### Distribution:

In Honiara, parts of the Distribution network need upgrading and new extensions are required to connect additional customers.

# Outstations

## Outstations:

2011 ended a positive year for the Outstations with a number of well overdue improvements made to strengthening SIEA’s generation and supply capacity in the outstations. A number of new engines and a switchboard were installed or worked on to increase capacity.

A new 120Kva generator was installed and commissioned for the Lata Station, whilst at Gizo a new 750Kva generator was also installed and commissioned. Another new 400Kva generator was installed at Auki under an Asian Development Bank (ADB) project. With installation of the new generators at Lata, Auki and Gizo reliability of the power systems at these Stations were significantly improved.

A new switchboard was successfully installed at Tulagi.

A major lines project was initiated and completed toward the end of the year in Tulagi with the assistance of Honiara Distribution staff. The existing lines network was diverted and positioned higher on the slope to enable the revival of the Sasape Marine Slipway.

## Issues and Challenges:

Notwithstanding these improvements, aging generators and power lines remain a concern and will require replacements and upgrades.



## Coconut engine:

The Asian Development Bank (ADB) was involved with SIEA for two linked projects during 2011. The ADB funded a trial Coconut Oil Project involving the purchase of one 400WM Cummins gen set that will run on a mixture of coconut oil and diesel. Local communities in Malaita Province have been involved in providing the copra and oil for this project.

This is a first of its kind moment for SIEA and to date the project has been a positive project for SIEA with a successful commissioning and good progress being made with mixture levels. The ADB have also funded the extension of the Auki grid to the nearby local fishing community, Lilisiana Village. SIEA expects around 180 rural customers to connect to this power network. Custom meter boxes are being explored as an option for connect semi-permanent leaf-timber houses that are not easily suited to conventional wiring.

# Support Services

The year 2011 saw some big changes in the structure of SIEA. In October, two new departments were formed from what was previously known as the Ad-

## Solomon Islands Electricity Authority Notes to the financial statements For the year ended 31 December 2011

### 3. Significant accounting policies (continued)

#### (c) Property, plant and equipment (continued)

##### (iii) Depreciation

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%
Plant and equipment	5.7%
Distribution network	5%
Office furniture and equipment	15%
Motor vehicles	20.0%
Tools	10.5%

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

#### (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, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and selling prices.

#### (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.



Solomon Islands Electricity Authority  
Notes to the financial statements  
For the year ended 31 December 2011

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is based on the cost 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.

(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.

ministration Department: Corporate Services and Customer Services. Mr. Leven Resploh now manages Corporate Services, while Ms. Jan Sanga manages Customer Services.

Corporate Services Department:

The role of the Corporate Services Department is to look after human resources (HR), property and training matters. Separating the two departments allows the Customer Services Department to wholly focus on customer service matters.

At 177 full time staff (excluding casual labourers), SIEA is a large utility in the Solomon Islands. A comprehensive HR Review was initiated in late 2011 and is expected to be completed by mid-2012. The objectives of the Review is to improve efficiency throughout the company. The Review clearly identified the roles and responsibilities of all staff, making profiles of all staff positions possible. In conjunction with the Review, a new HR policy manual will replace current procedures manuals and staff handbooks and act as a comprehensive reference guide for all staff.

The main outcomes of the review are as follows:

- Job description revision
- Person specifications
- Tasks and procedures
- Management development program
- Train the trainers workshops to meet training needs
- Reduction of 11 levels to 7 levels within the SIEA hierarchy.
- Introducing the two new departments namely, Corporate Services and Customer Services respectively.

The Review resulted in a number of redundancies but conversely has also resulted in the creation of new jobs through the identification of need in those areas. This Review will have a number of positive outcomes and ultimately help SIEA progress toward its vision of powering the nation.

One new position that came out of this Review is the creation of the Training Officer Position, now held by Salome Rehotona. Internal training in a number of short courses and workshops such as Train the Trainers, Management Development Training, PPA workshops and APTC Trainings have been carried out, with more scheduled for 2012. Training will be an ongoing part of SIEA to improve our skills base and our staff performance in order to meet organizational goals and staff output. SIEA will encourage more technical staff to take part in other APTC workshops and training in Fiji, Samoa and PNG.

Some positive changes are already becoming apparent. The major achievement to date is the staff profiles have helped staff identify their roles more clearly and has resulted in a workforce that is better informed and focused on their roles and job performance. A number of trainings are expected to be carried out in 2012 in response to identified need in these areas, especially Customer Service.

Staff reporting has been simplified and benefits are expected to be seen in this area as well.

A number of renovations were carried out in the provinces to help lift SIEA's performance in the Outstations. In Honiara, the new Customer Services Department began its facelift. Works in this area are expected to be completed in early 2012. The Engineering Department also saw the first of a complex new overhaul to its premises. These changes are a

positive new step to improving overall service both in Honiara and the Outstations and are aimed at improving the overall flow of the organisation.

Plans are being made to complete a full review of all SIEA property, including SIEA owned staff housing in 2012.

Corporate Services has a number of plans for its future. One of its early aims is to focus on improving the level of organizational support given to each individual department, especially beginning with the engineering department. A significant focus will be given to recruitment of new staff suited for the newly identified roles, with a new graduate program to be piloted in 2012; a small group of engineering students will be assigned to a rotational schedule to give them training in the critical areas of SIEA engineering. A positive step for both SIEA and the students involved!

Training and up skilling staff that can bring SIEA forward is a core objective of this new department.

## Customer Services :

The Customer Services Department comprises Billing, Customer Enquiries, the Prepay Section using Cash Power meters, Metering Services, Cashiering, and Public Relations.

For all customer billing, SIEA uses the NCS system for all conventional metered customers. Prepay customers use the Cash Power system. The changes in the department structure and staffing towards the



Staff attending the Train the Trainers Workshop.

end of 2011 have brought about some long awaited clarification of specific staff roles, duties and responsibilities and a focus on the customer and their needs. 2011 has seen a dramatic move in SIEA objectives that has resulted in changes to policy and procedures intended to ensure that customer issues are addressed and managed effectively and efficiently.

One critical sub-department of Customer Services is the Public Relations Department. This department has experienced a significant boost in support for its role in SIEA and has been critical in raising public awareness of power issues as well as safety and process awareness when using or applying for power from SIEA. SIEA's Public Relations Section produces and hosts a weekly radio program which directly addresses the public and updates them on major changes and general goings on within the company as well as general safety awareness and power saving information. The Public Relations department now releases information through all main radio and newspaper channels and editions to keep public up to date.

The creation of this new Department has allowed

## Solomon Islands Electricity Authority Notes to the financial statements For the year ended 31 December 2011

### 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 of 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 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.



**Solomon Islands Electricity Authority**  
**Notes to the financial statements**  
**For the year ended 31 December 2011**

**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 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.

SIEA, as a major public utility, to turn its attention to the critical needs of customers.

## Information Technology:

Radio link to the Hyundai Mall was established in the beginning of 2011, this enabled SIEA to establish a second Customer Service Centre in a convenient location near the city centre. SIEA fully implemented a Microsoft integrated platform. An additional ADSL link at the Ranadi Office was installed solely for server upgrades and administration.

SIEA suffered a number of power outages at the beginning of 2011 which caused one of the major servers to crash. This was a costly exercise. SIEA now enjoys the security of a new standby gen set. A comprehensive data back-up plan was also implemented at this time, including the purchase of a dedicated backup server and tape backup drives.

Cash Power (pre pay) is an increasingly popular meter option for customers. The purchase of two additional cash power vending machines, including an offline client, has greatly enhanced the work of cashiers as there is now an additional machine at both outlets (Hyundai and Ranadi). A Virtual Private Network to Gizo now enables Gizo Outstation to access the billing and accounting system from their Gizo Office. Further work was done to increase hard drive space of storage servers and the planning for a radio link to the Lungga Powerhouse.

The Lungga Powerhouse radio link was installed with a wireless repeater at the SIEA residence on the high ridge vantage point at Kola Ridge. Following the successful installation in Gizo, a new ADSL link was installed for the Auki Outstation Office in Malaita Province. Auki staff are now able to access email and NCS systems remotely. Upgrades were



Guest Speakers from the Distribution Department joining SIEA's Radio Program "Powering the Nation".

made to the performance of the ADSL link to increase their storage and download limits. This has resulted in an overall improved network performance.

## Finance:

2011 was a year of profound change in the Financial and Customer Services Department of SIEA. Although there had been significant adjustments to the 2010 year's accounts some of the old practises had slipped through into 2011 and it wasn't until mid-year that the changes started to take effect.

Customer Services was split from Finance and set up as an autonomous department headed by a senior manager, Jan Sanga. This allowed two things to happen. Firstly it allowed a much more concentrated involvement into the meter reading, billing and new connections area. This attention dramatically improved the quality of meter reading and the approach to illegal connections and by-passes. Secondly, it at

the same time allowed changes to be made in the Finance Department where staff were re-organised, job descriptions clarified, and preparations made to introduce a new accounting system in January 2012. Staff concentrated on regularising the accounting practises and tariffing and the better utilisation of staff resulted in far greater productivity and it wasn't long before the Company's cash flow started to improve.



By mid 2011, SIEA's cash flow had eroded and the Company was struggling to pay for its fuel and was building up quite serious arrears. By the year end the Company recovered its payments position and paid off all arrears and virtually ended the year debt free. In addition, the Government introduced a Customer Service Obligation levy to subsidise some of the outstation loss making areas and the Company benefitted.

The Stores, or "Supply Chain" restructuring began in late 2011 and is expected to be completed in early 2012. This process will see the raising of all SIEA purchases centralised along with the storing of mate-

rials and spare parts. Stores is also undergoing a massive facelift which will enhance the job of managing stock.

The future looks brighter. In January 2012 the new accounting system was introduced and better and more accurate accounting information is being produced. The concentration on improving the billing function will result in a higher collection of arrears while ensuring a minimum of debts become doubtful. During 2012 it is planned to undergo a full revision of the stores and stores procedures, a re-evaluation of assets will be undertaken with World Bank financing, and plans will be made to purchase badly needed generation equipment. The Customer Service Obligation will continue and SIEA expects the large SIWA debt problem to be resolved.



**Solomon Islands Electricity Authority**  
**Notes to the financial statements**  
**For the year ended 31 December 2011**

- 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 21.08.2012.
  - (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 2011, 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 2013 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



**Solomon Islands Electricity Authority**  
**Statement of cash flows**  
**For the year ended 31 December 2011**

	Note	2011 SBD	2010 SBD
<b>Operating activities</b>			
Cash received from customers		361,369,970	193,140,028
Cash paid to suppliers and employees		<u>(347,321,905)</u>	<u>(177,172,394)</u>
<b>Net cash provided by operating activities</b>		<u>14,048,065</u>	<u>15,967,634</u>
<b>Investing activity</b>			
Payments for property, plant and equipment	11	<u>(7,496,050)</u>	<u>(6,780,653)</u>
<b>Net cash used in investing activity</b>		<u>(7,496,050)</u>	<u>(6,780,653)</u>
<b>Net increase in cash and cash equivalents</b>		6,552,015	9,186,981
Cash and cash equivalents at 1 January		<u>12,907,292</u>	<u>3,720,311</u>
<b>Cash and cash equivalents at 31 December</b>	12	<u><u>19,459,307</u></u>	<u><u>12,907,292</u></u>

**Solomon Islands Electricity Authority**

**Financial Statements**

**For the year ended**

**31 December 2011**

The notes on pages 29 to 45 are an integral part of the financial statements.

## 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 2011 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)  
 Alex Douglas - (appointed February 2010)  
 Anthony Makabo - (resigned June 2012)  
 David Laurie - (appointed April 2010)  
 Harry Zoleveke - (appointed June 2012)  
 Henry Tobani - (appointed February 2008)  
 Henry Kapu - (appointed June 2012)  
 Mamu Paza - (resigned June 2012)  
 Nanette Tutua - (appointed February 2008)  
 Sebastian Illala - (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 2011, 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 SBD53,062,637 (2010: loss of SBD69,917,236).

#### Dividends

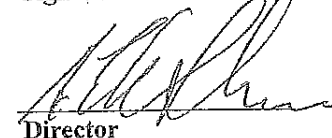
##### Significant and subsequent events

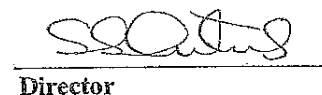
On 31 May 2012 a debt settlement agreement was signed between Solomon Islands Government (SIG), Solomon Islands Water Authority (SIWA) and the Authority under which the parties agreed to settle the SIWA debt owing to the Authority by way of payments over a number of years. The agreement also results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

Apart from this event, 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 Honiara this 21<sup>st</sup> day of August, 2012.

Signed in accordance with a resolution of the Directors.

  
 Director

  
 Director

## Solomon Islands Electricity Authority


### Statement of financial position

#### As at 31 December 2011

Assets	Note	2011 SBD	2010 SBD
<b>Non-current assets</b>			
Property, plant and equipment	11	328,611,390	161,744,048
<b>Total non-current assets</b>		<u>328,611,390</u>	<u>161,744,048</u>
<b>Current assets</b>			
Cash and cash equivalents	12	19,459,307	12,907,292
Inventories	13	10,469,647	11,609,628
Receivables	14	67,390,902	51,493,896
<b>Total current assets</b>		<u>97,319,856</u>	<u>76,010,816</u>
<b>Total assets</b>		<u>425,931,246</u>	<u>237,754,864</u>
<b>Equity</b>			
Contributed capital	15	253,045,865	249,306,688
Reserves		231,773,456	58,430,246
Accumulated losses		<u>(101,525,705)</u>	<u>(154,588,342)</u>
<b>Total equity</b>		<u>383,293,616</u>	<u>153,148,592</u>
<b>Non-current liabilities</b>			
Deferred income	16	31,634,071	34,139,305
Trade and other payables	17	-	12,997,412
Employee benefits		375,471	769,764
<b>Total non-current liabilities</b>		<u>32,009,542</u>	<u>47,906,481</u>
<b>Current liability</b>			
Trade and other payables	17	10,628,088	36,699,791
<b>Total current liability</b>		<u>10,628,088</u>	<u>36,699,791</u>
<b>Total liabilities</b>		<u>42,637,630</u>	<u>84,606,272</u>
<b>Total equity and liabilities</b>		<u>425,931,246</u>	<u>237,754,864</u>

Signed for and on behalf of the Board of Directors

  
 Director

  
 Director

The notes on pages 29 to 45 are an integral part of the financial statements.



**Solomon Islands Electricity Authority**  
**Statement of changes in equity**  
**For the year ended 31 December 2011**

	Contributed capital	Asset revaluation reserves	Accumulated losses	Total
	SBD	SBD	SBD	SBD
Balance at 1 January 2010	246,933,170	54,507,821	(86,276,106)	215,164,885
<i>Total comprehensive loss for the year</i>				
Net loss for the year	-	-	(69,917,236)	(69,917,236)
Other comprehensive income	-	3,922,425	-	3,922,425
<i>Transaction with owners of the Authority directly recognised in equity</i>				
Grant received during the year	3,978,518	-	-	3,978,518
Restatement-prior period adjustment	(1,605,000)		1,605,000	
<b>Balance at 31 December 2010</b>	<b>249,306,688</b>	<b>58,430,246</b>	<b>(154,588,342)</b>	<b>153,148,592</b>
<i>Total comprehensive income for the year</i>				
Net profit for the year	-	-	53,062,637	53,062,637
Other comprehensive income	-	173,343,210	-	173,343,210
<i>Transaction with owners of the Authority directly recognised in equity</i>				
Grant received during the year	3,739,177	-	-	3,739,177
<b>Balance at 31 December 2011</b>	<b>253,045,865</b>	<b>231,773,456</b>	<b>(101,525,705)</b>	<b>383,293,616</b>

**Solomon 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 2011, 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.

Because of the matters described in the basis for disclaimer of opinion on the statement of comprehensive income, statement of changes in equity and statement of cash flows paragraph, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of comprehensive income, statement of changes equity and statement of cash flows. However, I did obtain sufficient and appropriate audit evidence to provide a basis for an unmodified opinion on the statement of financial position.

**Basis for Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows**

I was unable to express an opinion on the financial statements of the Authority for the year ended 31 December 2010 due to the significant limitations on the scope of my work and therefore any potential adjustments that may have been necessary in the areas of property, plant and equipment, inventories, trade and other receivables, trade and other payables, revenue and expenses. As a consequence, I was unable to satisfy myself as to the appropriateness of the loss for the year ended 31 December 2010 and the accumulated losses at 31 December 2010.

**INDEPENDENT AUDITOR'S REPORT****To the Board of the Solomon Islands Electricity Authority****Basis for Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows (continued)**

The results and cash flows of the Authority for the year ended 31 December 2011 would be affected to the extent of any misstatement or omission within property, plant and equipment, inventories, trade and other receivables, trade and other payables, revenue and expenses and accumulated losses as at 31 December 2010.

**Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows**

In my opinion, because of the limitations on the scope of my work as described in the qualifications paragraphs above, and the effect of such adjustments, if any, as might have been determined to be necessary had the limitations in the scope not existed, I am unable to, and do not, express an opinion of the results of the Authority's operations and its cash flows for the year ended 31 December 2011.

**Unmodified Opinion on the Statement of Financial Position**

In my opinion, the statement of financial position of the Solomon Islands Electricity Authority gives a true and fair view of the financial position of the Authority as at 31 December 2011 in accordance with International Financial Reporting Standards and the State Owned Enterprises Act.

**Report on Other Legal and Regulatory Requirements***Lack of compliance with Public Finance and Audit Act*

The Authority has not complied with the requirements of the *Public Finance and Audit Act* which requires the audited financial statements to be placed before the Minister responsible before 31 March of the following year to which the financial statements relate.

*Lack of compliance with the State Owned Enterprises Act*

The Authority has not complied with Section 14 of the *State Owned Enterprises Act* 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

28 September 2012

**Solomon Islands Electricity Authority**  
**Statement of comprehensive income**  
**For the year ended 31 December 2011**

	Note	2011 SBD	2010 SBD
Electricity sales		351,476,721	258,871,110
Grant income	16	2,505,234	2,505,234
Other operating income	5	<u>25,778,452</u>	<u>1,391,943</u>
		379,760,407	262,768,287
<b>Less expenses</b>			
Generation	6	(255,406,121)	(208,453,859)
Distribution	7	(4,740,520)	(2,707,513)
Workshops		(1,937,569)	(3,401,267)
Administration	8	(34,104,002)	(29,276,195)
Bad debts written off		(29,999,287)	-
Allowance for uncollectability		27,886,761	(57,315,926)
Inventory obsolescence - write-off		(4,579,138)	(7,576,926)
Impairment loss/revaluation decrement - property, plant and equipment	11	(2,387,857)	(738,353)
Other expenses		<u>(21,444,454)</u>	<u>(23,353,522)</u>
<b>Gain / (loss) from operations</b>		53,048,220	(70,055,274)
Finance income	10	14,417	138,038
<b>Net profit / (loss) for the year</b>		<u>53,062,637</u>	<u>(69,917,236)</u>
<b>Other comprehensive income</b>			
Revaluation surplus	11	173,343,210	3,922,425
<b>Total comprehensive income / (loss) for the year</b>		<u><u>226,405,847</u></u>	<u><u>(65,994,811)</u></u>

The notes on pages 29 to 45 are an integral part of the financial statements.