



Solomon Islands Electricity Authority

Annual Report - 2014



Energising our nation





Our Vision:

Energising Our Nation.

Our Mission:

To provide a safe, reliable, affordable and accessible supply of electricity to the Solomon Islands.

Our Values:

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

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Letter to the Minister

31st March 2015

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

Dear Sir,

SOLOMON ISLANDS ELECTRICITY AUTHORITY ANNUAL REPORT 2014

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 Electricity Act, Cap 128, and section 14 (1) (a) (b) of the State Owned Enterprises Act 2007.

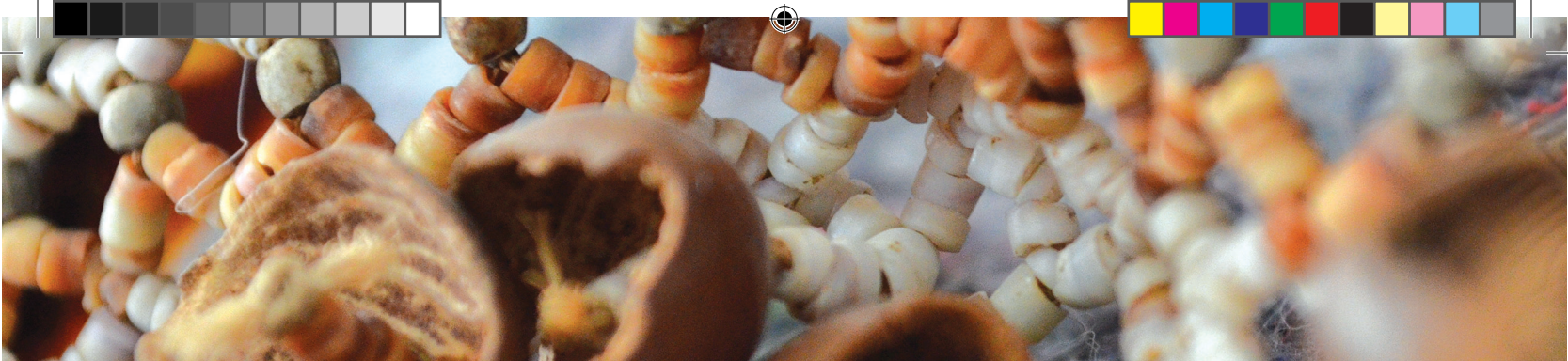
The report incorporates audited Statement of Accounts and the major developments, activities and achievements of the Authority for the financial period.

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





2014 Highlights

- No rotational load shedding in Honiara
- Improvement in reliability of electricity supply
- The new 11 kV switchgear in Honiara Substation commissioned under Solomon Islands Sustainable Energy Project (SISEP)
- A contract for the new power house and 4 new 2.5 MW generators awarded to MAN Diesel
- The commissioning of the new workshop at Lungga
- A contract for the two new power transformers at Honiara Substation awarded
- Substantial progress achieved on the new 33 kV cable between Lungga and Ranadi
- First ever drive-through window for Cash Power commissioned at Ranadi
- Mobile Cash Power Top-Up implemented
- Commenced a project to install Smart Meters
- A safety manual developed and implemented
- Continued internal safety training programmes
- World Bank SISEP extended

2015 Plans

- Further improvement in the reliability of electricity supply in Honiara and Outstations
- The commissioning of the new power house and 4 new 2.5 MW generators at Lungga
- The commissioning of the two new power transformers at Honiara Substation
- Refurbishment and commissioning of the Buala Hydro Station
- The commissioning of the new 33 kV cable between Lungga and Ranadi
- Progress the Solar Farm at Lungga
- Sign a Power Purchase Agreement for Tina River Hydro Project
- Sign a Subsidiary Loan Agreement with SIG for the Fiu River Hydro Project
- Award the contracts for the Kola'a Ridge Substation, Feeder 12 relocation and Ranadi Substation upgrade projects
- Complete the Ranadi Office Upgrade Phase 2 project
- 24/7 Customer Call Centre
- Develop and implement a vegetation management plan and also operations and maintenance plan for all our network and generation assets
- Increased focus on safety, training, nurturing and mentoring
- All vehicles of SIEA fitted with a monitoring system
- Implement a permit outage system for generation and network assets
- Implement the restructure of SIEA
- Install and commission the Smart Meters
- Cost of services and tariff review





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 in 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.

Members of the Board



Adrian Wickham
Chairman



David Laurie
External Director



Harry Zoleveke
Director



Henry Kapu
Director



John Bosco Houanihau
Director



Rovaly Sike
Director



Sebastian Ilala
Director



Yolande Yates
Director

Senior Management



Pradip Verma
Chief Executive Officer



Martin Sam
Chief Engineer



Jan Sanga
Manager Customer Services



Mark Greenaway
Manager Capital Works



Phil O'Reilly
Chief Financial Officer



Barnabas Upwe
Legal Counsel



Dadily Posala
Manager Generation



Gordon Denty
Manager IT



John Kofela
Manager Outstations



Kitone Malugulevu
Regulatory Manager



Levan Resploh
Manager Corporate Services



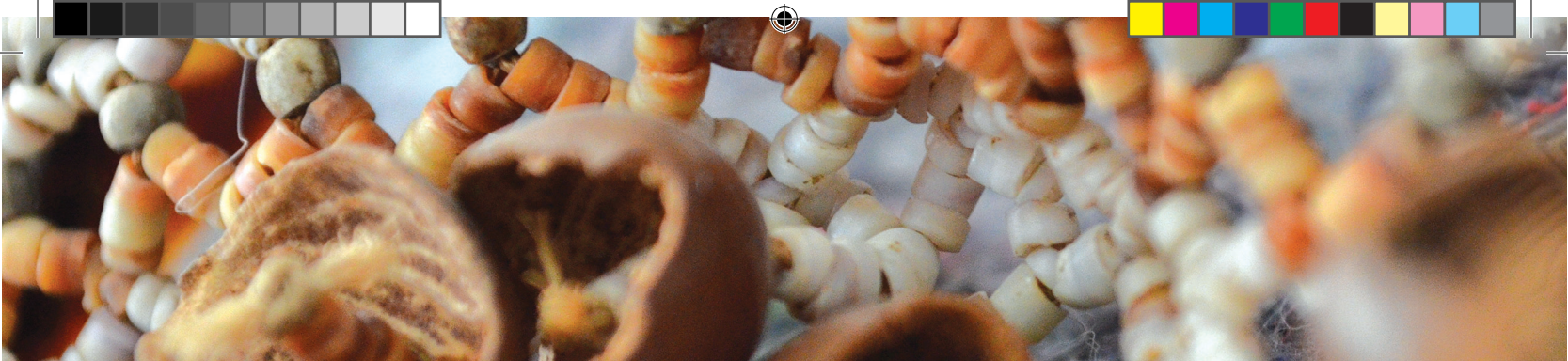
Mathew Korinhona
Manager Distribution



Nik West
Manager Capital Projects



Robin Simpson
OHS & Training Consultant



Chairman's Letter

2014 has been another significant year for SIEA from a number of perspectives. First of all this is the first year in the recent times that we have not had rotational load shedding in Honiara. Secondly we are into our second year of a 7 year SBD\$1billion capital infrastructure investment programme. Finally 2014 is the fourth year in a row that we have performed well financially.



We signed a major contract for the construction of a new power house and the installation of 4 new 2.5 MW generators at our Lungga Power Station. The construction of this project has commenced with expected completion in 2015. This will place SIEA in good stead with sufficient installed generation capacity in Honiara, which will provide sufficient capacity to meet electricity demand with up to three generators taken off line for repairs and maintenance.

We have also commenced a capital project for the replacement of the two power transformers at Honiara Power Station which is due for completion just after Easter 2015. This together with the developments at Lungga Power Station will further improve the reliability and security of power supply in Honiara and provide ongoing benefit to our valued customers.

The 33kV cable project between Lungga and Ranadi has progressed substantially with commissioning due in January 2015. This will eliminate a major constraint in our Honiara network.

In the outstations too we have plans to invest in the upgrade of generators and buildings. These together with the extensions of our network will increase the footprint of electricity. We are engaging and working closely with our stakeholders at all levels to make electricity accessible.

We are conscious of the high cost of electricity in Solomon Islands due to our heavy reliance on diesel and

are therefore actively working with all our stakeholders to pursue initiatives to bring down the price of electricity. We hope the renewable energy proposals on the table, on completion, will assist SIEA to reduce the price of electricity.

Our cost of services and tariffs are under review, the outcome of which will provide certainty to us on our revenue streams for the foreseeable future. Additionally this will challenge us to be more efficient and effective.

Much has been achieved in the last four years. However, a lot still needs to be done and we cannot rest on our laurels. The future will bring in more challenges. However, I am very confident that SIEA will continue on its charted path to improve the reliability of electricity supply and make it accessible to more Solomon Islanders.

We are fortunate to have the continued support of the World Bank, Asian Development Bank, Japan International Cooperation Agency and other donors to explore opportunities in renewable energy and to drive commercialisation in our operations.

I am pleased to note the mentoring and nurturing programme of our young staff being initiated by Management. This strategy in the long term will enable SIEA to develop and sustain Human Capital, a key challenge identified by the Management and Board.

I would like to thank Norman Nicholls, former General Manager, for his exemplary contribution to SIEA during his four and half year tenure. I also take this opportunity to welcome Pradip Verma as CEO. I am confident Pradip will provide the leadership to lead SIEA through the next phase of development.

I also would like to take this opportunity to thank the Shareholders and my colleagues on the Board and the Management Team for the continued support they rendered throughout 2014.

A handwritten signature in black ink, appearing to read 'Adrian Wickham'.

Adrian Wickham
Chairman

Chief Executive Officer's Letter

I am deeply honoured and privileged to be appointed as the first Chief Executive Officer of SIEA and I took up my role on 24th November. I am therefore on a very steep learning curve. I would like to thank all the stakeholders for the warm welcome provided to me and I look forward to ongoing support from all stakeholders in my role.



2014 has been another financially successful year for SIEA. Over recent years a significant improvement in the commercial sustainability of the SIEA has been achieved. Prudent management has resulted in a situation where SIEA is able to commit to a SBD\$1 billion capital works programme over the next five years or so. This will further improve the reliability in Honiara and at the outstations and see the development of new outstations.

Over the past year we commissioned a new workshop in Lungga and have also signed a major contract for 4 new 2.5 MW generators and for a new power station building at Lungga with commissioning due mid-2015. The project for the 33 kV cable between Lungga and Ranadi has progressed substantially with commissioning due in the third week of January 2015. The project for the installation and commissioning of two new power transformers at Honiara Power Station is on track with commissioning scheduled for April 2015. During 2014 we also commenced the Outstation projects to replace generators and upgrade the power houses. I am confident that all these investments will provide ongoing benefits to our customers.

In the past our performance from a reliability perspective has been poor. Honiara has experienced rotational load

shedding on an ongoing basis in the past. During the last one year we have had no load shedding in Honiara. This is a great achievement and let me assure you that this will be the norm and not the exception.

It is also pleasing to see the mobile top-up commence in September 2014. We have also opened up a "drive through" Top-Up Window at our Ranadi Office in early 2014. These facilities are increasingly being used by our customers.

Over the past year there has been an increased focus on safety and training. In particular, we developed a Safety Manual and a Safety policy. Our ongoing efforts in this critical area are already paying dividends.

SIEA is all about Nation building. Having improved our financial position, SIEA now considers the next phase to be about increasing the footprint of the electricity network and make electricity accessible to more Solomon Islanders.

The three key challenges for SIEA in the future are effective and efficient delivery of the capital programme, development and sustenance of human capital and to increase the footprint of the electricity network. I am certain that we in SIEA can achieve all these with the ongoing support of all our stakeholders.

I wish to thank our Chairman and the Board for the excellent support they have provided to the SIEA team during 2014.

Congratulations to everyone on the SIEA team for everything we achieved together during the year.

A handwritten signature in blue ink, which appears to read "Pradip Verma".

Pradip Verma
Chief Executive Officer

Engineering Highlights for 2014



Monitoring the electricity supply at the Lungga Power Station.

Overview

Honiara has been having more reliable power supply in 2014 as a result of the commissioning of the 2x1.5MW Caterpillar generators at the Honiara Power Station in mid-December 2013. Improved cooling efficiencies on L7 & L8 Wartsila and L9 Mitsubishi generators also contributed a further 3MW to the Network.

However, to prevent future load shedding, there is a need for more generation capacity at Lungga Power Station. SIEA has signed a contract with MAN Diesel of Germany for a new Power Station at Lungga. This has been scheduled to be commissioned in August 2015 and will provide up to an additional 10 MW, being sufficient power to ensure that load shedding in Honiara is a thing of the past.

One of the step down 33/11kV, 7/10MVA transformers at the Honiara Substation was out of service due to a major

fault experienced during the recommissioning process. Two new 33/11kV 10/12MVA transformers have been ordered and will be commissioned in April 2015.

The completion of the 11kV switchgear project at the Honiara Substation in mid-2014 has improved the reliability of the 11kV distribution system in Honiara. The new switchgear has also improved protection and management of data from the feeders.

Two 11kV network extensions were carried out at Gizo and Noro, both in the Western Province. These new extensions are expected to increase the number of customers over the next two to three years.

The Guadalcanal Plains Palm Oil Limited (GPPOL) HV extension was also completed during the year after a long delay due to land issues. The new line is expected to connect an additional load of up to 200kW when it is connected to the GPPOL load.



Generation

Major activities carried out were the overhaul of the L9 Mitsubishi generator and the replacements of the cooling radiators for L7 & L8 Wartsila generators. A new radiator was also installed for the L9 Mitsubishi generator during the overhaul.

With the new radiators installed, L7 Wartsila and the L9 Mitsubishi generators' outputs both increased to 4.0MW each. However the improvement achieved on the L8 Wartsila unit was minimal, as this can only produce an output of 3.3MW during a hot day.

Other major jobs that were carried out were the replacement of the turbo chargers and the rubber coupling between the engine and the alternator on L7 generator. L5 Mirlees generator was also fitted with new turbochargers.

Other activities included responding to faults and break downs both in the mechanical and electrical systems; and the routine 1,000 hours services on the generators.

Distribution

The operations and construction sections of the Distribution Department undertook a number of major activities which included the extension of the 11kV lines at Gizo and Noro and the completion of the HV extension to GPPOL. The network expansions were all funded by SIEA under its Capital Works programmes.

Other activities were the response to various faults in the network and especially the restoration of damages caused by the flash floods along the Matanikau River in Honiara, infamously known as the April Floods. Our distribution team performed magnificently during the Floods.

The Geographical Information Systems (GIS) section continued data collections at Auki, Gizo, Kirakira, Lata and Malu'u outstations. The GIS section also provided support services to the development of the new

powerhouse and the drainage system redesign at Lungga.

Planned maintenance and response to major faults in the system were also carried out in parts of the network and on distribution transformers and switching equipment.

Outstations

Power generation at the Outstations was generally stable, compared to the previous years during which prolonged outages due to generator failures was a regular occurrence. The improvement was mainly due to the timely maintenance of the generators.

Rebuilding N1 generator at Noro continued during the year but it has not been able to be commissioned due to various faults that were being experienced. Refurbishment of the high voltage bus system was also carried out at Noro.

The high voltage (11kV) underground cable that connects Munda to Noro experienced a fault in one of the joints few days before Christmas. Due to the nature of the fault we were unable to locate and pinpoint the fault and therefore had to borrow a generator from one of our customers to supply the load of Munda.

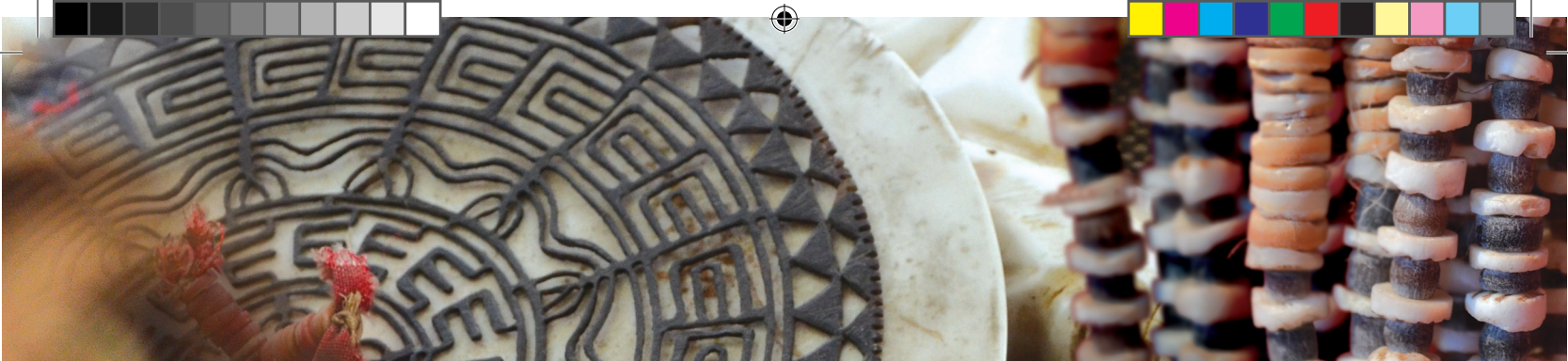
Major overhauls were carried out on the generators at Buala, Lata and Tulagi and scheduled 250 hours services on all generators were carried out as and when they were due.

Power Purchase Agreement

At Noro, standby power is supplied under a Power Purchase Agreement (PPA) between SIEA and Soltuna, a fishing company based at Noro in the Western Province.

Renewable Energy

An Independent Power Producer (IPP) project is currently being developed by a local company, Solomon Tropical Products (STP), to export power into the SIEA grid by using biofuel produced from coconut oil.



A 50kW demonstration grid-connected Solar installation funded by Japan International Cooperation Agency was commissioned in 2014 and is connected to the SIEA Head Office at Ranadi.

Two proposed Hydro Projects which include 750 kW at Fiu River, Malaita Province and the 20MW at Tina River in Guadalcanal Province will be further developed in 2015.

Other renewable energy projects in the pipeline are the 600kW grid-connect solar to be funded by the United Arab Emirates (UAE) – Pacific Partnership Fund and a 1.5MW solar installation to be funded by the Asian Development Bank.

Power System Reliability

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

The System Average Interruption Duration Index (SAIDI)

SAIDI defines the average interruption duration per customer served per year

$SAIDI = \left(\frac{\text{Sum of Customer Interruption Durations}}{\text{Total number of customers}} \right)$

For Honiara, this was measured to be 422 minutes, an improvement over the measurement of 486 minutes in 2013.

The System Average Interruption Frequency Index (SAIFI)

SAIFI defines the average number of times a customer's service is interrupted during a year for longer than 2 seconds. A customer interruption is defined as one interruption to one customer.

$SAIFI = \left(\frac{\text{Total number of customer interruptions}}{\text{Total number of customers served}} \right)$

For Honiara this was measured to be 7.0 times compared to 8.0 times in 2013.

The Customer Average Interruption Duration Index (CAIDI)

This is a measure of the average time (minutes) that a customer is without power per interruption. For Honiara this was measured to be 81 minutes per interruption. This is higher than the average time of 58 minutes in 2013.

Reliability and Efficiency

To improve the reliability and efficiency of the system, new cooling radiators were installed on three large (4.2MW) generators at Lungga Power Station and maximum of 3.0MW additional capacity was achieved. The improved capacity increased the available capacity to 21.0MW against a demand of 14.0MW.

The timely implementation of improved maintenance programmes for both the generation and network infrastructure has contributed to the improvement of reliability and efficiency in Honiara and at the Outstations.

Energy Produced

Energy produced in 2014 is shown in the table below. Lungga and Honiara operations produced a total of 77.3Gwh (90%) whilst the Outstations, Soltuna (under PPA), STP (IPP) and the Ranadi Solar produced 8.17Gwh (10%).

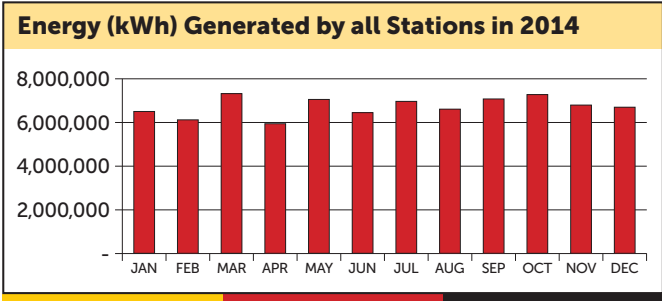
Station	Energy Produced (Gwh)
Lungga	71.8
Honiara	5.50
Outstations	7.50
Soltuna	0.05
Ranadi Solar	0.03
STP	0.59
Total	85.47



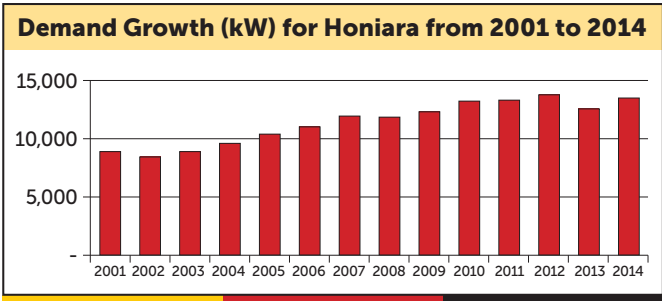
Maximum Demand

The demand for electricity in 2014 for Honiara peaked at 14,100 Kilowatts compared with a figure of 13,620 Kilowatts in 2013, an increase of about 480kW over the 2013 demand.

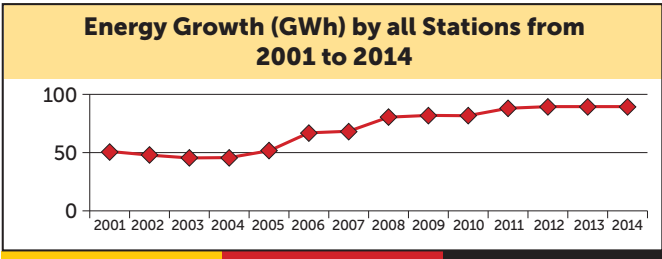
Generation Statistics



Energy Generated by all Stations in 2014



Honiara Demand Growth from year 2001 to 2014



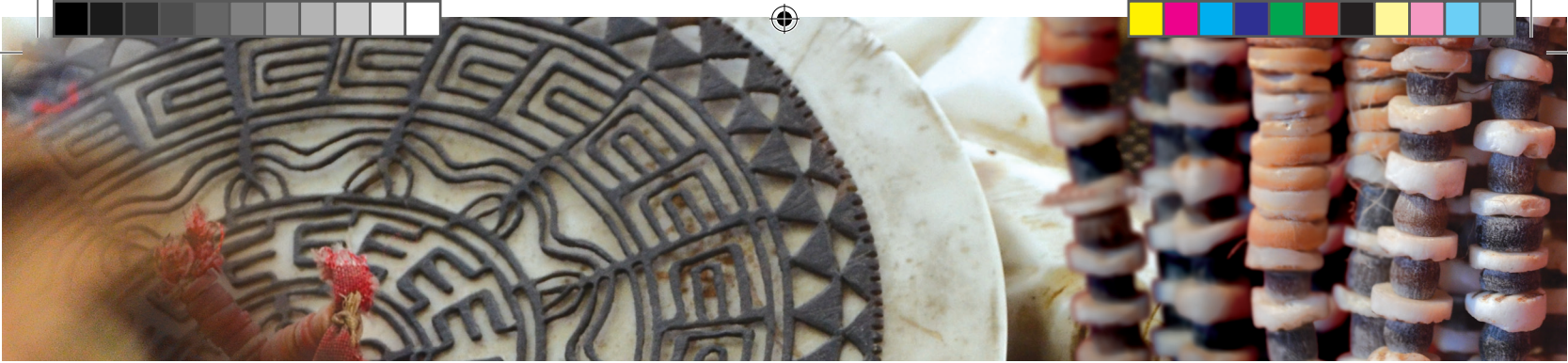
Total SIEA Energy Growth from 2001 to 2014

Regulatory

The Regulatory department of SIEA was established in January 2014 to perform Regulatory functions in accordance with the requirements of the Solomon Islands Electricity Act. It is responsible for the licensing of electricians and electrical contractors, licensing of stand-by generators, generation of power for own use, Independent Power Producers and renewable energy sources.

Furthermore, the role of the Regulatory Unit is to regulate and license the supply of electricity in the Solomon Islands and to inspect and test all installations to conform to AS/NZS 3000 Standards and the Electricity Act & Regulations.

There are 160 registered Grade ‘A’ Electricians and 58 registered licensed electrical contractors currently operating in the Solomon Islands.



A total of 741 new connections for Honiara and the Outstations were made in 2014 of which 490 were for domestic customers and the rest for commercial customers.

To facilitate connection of Solar PV Grid Connected systems the Regulatory department has developed a manual and the associated processes. The manual and processes will enable processing of applications consistently and expeditiously.

Capital Works

We completed several projects during 2014, in particular the new 11 kV switchgear at Honiara Substation and the new workshop at Lungga. The 33 kV cable project between Lungga and Ranadi; the replacement of the two power transformers at Honiara Substation and the new power station and 4 new 2.5 MW generators at Lungga are well under way. Each of these projects is scheduled for completion during 2015. The Ranadi Office Upgrade Phase 2 project and the outstation upgrade project have commenced in 2014 with planned completion in 2015 and 2016 respectively.

The upgrade projects for Feeder 12, Kola'a Ridge Substation and Ranadi Substation are progressing with specifications being prepared for tendering. This work will be undertaken over the next 12 months. These projects are funded under the World Bank SISEP.

The installation of a 50kW PV solar farm by Japan International Cooperation Agency through a grant is located in the SIEA car park. This is a dual-purpose facility farming electricity from the sun and provides undercover car parking for 30 of our fleet vehicles. Further solar farm developments are being explored to assist in reducing the cost of electricity.

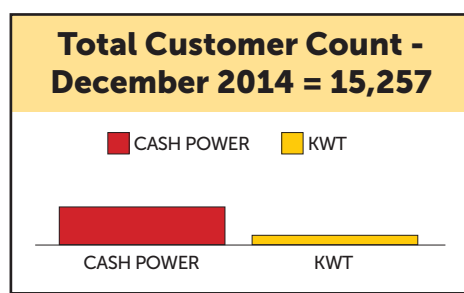
To ensure these and future projects are undertaken by SIEA in a professional manner a Project Management Office is being established to develop and train the SIEA staff in project management practices and systems. A General Manager Capital Works commenced with the SIEA in December 2014 and has started the development of the project systems required for SIEA's growth to meet the Solomon Islands' electricity demand in the future.

Customer Services Division

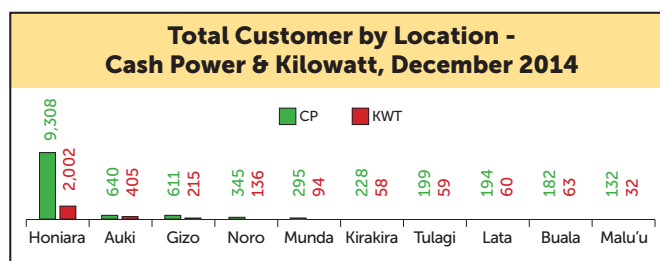
The Customer Services division is responsible for customer enquiries, cashiering, kilowatt billing (post-pay), Cash Power administration (pre-pay), metering and public relations.

By the end of 2014, SIEA had 15,257 customers connected to its Honiara and outstations' network. 80% of customers are on the pre-pay system and 20% are on post-pay.

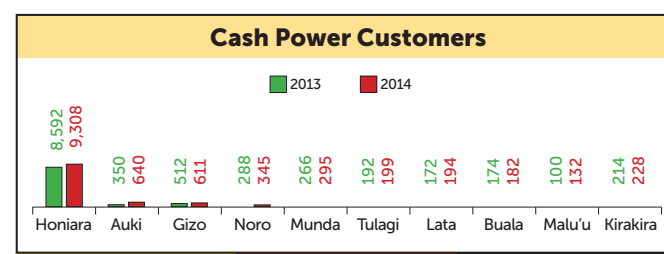
Customers are categorised into domestic, commercial and industrial. Domestic customers are placed into the pre-pay system using Cash Power meter, while commercial and industrial customers are retained in the post-pay system, using the conventional kilowatt meter. Cash Power customer accounts are administered through the Suprima system, a pre-pay system which has been in place since 2000, while kilowatt customer accounts are managed from the Utility Star Platform or USP system, a system put in place this year in June 2014 to replace the old system, Napier Computer System (NCS).



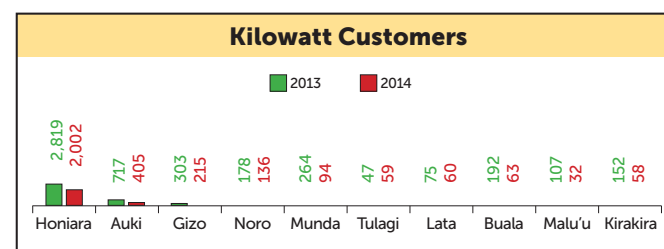
Customers are located in ten locations; Honiara, Auki, Buala, Gizo, Kirakira, Lata, Malu'u, Munda, Noro and Tulagi. The majority (77%) of customers are based in Honiara, followed by the three bigger provincial outstations Auki, Gizo and Noro. Of the smaller outstations, Munda has more customers over Buala, Kirakira, Lata, Malu'u and Tulagi.

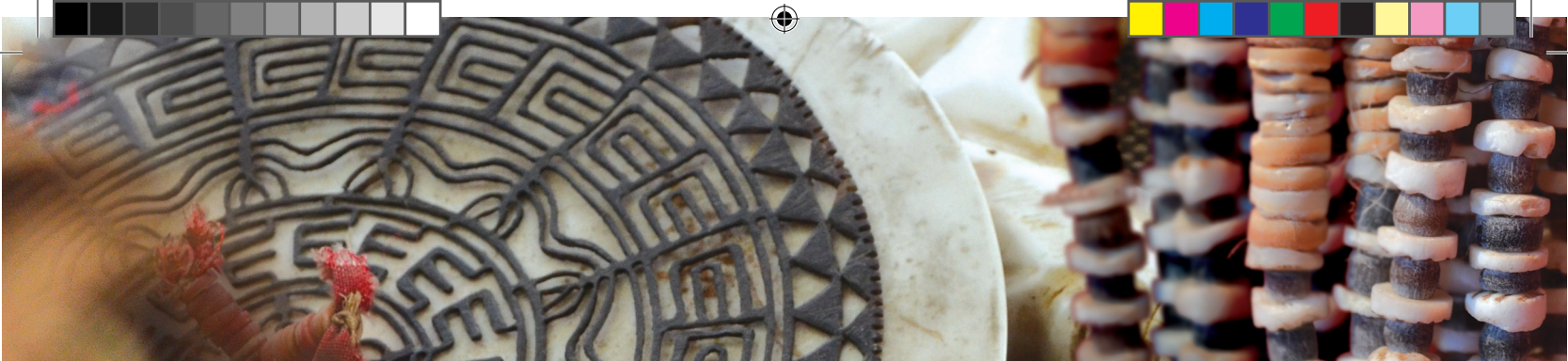


Pre-pay customers have increased from 10,860 in 2013 to 12,134 in 2014, while post-pay customers have decreased from 4,854 in 2013 to 3,123 in 2014. This is as a result of transferring domestic post-pay customers onto the pre-pay system. In 2014, a total of 649 existing kilowatt customers were transferred to Cash Power. Of these customers, 279 were Honiara-based and the rest for the following outstations, Auki 248, Gizo 38, Noro 30, Malu'u 23, Munda 14, Kirakira 9 and Buala 8.

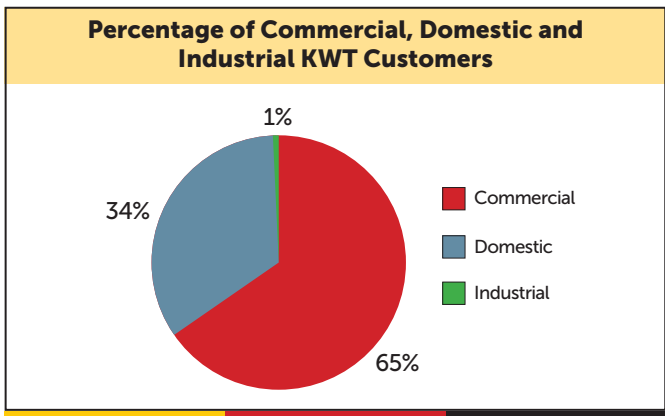


Tulagi was an exception with kilowatt accounts, which increased instead of decreasing due to new kilowatt customers registered in that location in 2014.

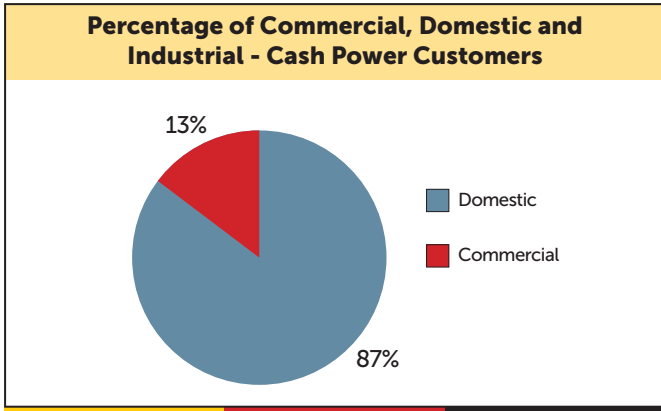
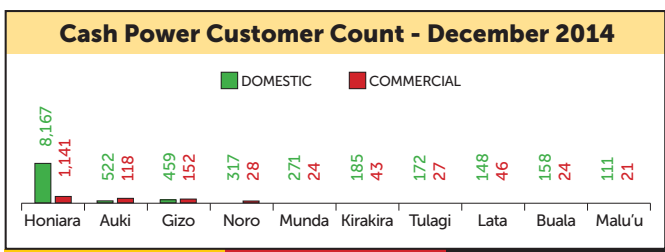




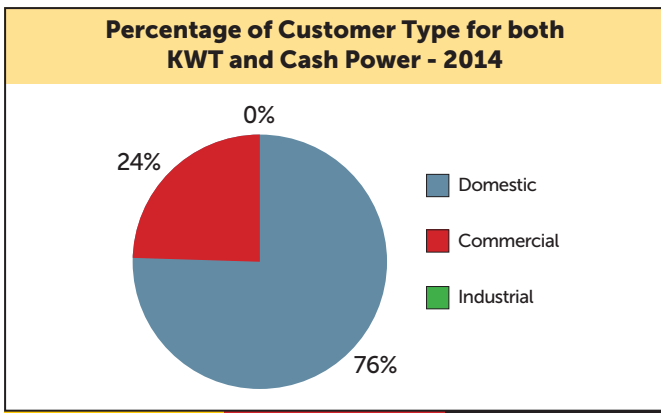
The majority (65%) of kilowatt customers for all locations are commercial, with domestic on 34% and industrial 1%. Industrial customers are located only in Honiara and Noro.



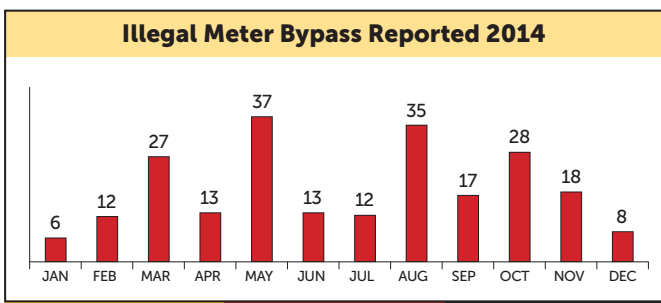
For Cash Power customers, the majority of customers are domestic (87%) and 13% are commercial.

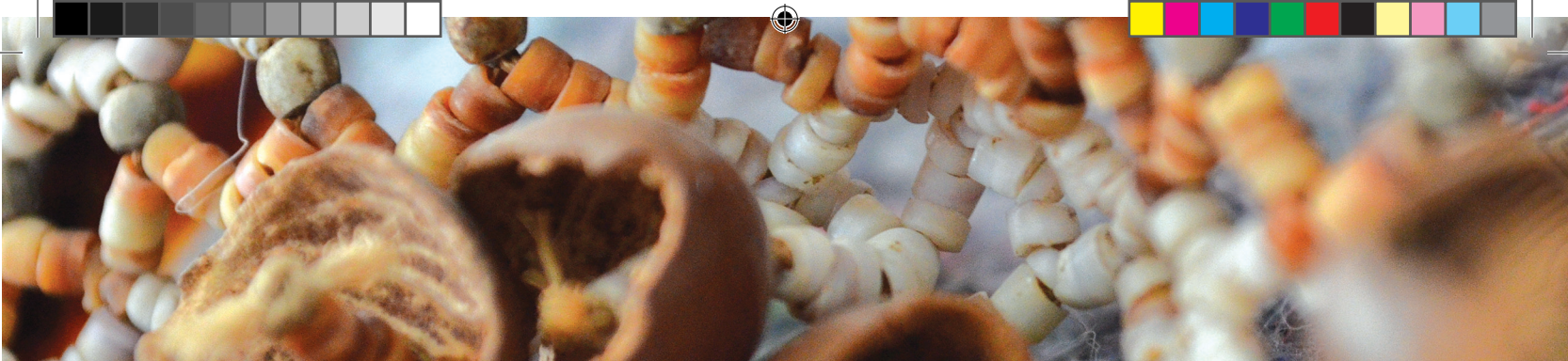


In all, the majority of SIEA customers are domestic on 76%. 24% of customers are commercial.



Having 80% of our customers on pre-pay has worked well in enabling SIEA to administer these accounts. However, bypasses of Cash Power meters is still a challenge which contributes to non-technical losses. In 2014, a total of 226 meter bypasses were reported. Of these, 117 customers came forward to pay for their average bill. The 109 who did not attempt to make payments were referred for legal recovery. Bypasses are identified through daily spot checks across all sites.





2014 has seen some positive outcomes for Customer Services.

In January 2014 the Customer Services office area had a major uplift resulting in a modern workspace together with counters for customer enquiries, cashiers and back office space. Also, the first ever drive-through window for Cash Power vending with extended opening hours had proved a huge success especially for working people. The drive-through window opens at 8:00am and closes at 8:00pm Mondays to Fridays. The Integrated Business Management System, which included the transition of the billing system from NCS to Utility Star Platform (USP), was implemented in June 2014. All billing staff had to undergo training before the changeover. In September, a customer service initiative, a mobile electricity vending system called "mobile top-ups" was launched. This system allows customers to use their Telekom mobile phones to purchase Cash Power units. To access this service, a customer needs to register with BSP mobile phone banking.

As part of the solution to reduce non-technical losses, SIEA also commenced a project to install Smart Meters. The timing for this is May 2015. Plans are also in place to have a Call Centre operating 24 hours every day to improve customer care throughout the nation and to increase contact with customers and to be more responsive to customer concerns.

Public awareness programmes were also held across schools and communities around Honiara and the provincial centres, complementing the weekly radio programmes and other media notices. In this way, customers and the public are much better informed of the Authority's expectations and requirements.

Finance Division

Funding a One Billion Dollar Capital Expenditure Programme

The fiscal position of SIEA continues its strong improvement to the point where SIEA can commit to a SBD\$ 1billion capital expenditure programme over the next five years or so. Funding sources for the capital expenditure programme include:

- SIEA surpluses generated due to improved financial management;
- Commercial loans of SBD\$90 million secured due to financiers' confidence in SIEA;
- World Bank loan of US \$11 million and a grant of US \$2m due to their confidence in SIEA; and
- Asian Development Bank (ADB) loan of US \$ 10.5 million and a Grant of US \$1.5 million due to their confidence that SIEA can deliver renewable energy projects.

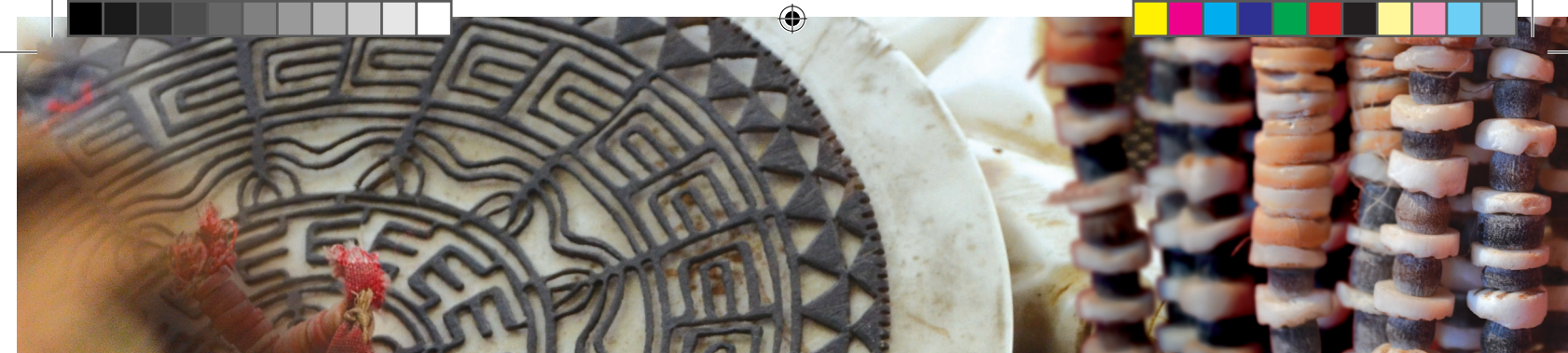
This money will be used for specific capital expenditure projects to improve reliability and to implement renewable energy projects. Each of these loans went through an extensive negotiation process with both the Government and the lender or donor.

Besides direct financing, SIEA has been deeply involved in negotiations with Independent Power Producers (IPP) and their financiers to facilitate their projects to deliver cheaper renewable energy to the Solomon Islands. These include agreements for the Tina River Hydropower Scheme, Savo Geothermal Power and Biodiesel Power Generation.

Finally, we have been involved with Japan International Cooperation Agency for the supply of a trial Solar Power Farm in the Solomon Islands.

A Customer Focus

Price of electricity is a major concern for customers. SIEA has organised through the World Bank a review of the Tariffs, which will be the basis to change the 2005 Tariff Regulation that SIEA currently complies with. This should result in tariffs that are fairer to the people of the Solomon Islands. The review will also enable the inclusion of cheaper renewable



sources of power in the tariff calculation as well as looking at life-line tariffs and time of use tariffs. This review is due to start in early 2015.

During 2014 Finance and Customer Services implemented a new Finance and Billing System.

Smart Metering contracts were finalised in 2014 for implementation in 2015. This will enable real time and accurate information on power consumption that can facilitate more accurate billing and better information to customers.

Finally, SIEA, in partnership with the Government, has agreed to a programme to operate, maintain and repair the existing street lights in Honiara and the other islands. This will improve safety and security for the community.

Financial Management Systems and Processes

The new Finance and Billing system has enabled management of key financial activities for SIEA. This includes the electronic management of invoices and payments, electronic management of contracts, the tracking and reporting of overtime and improved management reporting. The system has also enabled the automation, monitoring and interrogation of other financial functions across SIEA.

We plan to expand our use of the system in 2015 into electronic timesheets and job costing. Also we propose to move to electronic payments to suppliers.

Policies, procedures and processes continue to be developed to improve various systems.

Property management

During 2014, this function was transferred to Finance Division to help develop the financial compliance and contract management of the property function. Property includes the management of SIEA's non-operational buildings and land including the land acquisitions processes. The Property Department has been managing a process to refurbish our buildings as a majority of these buildings have not been maintained for the last 20 years.

The other major task has been land negotiations to facilitate the capital projects in Honiara and across the Solomon Islands.

They need to conclude some major land negotiations for various projects including solar farms, hydro power schemes and power house refurbishments.

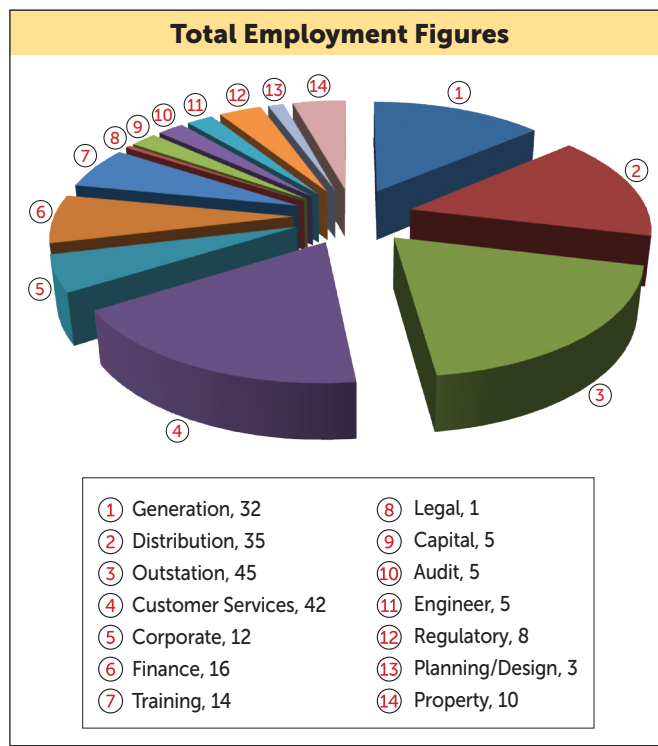
Information and Communications Technology (ICT)

During 2014, SIEA's ICT department was busy supporting the implementation of mobile top-ups and the new Finance & Billing system. This support will continue in 2015 with the planned extensions to these systems.

Major projects for 2015 include Smart Metering, building a disaster recovery site, improving the connectivity across Honiara & the Outstations and facilitating the development of an integrated asset management system. Another project will be finalizing our long term telecommunications requirements that will enable in addition to business projects, the automation of the control and monitoring of our generation assets and network across the Solomon Islands.

Corporate Services Division

The Corporate Services Division provides support services to other divisions of the organisation through its Human Resource, Training, Safety and Fleet Services departments.



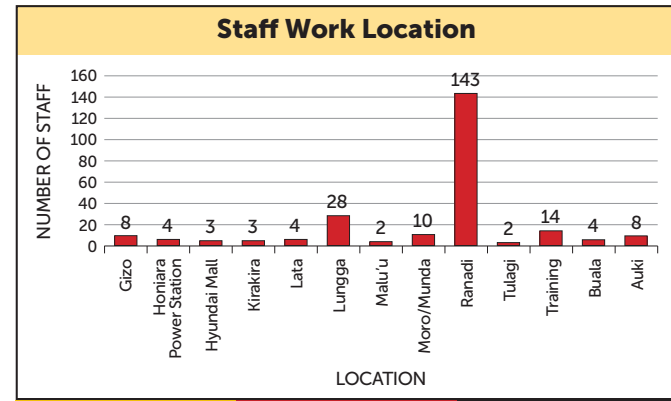
Human Resources

Total number of staff employed by SIEA as at the end of December 2014 was 233, compared to 204 at the end of 2013, an increase of 14%. This is as a result of increased activities in various areas of the business.

Staff by location

The majority of staff members, 143, are based at the Ranadi Complex where the head office of SIEA is located. This houses the central Office for Finance, Corporate Services, Customer Services, Senior Engineers and Executive members. Lungga site has the second highest with a total of 28 staff.

A number of staff members have been awarded scholarship for training from the Solomon Islands Government; there were 11 staff on scholarships in 2013 and 14 in 2014.



Training and Development

SIEA places great importance on having skills and appropriately trained staff. Attendance at conferences and workshops to upgrade staff in the support service and engineering was also prioritised. SIEA sees this as important in order to have a sustainable work force with appropriate skills and to maintain the standards required.

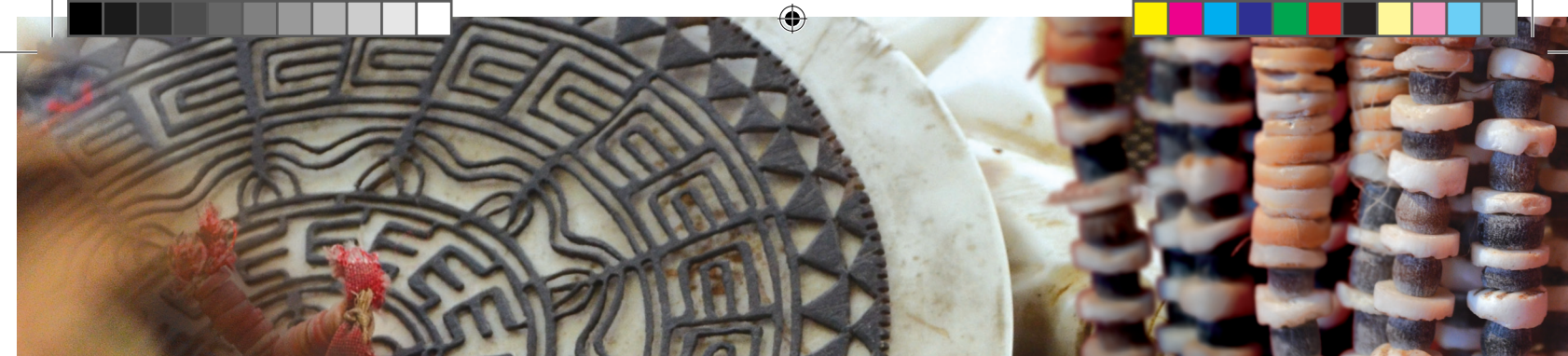
Occupational Health & Safety

SIEA is committed to ensure, in so far as is reasonably practicable, the health and safety of its employees, contractors, customers and members of the public.

The OHS policy was reviewed with the involvement of employees and endorsed by the Board in September 2014.

The following OHS developments were implemented in 2014:

- SIEA Distribution Department Disaster Response Action Plan
- Emergency Wardens Response Plans and Procedures
- SIEA Contractor OHS Management System
- Contractor Site Safety Rules and Permits
- SIEA Safety Manual - Rules and First Aid for employees in conjunction with the Engineering Departments
- Distribution High Voltage (HV) Isolation procedures
- Permit Systems – HV Access Permit, General, Excavation, Hot Work, Heights, Confined Space
- Electric Power Lineman training Module 2, 3 for Electric Power Lineman
- Electrical Inspector training – Module 1
- Power Station Operator training – Module 1
- First Aid Training and Fire Training for emergency wardens and First Aiders



- Pole Top Rescue and CPR training for linemen
- OHS awareness training for staff and electrical safety awareness for communities in SIEA locations
- Fire protection systems upgrade at SIEA locations to meet AS/NZS 1851
- Recruitment and development of a local Safety Officer to manage SIEA safety issues.

One Lost Time Injury resulting from a vehicle accident was recorded in 2014 which incurred seventeen (17) Lost Days. The Lost Time Injury Frequency rate for 2014 closed at 2.13.

SIEA Fleet of Vehicles

As at December 2014 SIEA had 78 vehicles in its fleet.

During 2014 we continued with the review and implementation of the Fleet Policy manual, with the focus to ensure SIEA's drivers perform driving safely and professionally.

Instructors were engaged to carry out Defensive Driver and Hands on Wheel training with authorised SIEA drivers. 90% of our drivers have been trained and this will continue until all our drivers have undergone training.

Vehicle tracking units were installed in twenty three operational vehicles, which produced significant fuel cost reductions in 2014 when compared with 2013. The Board has approved that the entire SIEA fleet be installed with tracking units in 2015. This will provide the tools to further improve fleet efficiencies and proactively manage speeding issues.

Legal Services

Role

Legal Counsel is responsible for ensuring that legislation relating to the operation of the Authority is complied with. These legislations include the Electricity Act (Cap 128), the State Owned Enterprises Act 2007, the Labour Act, the Employment Act, the Safety At Work Act and other relevant Legislations.

The Legal Counsel 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 Counsel also oversees the drawing up and signing of contracts. In 2014, SIEA had been busy in undertaking major capital works. The first major contract include the Lungga Power House Workshop with Vitech Construction, the second with MAN Diesel for the construction of the Lungga Power House and installation of generator sets, and thirdly Prepaid Electricity Top Up Service Agreement with Bank South Pacific. There are other minor contracts in relation to housing repairs and land acquisition in particular after almost nine years SIEA now holds the title to the substation at White River.

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 meters and use electricity without paying for it. Once discovered by our Audit teams they are immediately disconnected.

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

Trade Dispute Panel

Two cases lodged by former employees for unfair dismissal are still pending.

Outstanding claims.

A claim for \$685,300 for breach of contract was eventually heard by the High Court and was settled. The High Court awarded total damages in the sum of \$94,980 against SIEA and this was settled and paid off by SIEA.

The claim over the strip of land at the rear entrance to SIEA Headquarters is still pending in the High Court.

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 Objectives, 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
Name	Position	Appointment		Term
Mr Adrian Wickham	Chairman	August 2011		Negotiating reappointment
Mr David Laurie	Overseas Director	April 2010		Negotiating reappointment
Mr Henry Kapu	Director	June 2012		3 years
Mr Harry Zoleveke	Director	June 2012		3 years
Mr Sebastian Ilala	Director	June 2012		3 years
Ms Yolande Yates	Director	September 2014		2 years
Mr Rovaly Sike	Director	September 2014		2 years
Mr John Bosco Houanihau	Director	September 2014		3 years
Ms Nanette Tutua	Director	February 2008 - August 2014		Retired
Mr Henry Tobani	Director	February 2008 - August 2014		Retired
Mr Douglas Alex	Director	February 2008 - August 2014		Retired

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 Enterprise shall be 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 or established as statutory bodies by an Act of Parliament,
- 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.

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:
 - 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,
 - 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 is 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 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 7 meetings during its financial year, which ended 31st December 2014. All meetings were scheduled. 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; Audit and Finance, 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.

Board Secretary

Mrs Natalie Kairi

Audit & Finance Sub-Committee

Membership:

1. Henry Kapu- Chairman
2. Adrian Wickham – Member
3. David Laurie – Member
4. Sebastian Ilala – Member
5. Douglas Alex – Member (retired in August 2014)
6. Yolande Yates- Member

Number of meetings: 3

HR Sub-Committee

Membership:

1. John Bosco Houanihau (Chairman)
2. Henry Tobani- Chairman (retired in August 2014)
3. Nanette Tutua- Member (retired in August 2014)
4. Henry Kapu- Member
5. Adrian Wickham- Member
6. Yolande Yates- (Member)

Number of meetings: 3

Technical Sub-Committee

Membership:

1. David Laurie- Chairman
2. Adrian Wickham- Member
3. Henry Kapu- Member
4. Harry Zoleveke- Member
5. Rovaly Sike- Member

Number of meetings: 3



Energising our nation

Solomon Islands Electricity Authority

Financial Statements
For the year ended
31 December 2014



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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 (SIEA) as at 31 December 2014 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)
David Laurie - (appointed April 2010)
Douglas Alex - (retired August 2014)
Harry Zoleveke - (appointed June 2012)
Henry Kapu - (appointed June 2012)
Henry Tobani - (retired August 2014)
John Bosco - (appointed September 2014)
Nanette Tutua - (retired August 2014)
Rovaly Sike - (appointed September 2014)
Sebastian Ilala - (appointed June 2012)
Yolande Yates - (appointed September 2014)

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 SIEA consisting of the statement of financial position as at 31 December 2014, statement of comprehensive income, statement of changes in equity and statement of cash flows of SIEA for the year then ended.

Principal activity

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

Results

The net profit for the year was SBD 91,415,268 (2013: profit of SBD 46,336,352).

Dividends

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

Significant events

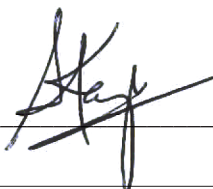
There has not arisen in the interval between the end of the year and the date of this report any other item, transaction or event of a material and unusual nature that is likely, in the opinion of the Directors, to significantly affect the operations of SIEA, the results of those operations or the state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

Dated at 10am this 31st day of March 2015.

Signed in accordance with a resolution of the Directors.



Director



Director

Solomon Islands Electricity Authority Independent Auditor's Report

Solomon Islands Office
of the Auditor-General



INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Electricity Authority

Report on the Financial Statements

I have audited the accompanying financial statements of Solomon Islands Electricity Authority, which comprise the statement of financial position as at 31 December 2014, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' and Management's Responsibility for the Financial Statements

The directors and management are responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards and the requirements of the State Owned Enterprises Act, 2007. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 2014 and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Robert Cohen
Acting Auditor-General
31 March, 2015

Office of the Auditor-General
Honiara, Solomon Islands

Solomon Islands Electricity Authority

Statement of Comprehensive Income

for the year ended 31 December 2014

	Note	2014 SBD	2013 SBD
Operating income			
Electricity sales		446,557,219	404,299,236
Grant income	17	3,033,478	6,151,987
Other operating income	7	14,364,520	11,819,610
Total operating income		463,955,217	422,270,834
Less expenses			
Generation and distribution	8	254,231,805	262,487,701
Administration	9	52,136,862	52,140,517
Operating	10	24,009,296	25,773,013
Depreciation and amortisation	12	35,856,247	28,370,196
Allowance for uncollectability	15	4,604,834	4,919,238
Interest Expense	15	1,096,621	-
Inventory write-off		(10,169)	165,471
Revaluation decrement - property, plant & equipment	12	-	5,958,900
Gain / (loss) from operations		92,029,720	42,455,799
Foreign exchange gain / (loss)		(614,452)	3,880,554
Net profit / (loss) for the year		91,415,268	46,336,352
Other comprehensive income			
Revaluation increment - property, plant & equipment	12	-	62,715,894
Prior period adjustment	11	-	1,355,277
Total comprehensive income / (loss) for the year		91,415,268	110,407,524

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

Solomon Islands Electricity Authority

Statement of Changes in Equity

for the year ended 31 December 2014

		Contributed capital	Asset revaluation reserves	Accumulated retained earnings	Total
	Note	SBD	SBD	SBD	SBD
Balance at 1 January 2013		246,933,170	236,758,838	(22,931,051)	46,336,352
Total comprehensive loss for the year					
Net profit for the year		-	-	46,336,352	46,336,352
Revaluation of property, plant and equipment	12	-	62,715,894	-	62,715,894
Prior period adjustment	11	-	-	1,355,277	1,355,277
Balance at 31 December 2013		246,933,170	299,474,732	24,760,578	571,168,481
Balance at 1 January 2014		246,933,170	299,474,732	24,760,578	571,168,481
Total comprehensive income for the year					
Net profit for the year		-	-	91,415,268	91,415,268
Balance at 31 December 2014		246,933,170	299,474,732	116,175,846	662,583,749

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

Solomon Islands Electricity Authority

Statement of Financial Position

as at 31 December 2014

Assets	Note	2014 SBD	2013 SBD
Current assets			
Cash and cash equivalents	13	75,411,436	129,367,625
Held to maturity investment		99,128,807	13,284,003
Inventories	14	8,855,512	7,458,153
Receivables	15	70,025,232	62,165,625
Prepayments		1,099,119	336,706
Total current assets		254,520,106	212,612,112
Non-current assets			
Property, plant and equipment	12	460,274,583	402,802,573
Receivables	15	5,962,260	8,686,381
Total non-current assets		466,236,842	411,488,954
Total assets		720,756,948	624,101,066
Current liabilities			
Deferred income	17	2,787,234	6,151,987
Trade and other payables	18	24,656,762	20,081,634
Employee benefits		835,272	837,362
Total current liabilities		28,279,268	27,070,984
Non-current liabilities			
Deferred income	17	29,893,931	25,861,602
Total non-current liabilities		29,893,931	25,861,602
Total liabilities		58,173,199	52,932,586
Equity			
Contributed capital	16	246,933,170	246,933,170
Asset revaluation reserve		299,474,732	299,474,732
Accumulated profits / (losses)		116,175,846	24,760,578
Total equity		662,583,749	571,168,481
Total equity and liabilities		720,756,948	624,101,066

Signed for and on behalf of the Board of Directors


Director


Director

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

Solomon Islands Electricity Authority

Statement of Cash Flows

for the year ended 31 December 2014

	Note	2014 SBD	2013 SBD
Operating activities			
Cash receipts from customers		449,470,346	432,623,084
Cash payments to suppliers and employees		(314,878,186)	(339,863,057)
Net cash provided by operating activities		134,592,159	92,760,027
Investing activities			
Payment for held to maturity investments		(85,844,804)	(13,284,003)
Net payments for property, plant and equipment	12	(106,404,599)	(58,968,473)
Net cash used in investing activities		(192,249,402)	(72,252,476)
Financing activities			
Cash receipts from donor grants		3,701,054	9,036,741
Net cash provided by financing activities		3,701,054	9,036,741
Net increase / (decrease) in cash and cash equivalents		(53,956,189)	29,544,292
Cash and cash equivalents at 1 January		129,367,625	99,823,333
Cash and cash equivalents at 31 December	13	75,411,436	129,367,625

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



Solomon Islands Electricity Authority

Notes to the Financial Statements

for the year ended 31 December 2014

1 Reporting entity

SIEA recognises revenue as it provides services or delivers products to customers and the consideration becomes recoverable. Revenue is measured at the fair value of the consideration received or receivable. Solomon Islands Electricity Authority (SIEA) is a state owned enterprise established under the Solomon

There are no subsidiary companies.

2 Nature of operations

The principal activity of SIEA is the generation and distribution of electricity to the Solomon Islands. SIEA is the owner and operator of the Solomon Islands' Government owned electricity supply systems.

3 Basis of preparation

The financial statements have been presented in accordance with the State-Owned Enterprise Act 2007, and in accordance with accepted reporting principles. The financial statements comply with International Financial Reporting Standards (IFRS) and other applicable Financial Reporting Standards.

a) Presentation of currency

The financial statements are presented in Solomon Island Dollars ("SBD"), which is SIEA's functional and presentation currency. All financial information is presented in Solomon Island Dollars and has been rounded to the nearest dollar, except when otherwise indicated.

4 Measurement basis

The measurement basis adopted in the preparation of these financial statements is historical cost except as modified for certain investments, held for sale assets, investment property, financial assets and financial liabilities as identified in specific accounting policies below.

5 Specific accounting policies

a) Basis of consolidation

There are no subsidiaries in existence, or proposed, so no consolidation is required.

b) Goodwill

SIEA does not recognise any goodwill.

c) Revenue

Islands Electricity Authority Act 2007. SIEA's registered office and principal place of business is at the Ranadi Complex, East Honiara, Solomon Islands.



Solomon Islands Electricity Authority

Notes to the Financial Statements

for the year ended 31 December 2014

d) Financial instruments

i. Non-derivative financial assets

SIEA 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 SIEA becomes a party to the contractual provisions of the instruments.

SIEA 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 SIEA 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, SIEA 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.

SIEA 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.

Cash and cash equivalents

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

Accounts receivables

Accounts receivable are recorded initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for doubtful debts.

Subsequently, appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired.

Other financial assets at fair value through profit or loss

SIEA has no other financial assets such as derivatives or hedging instruments. These may be developed in the future to provide better management of electricity price fluctuations. If they are used in the future, the realised and unrealised gains and losses arising from changes in the fair values will be included in the profit or loss in the period in which they arise.

Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated as available for sale by management or not designated in any of the other categories.

These investments are carried at fair value with any unrealised gains and losses arising from changes in fair value recognised directly in equity. On sale or on impairment, the accumulated fair value adjustments are included in the profit or loss.



Solomon Islands Electricity Authority

Notes to the Financial Statements

for the year ended 31 December 2014

ii. Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date, which is the date that SIEA becomes a party to the contractual provisions of the instrument. SIEA 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, SIEA 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.

SIEA 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 provisions, trade and other payables.

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid.

Provisions are liabilities of uncertain timing or amount. They are measured at the amounts expected to be paid when the liabilities are settled.

iii. Contributed capital

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

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 SIEA on terms that SIEA 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 2014

ii. Loans and receivables

SIEA 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 SIEA 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 SIEA'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) Inventories

Stocks of materials are recorded at the lower of cost and net realisable value after due consideration for excess and obsolete items. The cost of inventories is based on a weighted average basis and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

g) Investments

SIEA has "held to maturity" investments that are measured initially at cost. These investments are held to provide security for Letter of Credit given to suppliers for various capital project being constructed for SIEA. The length of time to maturity is matched to the key milestones of these capital projects and are usually less than a year. A nominal interest rate of 0.1% per annum is earned on these investments.



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Notes to the Financial Statements

for the year ended 31 December 2014

h) Property, plant and equipment

Property, plant and equipment are initially recognised at cost less accumulated depreciation and impairment losses. Cost is determined by including all costs directly associated with bringing the assets to their location and condition for their intended use. The recognition threshold is \$5,000.

Purchased items including 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 materially 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.

i. 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 SIEA and its cost can be measured reliably. The costs of the day-to-day servicing and maintenance of property, plant and equipment are recognised in the profit or loss as incurred.

ii. 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 of property, plant and equipment is calculated using the straight line method to write down the cost of property, plant and equipment to its estimated residual value over its estimated useful life.

The standard estimated useful lives and depreciation rates for SIEA asset classes are as follows:

Freehold land - unlimited
Leasehold land - life of lease
Distribution network - various
Non-operational buildings including office buildings and houses - 40 years (2.5% depreciation p.a.)
Generators - 20 years (5% depreciation p.a.)
Operational buildings including power stations - 20 years (5% depreciation p.a.)
Generation plant & equipment - 10 years (10% depreciation p.a.)
Furniture & equipment - 5 years (20% depreciation p.a.)
Information technology - 5 years (20% depreciation p.a.)
Motor vehicles - 5 years (20% depreciation p.a.)
Tools - 3 years (33% depreciation p.a.)

The useful lives and residual values of assets may vary from this standard and are reviewed annually.



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Notes to the Financial Statements

for the year ended 31 December 2014

iii. Revaluation of property, plant and equipment

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 SIEA, 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.

The primary valuation methodologies used in valuing land and buildings were the direct comparison and income capitalization approaches crossed check with cost approach. These methodologies use market derived assumptions, including rents, capitalization and terminal rates, and discount rates obtained from analysed transactions. The adopted methodologies are considered to provide the best estimate of value.

Electricity infrastructure assets were valued on an optimised depreciated replacement cost (ODRC) approach. The ODRC valuation of electricity assets is generally considered to represent the minimum cost of replacing or replicating the service potential embodied in the network with modern equivalent assets in the most efficient way possible from an engineering perspective, given the service requirements, the age and condition of the existing assets and replacement in the normal course of business.

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.

iv. Impairment of assets

At each reporting date, SIEA reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are largely independent from other assets, the company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised in the profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.



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Notes to the Financial Statements

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v. Investment property

Investment property is property held primarily to earn rentals and/or capital gain rather than used for operational purposes. Measurement is at fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in the profit or loss in the period in which they arise.

vi. Leased assets

SIEA is not presently a lessee of property, plant and equipment under any finance or operating leases, nor is it presently a lessor of property, plant and equipment under operating leases.

Finance leases effectively transfer all of the risks and benefits incidental to ownership to the lessee, being SIEA. Leased assets are depreciated over their useful lives. A corresponding liability is also established at the inception of each lease, and each lease payment is allocated between the liability and finance costs.

Under operating leases, all the risks and benefits of ownership remain with the lessor. Operating lease payments and receipts are representative of the pattern of benefits derived from the leased assets and are accordingly recognised in the profit or loss as expenses or revenue, in the period in which the benefits are incurred or received.

vii. Intangible assets

The cost of acquiring an intangible asset is amortised from the date the underlying asset is held ready for use on a straight line basis over the period of its expected benefit, which is as follows:

Software - 3 to 7 years

Easements - indefinite

Easements are deemed to have an indefinite useful life, as the contracts do not have a maturity date and SIEA expects to use the easements indefinitely. Therefore, easements are not amortised. Their value is assessed annually for impairment, and their carrying value is written down if found impaired. SIEA capitalises the direct costs associated with putting the easements in place. These costs include registration and associated legal costs and also any injurious affection payments. Where SIEA buys land and then establishes an easement, a valuation is obtained for the easement. This valuation is used as deemed easement cost and capitalised, with a corresponding reduction in the land valuation.

Certain easements may have been donated by the Crown. These are recognised at cost (\$nil) plus any direct cost associated with putting the easement in place.

For intangibles with a finite life, where the periods of expected benefit or recoverable values have diminished due to technological change or market conditions, amortisation is accelerated or the carrying value is written down.

i) Capital work in progress

Capital work in progress is recorded at cost. Cost is determined by including all costs directly associated with bringing the assets to their location and condition. Finance costs incurred during the period of time that is required to complete and prepare the asset for its intended use are capitalised as part of the total cost for capital work in progress. The finance costs capitalised are based on the company's weighted average cost of borrowing. Assets are transferred from capital work in progress to property, plant and equipment as they become operational and available for its intended use.



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Notes to the Financial Statements

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j) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition and is expected to be completed within one year from the date of classification.

k) Employee benefits

Provision is made for benefits accruing to employees when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated cash flows to be made by SIEA in respect of services provided by employees up to reporting date.

Contributions to defined contribution plans are expensed when incurred.

SIEA deducts and pays 5 per cent of the employee's gross salaries and contributes 7.5 per cent of employee's 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.

l) Taxation

Under the Electricity Act, SIEA is exempt from income tax.

m) Foreign currency transactions

Transactions denominated in a foreign currency that are not hedged are converted at the Solomon Islands exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates current at balance date. Exchange differences arising on the translation or settlement of accounts payable and receivable in foreign currencies are recognised in the profit or loss.

Certain purchase commitments denominated in a foreign currency are hedged against foreign currency risk and designated as hedge items in fair value hedges under IAS 39. The cumulative change in the fair value of the purchase commitments attributable to the hedged foreign currency risk is recorded as an asset or liability using forward rate based measurement with the corresponding gains or losses recognised in the profit or loss. The gains or losses in the associated derivative are also recognised in the profit or loss.

n) Cash flow statement

For the purposes of the cash flow statement, cash is considered to be cash held in bank accounts (net of bank overdrafts) plus highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value. Cash flows from certain items are disclosed net, due to the short term maturities and volume of transactions involved.

o) 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 SIEA 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 SIEA for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

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Notes to the Financial Statements

for the year ended 31 December 2014

6 Financial risk management

Overview

SIEA 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 SIEA's exposure to each of the above risks and SIEA'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 SIEA's risk management framework. SIEA's risk management policies are established to identify and analyse the risks faced by SIEA, 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 SIEA's activities. SIEA, 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.

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

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

i) Credit risk

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

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

SIEA 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.

SIEA's maximum exposure to credit risk is as follows:

	2014 SBD	2013 SBD
Cash at bank	75,368,436	129,326,625
Receivables - current	56,121,114	47,889,023
- non-current	5,962,260	8,686,381
	<u>137,451,810</u>	<u>185,902,028</u>
Receivables are determined impaired as follows:		
Trade and other receivables		
Gross receivables	100,612,480	93,988,112
Provision for impairment	<u>(38,529,107)</u>	<u>(37,412,708)</u>
	<u>62,083,374</u>	<u>56,575,404</u>

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for the year ended 31 December 2014

ii) Liquidity risk

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

Typically SIEA ensures that it has sufficient cash on hand to meet operational expenses including the servicing of financial obligations but 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 2014

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
Financial liabilities				
Trade and other payables	24,656,762	24,656,762	-	-
Employee benefits	835,272	835,272	-	-
	<u>25,492,034</u>	<u>25,492,034</u>	<u>-</u>	<u>-</u>

31 December 2013

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
Financial liabilities				
Trade and other payables	20,081,634	20,081,634	-	-
Employee benefits	837,362	837,362	-	-
	<u>20,918,997</u>	<u>20,918,997</u>	<u>-</u>	<u>-</u>

Solomon Islands Electricity Authority

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for the year ended 31 December 2014

iii) Market risk

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

SIEA is subject to a tariff review on a regular basis with the next one currently being undertaken. 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. SIEA has no borrowings and therefore the interest rate risk is minimal.

7 Other operating income

	2014 SBD	2013 SBD
Community service obligation	24,595,989	10,000,000
Other	2,598,540	1,534,843
Reconnections	246,333	24,067
Gain / (loss) on disposal of fixed assets	(13,076,343)	260,700
	<u>14,364,520</u>	<u>11,819,610</u>

8 Generation and distribution

Bought in electricity	3,228,334	11,265,063
Fuel	207,156,539	200,596,481
Lubricating oil	2,234,023	3,206,656
Other	481,684	239,546
Personnel	17,043,229	7,775,303
Repairs and maintenance	24,087,995	39,404,652
	<u>254,231,805</u>	<u>262,487,701</u>

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9 Administration

	2014 SBD	2013 SBD
Advertising	1,655,021	1,147,513
Bank fees	243,648	218,746
Computer bureau charges	615,061	584,792
Consultancy fees	10,691,865	13,509,261
Directors fees and expenses	735,842	608,668
Electricity	3,209,709	2,305,681
Electricity rebate	1,508,690	1,253,961
Freight	120,406	336,085
Insurance	1,977,764	1,146,303
Personnel	15,374,658	23,710,915
Printing and stationery	2,392,728	1,694,296
Professional fees	709,599	347,432
Property expenses	4,343,245	1,870,664
Telecommunications	2,541,188	1,537,540
Travel and accommodation	6,017,438	1,868,660
	<u>52,136,862</u>	<u>52,140,517</u>

10 Operating expenses

Customs handling charges	4,092,246	1,288,434
Other	922,941	703,489
Personnel	9,958,265	8,643,941
Repairs and maintenance	5,265,999	11,609,963
Vehicle costs	3,769,845	3,527,187
	<u>24,009,296</u>	<u>25,773,013</u>

11 Prior period adjustment

The prior period adjustment was due to exchange rate variances on the trade creditors recognised at the end of 2012. Various outstanding purchase orders at the end of 2012 were denominated in other currencies and converted to Solomon Island Dollars as at 31st December 2012. The actual payments were at the exchange rates relevant on the date of payment. The difference lead to this prior period adjustment.

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Notes to the Financial Statements

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12 Property, plant and equipment

Cost / Revaluation

Balance as 1 January 2013

Off set of accumulated depreciation as a result of a revaluation
Adjustment to asset revaluation reserve resulting from a
Additions
Disposals
Work in progress capitalised
Revaluation decrement

Balance at 31 December 2013

Additions

Disposals

Work in progress capitalised

Balance at 31 December 2014

Breakdown of cost/revaluation

2011 Valuation

2013 Valuation

Cost

Balance at 31 December 2014

Depreciation and impairment loss

Balance as 1 January 2013

Depreciation

Off set of accumulated depreciation as a result of a revaluation

Depreciation on disposed assets

Balance at 31 December 2013

Depreciation

Amortisation

Depreciation on disposed assets

Balance at 31 December 2014

Carrying amounts

At 1 January 2013

At 31 December 2013

At 31 December 2014

Land	Buildings	Generators	Plant and equipment	Distribution network	Furniture & equipment	Motor vehicles	Tools	Work in progress	Total
SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD
13,243,810	19,227,694	115,607,688	31,445,425	153,703,864	5,641,250	7,973,276	880,941	1,301,260	349,025,208
-	(2,644,473)	(29,717,006)	(6,033,616)	(12,008,982)	-	-	-	-	(50,404,077)
13,518,254	4,898,643	16,533,316	6,076,701	21,688,980	-	-	-	-	62,715,894
654,782	8,626,699	21,910,238	1,657,849	1,253,979	4,091,437	8,885,764	2,190,719	9,697,005	58,968,473
(254,782)	(1,442,357)	-	-	-	(903,278)	(981,822)	(384,181)	-	(3,966,420)
-	-	-	-	2,204,415	-	-	-	(2,204,415)	-
(687,990)	(2,343,699)	-	(2,927,211)	-	-	-	-	-	(5,958,900)
26,474,074	26,322,506	124,334,237	30,219,149	166,842,256	8,829,409	15,877,218	2,687,479	8,793,850	410,380,179
277,863	4,836,825	3,240,310	265,788	269,231	3,034,048	3,136,217	977,547	90,366,769	106,404,599
-	(3,405,623)	-	-	(9,866,501)	(2,464,779)	(337,492)	-	-	(16,074,395)
-	-	326,734	-	6,753,060	3,481,426	-	-	(10,561,219)	-
26,751,937	27,753,708	127,901,281	30,484,937	163,998,045	12,880,105	18,675,943	3,665,026	88,599,400	500,710,383
-	-	-	-	-	-	1,021,189	249,941	-	1,271,130
26,474,074	22,916,883	124,334,237	30,219,149	156,975,755	-	-	-	-	360,920,098
277,863	4,836,825	3,567,044	265,788	7,022,291	12,880,105	17,654,755	3,415,085	88,599,400	138,519,155
26,751,937	27,753,708	127,901,281	30,484,937	163,998,045	12,880,105	18,675,943	3,665,026	88,599,400	500,710,383
-	1,996,048	15,358,235	3,004,855	5,931,268	2,868,448	1,444,594	75,517	-	30,678,966
-	930,324	14,358,770	3,028,760	6,077,714	896,591	2,889,338	188,698	-	28,370,196
-	(2,644,473)	(29,717,006)	(6,033,616)	(12,008,982)	-	-	-	-	(50,404,077)
-	(281,898)	-	-	-	(306,336)	(397,833)	(81,413)	-	(1,067,479)
-	-	-	-	-	3,458,704	3,936,100	182,802	-	7,577,606
-	1,437,574	18,128,765	2,961,925	6,085,286	2,090,520	3,565,284	352,228	-	34,621,582
1,234,665	-	-	-	-	-	-	-	-	1,234,665
-	(69,370)	-	-	-	(2,562,803)	(365,879)	-	-	(2,998,052)
1,234,665	1,368,204	18,128,765	2,961,925	6,085,286	2,986,421	7,135,505	535,029	-	40,435,800
13,243,810	17,231,646	100,249,453	28,440,570	147,772,596	2,772,802	6,528,682	805,424	1,301,260	318,346,242
26,474,074	26,322,506	124,334,237	30,219,149	166,842,256	5,370,705	11,941,118	2,504,677	8,793,850	402,802,573
25,517,272	26,385,504	109,772,516	27,523,012	157,912,759	9,893,684	11,540,438	3,129,997	88,599,400	460,274,583

Solomon Islands Electricity Authority

Notes to the Financial Statements

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12 Property, plant and equipment (continued)

During 2013 SIEA engaged Sinclair Knights Mertz (SKM) to carry out an independent valuation of the following classes of assets:

- Generators
- Distribution network
- Plant and equipment

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.

SIEA also engaged Value Solutions Appraisal during 2013 to carry out an independent valuation of all land and buildings. Land and buildings were valued at fair value based upon market based evidence upon the appraisal of professionally qualified valuers.

The combined results of this valuation process was an increase in fixed assets and the asset revaluation reserve of \$62,715,894 as detailed in the table above. However, this increase in value was partially offset by an impairment loss of \$5,958,900, also as detailed in the table above and expensed in the profit or loss.

Both these valuations were completed in December 2013 and adopted in the financial statements as at 31 December 2013.

13 Cash and cash equivalents

- Cash on hand
- Cash at bank

14 Inventories

- Electrical and mechanical

2014 SBD	2013 SBD
43,000	41,000
75,368,436	129,326,625
<u>75,411,436</u>	<u>129,367,625</u>
8,855,512	7,458,153
<u>8,855,512</u>	<u>7,458,153</u>

Fuel and lubricants are paid for on consumption from supplies held on site and on consignment from the supplier, South Pacific Oil Ltd, through a contract signed in 2012. Therefore no fuel and lubricants inventory is held by SIEA.

15 Receivables

Current

Trade receivables - kilowatt (Kwh)	68,269,984	63,717,522
Allowance for impairment - kilowatt (Kwh)	(24,912,530)	(29,870,221)
Trade receivables - CashPower	16,499,246	14,997,010
Allowance for impairment - CashPower	(13,559,978)	(7,511,960)
Related party - Solomon Islands Water Authority	937,500	937,500
Related party - Solomon Islands Broadcasting Corporation	600,000	360,000
Staff advances	247,259	288,159
Allowance for impairment- staff advances	(56,598)	(30,526)
Unread meters	13,904,118	14,276,602
Other debtors	8,096,232	5,001,540
	<u>70,025,232</u>	<u>62,165,625</u>

Non-current

Related party - Solomon Islands Water Authority	4,687,500	5,625,000
Deferred income - Solomon Islands Water Authority	(909,668)	-
Related party - Solomon Islands Broadcasting Corporation	2,371,381	3,061,381
Deferred income - Solomon Islands Broadcasting Corporation	(186,953)	-
	<u>5,962,260</u>	<u>8,686,381</u>

Solomon Islands Electricity Authority

Notes to the Financial Statements

for the year ended 31 December 2014

On 31 May 2012 an agreement was signed between the Solomon Islands Government (SIG), Solomon Islands Water Authority (SIWA) and SIEA whereby the debt owed by SIWA of \$7,500,000 was converted into a loan with a 0% interest rate for a term of 8 years commencing on 1 January 2013. The deferred income relates to the notional interest expense on this debt using the amortised cost method and is based upon discounted future cash flows.

On 8 May 2013 an agreement was signed between the Solomon Islands Broadcasting Corporation (SIBC) and SIEA whereby the debt owed by SIBC of \$3,661,381 was converted into a loan with 0% interest rate for a term of 5 years commencing on 31 May 2013. The deferred income relates to the notional interest expense on this debt using the amortised cost method and is based upon discounted future cash flows.

	2014 SBD	2013 SBD
Allowance for impairment		
Balance at 1 January	37,412,708	34,987,087
Impairment recognised	4,604,834	4,919,238
Bad debts written off during the year	(3,488,436)	(2,493,616)
Balance at 31 December	<u>38,529,107</u>	<u>37,412,708</u>
16 Contributed capital		
Contributed capital	<u>246,933,170</u>	<u>246,933,170</u>

Capital represents the Government's contribution to the establishment of SIEA. This is not in the form of shares.

	2014 SBD	2013 SBD
17 Deferred income		
Balance at 1 January	32,013,589	29,128,836
Additional deferred income	3,240,310	5,389,987
Deferred income recognised during the year	(2,572,734)	(2,505,234)
Balance at 31 December	<u>32,681,165</u>	<u>32,013,589</u>

The deferred income is shown on the statement of financial position as follows:-

Current	2,787,234	6,151,987
Non-current	29,893,931	25,861,602
	<u>32,681,165</u>	<u>32,013,589</u>

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 SIEA. The funding of these capital works is a non-reciprocal grant. The value of the capital works was approximately \$48 million and has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the profit or loss over the life of the power station.

In 2014 a grant of approximately \$3.2 million was received from the Japanese International Corporation Agency (JICA) to fund a 50 KW solar grid at the Ranadi Headquarters in Honiara. The value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the profit or loss over the life of the solar grid.

In 2013 a grant of approximately \$5.4 million was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund various capital projects. These projects will not be completed until 2015 at which time the deferred income will be amortised to the profit or loss over the life of those projects.

	2014 SBD	2013 SBD
18 Trade and other payables		
Current		
Trade creditors	6,205,616	15,489,151
Other payables and accruals	16,191,799	2,990,988
Consumer deposits	2,259,346	1,601,496
	<u>24,656,762</u>	<u>20,081,634</u>

Solomon Islands Electricity Authority

Notes to the Financial Statements

for the year ended 31 December 2014

19 Related parties

a) Directors

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

Name

Adrian Wickham - chairman (appointed August 2011)

David Laurie - (appointed April 2010)

Douglas Alex - (retired August 2014)

Harry Zoleveke - (appointed June 2012)

Henry Kapu - (appointed June 2012)

Henry Tobani - (retired August 2014)

John Bosco - (appointed September 2014)

Nanette Tutua - (retired August 2014)

Rovaly Sike - (appointed September 2014)

Sebastian Ilala - (appointed June 2012)

Yolande Yates - (appointed September 2014)

Directors' fees and expenses are disclosed in Note 9.

SIEA's transactions with Directors were at arms length.

b) Identity of related parties

As SIEA 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 SIEA.

c) Amounts receivable from related parties

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

	2014 SBD	2013 SBD
Central Bank of Solomon Islands	109,808	79,470
Central Provincial Government	18,024	3,619
Commodity Export Marketing Authority	60,212	-
Home Finance Corporation	41,422	21,291
Honiara City Council	715,625	287,077
Makira/Ulawa Provincial Government	1,586,637	6,054
Malaita Provincial Government	467,460	70,125
Provincial Hospital	1,064,979	2,821,311
Solomon Airlines Limited	93,746	306,328
Solomon Islands Broadcasting Corporation	3,289,601	3,906,375
Solomon Islands College of Higher Education	-	589,303
Solomon Islands Government	7,055,952	13,530,417
Solomon Islands National University	1,114,637	-
Solomon Islands Ports Authority	767,492	406,046
Solomon Islands Postal Corporation	910,898	43,508
Solomon Islands Water Authority	8,413,174	6,732,471
Temotu Provincial Government	53,069	255
Western Provincial Government	20,267	9,081
Isabel Provincial Government	1,120,448	40,808
	<u>26,903,451</u>	<u>28,853,538</u>

d) Transactions with key management personnel

Key management personnel comprises of the General Manager, Chief Executive Officer, Chief Financial Officer, Chief Engineer, Legal Officer, Financial Controller, Generation Manager, Distribution Manager, Customer Services Manager, Outstation Manager, Corporate Services Manager, Capital Works Manager, Regulatory Manager, Property Manager and the Health & Safety Manager.

Solomon Islands Electricity Authority

Notes to the Financial Statements

for the year ended 31 December 2014

In addition to their salaries, SIEA also provides non-cash benefits to key management personnel and their total compensation comprised of the following:

	2014 SBD	2013 SBD
Short-term employee benefits	8,020,947	5,310,892
	<u>8,020,947</u>	<u>5,310,892</u>

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.

20 Commitments and contingencies

Capital commitments

SIEA undertakes capital works and purchases assets according to an approved budget when management consider that sufficient funds are available. Capital commitments as at 31 December 2014 amounted to \$412,000,000 (2013: \$316,000,000). These commitments are in relation to property, plant and equipment.

	2014 SBD	2013 SBD
Capital Commitments		
Less Than 1 Year	158,000,000	168,000,000
Between 1 year and 5 years	<u>254,000,000</u>	<u>148,000,000</u>
	<u>412,000,000</u>	<u>316,000,000</u>

Contingent liabilities

As at the end of the year SIEA was a party to three legal trade related cases. The Directors do not expect the outcome of any action to have a material effect on SIEA's financial position.

Because of a delay in the commencement of the construction of the new Lungga power station, SIEA is likely to be contractually liable for a non-compliance payment of about SBD 4 million to MAN Diesel and Turbo Australia Pty Ltd, the principal contractor on the project.

21 Capital management

SIEA'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, SIEA may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

SIEA is subject to the requirements of the loan facility agreement with Westpac and NPF that does impose some restrictions and reporting requirements for capital.

22 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 that is likely, in the opinion of the Directors, to significantly affect the operations of SIEA, the results of those operations or the state of affairs of SIEA in subsequent financial years.



GLOSSARY

kV	-	Kilovolt
HV	-	High Voltage
kW	-	Kilowatts
MW	-	Megawatt (= 1000 kW)
Gwh	-	Gigawatt-hour (= 1 million kWh)





Energising our nation

Solomon Islands Electricity Authority

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