Annual Report 2015

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 Ministers

31st March 2016

The Honourable David Day Pacha
Minister of Mines, Energy and Rural Electrification
P O Box G37,
Honiara,
Solomon Islands.
&
The Honourable Snyder Rini
Minister of Finance and Treasury
PO Box G26,
Honiara,
Solomon Islands

Dear Honourable Ministers,

SOLOMON ISLANDS ELECTRICITY AUTHORITY (Trading as Solomon Power) ANNUAL REPORT 2015

On behalf of the Board of Directors of the Solomon Islands Electricity Authority, I have the honour to submit to you both 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 Solomon Power, I take this opportunity to thank you both for your on-going understanding and cooperation and look forward to your continuing support.

Yours faithfully,

David K.C. Quan
Chairman

2015 Highlights

- No rotational load shedding in Honiara
- Improvement in reliability of electricity supply
- Commissioned the new 33 kV cable between Lungga and Ranadi Substation
- Commissioned the two new power transformers at Honiara Substation
- Commissioned the new power station at Lungga
- Commenced a project to design, procure and construct a 1 MW Solar Farm at Henderson
- Under the SISEP project tenders called for the upgrade of Ranadi Substation, Relocation of feeder 12 and new Kola'a Ridge Substation
- Commenced a project to design, procure and construct hybrid stations at Afio, Seghe and Taro
- Construction of new power house at Gizo commenced
- Refurbishment of existing power house at Noro commenced
- Ordered the new generators for Auki, Gizo, Munda, Noro and Tulagi
- The refurbishment of the 150 kW Mini Hydro at Buala commenced
- Streetlights in Honiara and Outstations repaired and replaced
- Project to improve communications to Auki, Kirakira, Noro, Munda and Lata completed
- Phase 2 upgrade of Ranadi Head Office commenced
- Commenced a project to install Smart Meters
- Disaster Recovery project substantially complete
- Signed a Subsidiary Loan Agreement with SIG for the Fiu River Hydro Project
- All vehicles of Solomon Power fitted with a monitoring system
- Development and implementation of a vegetation management plan
- Developed an operations and maintenance plan for all our network and generation assets
- Increased focus on safety, training, nurturing and mentoring
- Implemented a permit outage system for generation and network assets
- Provided exclusive development rights to Korea-Water for Tina River Hydro Project
- Implemented the restructure of Solomon Power
- Continued internal safety, lineman and operator training programmes
- Re-branded SIEA as Solomon Power

Plans for 2016

- Further improvement in the reliability of electricity supply in Honiara and Outstations
- Commission the new generators at Auki, Gizo,Munda, Noro and Tulagi
- Commission the Hybrid stations at Seghe and Taro
- Commission the 150 kW Mini Hydro at Buala
- Commission the 1 MW Solar Farm at Henderson
- Complete the Ranadi Office Upgrade Phase 2 project
- Sign a Power Purchase Agreement for Tina River Hydro Project
- Award the contracts for the Ranadi Substation upgrade, Feeder 12 relocation and Kola'a Ridge Substation projects
- Develop the project for the installation of more Hybrid Generation Systems in Solomon Islands
- Initiate the development of a Supervisory Control and Data Acquisition System (SCADA)
- Initiate and commence a project to upgrade the old Lungga Power Station
- Improvements at Honiara Power Station
- Install and commission Smart Meters
- 24/7 Customer Call Centre

About Solomon Islands Electricity Authority (trading as Solomon Power)

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 up to 18 February 2016

David K.C. Quan
Chairman effective 19 February 2016

David Laurie
External Director

Harry Zoleveke
Director

Henry Kapu
Director

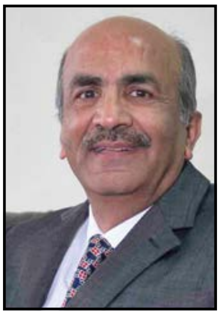
John Bosco Houanihau
Director

Rovaly Sike
Director

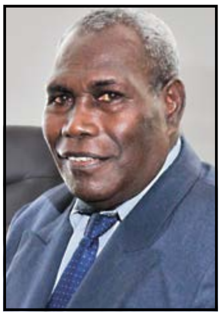
Sebastian Ilala
Director

Yolande Yates
Director

Senior Management



Pradip Verma
Chief Executive Officer



Martin Sam
Chief Engineer

Phill O'Rielly
Chief Financial Officer

Jan Sanga
General Manager Customer Services

Arieta Cama
General Manager Corporate Services

Mark Greenaway
General Manager Capital Works

Sixtus Torakana
Manager Internal Audit

Delilah Kekea-Homelo
Financial Controller

Levan Respioh
Manager Human Resources

Hemant Kumar
Planning Engineer

Janendra Prasad
Electrical Engineer

Ratu Kitione Malugulevu
Regulatory Manager

Robin Simpson
Health & Safety Manager

Dalton Maesia
Property Manager

Apollos Inasimae
Manager Management Accounting

Dadily Posala
Manager Generation

Mathew Korinihona
Manager Distribution

Chairman's Letter

At the outset I would like to thank the Management and Board members for the warm welcome provided on my recent appointment to the Board of Solomon Power.

2015 has been another significant year for Solomon Power. This is five years in a row that Solomon Power has made a profit. Furthermore, the last four year's statutory accounts have been unqualified, and signed off by the Auditor General before the mandated date of 31st March each year.

We commissioned the new power station at Lungga on 7 December 2015. The four new 2.5 MW generators will be brought on line in the first quarter of 2016.This will place Solomon Power in good stead with sufficient installed generation capacity in Honiara, which will provide sufficient capacity to meet electricity demand with up to two generators taken off line for repairs and maintenance.

The two new replacement power transformers at Honiara Power Station and the 33 kV cable from Lungga Power Station to Ranadi Substation were commissioned in the early part of 2015 thereby mitigating major existing electricity supply risks for Honiara.

In the Outstations, too, we have commenced a project to replace generators and the upgrade of buildings. A contract for supply of new generators for Auki, Gizo, Munda, Noro and Tulagi was placed with Northpower. These generators will be progressively commissioned in the second half of 2016.

The Buala 150 kW Hydro plant is being rebuilt and will be commissioned with a new alternator and new control system in April 2016.The 1 MW Solar Farm at Henderson is under construction with expected commissioning in April 2016.

The current mode of power generation contributes significantly to the high cost of electricity in Solomon Islands and we are working actively with our stakeholders to address this. We hope the renewal projects at Buala, Henderson and at Afio, Seghe and Taro, when commissioned, will assist Solomon Power to reduce the price of electricity.

I am elated to note that for the first time since 2011 the domestic tariff for the quarter 1 January-March 2016 is below $6 per kWh. In real terms this equates to a reduction of approximately 25% in the tariff.

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, is very much appreciated

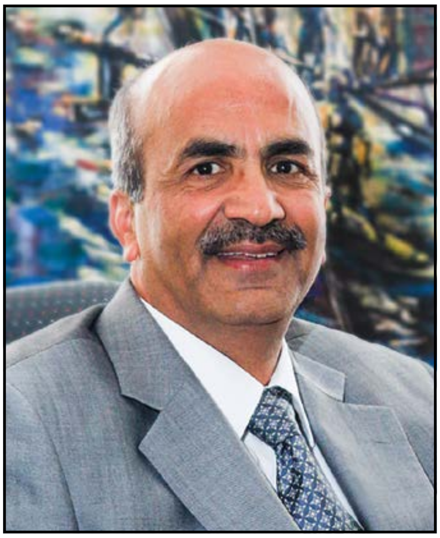
Management Team's continued effort in staff development will, in the long term, enable Solomon Power to have a competent and dedicated work force, a key challenge identified by the Management and Board.

I also would like to take this opportunity to thank the outgoing Chairman, Adrian Wickham, for his leadership and stellar performance during his four-and-a-half-years' tenure that has enabled the organisation to make a remarkable turnaround from a financial and commercial perspective.

Finally, I look forward to providing the guidance and vision to Team Solomon Power in the quest to Energise our Nation.

David K.C. Quan MBE
Chairman

Chief Executive Officer's Letter



2015 has been another successful year for Solomon Power. From a financial perspective we have excelled, we have invested $133 million in capital infrastructure during 2015, which will deliver long term benefits to our customers.

We committed and promised to improve the reliability of power supply and I am pleased to inform that we have improved on the three reliability indices SAIDI, SAIFI and CAIDI.

I am very pleased to note that for the first time in 30 years Solomon Power has embarked upon a project to build new Outstations. These new Outstations located at Afio, Seghe and Taro will be powered by mini hybrid generation systems (solar, battery with diesel back-up) and it is envisaged that these will be brought on line in the latter half of 2016 and early 2017.

It is also pleasing to see the mobile top-up facility increasingly being used by our customers.

Over the past year we have increased the telecommunication connectivity to our outstations and Integrated Business Management Systems (IBMS) has been rolled out to Auki, Gizo, Kirakira, Munda and Noro. Furthermore, the fibre optic backbone network between Lungga, Ranadi, Hyundai Mall and Honiara is up and running. Additionally, it is pleasing to note that we installed and commissioned a new disaster recovery site. All these initiatives will further improve the efficiency and effectiveness of our operations.

Solomon Power is all about Nation building. We are working with our stakeholders to increase the footprint of the electricity network and make electricity accessible and affordable to more people in Solomon Islands. Significant progress has been made during 2015 to develop the momentum to achieve these objectives.

Our cost of service and tariff review is nearly complete. This will be translated into a new Tariff Regulation in early 2016, which will deliver a fairer tariff to our esteemed customers.

The four key challenges for Solomon Power in the future are to increase the footprint of the electricity network, offer electricity at lower prices, deliver a SBD 1 Billion capital programme efficiently and effectively and the development and sustenance of human capital.

During 2015 we have continued our focus on safety and training. The new permit system is being utilised in our operations.

Out of a total of 246 permanent employees there are 46 females, which is 20%. Training of staff is constantly taking place right through the ranks as evidenced by the recent linesman training that was the first such training for 31 years. Solomon Power has now become an employer of choice, attracting new graduates into our graduate intern system and professional personnel from many quarters. Some of the graduate interns have been absorbed into the organisation, including three female engineers.

In light of all the changes, improvements and enhancements that have occurred over the last five years, it was considered appropriate and to a large degree necessary, that the image of SIEA be revamped by way of a total rebrand. On 7th December we carried out the re-branding of SIEA. We are now trading as Solomon Power.

I would like to thank Mr Adrian Wickham, former Chairman of the Board, for his exemplary contribution during his four and half year tenure and for the guidance and support to the Management team in Solomon Power. I also take this opportunity to welcome Mr David K.C. Quan as the new Chairman.

I wish to thank the Board for the excellent support they have provided to the Solomon Power Team during 2015.

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

Pradip Verma
Chief Executive Officer

Engineering Highlights for 2015

Overview

The power situation in Honiara in 2015 has continued to be reliable. There was no rotational load shedding during the year. The outages experienced during the year were mainly due to planned work and generation and network faults. The improvement was as a result of the timely and effective maintenance carried out on the generation and network facilities. In addition, the situation was further improved by the operation of the 2x1.5MW Caterpillar generators at the Honiara Power Station that were commissioned in December 2013 and the improvements of the cooling efficiencies on L7 & L8 Wartsila and L9 Mitsubishi generators at Lungga Power Station.

However, to prevent future load shedding and to sustain load growth, there is a need for more generation capacity at Lungga Power Station. Solomon Power has also embarked on a new 10MW power plant at Lungga, which will be commissioned in February 2016. The additional generation capacity will further improve on the Honiara Generation capacity to a G-2 criterion. This will enable Solomon Power to meet the power demand in Honiara even in the event that two of its largest generators are taken off for maintenance or due to forced outages.

The commissioning of two new step down 33/11kV, 10/12.5MVA transformers at the Honiara Substation in April 2015 was a major relief to the power situation in the CBD of Honiara. These two new transformers replaced two 33/11kV 7/10MVA old transformers at the substation. One of the older units developed a fault during a recommissioning process in 2014, which left the substation with only one transformer to maintain power supply to the CBD of Honiara until the new units were commissioned.

Other major network activities carried out in Honiara during the year were the commissioning of a number of distribution transformers for new installations; of significance were the Coral Sea Resort, the Central Plaza, the PNG Chancery and the new Ministry of Finance and Treasury Building. Others were the upgrade and replacement of some of the distribution transformers in various parts of the Honiara network.

At the Outstations, the 11kV line to Kilufi at Auki, was upgraded to enable additional load to be connected and also for future expansion of the network. Line works for the new hybrid power plants at Seghe in the Western Province and Afio in South Malaita commenced during the year with good progress achieved in the erection of poles.

Generation:

A scheduled major overhaul was carried out on L10 Niigata generator during the first quarter of 2015. The other overhauls scheduled for L7 Wartsila and L9 Mitsubishi generators were being delayed whilst anticipating the commissioning of the new 10MW MAN Diesel power plant at Lungga.

Other major jobs carried out at Lungga Power Station were the replacement of leaking cylinder heads on L6 Mirrlees, L7 Wartsila and L9 Mitsubishi generators. Other repairs done were on the air start system for L8 Wartsila and the replacement of faulty batteries for L9 Mitsubishi dc supply.

Other activities included attending to faults and breakdowns both in the mechanical and electrical systems and the scheduled 1,000 hours services on the generators.

Distribution:

The Distribution Department undertook a number of major activities in Honiara and at the Outstations. In Honiara, new transformers were installed and commissioned for large customers including the new Coral Sea Resort, Ministry of Finance and Treasury building, the PNG Chancery and the Central Plaza building. In addition there were distribution transformer upgrades carried out at the various parts of the network in Honiara.

At the Outstations, the 11kV circuit to Kilufi at Auki was upgraded to enable additional load to be connected and for future expansion of the network. A number of transformers were also upgraded at the outstations, particularly at Gizo and Auki.

The Department also embarked on a vegetation management programme in Honiara in an effort to improve the reliability of the network and reduction of line losses due to vegetation. The programme has shown a reduction in vegetation related faults.

The other major activity carried out was the repair of the existing street lights in Honiara and also at the Outstations. A total of 170 streetlights were repaired in Honiara, which also includes replacement of 15 light poles that had been damaged by vehicles. At the Outstations, forty (40) lights were replaced at Auki and six (6) at

Kirakira. A total of 105 streetlight fittings were shipped to Gizo, Noro and Munda as part of the repair/ replacement programme.

Other activities were the construction of minor LV extensions, new service connections, inspection and condition monitoring of the network, implementation of planned maintenance activities and attending to network faults.

Outstations:

With the aging generation and network facilities at the Outstations, keeping the lights on was quite challenging during the year. Prolonged generator downtimes were experienced at Gizo, Auki, Noro/ Munda and Buala. The high voltage switchboards at Auki, Gizo and Noro were also experiencing problems and at Auki, one of the Distribution Feeder circuit breakers had to be bypassed to enable restoration of power supply.

At Noro, the rebuilding of N1 generator was finally completed and has since been the operational machine, whilst N2 is being maintained and kept as a backup machine.

The Detroit-make generator at Munda was rebuilt and was put back into service and is providing back up support at Munda in the event that the 11kV underground cable between Noro and Munda fails.

G5 generator at Gizo was overhauled and was recommissioned after three months. In the meantime Gizo went through rotational load shedding.

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

Regulatory:

The Regulatory Department of Solomon Power was established in January 2014 to perform Regulatory functions in accordance with the requirements of the Solomon Islands Electricity Act & Regulations. 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 59 registered licensed electrical contractors currently operating in the Solomon Islands.

A total of 785 new connections for Honiara and the Outstations were made in 2015 (741 in 2014), of which 438 were for domestic customers and the rest for commercial customers.

Besides the above functions, the Regulatory Department is also responsible for regulating and facilitating the new Photovoltaic (PV) Grid Connected systems and also the inspection of all electrical items imported into Solomon Islands. The inspection of imported electrical items is jointly carried out with the Customs authority.

Planning:

This is a newly established department within the Engineering Division and is headed by a Planning Engineer and supported by a team of eight staff. Some of its immediate targets were the establishment and resourcing of the Planning Team, to scope and procure an asset information management system, to produce Operational Procedures for the distribution and generation systems, set up a Maintenance Planning System for generators and distribution systems, to set up standards for generation, transmission and distributions assets and to plan for the expansion of the networks in Honiara and at the Outstations.

Some of the achievements were the planning of the Afio, Taro and Seghe new Hybrid grids, setting of standards for generation and distribution assets, the procurement of the new Asset Management System, the implementation of the Vegetation Management Plan by the Distribution Department, the five to fifteen years network development plan and the review of the Single Line Diagram for the 33 and 11kV network in Honiara.

Electrical:

This is another newly established unit within the Engineering Division, particularly in the Generation Department. The team provides the capability within Solomon Power in the area of implementing and managing the maintenance plans and systems, monitoring and testing of all electrical plants and equipment at the Lungga and Honiara Power Stations and the various 33kV zone substations in the Honiara network. The unit is also providing support for all electrical works at the various Outstations as well.

The main activities that were carried out by the Electrical team during the year were attending to repairs and maintenance works both in Honiara and at the Outstations, investigating the faults and outages in the Honiara Generation system and network. The team was also involved with electrical works during the overhauls of the generators in Honiara and at the Outstations.

Renewable Energy

Two proposed Hydro Projects which includes the 500kW at Fiu River, Malaita Province and the 20MW at Tina River in Guadalcanal Province were progressed during the year and will be further developed in 2016.

The 150kW Mini Hydro Plant at Buala, Isabel Province, is being renewed with estimated commissioning in 2016.

A 1.0MW grid-connect solar project funded by the United Arab Emirates (UAE) – Pacific Partnership Fund and the New Zealand Government commenced construction during second half of 2015 and is expected to be commissioned in the first half of 2016.

Initial studies and assessments have also started on an Asian Development Bank (ADB) funded grid connect PV with battery storage

installations at the existing Solomon Power grids at Kirakira, Lata, Malu'u, Munda and Tulagi.

Power System Reliability

Solomon Power's 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 = Sum of Customer Interruption Durations / Total number of customers).

For Honiara, this was measured to be 217 minutes, an improvement over the measurement of 422 minutes in 2014.

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 a customer.

SAIFI = Total number of customer interruptions / Total number of customers served.

For Honiara this was measured to be 3.2 times, compared to 7.0 times in 2014.

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 74 minutes per interruption. This is an improvement over the average time of 81 minutes in 2014.

Reliability and Efficiency:

To maintain the efficiency of the generators at Lungga, an improved cooling water treatment and quality control were implemented and as a result the large generators, except L8 Wartsila, were able to be loaded to 90% of their rated output capacity. This has enabled the generators to maintain the growing demand for power during the year.

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:

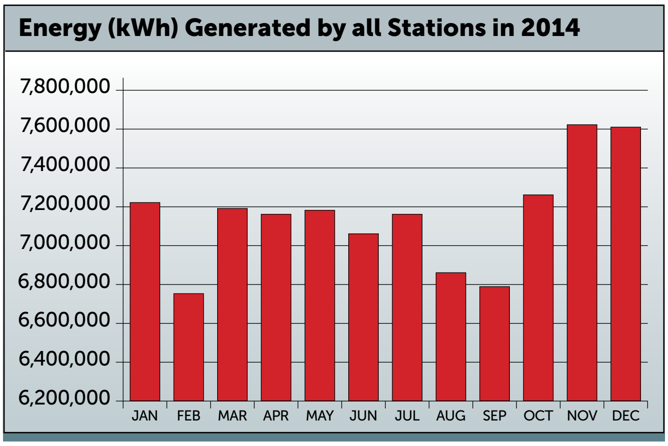
Energy produced in 2015 is shown in the table below. Lungga and Honiara operations produced a total of 77.91Gwh (89.70%) whilst the Outstations, STP (IPP) and the Ranadi Solar produced 8.91Gwh (10.3%). There was no energy bought from Soltuna PPA during the year.

Station	Gwh (2014)	Gwh (2015)
Lungga	71.8	71.91
Honiara	5.50	6.00
Outstations	7.50	7.48
Soltuna (PPA)	0.05	0
Ranadi Solar	0.03	0.073
Solomon Tropical Products (IPP)	0.59	1.36
Total	**85.47**	**86.823**

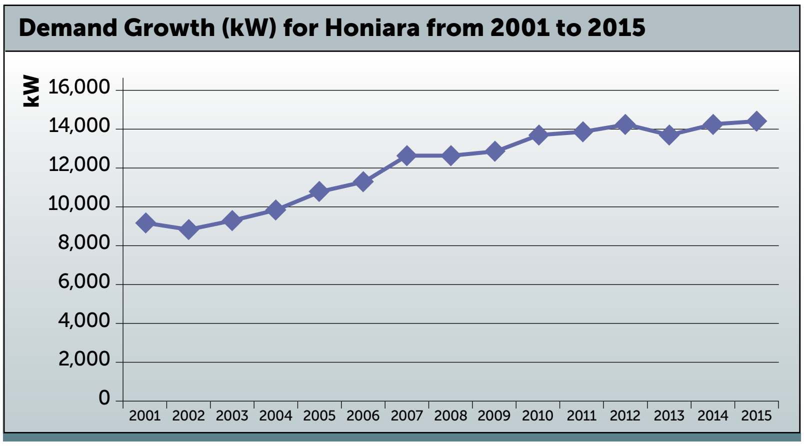
Maximum Demand:

The demand for electricity in 2015 in Honiara peaked at 14,425 Kilowatts compared with a figure of 14,100 Kilowatts in 2014, an increase of about 325kW over the 2014 demand.

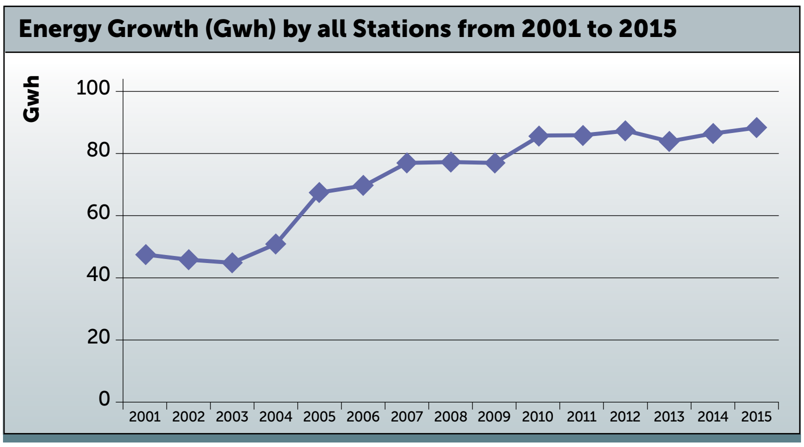
Generation Statistics



Energy Generated by all Stations in 2015.



Honiara Demand Growth from year 2001 to 2015.



Total Solomon Power Energy Growth from 2001 to 2015.

Capital Works

During 2015 there were 40 capital infrastructure projects being progressed to the value of $460m. Of these the following were completed and commissioned during the year:

- The new 33 kV underground cable circuit from Lungga to Ranadi Substation
- The replacement of the two 33/11 kV power transformers at Honiara Power Station
- The installation of VSAT communication at a number of Outstations
- The redevelopment of the Power Station at Noro
- The commissioning of the new Power Station at Lungga

Key projects which started during 2015 and are envisaged to be completed in 2016 include:

- The commissioning of the four new 2.5MW generators at Lungga
- The 1MW Solar generation plant at Fighter 1, Henderson funded jointly by the United Arab Emirates and New Zealand Governments
- The upgrade of the Ranadi Head Office complex
- The installation of smart meters
- The construction of the new Power Station at Gizo
- The replacement of diesel engines and switchgear at Gizo, Munda, Noro and Tulagi
- The replacement of diesel engines at Auki
- The new Hybrid Generation Systems at Seghe and Taro

Projects that commenced during 2015 and will conclude during 2017 include:

- Relocation of feeder 12 at Henderson.
- The redevelopment of the Ranadi Substation
- A new 33/11 kV Substation at Kola'a Ridge
- The development of a Hybrid Generation System at Afio

Solomon Power has continued to develop its Project Management Office during 2015. A Project Manual has been developed and can be accessed through the Solomon Power intranet site. The manual allows access to the range of documents to develop a project in Solomon Power. The Australian Standard suite of contracts has been adopted to provide a standard for contracts between Solomon Power and contractors providing services.

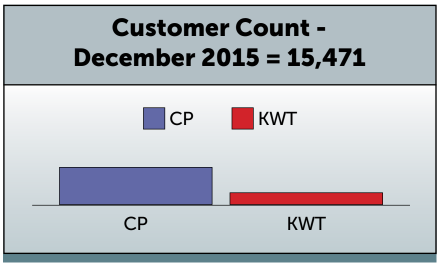
The development of staff is particularly important with the young project engineers undertaking projects within Solomon Power. Staff training of a Friday afternoon exposes the project engineers to the Project Management Book of Knowledge and discusses the various skills required by a project engineer or project manager when undertaking a project. A number of the project engineers have also been provided the opportunity to work closely with experienced expat project personnel to capacity build The Solomon Power Capital Works team.

The year of 2016 will bring further opportunity for Solomon Power to increase its project management capacity with the proposed capital works being further developed. The Project Management team will be further enhanced by the recruitment of additional staff. The training of staff will progress with proposed construction supervisor certification and further project management skills training. This will ensure Solomon Power has the trained resources at its disposal now and into the future to undertake the projects required to build the capital electrical infrastructure for the Solomon Islands.

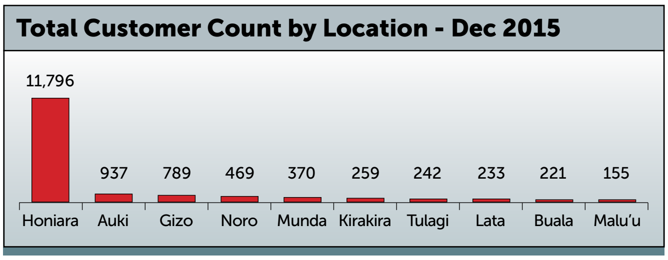
Customer Services Division

With a total number of 40 permanent staff, 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 2015, Solomon Power had a total of 15,471 customers connected to its Honiara and Outstations' network. 82% of customers are on the pre-pay system and the rest are on post-pay.



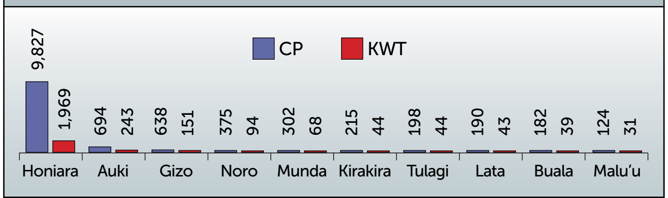
Customers are located in ten locations; Honiara, Auki, Buala, Gizo, Kirakira, Lata, Malu'u, Munda, Noro and Tulagi with the majority based in the capital Honiara, followed by the three bigger provincial Outstations; Auki, Gizo and Noro. Of the smaller Outstations, Munda has more customers over Buala, Kirakira, Lata, Malu'u and Tulagi.



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 in June 2014 to replace the old system, NCS (Napier Computer System).

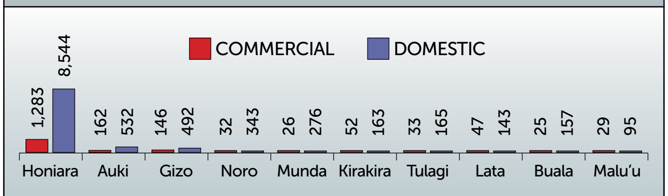
Cash Power and kilowatt hour meters are installed in all locations. The graph below shows the breakdown of customers by location by cash power and kilowatt hour meters.

Total Type by Location - Dec 2015



Customers are categorised into domestic, commercial and industrial. Domestic customers are prioritised into the pre-pay system using Cash Power meters, while commercial and industrial customers are retained in the post-pay system, using the conventional kilowatt meters.

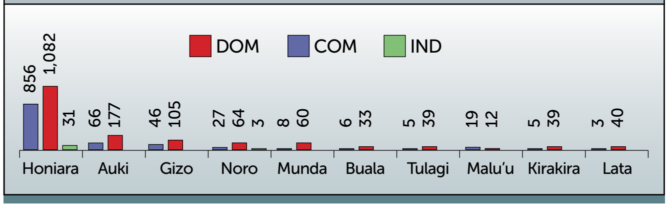
Total Type by Location - Dec 2015



Cash Power commercial customers have initially been on kilowatts, but have been transferred to Cash Power due to problems keeping up with monthly arrears payments. A 50% deduction is incurred upon every commercial cash power transaction, until the arrears are paid off. A 20% deduction applies to each domestic transaction.

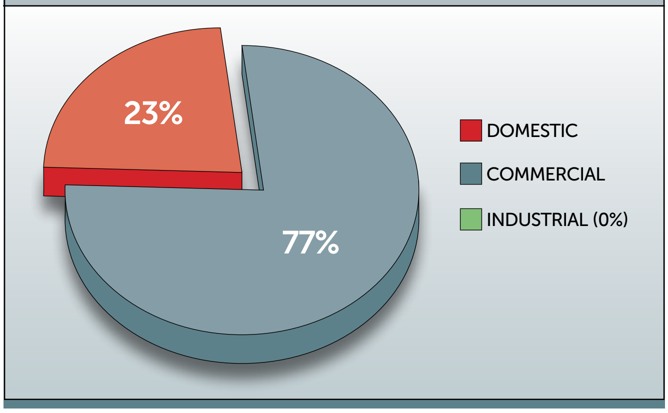
Kilowatt customers, however, are mostly commercial, as shown on the graph below. The numbers of domestic kilowatt customers have slowly decreased over the years due to the transfer to cash power.

Kilowatt Customers by Tariff Category - Dec 2015



Overall as shown below, domestic customers make up 77 % of total customers while 23 % are commercial. There are only 34 industrial customers who are located in Honiara and Noro.

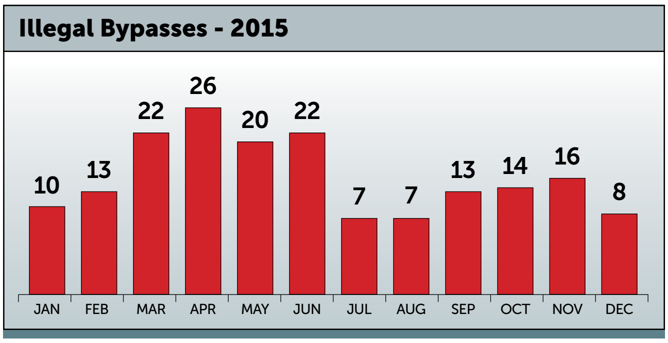
Percentage of Total Customers by Tariff Category



Electricity thefts and bypasses contribute to our non-technical losses, and are still a challenge, with a total of 283 findings in 2015 compared to 226 findings in 2014. These thefts are identified through daily spot checks on all sites. The Meter Inspection team was further strengthened by the transfer of the Meter Auditors from the Internal Audit team to Customer Services team in April.

The graph below shows the number of monthly findings for 2015.

Losses from illegal tampering of meters are recovered through charging of average bills along with payment of fines and reconnection fees as required under the Electricity Act. Of the 283 findings, 58 customers who failed to make any payments were referred for legal recovery.



Apart from electricity thefts and bypasses, customers with arrears through non-payments of their electricity bills are also referred for legal recovery. In 2015, legal actions have been taken against seven customers with total unpaid electricity bills of $1, 557,697.

As part of the solution to reduce non-technical losses, advancing of our metering infrastructure has been looked into with plans to replace all legacy conventional kilowatt meters with new Smart Meters. Work to have this in place is progressing.

Plans to have a Call Centre operating 24/7 to improve customer care throughout the nation and to increase contact with customers and to be more responsive to customer concerns are ongoing, with personnel already recruited pending installation of the system.

One of the highlights for the Department in 2015 was leading the implementation of the rebranding strategy as approved by the Board. The rebranding was launched on the 7th December 2015.

We are now trading as Solomon Power.

The VSAT (Satellite) project has resulted in the successful connection of our kilowatt customer billing system from the Head Office to the Outstations. Outstations now connected are Buala, Gizo, Kirakira, Lata, Noro and Munda. These Outstations' billing staff can now view and access customer accounts and information and receive quick feedback on account status. Relying on planes and boats to send and receive customer readings and receipts and delay in data inputs is now a thing of the past.

In terms of improving after hours customer services, and in addition to the Drive-Through window which was opened in 2014, a Walk-Through window was set up at Ranadi. This was in response to pedestrians walking straight to the window, causing traffic jams. Both the Drive-Through and Walk-Through windows have proved very popular with cash power customers. The windows close at 8:30pm, Monday to Friday.

To enhance the first mobile electricity vending system launched in September 2014, a fortnightly draw of $800.00 worth of cash power units was introduced in the first quarter of 2015. This was a joint incentive with the BSP Bank with their weekly gift pack draw. This was to increase the cash power mobile top up transactions of 400 per day target. By March 2015, it had gone over the break even target, and has increased every month, with new customers added to the system on a monthly basis.

It is very encouraging to note the improvements in the statistics even before, as well as after, the incentives. Registration of cash power customers for the mobile top up is done by the BSP Bank.

Our customer and public awareness campaigns held across schools and communities around Honiara and the provincial centres, complemented by the weekly radio programmes and other media notices, are all focused on the need for accessibility and a fairer price of electricity for all Solomon Islanders. Customers and the public are much better informed on the expectations and requirements. Awareness talks were held in Taro, Choiseul Province; Seghe, Western Province; Afio, Malaita Province and the Fox Wood community in Guadalcanal. These planned awareness campaigns are an integral part of our Public Relations strategy.

Policies and processes have also continually been developed and updated, to ensure that our quality commitments to our valued customers are met. In order to gauge our customer services performance, a follow up Customer Service survey was carried out in February 2015 by the Tebbutt Research team. The survey showed a marked improvement in our customer service in comparison with the survey outcome in 2012. We, however, cannot rest on our laurels. Improvements have definitely been made and there is progress, but there is still a journey to complete. Solomon Power is on the right path.

Finance Division

Due to good financial management and good governance, Solomon Power is, financially, the best performing State Owned Enterprise in the Solomon Islands and is one of the best in the Pacific. During the year:

- Net Profits have increased,
- Long term debtors have nearly halved,
- Return on equity is in the mid-tens as is the quick (liquidity) ratio,
- Generation costs per kWh have dropped to $2.3 (less than US $0.3 per kWh)
- Tariffs dropped to their lowest since 2012,
- Fuel costs, being 50% of our costs, also dropped to similar lows,
- Monthly kWh sales reached its highest ever, and
- The New Lungga Power Station was able to be funded using retained earnings.

We also have a large property portfolio, on which we completed renovations during 2015.

Information, Communications and Technology

The Information, Communications and Technology (ICT) section of Finance took substantial strides to protect our information, connect our key sites and modernise our hardware and software. This also creates a platform for future developments like SCADA and mobile systems access. This was facilitated by a strategic collaboration with the Solomon Islands Government and SATSOL.

ICT activated the fibre optic network between the head office and our two power stations in Honiara. Also, the new Lungga power station was connected to the fibre optic network. This provides the backbone for a future Supervisory Control and Data Acquisition (SCADA) system and enables systems access at any of these key sites.

ICT connected the remote outstations with a VSAT (Satellite) network. This

Latest VSAT installed at the Kirakira office.

has enabled the operation of our key information systems at each site resulting in improved data accuracy, timeliness, customer service and future proposed remote control of the Outstation power stations.

With fibre optic connectivity established, ICT set up a disaster recovery site at our key power station. This means our systems are duplicated at both head office and Lungga power station and backed up daily. This also required the modernisation of our hardware and software, including the upgrade of our servers, firewalls and data storage.

The mobile top-up initiative with BSP now accounts for 40% of all prepaid transactions on our "CashPower" meters. Testing is continuing for the implementation of smart metering for postpaid customers. This platform will also enable automated data collection from our fuel, generation and network meters as well as improvements to our customer services.

One of the new smart meters that is being installed.


Honiara Street Lights Repaired and Operational.

Renewable Energy and the Tariff Review

We have been 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 Solomon Power to reduce the price of electricity. These renewable projects include a 1 MW Solar Farm in Honiara, Tina River Hydropower station, Fiu River Hydropower Station in Auki, the Buala Hydropower station and various Solar Hybrid power stations in various outstations.

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. The outcome of this review will be a fairer tariff. Additionally, this will challenge us to be more efficient and effective.

The tariff review is well progressed with implementation by the Government expected in 2016. The outcome of the review will be a tiered tariff structure with the small consumers paying less for their electricity consumption.

Additionally, we are seriously considering reducing the initial contribution from our prospective customers, thereby removing a barrier to their entry. This will increase the customer numbers and assist us to offer a cheaper tariff by reducing the average cost per customer.

Community Service Obligations (CSO) and Non-Profitable Services

The Solomon Islands Government has decided to continue to support CSO. Through better management, we have improved the performance of Outstations as a whole, to the point where they are breaking even, excluding depreciation and head office overheads. We are investing in new generators to improve efficiency and also partnering with the Asian Development Bank to install solar farms to further reduce costs. Automation, mobile top-up and shared services will reduce operational costs further.

We have already repaired and replaced nearly 300 streetlights in Honiara, Auki, Gizo, Munda, Noro, Kirakira and Buala under the previous understanding. Future operations and maintenance are still being considered.

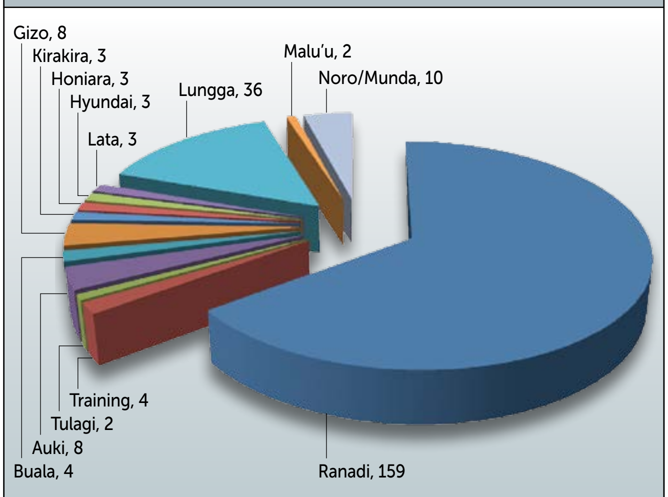
Corporate Services Division

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

Human Resources

Total number of staff members employed by Solomon Power as at the end of December 2015 was 245, compared to 233 at the end of 2014, an increase of 5% compared to an increase of 14% in 2014. The growth in employment numbers continued to be driven by business needs.

Total Employee Figures



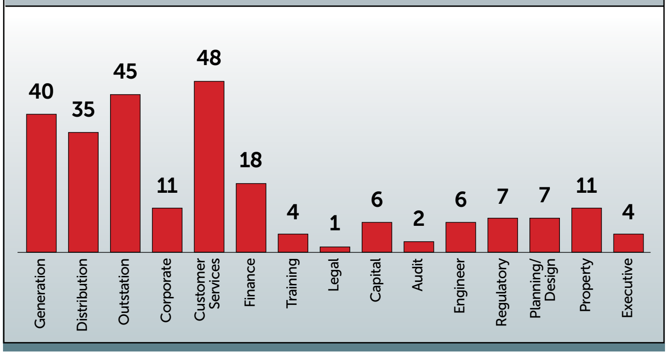
Staff members by location

159 staff members, the majority of the workforce, are based at the Ranadi Complex where the head office of Solomon Power is located. The Finance, Corporate Services, Customer Services, Senior Engineers and Executive management team members are located at the Head Office. Lungga site has the second highest number of staff members, at 36.

Highlights in 2015 included:

- Completion of the review of the Solomon Power Staff Handbook and issuance of the 2015 updated version
- Awarded the 2015 Solomon Islands Chamber of Commerce and Industry Business Excellence Award Runner Up prize for Employer of Choice category

Staff by Department & Section



Training and Development

Solomon Power considers organisational workforce development as a strategic objective and the appropriate planning and resourcing to achieve this strategic outcome continues to be one of the key deliverables for the Corporate Services Division. Training and development programmes that included class room and practical training, attendance at workshops, and support for full time studies at tertiary institutes continue to be prioritised. This approach is critical for the ongoing development of key skills and resources to meet current and future needs, and for meeting and exceeding standards.

Four staff members were awarded Solomon Islands Government scholarships in 2015 for tertiary qualifications studies in Fiji and local studies respectively; nine staff members were awarded Solomon Power scholarships to do full time local studies in SINU and USP and two staff members received APTC sponsorships for full time studies in Papua New Guinea. Staff members released for full time studies were on paid Study Leave. Three sponsored staff members graduated in 2015, with one attaining a Master's in Business Administration.

Further to the training and development of current staff members, Solomon Power continued with its Graduate Development programme with the engagement of three Graduate Engineers in September 2015, supported 10 tertiary institute students to complete their industrial attachment requirements and enabled 18 Youth at Work participants to complete their workplace attachment programmes.

Occupational Health & Safety

Solomon Power is committed to ensure, in so far as is reasonably practicable, that the health and safety of its employees, contractors, customers and members of the public are of paramount importance and our mission to be the safe supplier of electricity to the Solomon Islands is our guiding principle.

The OHS Policy and related policies under the Safety Manual Fleet Policy and the Driver's Handbook were rolled out with on-going awareness and review focus groups where learnings were discussed.

Highlights in 2015 included:

- Continued OHS awareness training for staff and electrical safety awareness for communities in Solomon Power locations
- Continued First Aid Training for First Aiders and Basic Fire Fighting for Power Station Operators and provision of First Aid Kits
- Continued Power Station Operator Training
- Electric Power Lineman training Module 4 for Electric Power Lineman completed and participants were certified as Electric Power Linemen
- Facilitated clearance of Unexploded Ordnances at east end of Lungga Power Station
- Conducted Cash security audit activities
- Distributed Traffic Sign Boards to Outstations
- Recipient of Special Awards for recognition of Engaging Essential First Aid awarded by Red Cross on 2015 World Aid Day

During the year there were two Lost Time Injury (LTI) incidences, which resulted in three Lost Days. The Lost Time Injury Frequency rate for 2015 closed at 4.28.

Fleet of Vehicles

As at December 2015 Solomon Power had 89 vehicles in its fleet. During 2015 we continued with the implementation of the Solomon Power Fleet Policy, with the focus to ensure our drivers are driving safely and professionally.

Vehicle tracking units were installed in the remainder of the Solomon Power fleet that allowed tracking of vehicle usage for efficient and effective use of vehicles and is a reliable source of data for use of vehicles.

Legal Services

Role

Manager Legal and Contracts is responsible for ensuring that legislation relating to the operation of Solomon Power is complied with. These pieces of 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 pieces of legislation.

Manager Legal and Contracts provides 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, external assistance is sought, either locally or internationally, as appropriate.

Major contracts

Manager Legal and Contracts also oversees the drawing up and signing of contracts. The various capital works Solomon Power is undertaking continued into 2015. There are other minor contracts in relation to housing maintenance and repairs and land acquisitions.

Bypass Customers

There is a concerted effort to recover monies owed to Solomon Power by "Bypass" and defaulting customers. The efforts can be most challenging, with various dimensions of each case including prosecuting of "Bypass" customers.

Solomon Power is proceeding with recovery from these customers with several good outcomes having been achieved by the end of 2015.

Workmen Compensation

One case of Workmen Compensation was reported to the Department of Labour and is being facilitated by external Counsel.

Trade Dispute Panel

One case for unfair dismissal that was lodged by a former employee was ruled in favour of Solomon Power.

Outstanding claims

The claim over the strip of land at the rear entrance to Solomon Power 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 Intent, and approves Operating and Capital Budgets each year. The Board also reviews matters of a major or unusual nature, which are not in the ordinary course of business.

Composition of the Board as at 31 December 2015

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	Term
Mr Adrian Wickham	Chairman	August 2011	Negotiating reappointment
Mr David Laurie	Overseas Director	February 2015	2 years
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

Mr Adrian Wickham's term of appointment as Chairman of the Board was terminated effective 18 February 2016.
Mr David K.C. Quan was appointed the Chairman of the Board of Directors effective 19 February 2016.

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

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

b) A good employer, and

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

Statutory Duties of the Board

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

- When exercising powers or performing duties, Directors must act in good faith and in what the Director believes to the best interests of the State Owned Enterprise.
- A Director of a State Owned Enterprise, when exercising a power as Director, must exercise that power for a proper purpose.
- A Director of a SOE must not:
  a) Agree to the business of the SOE being carried out on or in a manner likely to create a substantial risk of serious loss to the SOE creditors or,
  b) Cause or allow the business of a SOE to be carried out on or in a manner likely to create substantial risk of loss to the SOE creditors.
- A Director must not agree to the SOE incurring an obligation unless the Director believes at the time, on reasonable grounds, that the SOE will be able to perform the obligation when it 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 11 meetings during the financial year, which ended 31st December 2015. Of these, seven were scheduled meetings and the rest extra-ordinary meetings. The regular business of the Board covers corporate governance, financial performance and risk management, business investment and strategic matters.

Board Committees

There are three Board Sub-Committees; 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. Yolande Yates – Member

Number of meetings: 3

HR Sub-Committee

Membership:

1. John Bosco Houanihau (Chairman)
2. Henry Kapu- Member
3. Adrian Wickham- Member
4. Yolande Yates- (Member)
5. David Laurie- (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

Solomon Islands Electricity Authority
trading as **SOLOMON POWER**

Financial Statements

for the year ended 31 December 2015

Contents:

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), trading as Solomon Power, as at 31 December 2015 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

David K.C. Quan - chairman (appointed 19 February 2016)
Adrian Wickham - chairman (retired 18 February 2016)
David Laurie - (appointed April 2010)
Harry Zoleveke - (appointed June 2012)
Henry Kapu - (appointed June 2012)
John B Houanihau - (appointed September 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 2015, 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 106,687,296 (2014: SBD 91,415,268).

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 Honiara this 23rd day of March 2016.

Signed in accordance with a resolution of the Directors.

Director

Director

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

Scope

I have audited the accompanying financial statements of Solomon Power, which comprise the statement of financial position as at 31 December 2015, 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 tile 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 Power give a true and fair view of the financial position of the authority as at 31 December 2015 and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Peter Lokay
Auditor-General
30 March, 2016

Office of the Auditor-General
Honiara, Solomon Islands

Statement of Comprehensive Income

for the year ended 31 December 2015

	Note	2015 SBD	2014 SBD
Operating income			
Electricity sales		439,887,311	446,557,219
Grant income		4,425,527	3,033,478
Other operating income	7	2,819,563	27,440,862
Total operating income		**447,132,402**	**477,031,559**
Expenses			
Generation and distribution	8	205,913,348	254,231,805
Administration	9	65,350,110	52,136,862
Operating	10	31,836,151	24,009,296
Depreciation and amortisation	11	40,549,658	35,856,247
Allowance for uncollectability	14	(3,997,994)	4,604,834
Interest expense		-	1,096,621
Inventory & Asset write-off		1,850,967	13,066,174
Total expenses		**341,502,239**	**385,001,840**
Gain from operations		**105,630,162**	**92,029,720**
Foreign exchange gain / (loss)		1,057,134	(614,452)
Total comprehensive income for the year		**106,687,296**	**91,415,268**

The notes disclosed on pages 35 to 52 are an integral part of the financial statements.

Statement of Financial Position

as at 31 December 2015

	Note	2015 SBD	2014 SBD
Assets			
Current assets			
Cash and cash equivalents	12	150,836,397	75,411,436
Held to maturity investments		67,440,738	99,128,807
Inventories	13	10,946,653	8,855,512
Receivables	14	48,534,905	70,025,232
Prepayments		1,291,835	1,099,119
Total current assets		**279,050,528**	**254,520,106**
Non-current assets			
Property, plant and equipment	11	550,989,546	460,274,583
Receivables	14	4,710,577	5,962,260
Total non-current assets		**555,700,123**	**466,236,842**
Total assets		**834,750,651**	**720,756,948**
Current liabilities			
Deferred income	16	3,143,547	2,787,234
Trade and other payables	17	32,049,557	24,656,762
Employee benefits		966,806	835,272
Total current liabilities		**36,159,910**	**28,279,268**
Non-current liabilities			
Deferred income	16	29,319,696	29,893,931
Total non-current liabilities		**29,319,696**	**29,893,931**
Total liabilities		**65,479,606**	**58,173,199**
Equity			
Contributed capital	15	246,933,170	246,933,170
Asset revaluation reserve		299,474,732	299,474,732
Accumulated profits		222,863,143	116,175,846
Total equity		**769,271,045**	**662,583,749**
Total equity and liabilities		**834,750,651**	**720,756,948**

Signed for and on behalf of the Board of Directors

Director

Director

The notes disclosed on pages 35 to 52 are an integral part of the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2015

	Note	Contributed capital SBD	Asset revaluation reserves SBD	Accumulated retained earnings SBD	Total SBD
Balance at 1 January 2014		**246,933,170**	**299,474,732**	**24,760,578**	**571,168,481**
Total comprehensive loss 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**
Balance at 1 January 2015		**246,933,170**	**299,474,732**	**116,175,846**	**662,583,749**
Total comprehensive income for the year					
Net profit for the year		-	-	106,687,296	106,687,296
Balance at 31 December 2015		**246,933,170**	**299,474,732**	**222,863,143**	**769,271,045**

The notes disclosed on pages 35 to 52 are an integral part of the financial statements.

Statement of Cash Flows

for the year ended 31 December 2015

	Note	2015 SBD	2014 SBD
Operating activities			
Cash receipts from customers		470,666,646	462,546,688
Cash payments to suppliers and employees		(298,058,066)	(327,954,529)
Net cash provided by Operating Activities		**172,608,580**	**134,592,159**
Investing activities			
Payment for held to maturity investments		31,688,069	(85,844,804)
Net payments for property, plant and equipment	11	(133,079,293)	(106,404,599)
Net cash used in Investing Activities		**(101,391,224)**	**(192,249,402)**
Financing activities			
Cash receipts from donor grants		4,207,606	3,701,054
Net cash provided by Financing Activities		**4,207,606**	**3,701,054**
Net increase / (decrease) in cash and cash equivalents		75,424,961	(53,956,189)
Cash and cash equivalents at 1 January		75,411,436	129,367,625
Cash and cash equivalents at 31 December	12	**150,836,397**	**75,411,436**

The notes disclosed on pages 35 to 52 are an integral part of the financial statements.

Notes to the Financial Statements

for the year ended 31 December 2015

1 Reporting entity

Solomon Islands Electricity Authority (SIEA) trading as Solomon Power is a state owned enterprise established under the Electricity Act 1969. SIEA's registered office and principal place of business is at the Ranadi Complex, East Honiara, Solomon Islands.

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

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.

5 **Specific accounting policies continued**

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.

5 Specific accounting policies continued

d) Financial instruments continued

***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.

5 Specific accounting policies continued

e) Impairment continued

***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.

5 **Specific accounting policies continued**

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:

Land - Freehold - unlimited
Land - Leasehold - 50 or 75 years as per the lease agreements
Buildings - Operational including power stations - 20 to 30 years (5% to 3.3% depreciation p.a.)
Buildings - Non-operational - 15 to 50 years (6.7% to 2% depreciation p.a.)
Generators - 10 to 40 years (10% to 2.5% depreciation p.a.)
Plant & equipment - 10 to 25 years (10% to 4% depreciation p.a.)
Distribution network - 20 to 60 years (5% to 1.7% depreciation p.a.)
Furniture & equipment - 5 years (20% depreciation p.a.)
Furniture & equipment - Information technology - 3 to 5 years (33.3% to 20% depreciation p.a.)
Motor vehicles - 5 years (20% depreciation p.a.)
Tools - 3 to 5 years (33% to 20% depreciation p.a.)

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

5 **Specific accounting policies continued**

h) Property, plant and equipment continued

***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 capitalisation 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.

5 Specific accounting policies continued

h) Property, plant and equipment continued

***iv.* Impairment of assets continued**

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.

***v.* 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.

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.

5 **Specific accounting policies continued**

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.

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:

	2015 SBD	2014 SBD
Cash at bank	150,793,397	75,368,436
Receivables - current	34,458,529	56,121,114
- non-current	4,710,577	5,962,260
	189,962,503	137,451,810
Receivables are determined impaired as follows:		
Trade and other receivables		
Gross receivables	67,016,697	100,612,480
Provision for impairment	(27,847,591)	(38,529,107)
	39,169,106	62,083,374

6 **Financial risk management continued**

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 is 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	32,049,557	32,049,557	-	-
Employee benefits	966,806	966,806	-	-
	33,016,363	33,016,363	-	-

31 December 2015

	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	-	-
	25,492,034	25,492,034	-	-

6 Financial risk management continued

***iii)* Market risk**

Market risk is the risk that changes in market prices, such as fuel prices, 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 quarterly tariff review. The tariff is based upon the 2005 Tariff Price Regulation which is adjusted for the Honiara Consumer Price Index and fuel price movements. Fuel at $149,930,000 ($207,157,000 in 2014) comprises about half the expenditure of SIEA, so movements in fuel prices are critical to the profitability of SIEA. Fortunately, the quarterly tariff review considers the fuel price movements, therefore there is a natural hedge against fuel price movements. Taking 2015 as the base, the following percentage movements in fuel prices will have the following effect on revenue, expenditure and profit.

Percentage Change In Fuel Price

	-10%	-5%	0%	5%	10%
	$000	$000	$000	$000	$000
Revenue	422,700	431,300	439,900	448,500	457,100
Expenditure	318,200	325,700	333,200	340,700	348,200
Net Profit	104,500	105,600	106,700	107,800	108,900

***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.

	2015 SBD	2014 SBD
7 Other operating income		
Community service obligation	-	24,595,989
Other	2,303,163	2,598,540.15
Reconnections	516,400	246,333
Gain / (loss) on disposal of fixed assets	-	-
	2,819,563	27,440,862
8 Generation and distribution		
Bought in electricity	6,160,216	3,228,334
Fuel	149,930,357	207,156,539
Lubricating oil	4,876,902	2,234,023
Other	2,047,725	481,684
Personnel	18,922,237	17,043,229
Repairs and maintenance	23,975,911	24,087,995
	205,913,348	254,231,805

Notes to the Financial Statements *(Continued)*

for the year ended 31 December 2015

		2015 SBD	2014 SBD
9	**Administration**		
	Advertising	1,634,351	1,655,021
	Bank fees	626,005	243,648
	Computer bureau charges	1,287,256	615,061
	Consultancy fees	13,646,402	10,691,865
	Directors fees and expenses	382,816	735,842
	Electricity	1,782,474	3,209,709
	Electricity rebate	1,076,404	1,508,690
	Freight	363,978	120,406
	Insurance	1,529,051	1,977,764
	Personnel	20,680,535	15,374,658
	Printing and stationery	2,715,237	2,392,728
	Professional fees	892,004	709,599
	Property expenses	6,488,127	4,343,245
	Tax penalties	2,322,733	-
	Telecommunications	5,232,115	2,541,188
	Travel and accommodation	4,690,621	6,017,438
		65,350,110	52,136,862
10	**Operating expenses**		
	Customs handling charges	5,259,541	4,092,246
	Other	897,544	922,941
	Personnel	16,887,379	9,958,265
	Repairs and maintenance	5,298,689	5,265,999
	Vehicle costs	3,492,996	3,769,845
		31,836,151	24,009,296

Notes to the Financial Statements *(Continued)*

for the year ended 31 December 2015

11 Property, plant and equipment

	Land SBD	Buildings SBD	Generators SBD	Plant and equipment SBD	Distribution network SBD	Furniture & equipment SBD	Motor vehicles SBD	Tools SBD	Work in progress SBD	Total SBD
Cost / Revaluation										
Balance as 1 January 2014	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
Additions	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
Disposals	-	(3,405,623)	-	-	(9,866,501)	(2,464,779)	(337,492)	-	-	(16,074,395)
Work in progress capitalised	-	-	326,734	-	6,753,060	3,481,426	-	-	(10,561,219)	-
Balance at 31 December 2014	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
Additions	-	-	1,186,943	1,786,734	1,496,088	2,283,790	4,724,184	1,524,994	120,076,561	133,079,293
Disposals	-	(2,016,180)	-	-	-	-	-	-	-	(2,016,180)
Work in progress capitalised	-	8,348,820	-	22,497,226	14,503,011	-	-	-	(45,349,056)	-
Balance at 31 December 2015	26,751,937	34,086,348	129,088,224	54,768,897	179,997,144	15,163,894	23,400,127	5,190,020	163,326,905	631,773,496
Breakdown of cost/revaluation										
2011 Valuation	-	-	-	-	-	-	1,021,189	249,941	-	1,271,130
2013 Valuation	26,474,074	22,916,88 3	124,334,237	30,219,149	156,975,755	-	-	-	-	360,920,098
Cost	277,863	11,169,465	4,753,987	24,549,747	23,021,390	15,163,894	22,378,938	4,940,079	163,326,905	269,582,268
Balance at 31 December 2015	26,751,937	34,086,348	129,088,224	54,768,897	179,997,144	15,163,894	23,400,127	5,190,020	163,326,905	631,773,496
Depreciation and impairment loss										
Balance as 1 January 2014	-	-	-	-	-	3,458,704	3,936,100	182,802	-	7,577,606
Depreciation	-	1,437,574	18,128,765	2,961,925	6,085,286	2,090,520	3,565,284	352,228	-	34,621,582
Amortisation of leasehold land	1,234,665	-	-	-	-	-	-	-	-	1,234,665
Depreciation on disposed assets	-	(69,370)	-	-	-	(2,562,803)	(365,879)	-	-	(2,998,052)
Balance at 31 December 2014	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
Depreciation	-	1,694,016	17,712,639	3,944,702	6,571,745	3,807,496	4,143,651	1,440,744	-	39,314,993
Amortisation of leasehold land	1,234,665	-	-	-	-	-	-	-	-	1,234,665
Depreciation on disposed assets	-	(201,509)	-	-	-	-	-	-	-	(201,509)
Balance at 31 December 2015	2,469,330	2,860,711	35,841,404	6,906,627	12,657,031	6,793,916	11,279,157	1,975,774	-	80,783,950
Carrying amounts										
At 1 January 2014	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
At 31 December 2014	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
At 31 December 2015	24,282,607	31,225,637	93,246,820	47,862,270	167,340,113	8,369,978	12,120,970	3,214,246	163,326,905	550,989,546

11 Property, plant and equipment (continued)

SIEA has a policy to revalue infrastructure and property assets every 3 to 5 years. The last such revaluation was completed in 2013. SIEA is of the opinion that there has been no material change in the carrying value of these assets since that revaluation.

In 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.

In 2013 SIEA also engaged Value Solutions Appraisal 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.

SIEA holds both Perpetual Estate Land and Leasehold Land. In 2014, it was agreed with the Auditor General that leasehold land should be amortised, as shown below.

		2015 SBD	2014 SBD
	Perpetual Estate Land	3,468,740	3,468,740
	Leasehold Land	23,283,197	23,283,197
	Amortisation of Leasehold Land	(2,469,330)	(1,234,665)
		24,282,607	25,517,272
12	**Cash and cash equivalents**		
	Cash on hand	43,000	43,000
	Cash at bank	150,793,397	75,368,436
		150,836,397	75,411,436
13	**Inventories**		
	Electrical and mechanical	10,946,653	8,855,512
		10,946,653	8,855,512

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.

		2015 SBD	2014 SBD
14	**Receivables**		
	Current		
	Trade receivables - kilowatt (Kwh)	43,685,466	68,269,984
	Allowance for impairment - kilowatt (Kwh)	(12,020,126)	(24,912,530)
	Trade receivables - CashPower	16,561,419	16,499,246
	Allowance for impairment - CashPower	(15,779,688)	(13,559,978)
	Related party - Solomon Islands Water Authority	937,500	937,500
	Related party - Solomon Islands Broadcasting Corporation	600,000	600,000
	Staff advances	449,431	247,259
	Allowance for impairment- staff advances	(47,778)	(56,598)
	Unread meters	14,076,376	13,904,118
	Other debtors	72,304	8,096,232
		48,534,905	70,025,232
	Non-current		
	Related party - Solomon Islands Water Authority	3,750,000	4,687,500
	Deferred income - Solomon Islands Water Authority	(660,442)	(909,668)
	Related party - Solomon Islands Broadcasting Corporation	1,721,381	2,371,381
	Deferred income - Solomon Islands Broadcasting Corporation	(100,361)	(186,953)
		4,710,577	5,962,260

14 Receivables continued

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.

	2015 SBD	2014 SBD
Allowance for impairment		
Balance at 1 January	38,529,107	37,412,708
Impairment recognised	(3,997,994)	4,604,834
Bad debts written off during the year	(6,683,521)	(3,488,436)
Balance at 31 December	27,847,591	38,529,107

15 Contributed capital

Contributed capital	246,933,170	246,933,170

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

16 Deferred income

Balance at 1 January	32,681,165	32,013,589
Additional deferred income	2,647,397	3,240,310
Deferred income recognised during the year	(2,865,319)	(2,572,734)
Balance at 31 December	32,463,243	32,681,165

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

Current	3,143,547	2,787,234
Non-current	29,319,696	29,893,931
	32,463,243	32,681,165

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 $3,058,000 was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of a 33kv cable in Honiara. This project was completed in May 2015 and 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 cabling.

In 2013 a grant of approximately $1,493,000 was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of 11kv switchgear in Honiara. This project was completed in January 2015 and 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 equipment.

16 Deferred income continued

In 2013 a grant of approximately $839,000 was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of cooling radiators at the Lungga Power Station. This project was completed in June 2015 and the value of the capital works has been accounted for by SIEA as a noncurrent 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 radiators.

In 2015 a grant of approximately $765,000 was received from the Asian Development Bank to fund the construction of a Coconut Oil Conditioning Unit on Auki. The value of the capital works has been accounted for by SIEA as a noncurrent 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 unit.

In 2015 a grant of approximately $1,015,000 was received from the Asian Development Bank to fund the procurement of a Generator Set on Auki. 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 generator.

In 2015 a grant of approximately $867,000 was received from the Asian Development Bank to fund the procurement of 11kV and 415v Distribution Equipment for the Auki Power Generation and Distribution Pilot Project. 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 equipment.

	2015 SBD	2014 SBD
17 Trade and other payables		
Current		
Trade creditors	11,476,362	6,205,616
Other payables and accruals	17,742,508	16,191,799
Consumer deposits	2,830,687	2,259,346
	32,049,557	24,656,762

18 Related parties

a) Directors

The Directors in office were as follows:

Name

David K.C. Quan - chairman (appointed 19 February 2016)
Adrian Wickham - chairman (retired 18 February 2016)
David Laurie - (appointed April 2010)
Harry Zoleveke - (appointed June 2012)
Henry Kapu - (appointed June 2012)
John B Houanihau - (appointed September 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.

18 Related parties continued

c) Amounts receivable from related parties

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

Central Bank of Solomon Islands	100,198	109,808
Central Provincial Government	248,735	18,024
Commodity Export Marketing Authority	-	60,212
Home Finance Corporation	50,458	41,422
Honiara City Council	381,005	715,625
Makira/Ulawa Provincial Government	63,291	1,586,637
Malaita Provincial Government	109,984	467,460
Provincial Hospital	1,953,352	1,064,979
Solomon Airlines Limited	147,471	93,746
Solomon Islands Broadcasting Corporation	2,479,309	3,289,601
Solomon Islands College Of Higher Education	214,736	-
Solomon Islands Government	9,712,885	7,055,952
Solomon Islands National University	126,176	1,114,637
Solomon Islands Ports Authority	36,230	767,492
Solomon Islands Postal Corporation	94,728	910,898
Solomon Islands Water Authority	5,133,572	8,413,174
Temotu Provincial Government	78,812	53,069
Western Provincial Government	456,176	20,267
Isabel Provincial Government	180,358	1,120,448
	21,567,476	26,903,451

Receivables for Solomon Islands Water Authority and Solomon Islands Broadcasting Corporation includes the Trade Receivables - kilowatt that relates to each of these organisations.

d) Transactions with key management personnel

Key management personnel comprises of the Chief Executive Officer, Chief Financial Officer, General Manager Capital Works, Chief Engineer, General Manager Corporate Services, General Manager Customer Services, Planning Engineer, Financial Controller, Regulatory Manager, Property Manager, Health & Safety Manager, Manager Generation and Outstations, Distribution Manager, Chief Accountant and the directors as listed in note 18 (a).

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

	2015 SBD	2014 SBD
Short-term employee benefits	14,078,027	8,020,947
	14,078,027	8,020,947

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

19 Commitments and contingencies

Capital commitments

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 2015 amounted to $655,000,000 (2014: $412,000,000). These commitments are in relation to property, plant and equipment.

Less Than 1 Year	195,000,000	158,000,000
Between 1 year and 5 years	460,000,000	254,000,000
	655,000,000	412,000,000

Contingent liabilities

As at the end of the year SIEA was a party to a single trade related issue. The Director of the Environment has requested that an acoustic and noise assessment be undertaken at the Honiara power station pursuant to the granting of a licence under the Environment Act. If the assessment is negative the Director of the Environment can exercise an abatement notice against the power station. If this was the case a significant amount of maintenance would be required to rectify the situation. This capital expenditure has been estimated to be about SBD 5 million.

20 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 including capital management analysis and ratios.

21 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.

22 World Bank Financing

a) Financial Support Received

The Solomon Power received financial support from the World Bank IDA credit 5379-SB and IDA credits No.H415- SB and H913-SB dated 31/12/2015 to support implementation of consulting services expended under the Solomon Islands Sustainable Energy Project (SISEP).

b) Amounts Received

The total amounts received from World Bank IDA for grant No.H415-SB and H913-SB since its commencement were US$4,169,340 as at 31 December 2015.

c) Use of the Proceeds

The proceeds of the World Bank grant/credit have been expended in accordance with the intended purposes as specified in the Legal Agreement.

d) Credit Funds

For the credit funds these will be required to be repaid and will be shown in the current/non-current liabilities when the loans are drawn down.

Summary information on transactions taking place during the year is as follows:

Amounts received during the year	Current year US$	Preceding year US$
H415-SB	120,313	76,177
H913-SB	99,990	0
Expenditures during the year	120,338	115,540

GLOSSARY

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

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