SolomonPower
energising our nation

Annual Report 2018

energising our nation

SolomonPower
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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

27th March 2019

The Honourable Bradley Tovosia MP
Caretaker Minister of Mines, Energy and Rural Electrification
P O Box G37,
Honiara,
Solomon Islands

&

The Honourable Manasseh Sogavare MP
Caretaker Deputy Prime Minister & Minister of Finance and Treasury
PO Box G26,
Honiara,
Solomon Islands

Dear Honourable Ministers,

SOLOMON ISLANDS ELECTRICITY AUTHORITY (Trading as Solomon Power) ANNUAL REPORT 2018

On behalf of the Board of Directors of Solomon Power, 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 thank you both for your on-going understanding and cooperation and look forward to your continuing support.

Yours faithfully,

David K.C. Quan MBE
Chairman

2018 HIGHLIGHTS

- Signed the Power Purchase Agreement (PPA) for Tina River Hydropower Project
- Commenced the Solomon Islands Electricity Access and Renewable Energy Expansion Project (SIEAREEP) through World Bank
- Improved the reliability of electricity supply
- G-1 operation in Honiara sustained
- The project to re-locate feeder 12 to East Honiara Substation has been completed and the upgrade works at Ranadi Substation are essentially complete
- Works for the new substation at Kola'a Ridge have substantially progressed
- Livened up connection to 1160 customers under the Output Based Aid programme
- Under the World Bank funded SISEP procured the third 11/33 kV power transformer for Lungga Power Station
- Installed and commissioned 600 Smart Meters at Honiara
- Commissioned 11 kV and 415 V network extensions at 10 locations in Honiara
- Progressed the upgrade works at Honiara Power Station
- Streetlights in Honiara repaired and replaced
- The design and construct contract for the conversion of the existing diesel generation systems at Kirakira, Lata, Malu'u, Munda and Tulagi to hybrid generation systems was executed and the works have progressed
- Evaluation of tenders for solar hybrid systems at Hauhui, Namugha, Sasamunga and Vonunu progressed
- The Board approved the following:
  - Extension to the 1 MW solar farm at Henderson by another 2 MW
  - Installation of a 220 kW solar system on the roof of our building at Ranadi
  - Solar Hybrid systems at Tingoa and Visale
- Commissioned a new Meter Test Bench capable of testing the accuracy of ten revenue meters simultaneously
- 41 personnel from various organisations acquired the grade A licensed electrician certification, of which 25 are from Solomon Power
- Implemented an operations and maintenance plan for all our network and generation assets
- A majority of the log of claims have been negotiated successfully with the Staff Association and approved.
- Continued our focus on safety, nurturing and mentoring of staff
- Continued internal safety, lineman and operator training programmes
- Training of meter technicians, cable jointers, project managers continued
- Customer Survey 2018 completed- improvements in many metrics in comparison with 2015 Survey

PLANS FOR 2019

- Achieve the conditions precedent under the PPA for Tina River Hydropower Project
- Further improvement in the reliability of electricity supply in Honiara and at the Outstations
- Sustain G-1 operation in Honiara
- Continue the implementation of the Output Based Aid (OBA) programme
- Complete the Ranadi Substation upgrade, new Kola'a Ridge Substation and the Lungga Power Station third power transformer projects
- Implement the design and construct contract for the hybrid generation systems at Kirakira, Lata, Malu'u, Munda and Tulagi
- Complete 15 more network extensions in Honiara and at the Outstations
- Progress works to upgrade the 33kV and 11 kV switchboards at Lungga Power Station
- Implement the design and construct contract at Afio
- Progress the following under SIEAREEP
  - Extension to the 1 MW solar farm at Henderson by another 2 MW
  - Installation of a 220 kW solar system on the roof of our building at Ranadi
  - Solar Hybrid systems at Tingoa and Visale
- Execute design and construct contracts for the new hybrid generation systems at Hauhui, Namugha, Sasamunga and Vonunu
- Progress with stage 1 of the Supervisory Control and Data Acquisition (SCADA) project
- Execute a design and construct contract for the hybrid generation system at Ambu, Auki
- Procure land at Tanagai for a 1.5 MW grid connect solar and commence tender process
- Progress the "Green Village" project at East Honiara
- Implement the 24/7 Customer Call Centre project
- Develop more new network extensions in Honiara and at the Outstations
- Further develop the project for the installation of more Hybrid Generation Systems
- Develop a project for battery energy storage systems (BESS)
- Commence the review of the Electricity Tariff 2016
- Continue implementation of the vegetation management plan
- Continue our focus on safety, training, nurturing and mentoring
- Continue with the Apprenticeship programme
- Commence the Line Mechanic Training programme
- Conduct campus interviews in universities in Honiara, Fiji and PNG to recruit graduates
- Continue with the Talent Development programme and succession planning

About Solomon Islands Electricity Authority
(trading as Solomon Power)

Who we are
Solomon Islands Electricity Authority (SIEA) trading as Solomon Power (SP) is a State Owned Enterprise.

Our objectives
Under Section 4 of the State Owned Enterprises Act, the principal objective of the Company is '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, SP strives 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
SP'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 SP mains.
- Be responsible for the licensing of standby generators, Independent Power Producers (IPPs) and Cogeneration of power.

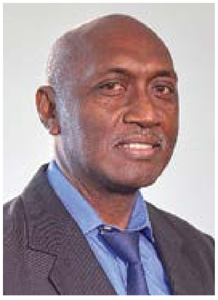
Members of the Board

David K.C. Quan
Chairman

Rovaly Sike
Director

Henry Kapu
Director

John Bosco Houanihau
Director



Harry Zoleveke
Director

James Apaniai
Director

Muriel Ha'apue-Dakamae
Director

Sebastian Ilala
Director

Yolanda Yates
Director

Senior Management

Pradip Verma
Chief Executive Officer

Martin Sam
Chief Engineer

Jose Poothokaren
Chief Financial Officer

Arieta Cama
General Manager Corporate Services

Jan Sanga
General Manager Customer Services

Hemant Kumar
General Manager Capital Works

Mathew Korinihona
Manager Distribution

Atkinson Talvat
Manager Generation & Outstations

Janendra Prasad
Manager Electrical Engineering

Robin Simpson
Manager Health & Safety, Security and Environment

Kitione Malugulevu
Regulatory Manager

Droumand Rupert
Senior Human Resources Business Partner

Levan Respioh
Manager Human Resources & Administration

Dalton Maesia
Manager Lands & Buildings

Apollos Inasimae
Manager Finance

Sarah Nihopara
Manager Business Performance

Natalie Kairi
Board Secretary

Gavin Gorazu
Manager IT

Chairman's Letter

2018 has been a continuation of the strong performance that Solomon Power has demonstrated during the previous seven years. It is eight years in a row that Solomon Power has made a profit. Furthermore, the last seven year's statutory accounts have all been unqualified, and signed off by the Auditor General before the mandated date of 31st March each year.

It is pleasing to note that Solomon Power is going "Green". We signed the Power Purchase Agreement for the Tina River Hydropower Project. On behalf of the Board of Solomon Power I would like to thank our Shareholding Ministers for the guidance and support they provided to the Board and Management in the negotiations in finalising the Power Purchase Agreement with Tina Hydropower Limited.

Solomon Power invested $30 million on SIG Domestic Development bonds. I would like to thank the Shareholders for providing this investment opportunity for Solomon Power.

The total generation experienced a modest increase of 2.13% in comparison with 2017. However, due to reduced losses we have increased our sales in kWh by 3.6%.

The tender for the next lot of Hybrids stations at Hauhui, Namugha, Sasamunga and Vonunu closed in October 2018 and we anticipate placing contracts for their design, installation and commissioning by March 2019.

It is pleasing to note the progress made during the year on the Output Based Aid programme with the support of the World Bank. By year end we had livened up connection to 1160 customers. This programme envisages grid connection to 2500 new customers and augurs well for Solomon Power and is another enabler to meet our long term objective of doubling our customer numbers.

The continued support of the World Bank, Asian Development Bank, Japan International Cooperation Agency, New Zealand Government and United Arab Emirates Government and other donors to explore opportunities in renewable energy and to drive commercialisation in our operations, is very much appreciated.

I would like to thank the outgoing Directors of the Board, Mr. Sebastian Ilala, Mr. Henry Kapu, Ms. Yolande Yates and Mr. Harry Zoleveke, for their exemplary contribution as Board members of Solomon Power. I also take this opportunity to welcome Muriel Ha'apue-Dakamae and James Apaniai to the Board of Solomon Power. I am confident both Muriel and James will provide strong governance and strategic direction to Solomon Power through the next phase of development.

I also take this opportunity to thank the Shareholders and my colleagues on the Board and the Management Team for the continued support rendered throughout 2018.

David K.C. Quan MBE
Chairman

Chief Executive Officer's Letter

The year in perspective has been another successful one for Solomon Power (SP) financially and operationally. We have achieved a reasonable growth in generation and energy sales. The non-technical losses have also been steady at 6%. Since 2012 it has seen a decline from 12% to 6%.

Despite some system outages in late November and early December the reliability in Honiara has been good. There was no rotational shedding in Honiara and at the Outstations during the year.

During 2018 we have sustained our focus on infrastructure investments with an annual injection of $ 140 million.

The programme to extend the 11 kV and 415 V networks in Honiara and at the Outstations made very good progress during the year and also the implementation of the Output Based Aid programme to subsidise the electricity connection to the grid for the low income customers sustained momentum. These projects are complementary and are in line with our long term objective to double our customer numbers and drive economic growth in Solomon Islands.

The section of the 11kV underground cable near the dumping site at Noro which was laid very shallow and as a result experienced a number of faults over the years was bypassed by 7 spans of overhead line. This has improved the reliability of power supply to Noro and Munda.

During 2018, our investment in new equipment and testing facilities is already bearing fruits. The new equipment purchased in 2017 was successfully utilised on the network to pre-locate and pinpoint faults on power cables. The Meter Test Bench is being used and has detected many revenue meters with poor accuracy.

The project to install and commission 1100 Smart Revenue Meters for all Commercial and Industrial customers in Honiara with remote connectivity to our head office at Ranadi is essentially complete. We are now able to remotely monitor, interrogate these meters and also able to disconnect and re-connect the associated customers. The project to re-locate feeder 12 to East Honiara Substation has been completed and the upgrade works at Ranadi Substation are substantially complete. The construction of the Kola'a Ridge Substation has progressed well with anticipated completion in March 2019.

SP is increasingly becoming an employer of choice, attracting new graduates and professional personnel alike. During the year we cemented and further strengthened the excellent relationship between the Management and the Staff Association. A majority of the log of claims have been negotiated successfully and approved.

The framework for licensing is now paying returns. During the year 41 Solomon Islanders attained "Grade A Licensed Electricians" certification. Of these 25 are from SP.

It is also pleasing to see the mobile top-ups reach more than 1000 daily transactions on an average. During 2018 we extended the facility to customers with e-wallet through Pan Oceanic Bank and are now having discussions with other service providers to extend the mobile top up arrangement through their different payment platforms.

I wish to thank the Board for the excellent support they have provided to me and the SP Team during 2018.

It has been another fruitful year and I would like to acknowledge the contributions- big and small, that every member of Team SP has made during 2018. Congratulations Team SP and all our stakeholders for everything we achieved together in 2018.

Pradip Verma
Chief Executive Officer

Engineering Highlights

Overview:

Overall there was a slight drop in the reliability of the power supply in Honiara, compared to that in 2017. However, the reliability during the period 2012 to 2018 has shown a trending improvement in Honiara. At the Outstations however, there was improvement on the reliability of power supply in 2018. Outage records to the end of December 2018 shows 24.8 million Customer Minutes Lost (CML) compared with 20.0 million CML in 2017. The Outage figures comprises of both planned and unplanned system outages. During the months of November and December there was an increase in planned outages required for the testing and commissioning works on the upgraded Ranadi and new Kola'a Ridge 33/11kV substations. There was also a high number of unplanned outages in mid-December due to systems protection issues and a fault in the underground 33kV cable that links the Ranadi and Honiara Substations.

The network performance indicator SAIDI has shown a slight drop in the network performance in 2018 with 184.40 minutes in comparison with 158 minutes in 2017. However, there has been a slight improvement in SAIFI which has reduced from 1.8 times in 2017 to 1.45 times in 2018.

Honiara Maximum Demand went up to 15.82MW towards the end of the year. At the Outstations Auki, Gizo and Noro have also recorded increase of power demand. The increase in power demand was as a result of an increase in the number of new customers connected and also increase in consumption by large commercial customers. In Honiara, the increase in the demand was also as a result of King Solomon Hotel and part of the Heritage Park Hotel loads being reconnected on to the grid.

Major achievements by the Generation and Electrical teams at Lungga was successful completion of the scheduled major overhauls of the 4xMAN Diesels Generators, L8 Wartsila and the L9 Mitsubishi generators.

At the Outstations the team completed the scheduled overhauls of Generators K3 at Kirakira and LT3 at Lata. With older generators continued to be operated, keeping the lights on has been a challenge at Malu'u, Lata and Kirakira Stations.

In addition, the team also carried out the planned and unplanned repairs and maintenance of the generation systems.

Generation of power in Honiara was mainly from the four new MAN Diesels generators, which are more fuel efficient, whilst the balance of power requirement was from the old generators at Lungga and Honiara power stations. The Honiara grid was also supported by the Henderson 1.0MW and the Ranadi 50kW solar installations during daylight hours.

The appointment of a new Switching Coordinator under the Technical Section of the Transmission and Distribution Department, has greatly improved the efficient and safe switching of the network for projects and operational requirements.

The Distribution team also provided UGL, the Contractor, termination and jointing services for the high voltage cables and the coordination of the network switching during the construction and commissioning phases of the Ranadi & Kola'a Ridge Substations and the Feeder 12 relocation project.

Particular efforts were also on the improving and maintaining of the reliability of the network by focusing on vegetation management, upgrading of under rated conductors, transformers, replacing of defective equipment in the network and the timely implementation of planned maintenance.

Despite of its operational commitments and limited resources, the Distribution team was able to provide both technical and implementation support to the network extension projects, in particular the new line at Kilusakwalo at Auki, the extension of the network at Ngalimera and Lungga, east of Honiara.

Besides the normal inspections of electrical installations and its Regulatory functions, the Regulatory Department made very good progress in the area of licensing of electricians. By the year end a total of 41 electricians were awarded with Grade "A" Electrician's license.

Generation:

Power generation in Honiara was mainly from the Lungga Power Station and in particular from the new 10MW plant using the 4x2.5 MW MAN Diesels generators. The balance of power requirement was from the old generators at Lungga and Honiara Power Stations.

Scheduled major overhauls on all four MAN Diesels generators were completed towards the end of the year. These were the first 20,000 hour overhauls on the machines and after their warranty period has expired. Other major overhauls were carried out on L8 Wartsila and L9 Mitsubishi 4.2MW generators.

Other activities carried out by the Generation team included monitoring of the power plants, attending to faults and breakdowns both on the mechanical and electrical systems; and the scheduled 1,000 hours' service on all generators.

Hastings Deering, a locally based Caterpillar agent was engaged to provide weekly monitoring, scheduled maintenance and attending to faults and issues on H1 and H2 Caterpillar 1.5MW generators at the Honiara Power Station.

Distribution:

The Distribution Department undertook a number of major activities in Honiara and at the Outstations.

In Honiara, 11kV and 415 V line extensions were carried out at Ngalimera, Henderson & Lungga area and at Kombivatu. The team was also overseeing all electrical works carried out as a result of the Kukum Highway Project. This included the relocation of street lights, transformers, Ring Main Units, Pillar boxes and laying of a new section of 300 sq.mm 33kV underground cable and installing of new conduits for the proposed 33kV underground cable works.

An 11kV underground cable was installed between KGVI and Burns Creek School east of Honiara to provide a link between Lungga Feeder from the Honiara East Substation and the Ranadi Industrial Feeder to provide an alternative feed from either direction.

The Distribution team also provided technical and switching support to UGL during the construction and commissioning stages of Feeder 12 relocation, the Ranadi and Kola'a Ridge Substations. The works carried out related to these projects were the termination of the HV cables on to the existing network and on to new transformers and switchgear.

At the Outstations, the relocation of the 11kV line from the dump site at Noro was completed. A new 200kVA transformer was also installed in the Noro network to improve the system voltage to account for increased demand.

Other Low Voltage (LV) line upgrades were also carried out in Honiara, Auki, Gizo and Noro during the year.

A number of transformer upgrades were carried out in Honiara and one at Munda. A new 500kVA transformer was installed and commissioned at the Solomon Islands National University (SINU) compound to support the existing and future load growth.

Furthermore, the Department maintained its efforts in improving the reliability of the network by continuing on with the vegetation management programme in Honiara and at the Outstations.

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:

Power generation at the Outstations was reliable throughout the year with no total outages experienced.

Buala, Kirakira, Lata and Malu'u continued to generate power from generators that were installed prior to 2013, except for the hydro plant at Buala, which was re-commissioned in 2016.

The new hybrid mini-grids at Seghe and Taro have also been operating normally throughout the year with no major issues. Taro operation was about 80% renewable and 20% diesel whilst the Seghe plant was 100% renewable.

Major overhauls were carried out on generators B3, K3 and LT3 at Buala, Kirakira and Lata respectively, whilst rebuilding of the ex-Auki generator was still in progress by the year end.

Regulatory:

The Regulatory Department continued to carry out its role as a Regulator in the Electricity industry by ensuring the electrical installations are in compliance with the AS/NZ 3000 Wiring Standards. The Department also provided support to Licensed Electrical Contractors by providing regular updates on the rules and regulations and also by carrying out progressive and final inspections to wiring installations.

A new and modern meter test bench was commissioned early in the year. The test bench is capable of testing ten (10) energy meters at the same time. The equipment has enabled SP to test all new energy meters before installing them and also old meters were tested for their accuracies to ensure that customers are billed correctly and also as a means to minimise non-technical losses in the system.

A total of 1,655 installations were inspected in 2018 compared with 1,537 in 2017. Of the total number inspected, 909 were normal customers and 746 were customers under the Output Based Aid (OBA) programme. The total number of customers that were passed and energised was 1,599 (855 normal customers and 744 OBA customers).

Electrical:

The Electrical team continued to provide technical support to the Honiara and Outstations operations and the Capital Works Projects in particular during the testing and commissioning stages of the new Ranadi and Kola'a Ridge 33/11kV Substations.

Major activities carried out by the department included maintenance works on all electrical auxiliaries, main alternators and other electrical equipment during the major overhauls of all four MAN Diesels, L8 Wartsila and the L9 Mitsubishi generators.

Other activities were the planned preventive maintenance on all generators and attending to electrical faults in Honiara and at the Outstations.

Besides its normal operational works, the Electrical Department took the lead to assist with the design and installation of the new Automatic Transfer Switch for Heritage Park Hotel in order to connect part of its load back on to the grid.

The department was also responsible for collating network outage reports to determine the root causes and also the Customers Minutes Lost (CML) during the outages.

Renewable Energy:

Negotiations on the 15MW Tina River Hydropower Project in Guadalcanal Province were finally concluded in November 2018 and the Power Purchase Agreement (PPA) between Tina Hydropower Limited, the Project Company and we as the Offtaker, was executed on 6th December 2018.

The Fiu River Hydro project in Malaita Province was cancelled late 2017 due to an unresolved land dispute and ADB agreed to transfer the funds for it to a proposed 1.44 MW Solar Farm at Kwainamoro near Auki in Malaita. Unfortunately, this had to be dropped as well due to the deadlock in the commercial negotiation between Solomon Power and the land owners at Kwainamoro.

A contract was signed with CBS Power Solution (Fiji) Limited for the construction of the ADB funded 2MW solar project to convert the existing diesel operated outstations at Kirakira, Lata, Malu'u, Munda and Tulagi to hybrid generation systems. Land acquisitions for these sites have progressed well.

The SP funded hybrid mini-grid projects at Seghe and Taro were successfully implemented and commissioned mid-2017. Both stations have been operating with no major issues. Taro Station is operating at approximately 80% solar and 20% diesel, whilst Seghe is operating at 100% renewable.

The financial opening from three bidders for the four (4) New Zealand Government funded hybrid sites at Hauhui, Namugha, Sasamunga and Vonunu was conducted end December 2018.Land acquisitions for the sites were progressed and land titles for Hauhui has been obtained whilst those for Namugha, and Sasamunga are in the process. Vonunu land however is under dispute and is yet to be progressed.

Negotiations for land at Tanagai for a proposed solar farm are well advanced with imminent procurement in the first quarter of 2019.

The Board approved capital funds for the new hybrid systems at Tingoa in Rennell and Bellona Province and Visale in Guadalcanal Province. Additionally, the Board also approved capital funds for the design and construction of a 2 MW solar farm at Henderson and 220 kW solar installation on the roof of our Ranadi offices.

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 served)

For Honiara, this was measured to be 184.4 minutes, compared to 155.9 minutes in 2017. This is an increase by 28.5 minutes over the 2017 figure.

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 1.45 times compared to 1.8 times in 2017, a decrease by 0.35 times.

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 137.45 minutes per interruption compared to 90.6 minutes in 2017, an increase by 46.85 minutes.

Reliability and Efficiency:

Power generation in Honiara was mainly from the more fuel efficient MAN Diesels generators (4x2.5MW) commissioned in 2016. The balance of power generation was from the old generators at Lungga and Honiara Power Stations. Improved cooling systems and timely maintenances on the old generators have also improved their outputs.

The de-commissioning of the 1.5MW Mirrlees (L5) generator has reduced the available generation capacity from 29.8 to 29.0MW, against a peak demand of 15.82MW.

The implementation of the G-1 operation criteria, the under frequency load shedding scheme on the 11kV Honiara feeders and the revised delayed time setting on the existing under voltage system protection on the 33kV feeders at Honiara has reduced wider network outage due to faults in the 11kV feeders. However, as a result of the outages experienced towards the end of the year it is proposed to conduct a thorough study to review the existing generation and network protection settings in order to properly coordinate the protection systems to improve the system reliability in Honiara.

Energy Produced:

Energy produced in 2018 is shown in the table below. Lungga and Honiara operations produced a total of 96.285GWh (78.7%) whilst the Outstations, the Ranadi and the Henderson solar plants produced 14.535 GWh (21.3%).

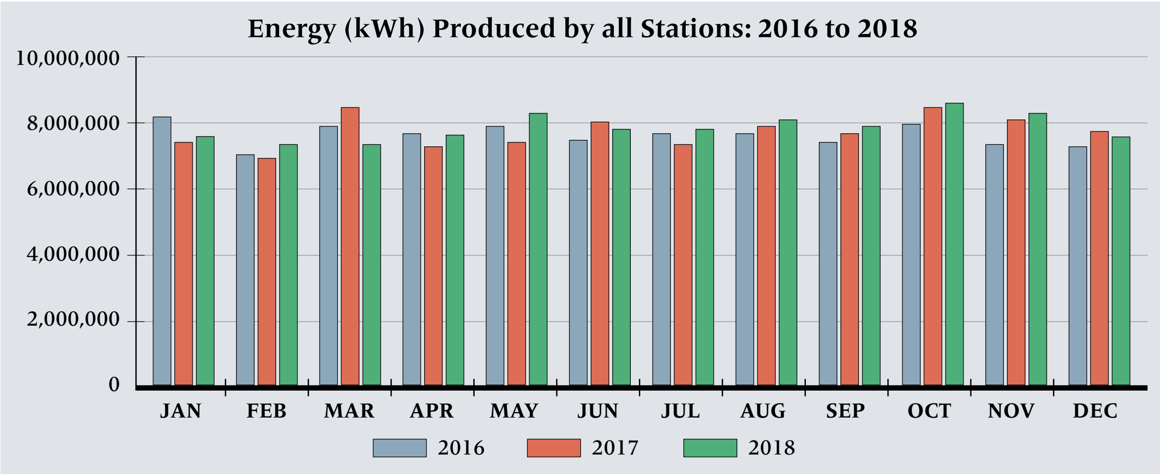
Station	GWh (2017)	GWh (2018)
Lungga	80.73	81.75
Honiara	1.65	2.46
Outstations	9.73	11.17
Henderson Solar (1MW)	1.19	0.89
Ranadi Solar (50KW)	0.042	0.015
Independent Power Producer (IPP)	0.94	0
Total	**94.28**	**96.285**

Maximum Demand:

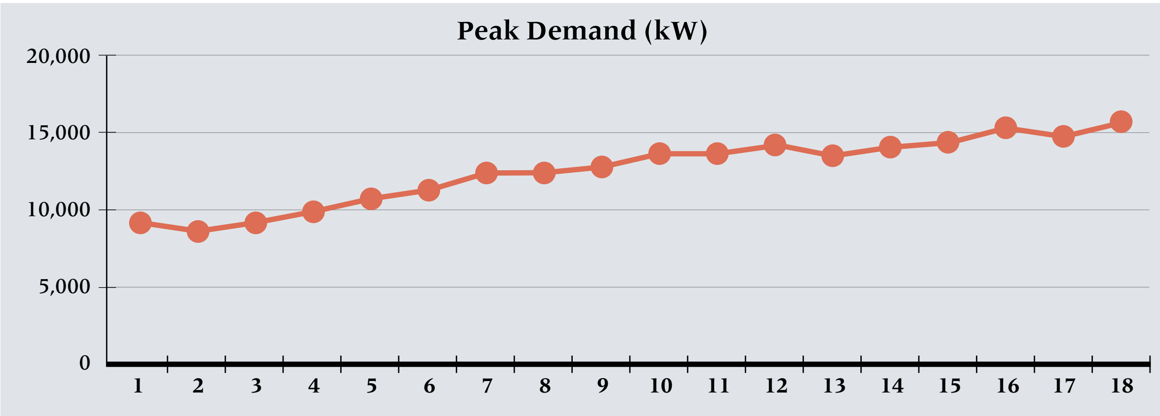
The demand for electricity in Honiara in 2018 peaked at 15,820 kilowatts compared with a figure of 14,934 kilowatts in 2017, an increase of 886 kilowatts.

Generation Statistics:

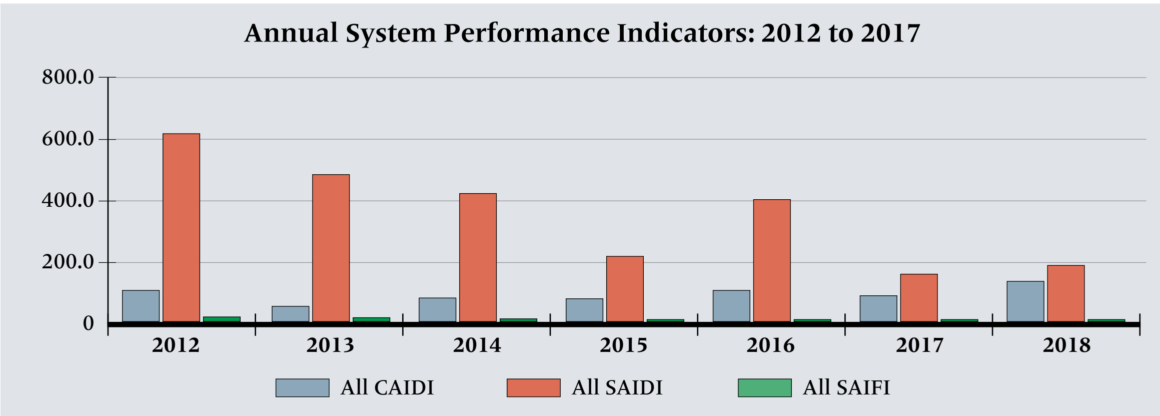
Energy Produced by all Stations in 2016 to 2018.



Honiara Peak Demand growth from 2001 to 2018



System Performance Indicators for Honiara from 2012 to 2018 are in the histogram below.



Capital Works and Planning Division

Capital Works:

During 2018, there were 26 active capital infrastructure projects underway and 6 additional projects in the planning phase to the value of $974 million. Of these the following were completed and commissioned during the year.

- Feeder 12 relocation from Lungga Power Station to the Honiara East Substation.
- Energisation of the new Ranadi Substation.
- Ten 11kV/ 415V line extensions.
- Phase – 2 of the Kukum Highway Upgrade works.
- The installation of Smart Meters.

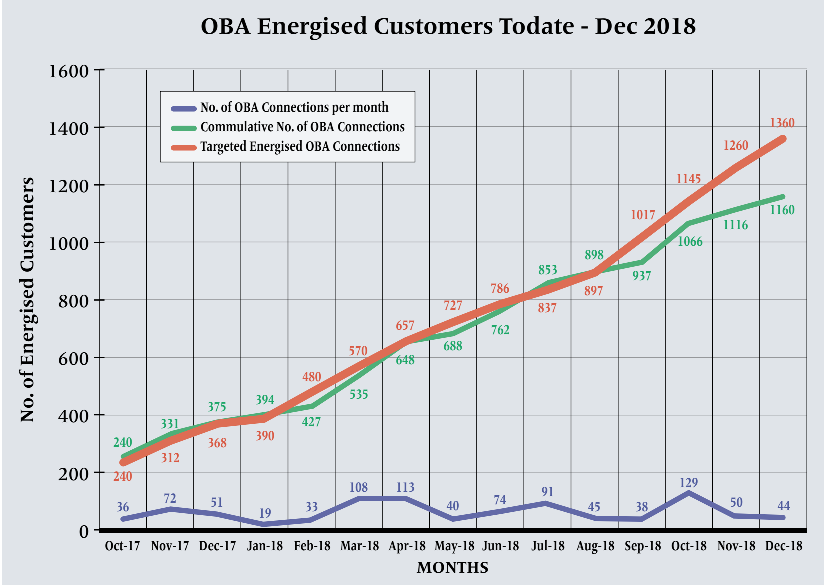
Key projects which have started during 2018 and will be progressed to completion in 2019 and beyond include:

- Tina River Hydro Project – 66kV transmission line and termination equipment at Lungga.
- New Kola'a Ridge Zone Substation.
- The installation of a second transformer at Lungga Power Station.
- Old Lungga Electrical upgrade project.
- The Honiara Power Station Redevelopment.
- Fourteen 11kV/415V line extensions in Honiara and in the Provinces.
- Housing Upgrade works in Honiara, Noro and Gizo
- Detail design and construction of Green Village at Henderson
- Design and installation of 5 hybrid replacement generation systems for the existing Outstations at Kirakira, Lata, Malu'u, Munda and Tulagi.
- Solar Hybrid Generation System Project at Hauhui, Namugha, Sasamunga and Vonunu.
- Solar Hybrid generation system at Tingoa, Visale, Lambi, Santa Ana and Ulawa
- SCADA Development Project (stage 1).
- Henderson 2 MW grid connected solar farm.
- Ranadi Rooftop solar panels
- OBA (Output based Aid) Project.

The team structure for combined Planning and Capital Works team is now complete and has been implemented. The recruitment of key positions within the reorganised structure has mostly been filled. Four Acting Manager positions were offered to experienced local engineers to develop into roles within the new structure. These roles are being shadowed by expatriates for the quick development of local resources. This, together with the continued development of all staff in the team will see the new team resourced to appropriate level to manage the planning and delivery of over $1 billion captial works over the next 4 years.

New Kola's Ridge Zone Substation.

The Output Based Aid (OBA) programme has been making steady progress in 2018. It is designed to provide a one-off subsidy to eligible low-income households to cover a portion of the upfront cost of electricity service connections in the Honiara grid and the named Outstations of Auki, Seghe, Taro, Noro and Munda. With 672 connections to come from the outstations, the project is aimed to energise a combined total of 2,488 households. As off 31 December, Solomon Power has been able to energise a total of 1,160 connections. This project is due to be completed by March 2020.



Planning:

Twelve (12) solar hybrid high level community consultations were completed in 2018. Of these seven are in Bina, Dala, Fo'ondo, Kiu, Maoro, Rohinari and Talakali, all in Malaita Province. The other five are in Isabel Province located in Biluro, Kaevanga, Kamaosi, Kia and Tatamba.

Eighteen (18) detailed surveys, mapping and engineering were also completed. Of these two are for the proposed 2 MW extension to the 1 MW Solar Farm at Fighter 1, Henderson and the other one for the 220 kW roof top solar installation at our Ranadi Offices. Ten are for planned network extensions for a total of 1747 potential customers, one each at Barana, Aekafo, Okwala, Feraladoa, Sopapera all in Honiara; Raubabate in Malu'u, Buriniasi and Kunu in Auki and Titiana in Gizo. The balance six (6) are for the proposed hybrid systems located at Bina, Maoro, Fo'ondo, Dala, Kiu and Rohinari all located in Malaita Province and these in total have 2848 potential customers.

During 2018 the Board approved capital funding of approximately $160 million for infrastructure development in Honiara and the Provinces. These included funding for grid connect solar farms, hybrid solar systems, network extensions, housing upgrades and other upgrade works.

Computerised Maintenance Management System (CMMS) called CARL is now been used by Honiara-based engineering teams with the intention of expanding this to outstations for maintenance management in future.

Capital Works and Planning Team.

Customer Services Division

With a total number of 51 permanent staff, the Customer Services Division is responsible for all customer issues, from community awareness through its Public Relations Section, to receiving, processing and registration of customer applications for new customer connections, customer enquiries, cashiering, administering billing and customer accounts, protection of revenue meters and revenue collection; all contributing to SP's vision to make electricity affordable and accessible to Solomon Islanders which is in line with the national objective to energise our nation by year 2050.

By the end of 2018, Solomon Power had registered a total of 18,781 customers as connected to its Honiara and Outstation's network, as compared to 17,190 in December 2017. 16,565 (88%) customers are on prepay who use Cashpower meter and 2,216 (12%) are on post-pay which are on the normal kW meter.

TOTAL KWT /CASHPOWER COUNT BY LOCATION -DECEMBER 2018

	KILOWATT	CASHPOWER	TOTAL
Honiara	1,586	12,587	14,173
Auki	201	1,114	1,315
Gizo	109	727	836
Noro	87	490	577
Munda	36	347	383
Tulagi	40	237	277
Kirakira	38	235	273
Buala	40	211	251
Lata	36	224	260
Malu'u	24	128	152
Taro	16	181	197
Seghe	3	84	87
TOTAL	**2,216**	**16,565**	**18,781**

82% of customers are on the domestic rate while 18% are on commercial and industrial rates.

Customer by Tariff Category December 2018		
Domestic	15,383	82%
Commercial	3,370	18%
Industrial	28	0%
Total	**18,781**	

In addition to Honiara, the capital city situated on the island of Guadalcanal, 11 Outstations exist on the other island provinces outside of Guadalcanal, namely Gizo, Noro and Auki being the bigger outstations, with the smaller stations being Munda, Buala, Malu'u, Tulagi, Kirakira, Lata, Seghe and Taro. Solomon Power provides customer services from these 12 locations via both the post-paid (kilowatt) and prepaid systems (Cashpower).

Kilowatt customers are registered on the post-pay billing system called Utility Star Platinum, a system put in place in June 2014. The Cashpower customers however are registered on the newly upgraded Suprima Version 5.

The electricity tariff applied during 2018 is the gazetted Electricity Tariff (Base Tariff and Tariff Adjustments) Regulation 2016 which repealed The Electricity (Tariff) (Automatic Base Tariff and Fuel Price Adjustment) Regulation 2005.

The Electricity Tariff (Base Tariff and Tariff Adjustments) Regulations 2016 is available on our website **www.solomonpower.com.sb**. Utility Star Platinum and Suprima Version 5 have both successfully integrated the major changes in the tariff since 1 January 2017.

SP has progressed its programme to extend the electricity network in Honiara and at the Outstations in 2018. Network extension plans go hand in hand with community awareness, customer applications and customer connectivity. Apart from the normal SP connections and the connection to the approved sites for network extensions, the World Bank assistance through the Output Based Aid (OBA) Programme has further progressed new connection undertakings in 2018, resulting in the increase in customer numbers. The increase from 5 amperes to 10 amperes consumption in 2018 had also resulted in an increase in monthly sales on Cashpower. The OBA programme connects electricity to lower income households, including community services and microenterprises up to 10 amperes per installation, with three light bulbs, two power points, internal wiring, one power pole, up to 80 metres of service line and one Cashpower meter substantially subsidised. By the end of 2018, 1160 installations were connected on to our grid under the OBA programme.

Network extensions and increasing customer numbers also requires improved reliability and billing connectivity in terms of system access by the remote Outstation teams. The ongoing efforts of the V-SAT project, with SATSOL and government support has seen our remote Outstations access to both Suprima and Utility Star systems for daily payment inputs for post-paid and pre-paid accounts.

The above also called for additional recruitments and in-house training to be carried out in 2018. All Outstations' revenue staff were trained on both the Suprima Cashpower live system and the Utility Star billing system, except for Lata and Malu'u which experienced poor connectivity which are now planned for improvement in 2019. Due to the improved real time connectivity our teams at the 9 Outstations have access to both the billing systems and are now able to issue Cashpower tokens to our customers at the Outstations without the need to refer to Honiara.

In terms of recruitments and appointments, the division is pleased to see three of its female officers promoted to higher positions of Meter Technician Team Leader, Manager Customer Services and Manager Billing and Revenue. Seven other new officers were recruited into the division in 2018.

Seven Customer Services Meter Technicians successfully passed their Grade 'A' License Holders exams for Electricians in Solomon Islands, an excellent achievement. This brings a good number of Grade A electricians in Solomon Islands.

In order to assist with customer applications for new service, front liners were taken through a Geographical Information Systems (GIS) training by the GIS team.

As part of the Waka Mere initiative, two female members of the team attended a 2 days training on Domestic Violence and the Workplace. These two are now handling the domestic violence issues within the division and assisting the Human Resources Section develop the policy.

Apart from training, the division's policies and processes were continually developed and updated, to ensure that our quality commitments to our valued customers are met.

To ensure the accuracy of meters and a reduction of non-technical losses, and continuation from replacement of current transformer (CT) meters, the deployment of Smart Meters was completed for Honiara in 2018.The Smart Meters have been successfully set up in multi drive and are now interfacing with Utility Star billing system. For Smart Meters, reading, disconnection and reconnection can now be done remotely from our offices at Ranadi. This has seen a decrease in customer complaints of meter reading errors.

In addition to the Smart Meter project, 3 single phase meters in Honiara and at the Outstations were replaced with single 3 phase meters. To ensure revenue protection, inspection of meters continued on an annual basis to eradicate illegal bypasses.

In order to gauge our level of customer satisfaction, a customer satisfaction survey was carried out in 2012 and 2015, with a follow up study done in 2018 which provided a measure of changes in perceptions of Solomon Power over time, from the previous baseline surveys to the present day. The Cashpower Drive-Through and Walk-Through windows, extended Cashier opening hours to 8.30pm Mondays to Fridays and the 24 hours Cashpower mobile top-up service featured well in the survey. Overall the results from the 2018 survey have shown improvement on a large number of metrics in comparison with 2012 and 2015.

In terms of top up services, a contract for the Cashpower mobile top up was signed with POB, bringing the number of banks to two. Discussions are ongoing with other service providers including banks to extend the mobile top up arrangement through their different payment platforms.

SP shared costs with the BSP Bank for advertising the Cashpower mobile top up during the Soccer World Cup broadcast in 2018.

The development of the Call Centre project continued in 2018 and will progress further into 2019.

2018 also saw three of our commercial customers, Gizo Hotel, King Solomon Hotel and Heritage Park (partly) back on the grid.

As part of carrying out our social responsibility, we conducted awareness sessions in 13 communities around the nation in 2018.

OBA COMMUNITY AWARENESS

Finance Division

The fiscal position of SP continues to be strong and has shown growth in Revenue by 6.7% compared to 2017. The strong position is due to good financial management and governance. During the year:

- SP paid $4m for 2017 dividend and will also declare and pay dividend of $4m for 2018 once the accounting books have been audited.
- Net Profit for the year was $80.1m.
- Return on equity and return on assets has been 7.0% and 6.2% respectively.
- Generation costs per kWh is $2.04 (US $0.26 per kWh).
- Fuel cost, being 48.5% of our costs, has increased in comparison with 2017.
- Monthly kWh sales reached their highest ever.
- Capital Infrastructure is being funded using retained earnings (Taro & Seghe Outstations, Outstations' Generation Upgrade, network extensions, etc.).
- SP has now commenced its World Bank IDA Loan Repayments to SIG.

Information, Communications and Technology

The Information, Communications and Technology (ICT) department of Finance has been working to upgrade systems and communication links across the network.

We have improved the security and reliability of the Outstation links. The communications to Outstations have been upgraded and expanded to facilitate links to our billing systems and we have completed connections to 7 of the remaining 9 outstations for Cashpower, kW and workflow. The Outstations of Lata and Malu'u will be connected in the first half of 2019, with Lata planned to be connected in February and Malu'u in March. Further improvements in the connectivity of Outstations and the deployment of equipment upgrades is ongoing.

At Ranadi Offices we have upgraded the cabling from Cat5 to Cat6 which will also allow us to complete the IP Telephony rollout and reconfigure our internal network and server connectivity for a faster, more reliable, more robust business operation on a day-to-day basis. The internal re-cabling efforts also included adding HDMI, video and sound links for our Board Room, Training Room and Meeting room on the Mezzanine level to allow more flexibility in connections for these spaces as needed.

During the year the Server room has been upgraded with overhead cable trays, improved power and GPO outlets, additional rack space, reinforced flooring and an upgraded UPS connection, to allow for the housing of equipment in UPS protected racks providing us with stable computing power and applications. Relocation of existing equipment into the upgraded facility is ongoing and planned to be completed by February 2019.

A printer audit was conducted in November and a proposal from a supplier was provided in December, it is being refined and costed to upgrade and standardize our in-house printer fleet on a proposed leasing arrangement and this will be considered in the first quarter of 2019.

A fibre upgrade and rollout plan connecting further SP sites and partners across Honiara has been developed and will be scheduled with Capital Works for implementation in 2019-2020.

An IT Strategy for the next three to five years has been established and is currently being implemented. SP has recruited an Information Technology Specialist to work on refining the recommendations in the IT Strategy and commence scoping and construction planning for the Data Centre space at Lungga Power Station.

Additional work is being done to standardize our documentation and to propose a document management system to handle future SP online document storage, archival and management. The ICT Services Agreement with our external suppliers is also being revised to ensure SP obtains the correct levels of service and support to maintain the environment into the future.

Corporate Services Division

The Corporate Services Division provides support services to other divisions through its human resources and administration, training and development, occupational health and safety, security and compliance, business performance, fleet management and lands and buildings teams.

Human Resources

At the end of 2018, SP had a total number of 255 permanent employees, compared to 237 at the end of 2017. This is an increase of 7%.

The graph below (Figure 1) shows the number of permanent employees by divisions at the end of 2018, compared to the end of 2017.

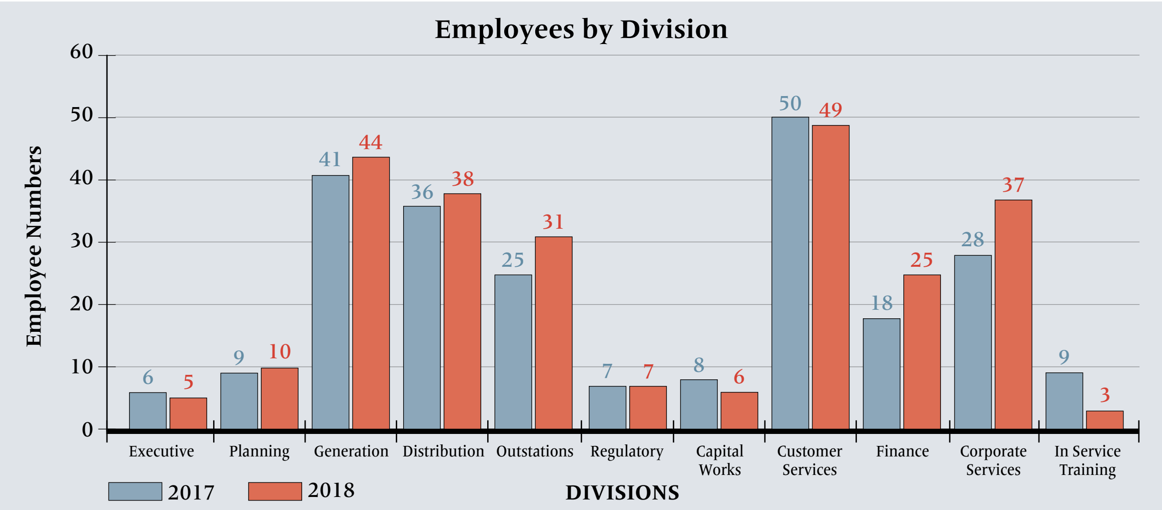


Figure 1: Employee Numbers by divisions.

The graph below (Figure 2) shows the number of permanent employees by location at the end of 2018, compared to the end of 2017.

Figure 2: Employee numbers by location.

Highlights in 2018 included:

- With the support of the Board the Management and the Staff Association have cemented a very strong and positive relationship. The log of claims was negotiated and approved and have been implemented effective November;
- Recruitment for several key roles, including that for the Chief Financial Officer, General Manager Corporate Services, Manager Generation and Outstations, Manager Projects, Manager Management Accounting and Regulatory Manager;
- Commencement of the Apprenticeship programme. Under this programme we have recruited 10 apprentices in May who will undergo on the job and off the job training over a period of 4 years;
- Approval to start a Line Mechanic Training programme with an initial intake of 10 trainee line mechanics;
- Continuation of the Graduate Programme; and
- Completion of the Job Evaluation Exercise in November, implementation of the recommendations will commence in 2019.

Training and Development

To continually develop and update the knowledge, skills and competencies of its employees, SP has invested extensively in training and development.

Long term training: Three employees continued with their long term study programme in 2018. Two were at USP studying towards Bachelor of Commerce in Accounting and Management programme, while the other one was at SINU, doing a Bachelor of Accounting Studies.

Short term training: Some highlights of short term training undertaken in 2018:

- 5 day MBA: Certified Human Resources Manager: 6 officers attended the training
- Directors Course: 1 officer attended the training
- Cable Jointer Training: 8 officers attended the training with Energex in Brisbane
- Metering: 8 officers attended the training with Energex in Brisbane

Occupational Health and Safety

SP is committed to the safe supply of electricity to the Nation with its effective and robust OHS management framework, aimed at providing a safe environment for employees, contractors, customers and the community at large.

One Lost Time Injury was recorded in 2018 which incurred seventeen (17) Lost Days. The Lost Time Injury Frequency rate for 2018 closed at 1.91.

An incident reporting, investigation and action verification framework was developed to manage all SP incidents.

Highlights in 2018 include:

- Continuation of First Aid Training and Fire Training for emergency wardens and First Aiders;
- Continuation of electric power lineman training;
- OHS awareness training for staff and electrical safety awareness for schools and communities in SP locations;
- Defensive Driver and Hands on Wheels training was conducted with newly authorised drivers with refresher training carried out for other drivers;
- Pole Top Rescue and CPR training for linemen; and
- The inspection and testing of the Fire Hydrant System at Lungga Power Station was carried out together with training for power station operators and the local fire brigade.

Fleet of vehicles

Total number of fleet as of December 2018 was 87. This is a reduction from 91 in 2017. Seven vehicle accidents occurred in 2018 at a repair cost of $138,843. The vehicle tracking system continues to be utilised to improve fleet efficiencies and proactively manage speeding and unauthorised use of vehicle.

Land and buildings

Land

SP continued with its programme of land acquisitions and proper registration of its properties. Negotiation for land acquisitions in Auki, Tanagai, Lata, Kirakira, Afio, Malu'u, Namugha, Sasamunga, Hauhui, Visale and Tingoa were progressed during 2018.

Buildings

Apart from our commercial properties at Ranadi, Lungga, Honiara and at the Outstations, SP provided housing for employees.

A total of thirteen (13) Solomon Power houses were earmarked for repair and maintenance in 2018. By December 2018, work on eight (8) houses was completed, three (3) were in progress and expected to be completed in the first quarter of 2019, and one (1) has been rescheduled to be as part of the 2019 Housing Repair and Maintenance Programme.

Bypass customers

SP continued with its concerted effort to recover monies owed to SP by "bypass" and defaulting customers, the efforts were challenging yet resulted in progress of prosecuting of "Bypass" customers and recovery from defaulting customers with a number of good outcomes in 2018.

Workmen's compensation

One case of workman compensation was reported and settled.

Trade Dispute Panel

There were three cases that were on-going in 2018, and will continue into 2019.

Corporate Governance Practices

Role of the Board

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

The Board is also responsible for reviewing the Business Plan, Corporate Plan and Statement of Corporate Objectives, and approves the 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

In December 2018 some changes have been made by our Shareholders to the composition of the Board. The Board Directors, appointed under the State Owned Enterprises Regulation 2010, (Part 2, Prescribed Process of Appointment of Directors) are as follows:

As at 30 November 2018

Name	Position	Appointment	Term
Mr. David K.C. Quan	Chairman	February 2016	3 years
Mr. Henry Kapu	Director	30/6/2012 – 1/12/2018	Retired
Mr. Harry Zoleveke	Director	30/6/2012 – 1/12/2018	Retired
Mr. Sebastian Ilala	Director	30/6/2012 – 1/12/2018	Retired
Ms. Yolande Yates	Director	5/9/2014 – 1/12/2018	Retired
Mr. Rovaly Sike	Director	5 September 2014	2 years
Mr. John Bosco Houanihau	Director	5 September 2014	3 years

As at 31st December 2018

Name	Position	Appointment	Term
Mr. David K.C. Quan	Chairman	19 February 2019	3 years
Ms. Muriel Ha'apue Dakamae	Director	17 December 2018	3 years
Mr. James Apaniai	Director	17 December 2018	3 years
Mr. Rovaly Sike	Director	17 December 2018	2 years
Mr. John Bosco Houanihau	Director	17 December 2018	2 years

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 SP 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 SP also owe the following duties to the company. These fiduciary duties form the code of ethics of SP. A fiduciary relation imposes an obligation of utmost good faith on Directors by putting the interests of the Company first, and the SP 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 17 meetings during the financial year, which ended 31st December 2018. Of these 6 were scheduled meetings and 11 extra-ordinary meetings. The regular business of the Board covers corporate governance, financial performance and risk management, business investment and strategic matters.

There was also a Shareholders' meeting on Tina River Hydropower Project on 26th November 2018.

Board Committees

There are three Board Sub-Committees: Audit, Finance, Risk and Governance; 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, Risk & Governance Sub-Committee

Membership:

1. Henry Kapu - Chairman
2. David K.C. Quan- Member
3. Sebastian Ilala – Member
4. Yolande Yates – Member

Number of meetings: 3

HR Sub-Committee

Membership:

1. John Bosco Houanihau - Chairman
2. David K.C. Quan- Member
3. Yolande Yates- Member

Number of meetings: 3

Technical Sub-Committee

Membership:

1. Rovaly Sike - Chairman
2. David K.C. Quan- Member
3. Henry Kapu- Member
4. Harry Zoleveke- Member

Number of meetings: 3

Financial Statements

for the year ended 31 December 2018

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" or "the Authority"), trading as Solomon Power, as at 31 December 2018 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 who were 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 were as follows:

Name

David K.C. Quan – chairman (reappointed December 2018)
Harry Zoleveke - (retired on 1 December 2018)
Henry Kapu - (retired on 1 December 2018)
James Apaniai - (appointed on 17 December 2018)
John B Houanihau- (reappointed December 2018)
Muriel Ha'apue-Dakamae - (appointed on 17 December 2018)
Rovaly Sike- (reappointed December 2018)
Sebastian Ilala - (retired on 1 December 2018)
Yolande Yates - (retired on 1 December 2018)

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 2018, 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, distribution and sale of electricity in the Solomon Islands as governed by the Electricity Act (Cap 128).

Results

The total comprehensive income for the year was SBD 80,080,065 (2017 restated: SBD 77,648,682).

Dividends

The Directors have not declared a dividend for the current year (2017: SBD 4,000,000).

Going concern

The Directors believe that the Authority will be able to continue to operate for at least 12 months from the date of this report.

Assets

The Directors took reasonable steps before the Authority's financial statements were made out to ascertain that the assets of the Authority were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the Directors were not aware of any circumstances which would render the values attributable to the assets in the financial statements misleading.

Bad and doubtful debts

The Directors took reasonable steps before the Authority's financial statements were made out to ascertain that all known bad debts were written off and adequate provision was made for doubtful debts.

At the date of this report, the Board members are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, inadequate to any substantial extent.

Directors' Report *(Continued)*

Directors' benefits

No director of the Authority has, since the last financial year, received or become entitled to receive any benefit (other than benefits included in the amount of consultancy fees and directors fees and expenses or shown in the financial statements under related party note) by reason of a contract made with the Authority or a related corporation with the director or with a firm of which he/she is a member or with a company in which a director has a substantial financial interest.

Unusual transactions

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

Other circumstances

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render amounts stated in the financial statements misleading.

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 26 day of March 2019.

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 MEMBERS OF SOLOMON ISLANDS ELECTRICITY AUTHORITY TRADING AS SOLOMON POWER

Report on the Audit of the Financial Statements

Opinion

I have in joint consultation with the Board of the Solomon Islands Electricity Authority ("the Authority") pursuant to Electricity Act [Cap.128] contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of the Solomon Islands Electricity Authority, which comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flow statements for the year then ended, and notes 1 to 29 comprising of a summary of significant accounting policies and information.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2018, and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Directors for the Financial Statement

Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities/or the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report *(Continued)*

Solomon Islands Office of the Auditor-General

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditors' report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

I have obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

In my opinion:

i) proper books of account have been kept by the Authority, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and

ii) to the best of my knowledge and according to the information and explanations given to us the financial statements give the information required by Electricity Act (Cap. 128), in the manner so required

Peter Lokay
Auditor-General

Office of the Auditor-General
Honiara, Solomon Islands

Date : 26/03/2019

Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	2018 SBD	Restated 2017 SBD
Operating income			
Electricity sales		457,156,336	428,039,827
Amortisation of deferred income		6,395,050	10,393,400
Other operating income	9	5,486,818	2,545,325
Total operating income		**469,038,204**	**440,978,551**
Expenses			
Generation and distribution	10	224,175,081	207,601,960
Administration	11	81,605,507	59,683,883
Operating	12	22,830,031	31,148,030
Depreciation and amortisation	15	56,672,749	53,679,089
Allowance for uncollectability	18	3,714,358	11,396,373
Interest expense		30,434	389,387
Inventory & asset write-off		92,140	(145,261)
Total expenses		**389,120,299**	**363,753,461**
Gain from operations		**79,917,905**	**77,225,091**
Foreign exchange gain		162,160	423,591
Net profit for the year		**80,080,065**	**77,648,682**
Other comprehensive income			
Total comprehensive income for the year		**80,080,065**	**77,648,682**

The notes disclosed on pages 37 to 69 are an integral part of the financial statements.

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

Statement of Financial Position

As at 31 December 2018

	Note	2018 SBD	Restated 2017 SBD
Assets			
Current assets			
Cash and cash equivalents	16	303,524,441	221,808,007
Held to maturity investment		-	45,542,195
Inventories	17	22,451,241	20,910,019
Receivables	18	61,766,690	50,142,206
Prepayments		13,755,419	3,042,350
Total current assets		**401,497,791**	**341,444,777**
Non-current assets			
Property, plant and equipment	15	859,782,324	793,197,801
Receivables	18	798,672	1,660,609
Government bonds	19	30,000,000	-
Total non-current assets		**890,580,996**	**794,858,410**
Total assets		**1,292,078,787**	**1,136,303,187**
Liabilities			
Current liabilities			
Deferred income	21	6,392,961	6,392,961
Trade and other payables	22	40,844,195	32,007,084
Solomon Islands Borrowings	23	3,599,000	2,924,999
Employee benefits	24	6,778,721	193,818
Total current liabilities		**57,614,877**	**41,518,861**
Non-current liabilities			
Deferred income	21	74,065,116	50,801,158
Solomon Islands Borrowings	23	10,928,257	-
Employee benefits	24	10,401,161	-
Total non-current liabilities		**95,394,534**	**50,801,158**
Total liabilities		**153,009,411**	**92,320,019**
Equity			
Contributed capital	20	246,933,170	246,933,170
Asset revaluation reserve		384,889,703	384,889,703
Accumulated profit		507,246,503	412,160,294
Total equity		**1,139,069,376**	**1,043,983,168**
Total equity and liabilities		**1,292,078,787**	**1,136,303,187**

Signed for and on behalf of the Board of Directors

Director

Director

The notes disclosed on pages 37 to 69 are an integral part of the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Contributed capital SBD	Asset revaluation reserves SBD	Accumulated retained earnings SBD	Total SBD
Balance at 1 January 2017		**246,933,170**	**384,889,703**	**338,511,612**	**970,334,486**
Total comprehensive loss for the year					
Net profit for the year - restated	14	-	-	77,648,682	77,648,682
Transaction with owners of SIEA directly recognised in equity					
Dividend declared during the year		-	-	(4,000,000)	(4,000,000)
Balance at 31 December 2017 - restated		**246,933,170**	**384,889,703**	**412,160,294**	**1,043,983,168**
Balance at 1 January 2018 - restated		**246,933,170**	**384,889,703**	**412,160,294**	**1,043,983,168**
Impact of change in accounting policy	6 (b) (iii)	-	-	15,006,144	15,006,144
Adjusted balance at 1 January 2018		**246,933,170**	**384,889,703**	**427,166,438**	**1,058,989,312**
Total comprehensive income for the year					
Net profit for the year		-	-	80,080,065	80,080,065
Balance at 31 December 2018		**246,933,170**	**384,889,703**	**507,246,503**	**1,139,069,376**

The notes disclosed on pages 37 to 69 are an integral part of the financial statements.

Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 SBD	2017 SBD
Operating Activities			
Cash receipts from customers		463,137,780	420,124,487
Cash payments to suppliers and employees		(311,164,705)	(319,714,724)
Net cash provided by Operating Activities		**151,973,075**	**100,409,763**
Investing Activities			
Net redemption of debt securities		15,542,195	47,305,214
Net payments for property, plant and equipment		(123,060,103)	(132,866,048)
Net cash used in Investing Activities		**(107,517,908)**	**(85,560,834)**
Financing Activities			
Dividend paid		(4,000,000)	-
Net movement in SIG Borrowings		11,602,259	-
Cash receipts from donor grants		29,659,008	5,771,599
Net cash provided by Financing Activities		**37,261,267**	**5,771,599**
Net increase in cash and cash equivalents		**81,716,434**	**20,620,528**
Cash and cash equivalents at 1 January		221,808,007	201,187,479
Cash and cash equivalents at 31 December	**16**	**303,524,441**	**221,808,007**

The notes disclosed on pages 37 to 69 are an integral part of the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

1 Reporting entity

Solomon Islands Electricity Authority (SIEA or Authority) is a state owned enterprise established under the Electricity Act (Cap 128) 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, distribution and sale of electricity in 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.

This is the first set of the Authority's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 6.

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 non-current assets and financial instruments as identified in specific accounting policies below.

5 Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 7 (c) – Impairment of financial assets
- Note 7 (e) (iii) – Revaluation of non-current assets
- Note 7 (e) (iv) – Impairment of non-current assets
- Note 7 (g) – Employee benefits

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

6 New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2018

Apart from the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. None of the new standards is expected to have a significant effect on the financial statements of SIEA except for IFRS 16 "Leases".

IFRS 16 'Leases', removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The impact of this standard on the financial statements of the Authority has not yet been fully determined.

Change in accounting policies

Except for the changes below, the Authority has consistently applied the accounting policies to all periods presented in these financial statements.

a) IFRS 15 Revenue from Contracts with Customers

SIEA has adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2018. As a result, the Authority has changed its accounting policy for revenue recognition as detailed below.

The Authority has applied IFRS 15 using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

Revenue from distribution and sale of electricity

Previously, the Authority recognised revenue from the generation, transmission, distribution and sale of electricity to domestic, commercial and industrial customers including unbilled revenue from the last billing date to the end of year and other electricity related revenue upon delivery of electricity to the customer (point-in-time). The customer accepted the service and the related risks and rewards from the service at this point in time. Revenue was thus recognised at this point provided that the revenue could be measured reliably and the recovery of the consideration was probable.

Under IFRS 15, revenue is recognised by the Authority when or as it satisfies a performance obligation by transferring a service to a customer, either at a point in time (when) or over time (as). For the generation, distribution and sales of electricity, the customer simultaneously receives and consumes the benefits provided as the Authority renders the service. This has resulted in revenue from sale of electricity being recognised over time which was previously recognised at a point in time under IAS 18.

There is however, no impact as at 1 January 2018 as a result of changes in accounting for electricity revenue. This is because as at 1 January 2018, there were no contracts that were determined to be not complete.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

6 New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2018 *continued*

b) IFRS 9 - Financial Instruments

SIEA has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

The nature and effects of the key changes to the Authority's accounting policies resulting from its adoption of IFRS 9 are summarised below.

As a result of the adoption of IFRS 9, the Authority adopted consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. The Authority's approach was to present impairment losses on trade receivables as "allowance for uncollectability". No change is required for this approach under IFRS 9. Impairment losses relating to other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of comprehensive income due to materiality considerations.

Additionally, the Authority adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

i. **Classification of financial assets and financial liabilities**

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

For an explanation of how the Authority classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 7(b).

ii. **Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

iii. **Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held; and
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on the asset had not increased significantly since its initial recognition.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

6 New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2018 *continued*

	Impact of adopting IFRS 9 on opening balance SBD $000
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	412,160
Impact of expected credit losses under IFRS 9	15,006
Opening balance under IFRS 9 (1 January 2018)	427,166

iv) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Authority's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	31-Dec-17 Original carrying amount under IAS 39 31-Dec-17 $000	1-Jan-18 New carrying amount under IFRS 9 on 1-Jan-18 $000
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	221,808	221,808
Receivables	Loans and receivables	Amortised cost	51,803	66,809
Term deposit investments	Held-to-	Amortised cost	45,542	45,542
Total financial assets			**319,153**	**334,159**
Financial liabilities				
Trade and other payables	Other financial liabilities	Other financial liabilities	32,007	32,007
Borrowings	Other financial liabilities	Other financial liabilities	2,925	2,925
Total financial liabilities			**34,932**	**34,932**

SIEA's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 7(b). The application of these policies resulted in the reclassifications set out in the table above and further explained below.

1. Debt and investment securities that were previously classified as held-to-maturity are now classified at amortised cost. The Authority intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. No allowance for impairment was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

2. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. A decrease of $15,006,144 in the allowance for impairment was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

6 New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2018 *continued*

3. Cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No allowance for impairment was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	carrying amount at 31 December 2017 $000	Re-measurement $000	IFRS 9 carrying amount at 1 January 2018 $000
Financial assets			
Amortised cost			
Cash and cash equivalents:			
Brought forward: Loans and receivables	221,808		
Carried forward: Amortised cost			221,808
Trade and other receivables:			
Brought forward: Loans and receivables	51,803		
Re-measurement		15,006	
Carried forward: Amortised cost			66,809
Debt securities:			
Brought forward: Loans and receivables	45,542		
Carried forward: Amortised cost			45,542

7 Summary of significant accounting policies

a) Revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. SIEA recognises revenue when it transfers control over a product or service to a customer.

Nature and timing of satisfaction of performance obligations and significant payment terms

There is an implied contract between a customer and the Authority for the purchase, delivery, and sale of electricity. This represents a promise to transfer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The customer obtains control of the good (electricity) when delivered and consumed by them over time.

Invoices are issued monthly and are usually payable within 14 days thus there is no significant financing component. Additionally, discount is provided to some customers against the approved tariff rates.

Contract with customers permit quantities of electricity consumed to be estimated based on previous months' average consumption in the event the Authority could not conduct the monthly meter readings.

7 Summary of significant accounting policies *continued*

Revenue recognition under IFRS 15 applicable from 1 January 2018

Revenue including upfront fees is recognised net of GST and discount over time and the progress is determined based on kilowatts (units) consumed. This provide a faithful depiction of the transfer of the good as the customer simultaneously receives and consumes the benefits provided by the Authority's performance of the electricity revenue contract.

The transaction price is determined based on tariffs approved by Ministry of Mines, Energy and Rural Electrification at the time the service had been rendered and units of kilowatts consumed by the customers. The transaction price is considered to be variable due to the following:

- Tiered-pricing for customers; and
- Estimate of unbilled electricity supplied to customers.

The variable consideration is included in the transaction price only to the extent that it is 'highly probable' that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. In respect to the considerations from:

a) Read meter customers, these are not constrained because it is calculated based on actual units consumed during the period, thus variability due to tiered-pricing on consideration for the period is known.

b) Unread meter customers, the unbilled electricity supplied at period end is estimated based on previous periods' average consumption (expected value). Similarly, the monthly billed consideration is estimated as well. Management consider this to be best estimate of the transaction price without incurring undue cost and time and thus not necessary for SIEA to quantify all possible outcomes using complex models and techniques. Additionally, the full transaction price not considered constrained as the likelihood and potential magnitude of the revenue reversal is not considered by management to be significant.

SIEA had applied the practical expedient in paragraph 121 of IFRS 15 and did not disclose information about remaining performance obligations that have an original expected duration of one year or less.

Revenue recognition under IAS 18 and IAS 11 applicable before 1 January 2018

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.

b) Financial instruments

i) *Recognition and initial measurement*

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Authority becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

7 Summary of significant accounting policies *continued*

ii) *Classification and subsequent measurement*

Financial assets – policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Authority may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Authority may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment – Policy applicable from 1 January 2018

The Authority makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Authority's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and,
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

7 Summary of significant accounting policies *continued*

Transfers of financial assets to third parties in transactions that do not qualify for de-recognition are not considered sales for this purpose, consistent with the Authority recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest – Policy applicable from 1 January 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Authority considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Authority considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and,
- terms that limit the Authority's claim to cash flows from specified assets (e.g. nonrecourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses – Policy applicable from 1 January 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de- recognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss. These include short term investments (term deposits).

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

7 Summary of significant accounting policies *continued*

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. The Authority's equity investments relates (if any) would relate to investments in listed securities.

Financial instruments – policy applicable before 1 January 2018

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 statement of comprehensive income when there is objective evidence that the asset is impaired.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

7 Summary of significant accounting policies *continued*

Other financial assets at fair value through statement of comprehensive income

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 statement of comprehensive income in the period in which they arise.

Held-to-maturity investments

SIEA has "held to maturity" investments that are measured initially at fair value. These investments are held to provide security for Letter of Credit given to suppliers for various capital projects 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 0.5% per annum is earned on these investments.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

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 trade and other payables, and Solomon Islands Government loan which are carried at amortised cost.

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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

7 Summary of significant accounting policies *continued*

c) Impairment

***i)* Non-derivative financial assets**

Policy applicable from 1 January 2018

Financial instruments:

SIEA recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost.

SIEA measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12 month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and cash at bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables is always measured at an amount equal to lifetime ECL as it does not include significant financing component.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority's historical experience and informed credit assessment and including forward-looking information.

SIEA assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

SIEA considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to SIEA in full, without recourse by the Authority to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

SIEA considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Authority considers this to be Baa3 or higher per rating agency Moody's or BBB- or higher per rating agency Standards & Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which SIEA is exposed to credit risk.

Measurement of ECLs:

Trade receivables

SIEA uses a provision matrix to determine the lifetime expected credit losses. It is based on the SIEA's historical observed default rates, and is adjusted by a forward-looking estimate that includes the probability of a worsening economic environment within the next year. At each reporting date, the Authority updates the observed default history and forward-looking estimates.

7 Summary of significant accounting policies *continued*

Debt securities including cash at bank and term deposit investments

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that SIEA expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets:

At each reporting date, the Authority assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position:

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off:

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when SIEA determines that the debtor does not have assets or sources of income or adequate customer deposits that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Authority's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

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.

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.

7 Summary of significant accounting policies *continued*

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 statement of comprehensive income 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 statement of comprehensive income.

d) Inventories

Inventory is 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.

e) 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 statement of comprehensive income. When revalued assets are sold, any related amount included in the asset 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 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 or revalued amount of property, plant and equipment to its estimated residual value over its estimated useful life.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

7 Summary of significant accounting policies *continued*

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
Buildings - Non-operational - 15 to 50 years
Generators - 10 to 40 years
Plant & equipment - 10 to 25 years
Distribution network - 20 to 60 years
Furniture & equipment - 5 years
Furniture & equipment - Information technology - 3 to 5 years
Motor vehicles - 5 years
Tools - 3 to 5 years

The useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

iii) **Revaluation of property, plant and equipment**

Land, property, plant and buildings are shown at fair value, based on 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 are the direct comparison and income capitalisation approaches cross checked with cost approach. These methodologies use market derived assumptions, including rents, capitalisation and terminal rates, and discount rates obtained from analysed transactions. The adopted methodologies are considered to provide the best estimate of value.

The Directors propose to have such asset revaluations every three or five years.

Electricity infrastructure assets are 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 profit or loss 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 statement of comprehensive income 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 assets 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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

7 Summary of significant accounting policies *continued*

e) Property, plant and equipment *continued*

***iv)* Impairment of non-financial 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 profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised in 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 through OCI.

***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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

7 Summary of significant accounting policies *continued*

f) 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 it's intended use.

g) 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.

Short-term benefits

Short-term benefits comprises of accrued salaries and wages, bonus, annual leave, and entitlement to Solomon Islands National Provident Fund are expenses as the related service is provided.

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.

Long-term benefits

A early retirement scheme is a long-term benefit provided by SIEA to its employees.

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 future benefits that employees have earned in return for their services in the current and prior periods.

h) Taxation

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

i) 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 prevailing at balance sheet date. Exchange differences arising on the translation or settlement of accounts payable and receivable in foreign currencies are recognised in the statement of comprehensive income.

j) 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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

7 Summary of significant accounting policies *continued*

k) Grants

An unconditional grant related to an asset is recognised in statement of comprehensive income 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 statement of comprehensive income as other income on a systematic basis over the useful life of the asset. Grants that compensate SIEA for expenses incurred are recognised in statement of comprehensive income as other operating income in the same periods in which the expenses are recognised.

l) Provisions

SIEA recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision of the provision can be measured reliably. The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation at reporting date. Where a provision is measuring the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

8 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 Board is assisted in their oversight role by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and processes, the result of which is reported to the Board.

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

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

8 Financial risk management *continued*

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, investment in debt securities, and cash and call deposits.

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.

The carrying amount of financial assets represents the maximum credit exposure.

Expected credit loss assessment for trade and other receivables as at 1 January 2018 and 31 December 2018

SIEA uses an allowance matrix to measure the ECLs of Trade receivables from individual customers, which comprise a large number of balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers categorised into kwh debtors and cash power debtors as at:

Kwh debtors:

	Weighted average loss rates	Gross carrying amount SBD	Loss allowance SBD	Credit impaired
1-Jan-18				
Current - 30 days past due	11.96%	19,826,714	2,370,857	No
30 - 59 days past due	23.53%	14,237,418	3,350,258	No
60 - 89 days past due	45.15%	7,073,262	3,193,918	No
90 or more days in past due	61.39%	12,110,651	7,435,110	Yes
		53,248,045	16,350,144	
31-Dec-18				
Current - 30 days past due	12.19%	25,748,106	3,138,423	No
30 - 59 days past due	23.99%	12,297,105	2,949,588	No
60 - 89 days past due	46.03%	7,665,957	3,528,433	No
90 or more days in past due	62.58%	11,477,661	7,182,651	Yes
		57,188,829	16,799,096	

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

8 Financial risk management *continued*

	Weighted average loss	Gross carrying SBD	Loss allowance SBD	Credit impaired
Cash power debtors:				
1-Jan-18				
Current - 30 days past due	5.13%	31,571	1,620	No
30 - 59 days past due	6.25%	46,944	2,934	No
60 - 89 days past due	6.54%	5,071,352	331,485	No
90 or more days in past due	6.93%	7,891,869	547,013	Yes
		13,041,735	883,051	
31-Dec-18				
Current - 30 days past due	9.70%	111,682	10,832	No
30 - 59 days past due	11.81%	51,469	6,081	No
60 - 89 days past due	12.36%	65,630	8,109	No
90 or more days in past due	13.10%	10,280,322	1,346,999	Yes
		10,509,105	1,372,022	

Loss rates are based on actual credit loss experienced over the past two years. factors to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Authority's view of economic conditions over the expected lives of the receivables. Scalar factors are based on actual and forecast GDP growth rates or inflation rates.

The movement in the allowance for impairment in respect of trade receivables and other receivables during the year is disclosed in note 18. Comparative amounts for 2018 represent the allowance account for impairment losses under IAS 39.

Impairment on other receivables from Solomon Islands Government and state-owned entities has been measured on the 12 month expected loss basis, and the resulted impairment losses was and is not considered material by management on date of initial application of IFRS 9 and reporting date respectively.

Cash and cash equivalents

SIEA held cash at bank of $221,808,007 at 31 December 2018 (2017: $201,187,479). The cash is held with different banks, whose ratings ranged from Aa3 to Caa1 based on Moody's credit ratings.

Impairment on cash and cash equivalents has been measured on the 12 month expected loss basis and reflects the short maturities of the exposures.

SIEA uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for debt securities.

Accordingly, due to short maturities on initial application of IFRS 9, the Authority did not recognise an impairment allowance against cash and cash equivalents as at 1 January 2018. The amount of the allowance did not change during 2018.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

8 Financial risk management *continued*

Debt investment securities

SIEA held debt investment securities of $75,872,816 at 31 December 2018 (2017: $45,542,195). The debt investment securities are held with institutions which are rated Aa3 to B3 based on Moody's credit ratings. In relation to debt investment securities held with these institutions, the Authority monitors changes in credit risk by tracking published external credit ratings but when external credit ratings are not available or published, SIEA monitors changes in credit risk by reviewing available press and regulatory information.

Impairment on debt investment securities held with banks and Solomon Islands Government has been measured on the 12 month expected loss basis.

On initial application of IFRS 9, the Authority did not recognise an impairment allowance against debt investment securities as at 1 January 2018. The amount of the allowance did not change during 2018.

Credit risk under IAS 39

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:

	2017 **SBD**
Cash at bank	221,765,007
Term deposit investments	45,542,195
Receivables - current Receivables	82,420,732
- non-current	1,660,609
	351,388,543

Receivables are determined impaired as follows:

Trade and other receivables	
Gross receivables	82,420,732
Provision for impairment	(32,278,526)
	50,142,206

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.

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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

8 Financial risk management *continued*

The following are the contractual maturities of financial liabilities:

31 December 2018

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD	Total SBD
Financial liabilities					
Trade and other payables	38,661,806	38,661,806	-	-	38,661,806
Solomon Islands Government loan	14,527,257	2,090,045	2,054,055	11,702,423	15,846,523
	53,189,063	40,751,851	2,054,055		54,508,329

31 December 2017

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD	Total SBD
Financial liabilities					
Trade and other payables	32,007,084	32,007,084	-	-	32,007,084
Solomon Islands Government loan	2,924,999	3,087,019	-	-	3,087,019
	34,932,083	35,094,103	-		35,094,103

***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.

Fuel price risk

SIEA is subject to a monthly tariff review. The tariff is based on The Electricity Tariff (Base Tariff and Tariff Adjustments) Regulation 2016 which is adjusted every month for the Honiara Consumer Price Index (CPI), the Producers Price Index (PPI, USA), the exchange rate between the US$ and SBD and the fuel price movements. Fuel costs of $180,667,381 (2017: $137,645,095) comprises 47% of the expenditure of SIEA, so movements in fuel prices are critical to the profitability of SIEA. Fortunately, the monthly tariff review considers the fuel price movements, the CPI, PPI and exchange rate changes, therefore there is a natural hedge against market movements.

A change of 100 basis points (bp) in interest rates at the reporting date would have increased/ (decreased) profit or loss by amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

		Profit or loss
	100bp $000	100bp increase $000
Revenue	447,900	490,300
Expenditure	370,928	407,128
Net Profit	76,972	83,172

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

8 Financial risk management *continued*

***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 invested in debt securities and has interest-bearing borrowing from the Solomon Islands Government. These are at a fixed interest rate during the term of the instruments.

Given the fixed nature of interest rates described above, the Authority has a high level of certainty over the impact on cash flows arising from interest income and interest expenses. Accordingly, SIEA does not require simulations to be performed over impact on net profits arising from changes in interest rates.

Furthermore, for those financial assets and financial liabilities which are not carried at fair value, their carrying amount is considered a reasonable approximation of fair value.

***v)* Currency risk**

The Authority is exposed to currency risk to the extent that there is a mismatch between the currencies in which purchases, and borrowings are denominated and the respective functional currencies. The Authority does not have significant exposure to currency risk.

		Note	2018 SBD	2017 SBD
9	**Other operating income**			
	Community service obligation		1,500,000	-
	Other		1,926,230	2,540,795
	Reconnections		3,200	4,530
	Gain on disposal of fixed assets		196,773	-
	Unconditional grant income		1,860,615	-
			5,486,818	2,545,325
10	**Generation and distribution**			
	Bought in electricity		-	3,561,954
	Fuel		180,667,381	137,645,095
	Lubricating oil		3,888,180	4,590,875
	Other		4,010,500	4,460,864
	Personnel	13	23,828,353	25,407,717
	Repairs and maintenance		11,780,667	31,935,454
			224,175,081	207,601,960

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

	Note	2018 SBD	2017 SBD
11 Administration			
Advertising		1,682,314	2,430,499
Bank fees		257,000	319,713
Computer bureau charges		1,659,243	1,865,089
Consultancy fees		11,273,094	18,089,604
Directors fees and expenses		451,588	627,570
Electricity		2,969,773	2,949,745
Electricity rebate		5,080,129	4,632,483
Freight		505,717	205,032
Insurance		2,558,392	2,338,014
Personnel	13	39,187,093	10,202,013
Printing and stationery		1,829,337	2,146,769
Professional fees		1,504,846	1,080,046
Property expenses		4,895,004	4,628,537
Telecommunications		3,631,425	3,372,687
Travel and accommodation		4,120,552	4,796,083
		81,605,507	59,683,883
12 Operating expenses			
Customs handling charges		4,948,308	5,945,648
Personnel	13	12,030,377	17,866,359
Repairs and maintenance		1,909,207	3,882,631
Vehicle costs		3,942,139	3,453,391
		22,830,031	31,148,030
13 Personnel expenses			
Salaries and wages		45,429,198	41,573,283
Superannuation		3,046,477	2,749,261
Retirement benefit expense		15,833,287	-
Others		10,736,861	9,153,545
		75,045,823	53,476,089
Personnel expenses classed by function is as follows:			
Generation and distribution		23,828,353	25,407,717
Administration		39,187,093	10,202,013
Operating expenses		12,030,377	17,866,359
		75,045,823	53,476,089

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

14 Prior period adjustments

During the financial year it was identified that the leasehold land revalued in December 2016 and included in property, plant and equipment had been erroneously depreciated based on its cost and not on the revalued amount.

Statement of financial position

		Impact of restatement	
As at 31 December 2018	**Previously reported 2017**	**Adjustment 2017**	**Restated 2017**
Property, plant and equipment	795,429,205	(2,231,404)	793,197,801
Total non-current assets	797,089,814	(2,231,404)	794,858,410
Total assets	1,138,534,591	(2,231,404)	1,136,303,187
Retained earnings	414,391,698	(2,231,404)	412,160,294
Total equity	1,046,214,572	(2,231,404)	1,043,983,168
Total equity and liabilities	1,138,534,591	(2,231,404)	1,136,303,187

Statement of comprehensive income

		Impact of restatement	
As at 31 December 2018	**Previously reported 2017**	**Adjustment 2017**	**Restated 2017**
Depreciation and amortisation	51,447,685	2,231,404	53,679,089
Total expenses	361,667,318	2,231,404	363,898,722
Operating profits	79,456,495	(2,231,404)	77,225,091
Net profit	79,880,086	(2,231,404)	77,648,682
Total comprehensive income for the year	79,880,086	(2,231,404)	77,648,682

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

15 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 2017	**53,831,179**	**157,548,120**	**190,166,769**	**49,998,834**	**200,310,571**	**21,120,828**	**24,395,595**	**6,487,235**	**76,878,824**	**780,737,955**
Additions	4,112	-	-	-	668,067	-	-	-	132,193,868	132,866,048
Disposals	-	-	(1,843,635)	-	-	(280,347)	-	-	-	(2,123,982)
Work in progress capitalised	1,296,071	9,791,803	52,781,356	10,006,546	22,784,409	3,739,609	722,680	1,485,646	(102,608,119)	-
Balance at 31 December 2017	**55,131,363**	**167,339,922**	**241,104,490**	**60,005,380**	**223,763,048**	**24,580,090**	**25,118,275**	**7,972,881**	**106,464,573**	**911,480,021**
Additions	-	-	-	-		-		-	123,570,342	123,570,342
Disposals	(4,112)	-	-	-	(227,976)	-	(958,867)	(53,449)	-	(1,244,404)
Work in progress capitalised	1,039,783	16,812,269	23,720,404	15,426,561	70,118,198	7,054,773	3,307,460	2,835,278	(140,314,726)	-
Balance at 31 December 2018	**56,167,034**	**184,152,191**	**264,824,894**	**75,431,941**	**293,653,269**	**31,634,863**	**27,466,868**	**10,754,710**	**89,720,189**	**1,033,805,959**
Breakdown of cost/revaluation										
2011 Valuation	-	-	-	-	-	-	1,172,968	249,941	-	1,422,910
2013 Valuation	564,117	6,658,552	171,550	17,130,540	25,668,207	-	-	-	-	50,192,966
2016 Valuation	49,751,225	61,916,918	93,373,939	30,899,771	168,190,283	-	-	-		404,132,137
Cost	5,851,691	115,576,721	171,279,404	27,401,631	99,794,780	31,634,863	26,293,899	10,504,769	89,720,189	578,057,947
Balance at 31 December 2018	**56,167,034**	**184,152,191**	**264,824,894**	**75,431,941**	**293,653,269**	**31,634,863**	**27,466,868**	**10,754,710**	**89,720,189**	**1,033,805,959**
Depreciation and impairment loss										
Balance as 1 January 2017	**3,703,995**	**1,037,089**	**17,107,540**	**5,511,731**	**8,520,169**	**11,031,057**	**15,605,099**	**4,183,305**	**-**	**66,699,983**
Depreciation	-	8,169,065	21,566,588	1,579,051	8,859,808	4,139,523	4,255,485	1,643,499	-	50,213,020
Amortisation of leasehold land - restated	3,466,069	-	-	-	-	-	-	-	-	3,466,069
Depreciation on disposed assets	-	-	(1,843,635)	-	-	(253,218)	-	-	-	(2,096,853)
Balance at 31 December 2017 - restated	**7,170,064**	**9,206,154**	**36,830,493**	**7,090,782**	**17,379,977**	**14,917,362**	**19,860,583**	**5,826,804**	**-**	**118,282,220**
Depreciation	-	8,954,942	20,280,128	5,327,358	10,542,195	3,410,849	3,096,065	1,564,988	-	53,176,524
Amortisation of leasehold land	3,496,225	-	-	-	-	-	-	-	-	3,496,225
Depreciation on disposed assets	-	-	-	-	(2,850)	-	(927,320)	(1,164)	-	(931,334)
Balance at 31 December 2018	**10,666,289**	**18,161,096**	**57,110,621**	**12,418,140**	**27,919,322**	**18,328,211**	**22,029,328**	**7,390,629**	**-**	**174,023,635**
Carrying amounts										
At 31 December 2016	50,127,184	156,511,031	173,059,229	44,487,104	191,790,402	10,089,772	8,790,496	2,303,930	76,878,824	714,037,972
At 31 December 2017 - restated	47,961,298	158,133,768	204,273,996	52,914,598	206,383,071	9,662,728	5,257,691	2,146,077	106,464,573	793,197,801
At 31 December 2018	**45,500,745**	**165,991,095**	**207,714,273**	**63,013,802**	**265,733,947**	**13,306,652**	**5,437,540**	**3,364,082**	**89,720,189**	**859,782,324**

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

15 Property, plant and equipment *continued*

SIEA has a policy to revalue infrastructure and property assets every 3 or 5 years. The last such revaluation was completed in 2016. SIEA is of the opinion that there has been no material change in the carrying value of these assets since that revaluation.

In 2016 SIEA engaged Sinclair Knights Merz (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 2016 SIEA also engaged Value Solutions Appraisal (VSA) to carry out an independent valuation of all land and buildings. They were valued at fair value, based on market based evidence using Discounted Cash Flows upon the appraisal of a professionally qualified valuer.

These valuations were completed in January and December 2016 by SKM and VSA respectively and booked into the accounts from those dates and are accordingly reflected in the financial statements as at 31 December 2016.

In 2016 the combined results of this valuation process was an increase in fixed assets and the asset revaluation reserve of $85,414,971. However, this increase in value was partially offset by an impairment loss of $158,334 which was expensed in the statement of comprehensive income.

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.

	2018 SBD	2017 SBD
Perpetual Estate Land	11,506,500	3,194,989
Leasehold Land	44,660,534	51,936,373
Amortisation of Leasehold Land	(10,666,289)	(7,170,064)
	45,500,745	47,961,298
16 Cash and cash equivalents		
Short-term deposits	45,749,190	-
Cash on hand	45,030	43,000
Cash at bank	257,730,221	221,765,007
	303,524,441	221,808,007

The short-term deposits amounting $45,731,711 were re-invested with ANZ Banking Group Limited - Solomon Islands Branch at the rate of 0.5%. The short-term deposits have a maturity term of a month from the date of inception. Accordingly, these short- term deposits have been considered as cash and cash equivalents for the purpose of the statement of cash flow.

17 Inventories

	2018 SBD	2017 SBD
Electrical and mechanical	22,451,241	20,910,019
	22,451,241	20,910,019

Fuel and lubricants are paid for on consumption from supplies held on site on consignment basis from the supplier, South Pacific Oil Ltd, through a contract signed in 2012. Therefore, no fuel and lubricants are not recorded in SIEA's inventory.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

	2018 SBD	2017 SBD
18 Receivables		
Current		
Trade receivables - kilowatt (Kwh)	57,188,829	53,221,567
Allowance for impairment - kilowatt (Kwh)	(16,799,096)	(19,276,118)
Trade receivables - CashPower	10,509,105	13,041,735
Allowance for impairment - CashPower	(1,372,022)	(12,963,221)
Related party - Solomon Islands Water Authority	937,500	937,500
Related party - Solomon Islands Broadcasting Corporation	353,131	891,426
Staff advances	248,589	312,409
Allowance for impairment- staff advances	(25,033)	(39,187)
Unread meters	10,025,866	13,847,290
Other debtors	699,821	168,804
	61,766,690	50,142,206
Non-current		
Related party - Solomon Islands Water Authority	937,500	1,875,000
Deferred income - Solomon Islands Water Authority	(138,828)	(273,049)
Related party - Solomon Islands Broadcasting Corporation	-	61,705
Deferred income - Solomon Islands Broadcasting Corporation	-	(3,047)
	798,672	1,660,609
Total receivables	62,565,362	51,802,815

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 effective interest 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 effective interest method and is based upon discounted future cash flows.

	2018 SBD	2017 SBD
Allowance for impairment		
Balance at the beginning of the year	32,278,526	29,342,815
Transition adjustment on the initial application of IFRS 9	(15,006,144)	-
Balance at 1 January 2018	17,272,382	29,342,815
Impairment recognised	3,714,358	11,396,373
Bad debts written off during the year	(2,790,589)	(8,460,662)
Balance at 31 December	18,196,151	32,278,526

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

	2018 SBD	2017 SBD
19 Government bonds		
Government bonds	30,000,000	-

On 1 December 2018 SIEA purchased domestic development bonds with a face value of SBD $30M from the Solomon Islands Government. The bonds have an interest rate of 5% per annum which is to be paid semi-annually. The bonds have a maturity date of 1 December 2028 and there is a 3 year grace period before principal repayments commence.

	2018 SBD	2017 SBD
20 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.

	2018 SBD	2017 SBD
21 Deferred income		
Balance at 1 January	57,194,119	61,815,920
Additional deferred income	29,659,008	1,771,160
Deferred income recognised during the year	(6,395,050)	(6,392,961)
Balance at 31 December	80,458,077	57,194,119

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

	2018 SBD	2017 SBD
Current	6,392,961	6,392,961
Non-current	74,065,116	50,801,158
	80,458,077	57,194,119

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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income over the life of the equipment.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

21 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 non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income 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 non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income over the life of the equipment.

In 2016, a grant of approximately $32,500,000 was received from the United Arab Emirates Pacific Partnership Fund to fund a 50 KW solar grid at Henderson 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 statement of comprehensive income over the life of the solar grid.

In 2016, a grant of approximately $1,627,000 was received from the Italian Ministry for the Environment, Land and Sea to fund simulation software to enable SIEA to carry out electricity network planning together with the necessary training and consulting services. The deferred income will be amortised to statement of comprehensive income over the life of the project once the full amount of the grant has been utilised and capitalised to the Fixed Asset register.

In 2017, ($1,465,000) and 2018 ($3,888,000) initial grants were received from the Global Partnership on Output-Based Aid to subsidise the cost of providing electricity to low income households. The deferred income will be amortised to the statement of comprehensive income over the life of the project once the full amount of the grant (approximately $17,000,000) has been utilised and the asset capitalised to the Fixed Asset register.

In 2017, ($306,000) and 2018 ($5,476,000) initial grants were received from the Asian Development Bank (ADB) to fund the construction of five grid connected solar power plants in an effort to increase the supply of reliable, clean electricity. The deferred income will be amortised to the statement of comprehensive income over the life of the project once the full amount of the grant (approximately $17,000,000) has been utilised and the asset capitalised to the Fixed Asset register.

In 2018, a grant of approximately $9,778,000 was received from the New Zealand Ministry of Foreign Affairs and Trade to expand the access to affordable, reliable and clean energy in rural areas of the Solomon Islands. The deferred income will be amortised to statement of comprehensive income over the life of the project once the full amount of the grant has been utilised and capitalised to the Fixed Asset register.

In 2018, grants totalling approximately $10,516,000 were received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund construction of power substations and the installation of transformers at Ranadi, Kola Ridge and Lungga. The projects have been partially completed and where applicable 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 statement of comprehensive income over the life of the substations and transformers.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

	2018 SBD	2017 SBD
22 Trade and other payables		
Current		
Trade creditors	1,222,550	1,722,699
Other payables and accruals	32,931,424	26,388,552
Contractual liabilities	2,182,389	-
Consumer deposits	4,507,832	3,895,832
	40,844,195	32,007,084

23 Solomon Islands Government loan agreement

Under an agreement signed with the Solomon Islands Government in June 2014, SIEA has been granted a loan facility of up to $81,883,440 to assist in the financing of the Solomon Islands Sustainable Energy Project (SISEP), at an interest rate of 4% per annum. Under the terms of the agreement the funds will be made available by the Government in a timely manner to facilitate the implementation of SISEP and will be repaid by SIEA over 28 semi-annual payments of principal and interest which commenced from December 2015. To date the following principal amounts have been borrowed and repaid under this loan agreement.

	2018 SBD	2017 SBD
Balance at 1 January	2,924,998	4,252,283
Borrowings	15,201,259	13,294,758
Principal Repayments	(3,599,000)	(14,622,043)
Balance at 31 December	14,527,257	2,924,998

Analysis of borrowings expected to be settled within one year and more than one year:

	2018 SBD	2017 SBD
Current	3,599,000	2,924,999
Non-current	10,928,257	-
	14,527,257	2,924,999

	2018 SBD	2017 SBD
24 Employee entitlements		
Current	6,778,721	193,818
Non-current	10,401,161	-
	17,179,881	193,818
Movement is made up of the following:		
Opening balance	193,818	391,109
Provisions made during the year	18,493,772	611,811
Provisions utilised during the year	(1,507,709)	(809,102)
Closing balance	17,179,881	193,818

25 Related parties

a) Directors

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

Name

David K.C. Quan – chairman (reappointed December 2018)
Harry Zoleveke - (retired on 1 December 2018)
Henry Kapu - (retired on 1 December 2018)
James Apaniai - (appointed in 17 December 2018)
John B Houanihau- (reappointed December 2018)
Muriel Ha'apue-Dakamae - (appointed on 17 December 2018)
Rovaly Sike- (reappointed December 2018)
Sebastian Ilala - (retired on 1 December 2018)
Yolande Yates - (retired on 1 December 2018)

Directors' fees and expenses are disclosed in Note 11.

SIEA's transactions with Directors were at arms length.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

25 Related parties continued

b) Identity of related parties

SIEA being a state-owned entity is the sole provider of electricity in Solomon Islands. As a result, Government of Solomon Islands and other government-related entities are its related parties. Other related parties include directors and key management personnel of SIEA.

c) Amounts receivable from related parties

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

	2018 SBD	2017 SBD
Central Bank of Solomon Islands	350,507	168,464
Central Provincial Government	47,940	16,920
Choiseul Provincial Government	43,981	-
Commodity Export Marketing Authority	20,079	-
Home Finance Corporation	38,408	38,354
Honiara City Council	871,766	818,911
Makira/Ulawa Provincial Government	28,439	26,250
Malaita Provincial Government	134,915	82,443
Ministry of Fisheries and Marine Resources	-	2,686,345
Provincial Hospital	1,053,182	61,132
Solomon Airlines Limited	210,225	218,035
Solomon Islands Broadcasting Corporation	681,621	1,114,805
Solomon Islands Government	17,816,845	16,174,509
Solomon Islands National University	1,190,823	576,469
Solomon Islands Ports Authority	449,711	392,944
Solomon Islands Postal Corporation	79,825	143,966
Solomon Islands Tourist Authority	23,968	-
Solomon Islands Water Authority	4,816,982	3,355,717
Temotu Provincial Government	71,649	8,691
Western Provincial Government	90,151	307,712
Isabel Provincial Government	41,365	117,724
	28,062,383	26,309,390

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, Manager Customer Services, Manager Electrical Engineering, Manager Finance, Regulatory Manager, Manager Land & Buildings, Manager Human Resources and Administration, Manager Generation and Outstations, Manager Distribution, Manager Generation, Manager Projects, Manager Health Safety and Environment, Information Technology Specialist, Project Engineer and the directors as listed in note 21 (a).

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

	2018 SBD	2017 SBD
Short-term employee benefits	15,527,096	13,064,624
	15,527,096	13,064,624

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.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

26 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 2018 amounted to $710,000,000 (2017: $863,000,000). These commitments are in relation to property, plant and equipment.

	2018 SBD	2017 SBD
Less Than 1 Year	287,000,000	208,000,000
Between 1 year and 5 years	850,000,000	655,000,000
	1,137,000,000	863,000,000

Contingent liabilities

Apart from legal work undertaken in the normal course of business, SIEA was party to two legal claims, both of which have been fully provided for and in the opinion of the directors will not have a material effect on SIEA's financial position. These claims are as follows:

a) A claim by a former employee for unfair dismissal which is in the process of being settled for approximately $33,000; and

b) A claim by a member of the public arising from an incident whereby a child was electrocuted and burnt. Compensation of $1.3 million has been demanded, but the legal advice provided to SIEA has estimated that if liability is proven, damages of up to $125,000 may be awarded.

27 World Bank Financing

a) Financial Support Received

SIEA has received financial support from the World Bank's International Development Association (IDA) on the Solomon Islands Sustainable Energy Project (SISEP) since July 2008 to improve operational efficiency, system reliability and financial sustainability of SIEA. Further, the World Bank, through a multi donor trust fund, has also extended financial support on the Output-Based Aid (OBA) programme since August 2016, for increasing access to electricity services in low-income areas of Solomon Islands. In addition to the SISEP and OBA programmes, the World Bank through the IDA has provided further support under the Solomon Islands Electricity Access and Renewable Energy Expansion Project (SIEAREEP) since October 2018. SIEAREEP's objective is to increase access to grid supplied electricity and increase renewable energy generation in the Solomon Islands.

b) Grants

SIEA has received total grants of USD 6,782,961 from these programmes since their commencement (2017: USD 4,886,242). The 2017 balance consists of the following funds, IDA H9130 – USD 550,371, IDA H4150 – USD 4,146,973 and TF A2923 - USD188,898.

c) Credit Funds

The credit funds are interest-bearing loans that are required to be repaid and are shown in the current and non-current liabilities as they are drawn down.

Notes to the Financial Statements *(Continued)*

For the year ended 31 December 2018

27 World Bank Financing *continued*

d) Use of the Proceeds

The proceeds of the World Bank grants and credits have been utilised in accordance with their intended purpose as specified in their respective agreements.

A summary of the transactions that took place during the year is as follows:

	2018 USD	2017 USD
Designated Account		
Balance at 1 January	43,661	24,747
Receipts	279,862	195,075
Expenditures	247,905	176,162
	75,618	**43,661**
Grants		
IDA H4150	-	14,222
IDA H9130	1,403,891	302,249
TF A2923	492,828	188,898
	1,896,719	**505,369**
Credit Funds IDA 53790		
Balance at 1 January	366,210	551,383
Borrowings	2,078,572	1,748,897
Principal Repayments	435,479	1,934,071
Balance at 31 December	**2,009,303**	**366,210**

28 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.

29 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.







SolomonPower
Solomon Pow

GLOSSARY

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

SolomonPower
energising our nation

2018
ANNUAL REPORT

Solomon Islands Electricity Authority
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Email: enquiry@siea.com.sb
Website: www.siea.com.sb