ANNUAL REPORT 2020

SolomonPower
energising our nation

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energising our nation

Our Vision:

energising our nation.

Our Mission:

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

Our Values:

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

Contents

Glossary

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

LETTER TO THE MINISTERS

27th March 2021

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

&

The Honourable Harry D. Kuma MP
Minister of Finance and Treasury
PO Box G26,
Honiara,
Solomon Islands

Dear Honourable Ministers,

SOLOMON ISLANDS ELECTRICITY AUTHORITY (Trading as Solomon Power) ANNUAL REPORT 2020

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 OBE
Chairman

2020 HIGHLIGHTS

- Sustained the reliability of power supply in Honiara and at the Outstations
- Sustained G-1 operation in Honiara and the Outstations
- For Tina River Hydropower Project
  - Engaged a consultant for the detailed design phase of the 66kV lines
  - The detailed design phase has progressed to 80% completion
  - The connection studies to integrate the hydro plant to the existing grid has commenced.
- For the Output Based Aid (OBA) Programme
  - The Solomon Islands Electricity Access Expansion Project (SIEAEP) was successfully completed on 31 March 2020 with energisation of 2,488 installations as planned
  - The Implementation Completion and Results Report for SIEAEP was received from the World Bank
  - We achieved very good results on Project Development Objectives for SIEAEP
  - The OBA programme has been continued under the Solomon Islands Electricity Access and Renewable Energy Expansion Project (SIEAREEP) with another 940 installations energised in 2020
- The project for the upgrade of the Ranadi Substation was completed
- The project for the new substation at Kola'a Ridge was completed
- Capital upgrade works at Honiara Power Station essentially complete
- Commissioned the 11 kV and 415 V network extensions at seven locations in Honiara and at the Outstations
- The construction of the solar hybrid systems at Kirakira, Lata, Malu'u, Munda and Tulagi were progressed
- The detailed designs for the new hybrid generation systems at Hauhui, Namugha, Sasamunga and Vonunu progressed through a design and construct contract
- Detailed designs for Green Village, the control centre and protection upgrade at East Honiara have progressed
- The first two phases of the scope for the cost of services and tariff review has been completed
- Sustainability report for 2019 completed
- Implemented an operations and maintenance plan for all our network and generation assets
- Continued our focus on safety, nurturing and mentoring of staff
- Line Mechanic Training Programme continued
- Continued the apprenticeship and graduate programmes

PLANS FOR 2021

- Further improvement in the reliability of electricity supply in Honiara and at the Outstations
- Sustain G-1 operation in Honiara and at the Outstations
- For Tina River Hydropower Project
  - o Complete detailed design and tender for the 66 kV lines
  - o Tender the construction works and sign a contract
  - o Complete the connection studies to integrate the hydro plant to the existing grid.
- Complete the planned network extensions in Honiara and at the Outstations
- Progress works to upgrade the 33kV and 11kV switchboards at Lungga Power Station
- Progress the Supervisory Control and Data Acquisition (SCADA) project
- Complete and commission the hybrid systems at Kirakira, Lata, Malu'u, Munda and Tulagi
- Implement the design and construct contract for the hybrid generation systems at Hauhui, Namugha, Sasamunga and Vonunu
- Progress the following under SIEAREEP
  - o Extension to the 1 MW solar farm at Henderson by another 2 MW
  - o Installation of a 220 kW solar system on the roof of our building at Ranadi
  - o Installation of Solar Hybrid systems at Bina, Baolo, Dala, Tingoa, and Visale
  - o The implementation of the OBA programme
- Implement the design and construct contract for hybrid generation system at Afio
- Execute a design and construct contract for the hybrid generation system at Ambu, Auki
- Sign and implement a design and construct contract for the 1 MW grid connect solar farm at Tanagai
- 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
- Implement the proposed Electricity Tariff Regulations 2021
- Complete sustainability report for 2020
- Continue implementation of the maintenance plan
- Continue our focus on safety, training, nurturing and mentoring
- Continue with the Graduate and Apprenticeship programmes
- Continue with the Line Mechanic Training programme
- 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 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
Board Chairman

James Apaniai
Board Member

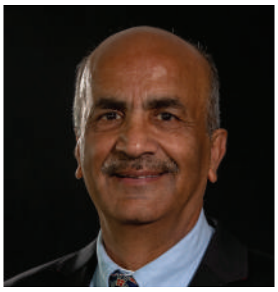
John Bosco Houanihau
Board Member

Muriel Ha'apue-Dakamae
Board Member

Rovaly Sike
Board Member

Natalie Kairi
Board Secretary

SENIOR MANAGEMENT



Pradip Verma
Chief Executive Officer

Martin Sam
Chief Engineer

Jose Poothokaren
Chief Finance Officer

Jan Sanga
General Manager Customer Services

Kaitu Aisake
General Manager Corporate Services

Hemant Kumar
General Manager Capital Works and Projects

Ila Tura
Chief Information, Communications Technology Officer

Noel Quan
Manager Legal and Contract Services

Geoffery Ossie
Manager Internal Audits

Mathew Korinihona
Manager Distribution

Apollos Inasimae
Manager Finance

Droumand Rupert
Manager Human Resource, Learning and Development

Levan Respioh
Manager Business Administration

Christian Siota
Manager Occupational Health Safety

Grace Kikiribatu
Manager Regulatory

Dalton Maesia
Manager Land, Building & Fleet

CHAIRMAN'S LETTER

The year 2020 has been another successful year. It is ten years in a row that Solomon Power has made a profit. Furthermore, the last nine years' statutory accounts have all been unqualified, and signed off by the Auditor General before the mandated date of 31st March each year.

I would like to congratulate the Management and staff of Solomon Power for their excellent sustained efforts throughout 2020 in achieving these commendable results. Despite the challenges and uncertainties posed by the Coronavirus (Covid-19) pandemic, the Solomon Power Team has continued to maintain the generators, the network assets and sustained the reliability of power supply in Honiara and at all the Outstations.

By way of continuous support to the nation during the trying times posed by the pandemic we provided a reduction in the fuel charge component of the electricity tariff in April by 44 cents per kWh. In May, we provided a reduction in the overall tariff by 16% and this was part of the Solomon Islands Government's Stimulus Package. Additionally, during the period July-September, the electricity tariff rates for domestic customers were reduced by 8%.

Despite the challenges posed by the Covid-19 virus we in Solomon Power have not lost sight of our community and social obligations and hence the organisation's contribution of $1 million to SIG as financial assistance for the repatriation of our students and their families from the Philippines.

On behalf of the Board of Solomon Power, I would like thank our Shareholder for providing an opportunity for SP to invest $40 million in the COVID-19 SIG Domestic Development Bonds to fund several major regional infrastructure projects in Solomon Islands.

It is pleasing to note that Solomon Power has made steady strides in going "Green". During the year we have progressed the detailed design for the two proposed 66kV transmission lines from the Tina River Hydropower proposed plant site to our Lungga Power Station. We have also achieved steady progress throughout the year on the installation of the solar hybrid plants and associated distribution works at Kirakira, Lata, Malu'u, Munda and Tulagi.

We are quite upbeat about the progress made during the year on the Output Based Aid programme with the support of the World Bank. By year-end, we had in total livened up connection to about 3500 customers.

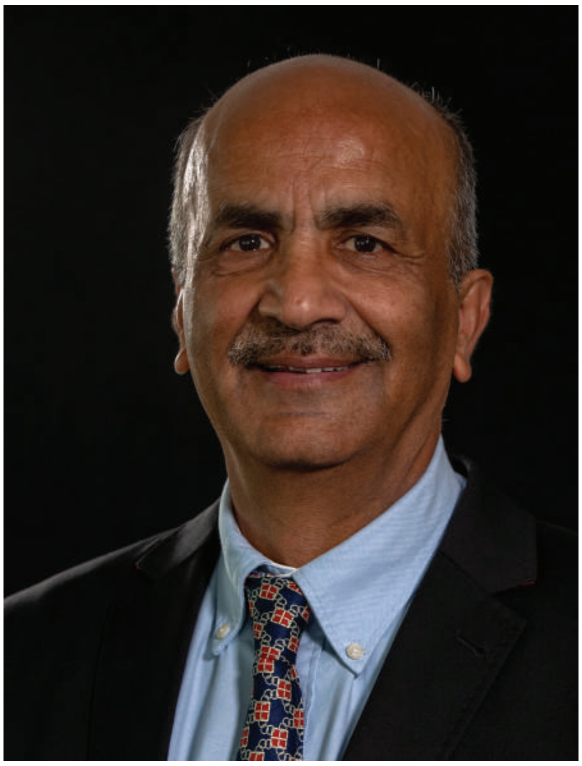
In 2020 through a consultancy contract funded by the World Bank, we have completed the first two phases of the Cost of Service and Tariff Review. We anticipate to complete the study in the first quarter of 2021 culminating in a revised Tariff Regulations effective 1 June 2021 which will see a reduction in the Non-Fuel Tariff component.

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

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 2020.

David K.C. Quan OBE
Chairman

CHIEF EXECUTIVE OFFICER'S LETTER



Year 2020 was the most unexpected in the lives of the overwhelming majority of the people in Solomon Islands. We started the year with good progress on all our planned works during January and February. However, the Covid-19 crisis cruelly intervened in March to derail and delay our works programme.

Every year during the period 2012-2019 we have experienced steady growth in energy sales and growth in revenue. However, due to the pandemic and the much needed associated travel restrictions, this year has been an outlier. From, a sales perspective energy sold dropped by 3.75% in comparison with the budgeted figure. The revenue too fell by 8.45% in comparison with the amount in 2019.

On a positive note I would like to put on record my appreciation of the professionalism, dedication and commitment demonstrated by the Solomon Islands Police, Immigration and Health Departments. It is through such excellent staff who have un-relentlessly worked during this cruel crisis and are continuing to do long hour day in and day out risking themselves that we as a Nation have managed to keep our beautiful Happy Isles extremely safe and keep at bay the deadly virus.

The reliability at all the Outstations has been immaculate. The reliability performance in Honiara has been very good except for 2 days in August when we were compelled to initiate load shedding on rotational basis for a couple of hours.

During 2020 we have sustained our focus on infrastructure investments with an annual injection of $130 million. The expenditure predominantly has been in 11kV and 415V network extensions; housing and office upgrades, construction at the 5 hybrid sites partly funded by ADB; design for the Green Village, Call Centre, Control and Data Centre and for the detailed design of the 66kV transmission lines.

The programme to extend the 11kV and 415V networks in Honiara and at the Outstations made very good progress during the year. The Board further approved funding for extensions at 12 more locations which brings the total to 54 locations with total approved funding of $111 million. Of these 33 extensions have been completed and commissioned.

The project to design, construct and commission a new substation at Kola'a Ridge was completed during 2020. The upgrade works at Ranadi Substation was also completed during the year.

It is also pleasing to see the mobile top-ups reach more than 1225 daily transactions on an average and on certain days it has exceeded 1600. During 2020 we extended the top up facility through a platform created by BeMobile.

It has been another fruitful, however a challenging year. I am incredibly proud of the responsible, committed way our people have responded to the crisis. Many thanks to the Team Solomon Power and our Board for their dedication, together, we will power a bright future for Solomon Islands.

Pradip Verma
Chief Executive Officer

ENGINEERING HIGHLIGHTS

Overview

Power situation in Honiara was generally stable; however, outages were experienced in early April due to the effect of Tropical Cyclone Harold that affected parts of Solomon Islands including Honiara on 3 April. There was also a total outage due to the loss of the MAN Diesel generators on 27 April. In addition, there were load sheds implemented for a few hours on 24 and 31 August due to faults experienced by L7, L8 and L9 generators at the Lungga Power Station. As a result, outages recorded for Honiara rose to 13.54 million Customer Minutes Lost (CML) compared with 10.31 million CML in 2019.

The bulk of the unplanned outages in Honiara were due the damages to the network caused by Tropical Cyclone Harold and the loss of generating plants during the months of April and August.

The scheduled 16,000 hours major overhauls for the MAN Diesel generators at Lungga Power Station were delayed to 20,000 hours due to effect of the Covid 19 travel restrictions. The decision to delay the overhauls was made following a condition assessment carried on the generators.

By the year end, all generators at Lungga and Honiara Power Stations were operational except L6 Mirlees, which was waiting for parts to continue with its major overhaul; and L9 Mitsubishi generator awaiting a replacement Automatic Voltage Regulator (AVR).

The network performance indicators for the year showed an increase of the SAIDI to 117.30 minutes compared with 74.20 minutes in 2019. The SAIFI figure for 2020 however decreased to 0.39 times as compared with 0.64 times in 2019.

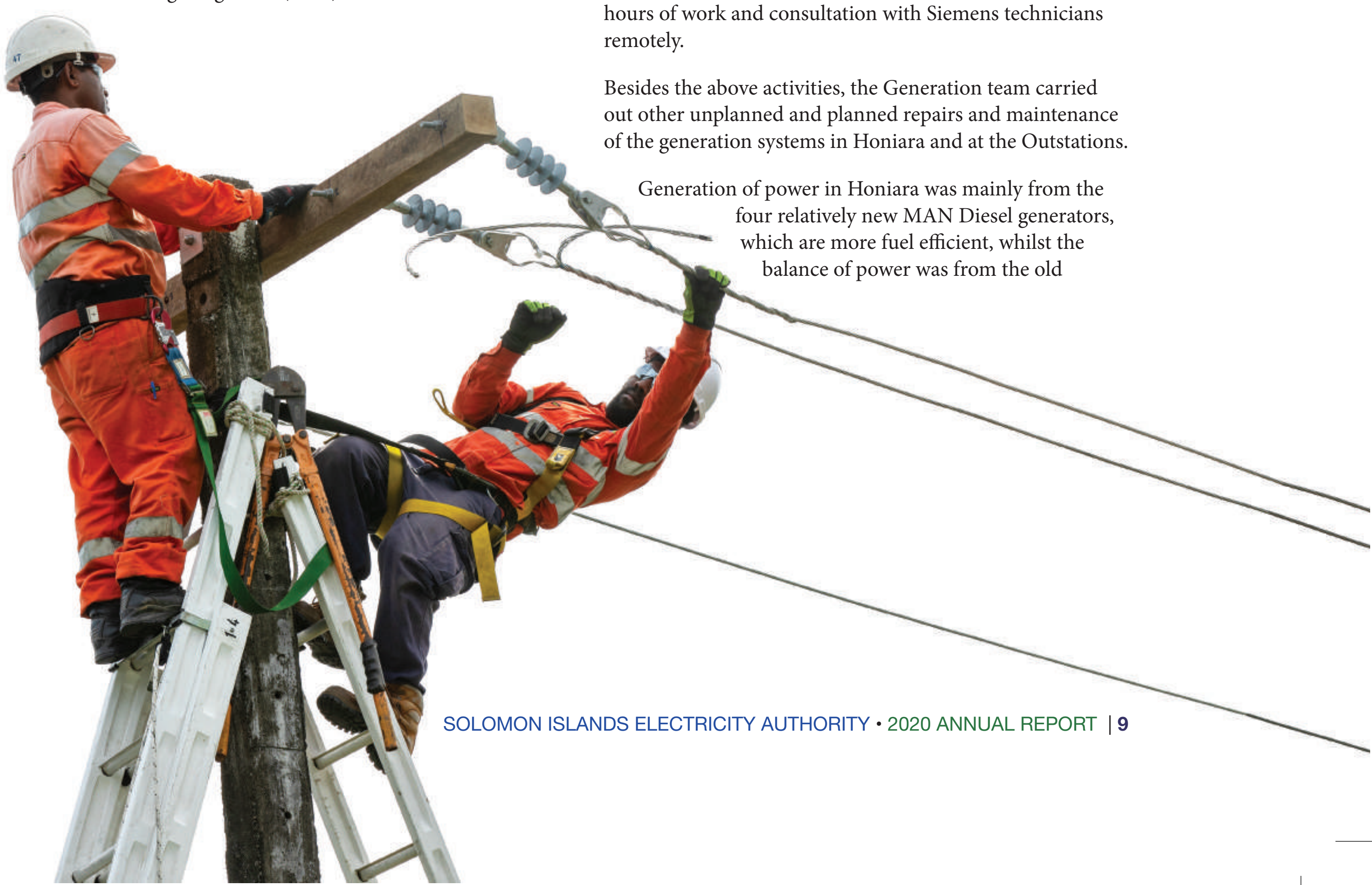
Honiara's maximum demand peaked at 15.91 MW during the year compared with 16 MW in 2019. At the Outstations; Buala, Seghe, Tulagi and Noro/Munda recorded new peak demands during the year as a result of additional customers connected to the grids. At Noro/Munda, the increase of the demand from 900 to 1,010 kW was mainly due to connection of the National Fisheries Development's reefers on to the grid.

Major activities that were carried out by the Generation team at Lungga were the implementation of scheduled major services to the Honiara (Lungga and Honiara Power Stations) generators and those at the Outstations. With older generators that continued to be operated at Malu'u, Kirakira and Lata, keeping the lights on has been a challenge.

The electrical team at Lungga Power Station was faced with a very challenging situation when the MAN Diesel generating 110 V batteries failed on 27th April. As a result, the Uninterruptable Power System (UPS) for the T3000 Siemens controller was also damaged. The team managed to restore the supply to the controller, and were able to put the MAN Diesel generators back to operation after long hours of work and consultation with Siemens technicians remotely.

Besides the above activities, the Generation team carried out other unplanned and planned repairs and maintenance of the generation systems in Honiara and at the Outstations.

Generation of power in Honiara was mainly from the four relatively new MAN Diesel generators, which are more fuel efficient, whilst the balance of power was from the old



generators at Lungga and Honiara Power Stations. The Honiara grid was also supported by the Henderson 1.0 MW and the Ranadi 50 kW solar plants during the daylight hours.

The Technical and Compliance Section of the Distribution Department carried verification inspections on the line constructions that were carried by the department's construction crews and those that were carried out by contractors. The inspections were to ensure that standard materials and construction methodologies were utilized in order for the line works to comply with standards and safety requirements. A number of defects were identified on the high voltage lines that were constructed at Tulagi and Kirakira by one of the contractors. The contractor has addressed the defects at Kirakira and has commenced the rectification works at Tulagi.

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

The Distribution Department was also able to provide technical and implementation support to the network extension projects at Buriniasi, Raubabate, Kunu and Malu'u in Malaita. The team also installed a 1000kVA transformer at the Noro Ports to connect the fish storage containers.

The Regulatory Department continued to perform its regulatory functions by carrying out inspections to new and upgraded installations in Honiara and at the Outstations. The team also provided technical and regulatory support to the Contractor for the changeover of the Heritage Park Hotel to be partially connected on and off our grid.

The Regulatory Department also pursued the requirement in the Electricity Act for the private standby generators to be licensed. A notice was issued during the fourth quarter of 2020 for customers with existing and new standby generators to submit their application for licensing. By the end of the year six (6) out of fifteen (15) applicants were issued with licenses.

Generation and Outstations

Power generation in Honiara was mainly from the Lungga Power Station and in particular from the new 10MW plant using the 4x2.5MW MAN Diesels generators. The balance of power requirement was from the old generators at the Lungga and Honiara Power Stations. Power generation in Honiara was also supported by a 1MW solar plant at Henderson, east Honiara and also from a 50kW solar plant at the Head Office at Ranadi.

Scheduled 16000 hours major overhaul of the MAN Diesels generators were delayed to 20000 hours due to Covid 19 travel restriction into Honiara. The decision was made following carrying out of a successful condition assessment on all four generators.

At the Outstations, power generation was predominantly by diesel generators for most sites whilst at Buala, the 150kW hydro supported the system there and at Seghe and Taro, the solar hybrids plants supplied most of the power at the sites.

Other activities carried out by the Generation team included monitoring of power plants, attending to faults and breakdowns of both the mechanical and electrical systems; and scheduled 1,000 hours services for large generators in Honiara and 500 hours service for the small generators at the Outstations.

Distribution

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

Maintaining the reliability of the network in Honiara was a key priority for the team and this was managed by effective vegetation clearing from the lines and the timely implementation of planned maintenance and replacing of defective network equipment with new or refurbished units.

Addressing the constraints in the network was also a priority for the team and in Honiara, a number of low voltage network upgrades were carried out. One in particular was at Koloale where 13 spans of low voltage (415V) conductors were replaced with aerial bundle conductors (ABC) including the replacement and realignment of a number of low voltage poles.

One of the major activities that was undertaken by the department was the restoration of the network in Honiara as a result of the effect of the Tropical Cyclone Harold on 3rd April. It took the team about three weeks to fully restore the Honiara network.

At the Outstations, the team provided technical and installation supports to the new High Voltage (HV) line works at Tulagi and Kirakira. At Auki, the team carried out the installation of new transformers at Buriniasi, Raubabate and at Malu'u. New distribution transformers were also installed at Buala, Tulagi and Kirakira on the newly constructed HV (11kV) systems. At Noro in the Western Province, a 1000 kVA transformer was installed at the Noro Port to connect the National Fisheries Development's fish storage reefer containers.

Outstations

Power generation at the Outstations was generally stable throughout the year with no total outage experienced.

Buala, Kirakira, Lata and Malu'u continued to generate power from generators that were installed prior to 2013, except the hydro plant at Buala, which was re-commissioned in 2016. Auki, Gizo, Munda, Noro and Tulagi generation was from the new Kohler generators that were installed under the Outstations generation project that was completed in 2018.

Taro and Seghe Outstations have continued to generate power from the hybrid mini-grids that were commissioned in 2017, with Taro operation at about 80% renewable and 20% diesel whilst the Seghe plant was 100% renewable.

Major 500 hours services were carried out on generators GZ1, GZ2, GZ3 at Gizo and N1 and N2 at Noro, M1 at Munda and TG2 at Tulagi.

The underground cable which links Noro and Munda stations experienced a fault during the month of December and efforts to locate the fault was 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 compliant with AS/NZ3000 Wiring Standards. The department also supported licensed electrical contractors by providing regular updates on the rules and regulations and by carrying out progressive inspections to wiring installations.

One of the functions of the Regulatory Department is to license Grade A & Grade B electricians as provided for under the Electricity Regulations 52 of the Solomon Islands Electricity Act. An interim licensing framework was set up in 2018 following the signing of a memorandum of understanding between SP and Energy Skills Australia. Under this arrangement, licensing assessments were carried out for both the theory and practical assessments.

By the end of 2019, there were 53 licensed electricians of which 33 were from SP and 20 from private companies and some Government departments.

In 2020, the theory component of the licensing assessment was continued but because of travel restrictions due to the Covid 19 pandemic; practical assessments were not conducted and there were no additional Grade 'A' Licenses issued.

Testing of meters was suspended for a few months during the year as the standard meter, which is part of the Test Bench, was faulty. It was sent to the manufacturer in Spain for repairs and has since been repaired and returned to Honiara. Testing of meters resumed in October after the standard meter was repaired and a total of 369 meters were tested by the end of the year.

A total of 1,829 installations were energised compared with 2,125 in 2019. Of the total energised, 750 (41%) were normal customers and 1,079 (59%) were customers under the OBA programme.

Renewable Energy

For the 15 MW Tina River Hydropower Project, a project of national significance, Tina Hydropower Limited, the Developer, continued to make steady progress on the basic design and detailed design for the plant and the access roads. Solomon Power (SP) progressed the detailed design for the associated 66kV transmission lines with expected completion in the first quarter of 2021 and we anticipate to go to the market for a construction contract for the two 66 kV circuits in the second quarter of 2021.

Despite travel restrictions imposed as a result of the Covid-19 pandemic, the works under the design and construct contract with CBS Power Solutions Limited partly funded by grant from the Asian Development Bank (ADB) for the hybrid solar farms at Kirakira, Lata, Malu'u, Munda, and Tulagi made steady progress during the year.

Construction in Kirakira, Malu'u, Munda and Tulagi have progressed substantially during the year. This also includes the construction of the 11kV networks at these locations. At Lata, the preparatory works were completed by CBS. We anticipate to test and commission all the five hybrid systems during 2021. The five sites will add 1 MW of renewable energy source to our network.

Netcon Clay Energy Joint Venture, the Contractor, for the proposed solar hybrid installations at Hauhui, Namugha, Sasamunga, and Vonunu carried out the basic design and detailed design for the plants. Additionally the battery energy storage systems for the 4 sites has already been procured and is currently being stored in New Zealand. The project, with a total capacity of about 815 kW, is jointly funded by the New Zealand Government and SP. Construction is expected to start in the third quarter of 2021.

A contract for the construction of an additional 2.0 MW of solar at Henderson, east of Honiara, was awarded to East West-Blue Gas Joint Venture. The project is jointly funded by SP and the World Bank under SIEAREEP.

Tender documents for the development of the Ranadi Head Office rooftop (220kW) solar and the five solar hybrid systems one each at Baolo, Bina, Dala, Visale, and Tingoa have been progressed. We are expecting to go to tender for these works in the first quarter of 2021. These projects are also funded by the World Bank under SIEAREEP.

Land at Ambu, Auki on Malaita has been purchased for a proposed 1.4 MW solar farm development. The tender for the project will be put to the market in the second half of 2021.

The SP funded solar hybrid plants at Seghe and Taro, which were commissioned mid-2017, were both operating well during the year. The mini hydro plant at Buala has been generating since its commissioning in 2016. Additionally the 1 MW solar farm at Henderson and the 50 kW solar installation on our Ranadi carpark roof have been operating effectively since June 2016 and August 2014 respectively.

Power System Reliability

SP'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 117.30 minutes, compared to 74.20 minutes in 2019, an increase by 43.10 minutes.

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.

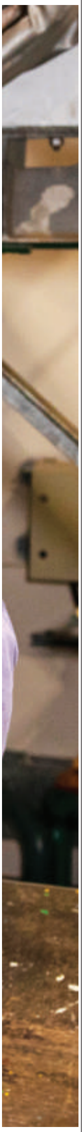
SAIFI = (Total number of customer interruptions/Total number of customers served)

For Honiara, this was measured to be 0.39 times, compared to 0.64 times in 2019, an improvement by 0.25 times.

The Customer Average Interruption Duration Index (CAIDI)

This a measure of the average number of time (minutes) that a customer is without power per interruption.

For Honiara, this was measured to be 303.20 minutes per interruption, compared to 132.57 minutes in 2019, an increase by 170.63 minutes.



Reliability and Efficiency

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

With L6 and L9 generators out of service by the end of the year, the available generation capacity for Honiara was 24.0MW against a peak demand of 15.913MW.

The implementation of 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 outages due to faults on the 11kV feeders.

With improved and timely maintenance on both the Generation and Distribution systems, we have maintained the reliability of the electricity supply in Honiara and at the Outstations. However, there were outages experienced due to the impact of the Tropical Cyclone Harold on 3rd April in the Honiara networks and the loss of the MAN Diesel generators on 27th April. In addition, there were two load sheds for about 2 hours each on 24th and 31st of August when three of the large generators were out of service due to mechanical (L7 and L8) and electrical fault (L9) at about the same time.

There were also issues with protections settings at the Honiara East and Kola'a Ridge Substations. Power Research & Development Consultants Private Ltd (PRDC) reviewed the existing protection setting in the protection studies carried out and new relay settings have been recommended.

At the Honiara East Substation, new relay settings have been implemented whilst for the Kola'a Ridge Substation we are awaiting confirmation from PRDC.

Energy Produced

Energy produced in 2020 compared with 2017, 2018 and 2019 is as shown in the table below. Lungga and Honiara operations produced a total of 85.59 GWh (86.5%) whilst the Outstations and the Henderson solar plant produced 13.36 GWh (13.5%).

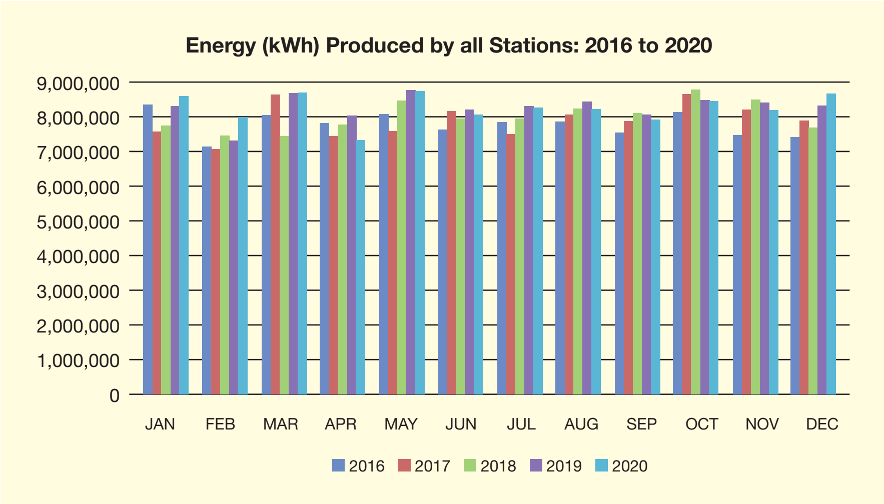
Station	GWh (2020)	GWh (2019)	GWh (2018)	GWh (2017)
Lungga	83.74	83.04	81.75	80.73
Honiara	1.85	2.80	2.46	1.65
Outstations	11.96	11.77	11.17	9.73
Henderson Solar (1MW)	1.40	1.47	0.89	1.19
Ranadi Solar (50kW)	Not Available	Not Available	0.015	0.042
Independent Power Producers (IPP)	0	0	0	0.94
Total	**98.95**	**99.08**	**96.285**	**94.28**

Maximum Demand

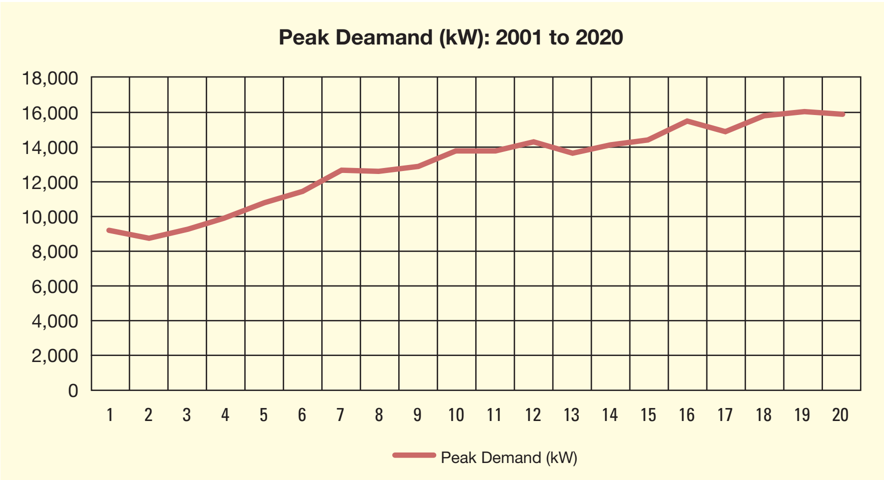
The demand for electricity in Honiara in 2020 peaked at 15,913 kW compared with a figure of 16,000 kW in 2019, a decrease of 87 kW.

Generation Statistics

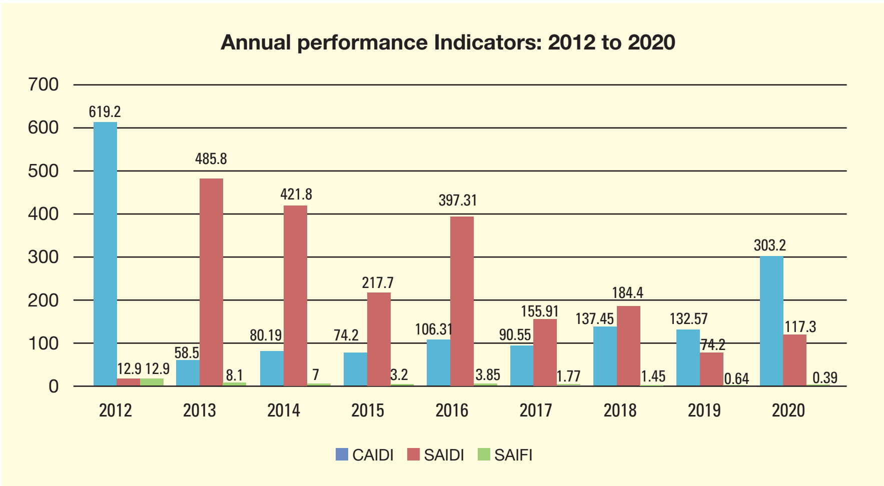
Energy produced by all stations during 2016 to 2020 is shown in the histogram below:



Honiara Peak Demand from 2001 to 2020 is shown in the graph below:



System Performance Indicators for Honiara from 2012 to 2020 are shown in the histogram below:



CAPITAL WORKS AND PLANNING DIVISION

Capital Works

The Capital Works and Planning team structures has been fully integrated into one team with excellent improvements in performance in planning and delivery. Our four local Managers have been effectively managing the respective departments within the Capital Works & Planning Division achieving significant outcomes amidst a challenging backdrop of Covid 19.

There were 35 active capital infrastructure projects underway in 2020, with three additional projects in the planning phase to the total value of $923 million. Of these, the following were accomplished during the year:

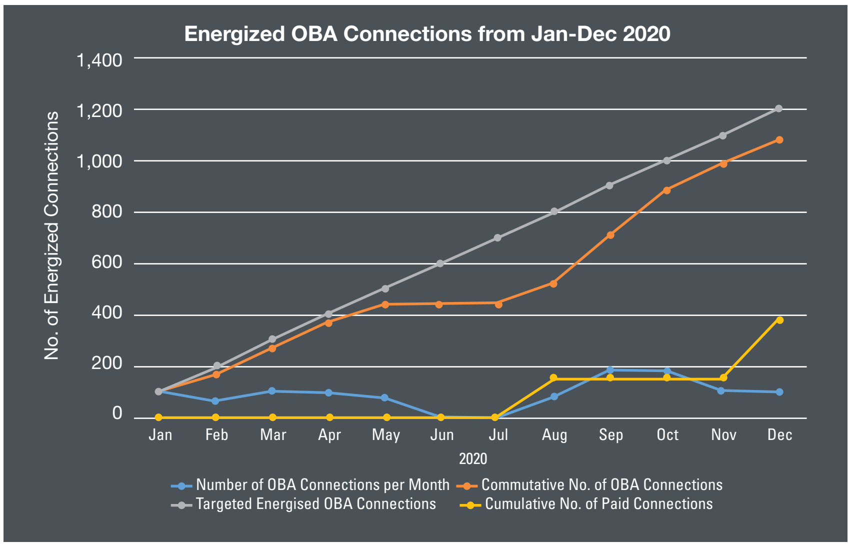
- Completion and commissioning of:
    - o 11kV/ 415V line network extensions at Burnscreek, Kirakira, Tulagi, Malu'u, Buala, Barana, & Mboko-na.
    - o A second transformer at Lungga Power Station
    - o A new Toilet Block at Ranadi Office
- Contracts signed for the following projects:
    - o Buala Civil Works Project
    - o SCADA Master Station Project
    - o Henderson Fighter 1 Solar Farm Expansion Project
    - o Tina 66kV Transmission Line Detailed Design Project
- Projects approved and awaiting contract signing in 2021:
    - o Ranadi Rooftop Solar Project
    - o Baolo Solar Hybrid Generation System Project
    - o Dala Solar Hybrid Generation System Project
    - o Bina Solar Hybrid Generation System Project
    - o Visale Solar Hybrid Generation System Project
    - o Tingoa Solar Hybrid Generation System Proj-ect
    - o Tanagai Solar Farm
    - o Tina 66kV Transmission Line Construction Proj-ect
    - o Twelve additional 11kV/415V Network Extension Projects

The following key projects were at various stages of progress in 2020 and are targeted for completion in 2021 - 2024:

- Tina River Hydropower Proj-ect – 66kV transmission lines and termination equipment at Lungga.
- Housing Upgrade works in Honiara, Auki, Tulagi, Gizo, Lata and Noro.
- Commissioning of 5 hybrid replacement generation systems for the existing Outstations at Kirakira, Lata, Malu'u, Munda and Tulagi.
- Detailed design & complete installations of Solar Hybrid Generation Systems at Hauhui, Namugha, Sasa-munga and Vonunu.
- Detailed design & complete installations of Solar Hy-brid Generation Systems at Baolo, Bina, Dala, Tingoa and Visale.
- Detailed design & complete installation of Tanagai 1 MW Solar farm
- Detailed design & complete installation of Henderson 2 MW Solar farm
- Buala Hydro Scheme Forebay repairs.
- Tina 66kV Transmission Line Construction Project
- Additional 11kV/415V Network Extension Projects
- OBA Programme.

The OBA programme adheres to core OBA principles by enabling low-income households to access basic energy services and disburses subsidies to SP only after the access related outputs have been achieved and independently verified. The implementation of this programme commenced end 2016 under the World Bank Funded Solomon Islands Electricity Access Expansion Project (SIEAEP) and has progressed through 2017-2019 and in the first quarter of 2020. This project concluded on 31 March 2020, and as planned, we have energised connections to 2488 customers well before the expiry date.

Effective 1 April 2020, we have continued the programme under component 2 of the SIEAREEP under which there



is a grant funding of USD 1.5 million for connection to another 1500 low-income customers, of which SP has already energised 940 connections under the current programme. Under SIEAEP and SIEAREEP a total of 1082 additional OBA customers were connected and energised in 2020.

Planning

The Planning department has updated all the network development plans for the Outstations and for Honiara for the next five year planning period. This included the identification and execution of seventeen detailed survey works, mapping and engineering reports. Of these, five are for potential solar farm sites within the Honiara grid. Twelve are for planned network extensions for a total of 1602 potential customers, of these four are in the Honiara grid, four are in the Auki grid, two are in the Noro-Munda grid, and two in the Lata grid.

The Planning department provided critical input in the formulation of a renewable energy roadmap for Honiara, which aims to achieve 100% renewable energy generation by 2030 where a final draft report has been published.

We updated the least cost modelling of future generation expansion options for the Honiara electricity system.

Construction drawings were prepared for the proposed All-Dielectric Self-Supporting (ADSS) Fibre optic cable between Lungga, Henderson, East Honiara, & White River substations & Optical ground wire (OPGW) on the existing 33kV line between Lungga, Kola'a Ridge, & Honiara substations as part of the SCADA project.

To encompass and enable a comprehensive outlook of the company's capital budget, a revised company expenditure plan was developed in collaboration with other key divisions for the next five (5) year planning period.

11 kV network extension

Solar hybrid at Munda- in progress

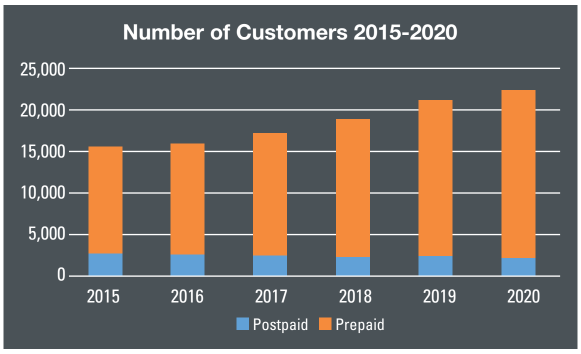
11kV/415V transformer installation

Solar hybrid at Kirakira- in progress

CUSTOMER SERVICES DIVISION

Customer Services Division is responsible for all customer issues, being the first point of contact for the customers in terms of enquiries through to connections and management of customer accounts and metering. Customer Services tasks are performed in Honiara as well as at the eleven Outstations namely Auki, Buala, Gizo, Kirakira, Lata, Malu'u, Munda, Noro, Seghe, Taro and Tulagi; 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.

As at 31 December 2020, 22,182 customers were registered and connected to our Honiara and Outstations network as compared to 21,043 in 2019 and 18,781 in 2018.



In terms of customer by tariff category for both post and prepaid, 79% of customers are on the domestic category while 21% are on the commercial rate, which also includes industrial.

For the post-paid category 72% of customers are commercial and 28% are domestic in comparison for prepaid customers, where 84% are domestic customers and 16% are commercial.

TOTAL CUSTOMER COUNT BY LOCATION - DECEMBER 2020

	POSTPAID	PREPAID	TOTAL
Honiara	1,616	15,262	16,878
Auki	151	1,394	1,545
Gizo	103	785	888
Noro	81	567	648
Munda	26	547	573
Tulagi	32	213	245
Kirakira	34	248	282
Buala	37	223	260
Lata	36	243	279
Malu'u	21	214	235
Taro	18	208	226
Seghe	5	118	123
	2,160	**20,022**	**22,182**

CUSTOMER BY TARIFF CATEGORY

Domestic	17,404
Commercial	4,750
Industrial	28

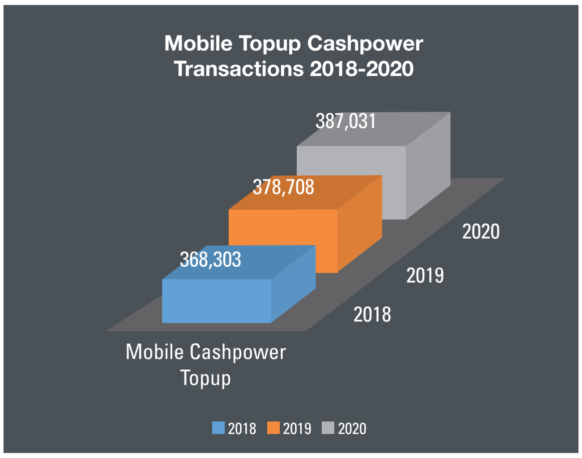
Post-paid customers are registered on the post-pay billing system called Utility Star Platinum (USP), a system put in place in June 2014. Cashpower customers however are registered on the upgraded Suprima Version 6.

The electricity tariff applied during 2020 is the gazetted Electricity Tariff (Base Tariff and Tariff Adjustments) Regulation 2016. The Electricity Tariff (Base Tariff and Tariff Adjustments) Regulations 2016 is available on our website www.solomonpower.com.sb.

SP has progressed its programme to extend the electricity network in Honiara and at the Outstations in 2020. Community awareness sessions go hand in hand with network extension plans, customer applications and customer connectivity. 17 community awareness programmes were held throughout the nation in 2020.

To further improve services to our valued customers, an agreement was signed with a 4th cashpower mobile top-up service provider, Bemobile (SI) Limited. The agreement was signed on the 16th of March 2020. Bemobile joined SI Postal Corporation, BSP and Pan Oceanic Bank in providing this valuable service, which is in line with addressing our accessibility and affordability challenges.

These services enable our prepay customers on cashpower to top up on their credits using the mobile phones without having to visit a physical cashier counter. In 2020, there were 387,031 cashpower transactions conducted through mobile cashpower top-up which made up 47% of all cashpower transactions in 2020.



Extended cashpower cashier hours from Monday to Friday up to 8.00 pm on the drive through and walk through windows are still a delight for cashpower customers not signed up to the cashpower mobile top-up service. There were 104,490 transactions conducted through the drive through & walk through windows in 2020. A 24/7-hour phone service is also available through the numbers 166 and 167.

Tremendous progress has also been made to ensure post-paid customers are also included in the digital age. USP billing system has been updated with Bill Email function. This will enable customers to receive their bills on a monthly basis by email. Furthermore, a system for online access by post-paid customers to view their bills via the internet has been setup, with rollout to be carried out in 2021. For the first time since Smart Meters were installed in 2018, customers were billed from readings that were directly integrated from Smart Meters.

There were few changes made to our processes due to COVID 19. Customers' entry into the Hyundai Mall Office & Ranadi Office were restricted and controlled. Customers were encouraged to utilise SP's other ways of making payments. This include Internet Banking Payments through ANZ, BSP & Bred Bank as well as Direct Deposit/Transfer into SP Accounts at ANZ & BSP. Disconnection of electricity supply to customers with outstanding bills since March 2020 were deferred for 6 months. Furthermore, there were more interaction with post-paid customers via telephone and email to discuss payment plans.

Customer applications for new connections was further enhanced with ongoing training and upgrading of front line skills. Throughout the year the Customer Services team has co-ordinated with our Regulatory & Distribution Departments to setup a timeframe for new connections. The online application form was also updated and trialled out in 2020. These changes are continuing to streamline the process for new connections.

The Customer Services Division benefited from various training exercises conducted in-house facilitated by Solomon Islands National University as well as other Online Training sessions and webinars. There were also various succession planning activities carried out throughout the year, ranging from on job training, job rotation and acting in a senior role.

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.

During the year, we protected our revenues by ensuring accuracy of our meters in customer premises, a reduction of non-technical losses and by an inspection of all the meters, which continued throughout the year. The discrepancies found and the few illegal bypasses encountered were actioned in a timely manner.

FINANCE DIVISION

The fiscal position of SP continues to be strong and amongst others is due to good financial management and governance. During the year:

- SP paid $5 million for 2019 dividend and will also declare and pay dividend of $4 million for 2020 once the accounting books have been audited.
- Net Profit for the year was $75 million.
- Return on equity and return on assets has been 6.0% and 5.1% respectively.
- Generation costs per kWh was $1.60 (US $0.2032 per kWh).
- Fuel cost, being 38.7% of our costs, has decreased in comparison with 2019.
- Capital Infrastructure is being funded using retained earnings (new Solar Hybrid Outstations, Outstations' Generation Upgrade, 11kV and 415V network extensions, upgrade to properties etc.).
- SP has continued to repay its World Bank IDA Loan and interest to SIG.

Information, Communications and Technology

SP relies on Information and Communications Technology (ICT) to support its day-to-day business operations and the ICT Group supports the business areas by:

- Supporting the full suite of business applications for: Finance, Corporate Services, Customer Services, Administration, Distribution, Generation, Capital Works and all operational software needs;
- Provision of communications network connections to offices and power house sites across Honiara;
- Providing links to the current 11 Outstations in the Provinces at: Auki, Buala, Gizo, Lata, Kirakira, Malu'u, Munda, Noro, Seghe, Taro and Tulagi;
- Connecting all full-time staff and additional contractors and service providers;
- Managing Desktop PCs, Laptops, Printers and Telephones for department operations;
- Running 21 Production and 18 Disaster Recovery (DR) servers across two Data Centre environments; and
- Managing 160 Terabytes of storage space for corporate information.

As part of the development for a growing organisation, the ICT Group has continued working on upgrading all of SP's IT Platforms

We have:

- Introduced 168 new desktop and laptop machines running Windows 10. This is to replace EOL (End of Life) support for Windows 7 in 2020.
- Commenced upgrading Microsoft Office software licenses to 2016/19, with 20 computers remaining for upgrades.
- Improved the communication links to the Outstations as a result of the undersea fibre optic cable that was commissioned in early 2020, for Solomon Islands. IP Phone and Time clock solutions, in certain Outstations, were then successfully tested.
- Installed and commissioned telecommunications at 3 new sites. These were for Tulagi, Kirakira & Malu'u proposed Solar Farms.
- Upgraded Suprima (Cashpower) to version 6.
- Successfully commenced the issuing of e-copy payslips from the Payroll System. Staff can now receive their payslip via email, thereby saving costs on paper, toner, wear and tear and shall reduce our carbon footprint.
- Implemented the Online billing (CDPRO) for USP – to enable SP customers to view their kW bills online.
- Implemented the replacement of the previous Antivirus/antimalware software (Webroot) with Sophos to provide an improved layer of security to the existing SP IT Infrastructure.
- Procured 26 Managed Network Switches and have started to replace those existing ones that are at their EOL.
- Procured 5 pairs (10 pieces) of Cambium Radios for Henderson solar farm, Kirakira, Munda, Buala and Auki and have replaced the existing Ubiquiti Radios that were having performance issues.
- Procured 15 Cambium Wifi devices for installation at identified sites.
- Begun the initial analysis phase into the planned Fibre MOU (Memorandum of Understanding) Exit Project.
- Implemented Cyber Security Awareness and Training for SP staff.
- Implemented an online ticket logging system called Zohodesk, for ICT Team support management.
- Implemented Zoom and Video-Conference facilities for SP Board Room and Lungga Meeting Room. These facilities proved to be very useful for SP, due to the situation caused by Covid-19.

We will in 2021 be:

- Completing the upgrading of Microsoft Offices software licenses to 2016/19 for the remaining computers.
- Procuring and installing 71 new computers and laptops, due for replacement.
- Upgrading ICT Network devices (Radios, Switches, UPS, Wifi) to standardise infrastructure and maintain performance.
- Completing the rollout of the e-copy Payslips to all remaining SP Departments.
- Implementing the rollout of the Time clocks to selected Outstations (Auki, Gizo, Malu'u, Munda, Noro and Tulagi).
- Continuing to test the IP phone system setup to other selected Outstations.
- Progressing the delivery of the Fibre Optic MOU Exit Project.
- Progressing the delivery of the New Data Centre Project.
- Investigating and implementing agreed automated business solutions for identified Corporate Services functions.
- Implementing the automation of ICT Contracts and Licence Management.
- Expanding and setting up SP network solutions at proposed sites.
- Conducting a BIA (Business Impact Analysis) and develop a BCP (Business Continuity Plan) for SP.
- Working with the Internal Audit Section to compile a SP ICT Risk Register.
- Undertaking an ICT Workforce Planning exercise.
- Going to the market for the tender of SP ICT Server and Network Administration Services as the current contract with the service provider shall expire in August 2021.

CORPORATE SERVICES DIVISION

The Corporate Services Division provides operational support services to other Divisions across the organization through its Human Resources, Business Administration, Learning Services, Health, Safety, Security & Environment, Business Performance, Recruitment Services, Legal & Contracts Management, Fleet and Lands & Buildings teams.

Human Resources

At the end of 2020, SP had a total number of 286 permanent employees, compared to 278 at the end of 2019. This was an increase of 2.88%.

The graph below (Figure 1) shows the number of permanent employees by divisions at the end of 2020, compared to the end of 2019.

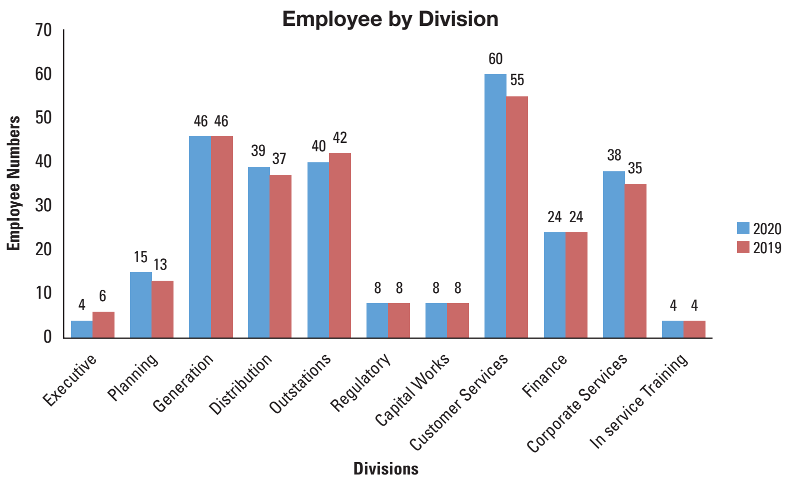


Figure 1: Employee Numbers by divisions

The graph below (Figure 2) shows the number of permanent employees by locations at the end of 2020, compared to the end of 2019.

Figure 2: Employee numbers by location

Some highlights in 2020 included:

- Online recruitment using the Harmonise system. This has been effective since June 2020.
- Review of the following policies in the Human Resources and Procedures Manual (HRPPM)
  - o Per-diem Policy
  - o Retirement Policy
  - o Performance Management Policy
- Inclusion of new Policy in the HRPPM called 'Hazard Allowance'. The intention of the policy is to compensate essential employees who shall continue to provide critical services during a 'lockdown' as and when declared by the government.
- Recruitment of key roles such as Chief Executive Officer, Chief Financial Officer, General Manager Customer Services and General Manager Corporate Services.
- A 'Contingency Plan for COVID 19' was developed when a State of Public Emergency was declared by government in early 2020. The policy offers guidelines to management on how to proceed with operations during a lockdown or curfew.

Training and Development

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

Long-term training: Twenty-Two (22) employees continued with their long-term study programmes in 2020, in the following areas:

- Bachelor in Accounting and Public Administration
- Diploma in Power Engineering
- Master of Engineering Science specialising in Power Engineering
- Bachelor in Electrical Engineering
- Masters of Business Administration
- Certificate IV in Electrical Technology

- Certificate IV in Automotive Engineering (Heavy Plant)
- CPA Foundation
- CPA
- Diploma in Construction

Short-term training: Some in-house and local training undertaken in 2020 were:

- Basic Driver training
- Basic Counselling
- Auto Re-closer Testing
- Substation
- SEL Relay 751A
- Best practises in Maintenance and Reliability Excellence
- Electrical Generators, Excitation systems and governing systems
- Photovoltaic Energy System
- Certified Balance Sheet Management
- IFRS Updates and Impact of Covid-19 on Financial Statements
- CPA
- CPA Foundation
- Finance for non-finance
- Leadership Skills and Management
- Managing Projects
- Network Security
- EPC Contracts for Energy Industry
- Masterclass - Human Resources
- Masterclass – Strategic Perspective for Managers
- Masterclass – Forecasting and Budgeting during times of Uncertainty

Cyber awareness

- Emergency Action Plans and Fire Prevention plans
- Gender awareness
- Trade Disputes panel - Unfair dismissal
- Emotional Intelligence – Achieving Leadership Success

Health, Safety, Security and Environment (HSSE)

The year 2020 was an especially challenging year for HSSE due to the global COVID-19 pandemic. Much of HSSE's focus for 2020 was to remain at the forefront of the battle against a potential community transmission of the COVID-19 virus within the Solomon Islands by purchasing and disseminating international standard PPE for employees. These were followed by a continuous programme of reminders via email and workshops to heighten awareness of preventative and containment measures staff may use in the event of a community transmission.

SP operations had managed to maintain **L**ost **T**ime **I**njuries to only one (1), with only three (3) resulting in **L**ost **W**ork **D**ays. Accumulative **I**njury **S**everity **R**ate for 2020 for this only one injury incident ended at only 1.609, well under the commonly targeted ceiling of 1.99 in most industries.

Item	HSSE Activities	Number of engagements in 2020
1	Visits/Inspections	36
2	Drills/Exercises	6
3	Risk Assessments	18
4	Fire Protection	13
5	Toolbox	6
6	Awareness	29
7	Inductions	17

Table 1: Interactive table summarises some of the departments' engagements in 2020:

- 84.6% of SP operational sites were HSE inspected against an annual target of 70%. The inspections were not only for Power Stations but also of power line networks around each site. HSE awareness on Electrical Safety were also conducted by officers as joint events with other SP departments.
- Sound level readings were obtained during site visits/ inspection. Maps of relative zones requiring ear protection around the Power Stations are developed as well as all other standard PPE for operational areas.
- A total of six (6) emergency fire drills were conducted, including two (2) for the Ranadi Complex occupants. Fire protection equipment at SP operating sites were also inspected and serviced as part of this emergency preparedness goal.
- HSSE officers conducted OSH risk assessments for various electrical tasks by different SP operation teams. The aim was to develop SP's risk registry from these completed risk assessments.
- The Ministry of Environment and Conservation complimented SP through the HSSE department for initiating the 2020 Environment Day clean up around Ranadi Industrial area. Eventual collaboration with other Ranadi based companies fulfilled the planned activity for the days' afternoon with employees participating in a clean-up by picking up rubbish.

Lands, Buildings & Fleet

Land

SP continued with its programme of land acquisitions and proper registration of its properties both in Honiara and in the outer Provinces. Most of the land negotiated since 2019 were properly registered and well secured in 2020.

Buildings

SP continued with its 2020 Staff Housing and Commercial building upgrade projects in Honiara and in the outer Provinces.

There were three (3) new commercial building projects approved and started in 2020 on top of the 2019 on-going Projects.

The current projects are on its final stages which is expected to complete in the first quarter 2021.

In 2020 SP has taken custodian of the eleven (11) new staff houses that were completed as part of the 2019 Housing Redevelopment Programme and started work on another eleven (11) new staff houses which is expected to be completed in first quarter of 2021.

SP had a total of fourteen (14) newly developed buildings approved and assigned for the year 2020. There are three (3) new commercial building approved and assigned that are now in progress and also eleven (11) other new staff houses that are approved and assigned under 2020 Housing Redevelopment programme.

Fleet

Total number of vehicles as of December 2020 was 87. This is a decrease from 91 in 2019. There are eight (8) vehicles planned to be disposed through public tender but was moved to March 2021 due to the pandemic. This will reduce the Fleet to 79 by end of March 2021.

Ten (10) motor vehicle accidents (MVA) occurred in 2020 at a repair cost of $110,796.02. The vehicle tracking system continues to be utilised to improve fleet efficiencies and to proactively manage the speeding and unauthorised use of vehicles.

Legal Department

Legal Department provides in-house legal services to SP on a wide range of matters, from contractual/ transactional matters to litigation/dispute resolution, as well as compliance with applicable laws. The Department was re-established in 2020 following the recruitment of a Manager Legal and Contract Services, and a Graduate Trainee Lawyer. Recruitment of a Senior Legal Officer will be completed in 2021, which will further strengthen the capacity of the Department to provide a full range of legal services more efficiently. With the re-establishment of the Legal Department, all legal cases and advices on domestic law matters are now handled in-house as of December 2020.

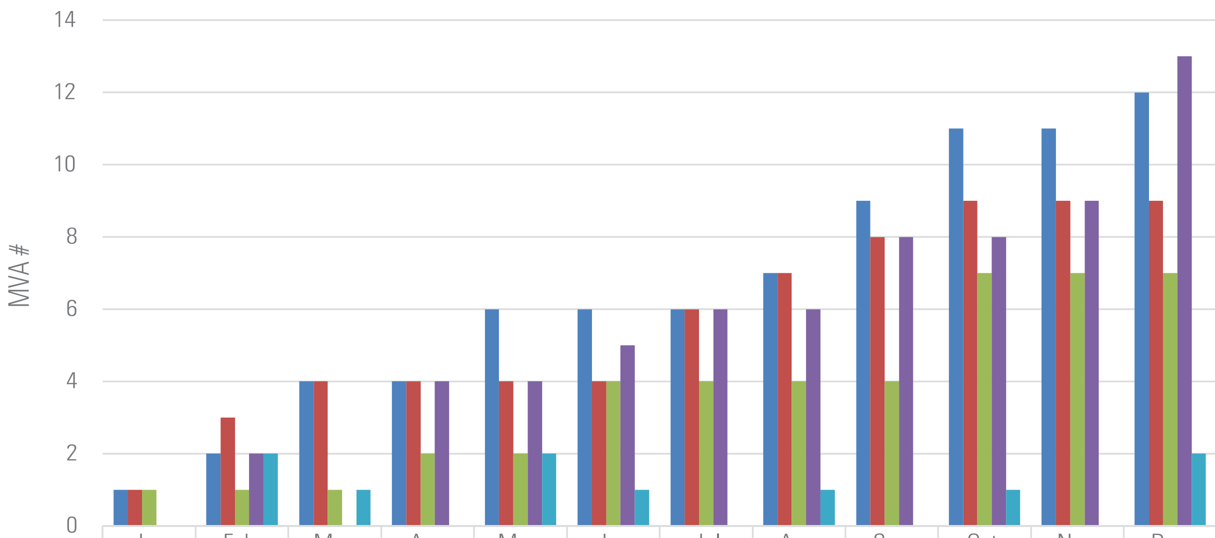
High Court

One case was filed against SP in 2020. Altogether, there are three cases currently ongoing, of which SP is the claimant in one, and the defendant in the other two.

Trade Disputes Panel

No case was filed against SP in 2020. One case is currently ongoing.

Cummulative MVA for 2020



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2016	1	2	4	4	6	6	6	7	9	11	11	12
2017	1	3	4	4	4	4	6	7	8	9	9	9
2018	1	1	1	2	2	4	4	4	4	7	7	7
2019	0	2	0	4	4	5	6	6	8	8	9	13
2020	0	2	1	0	2	1	0	1	0	1	0	2

CORPORATE GOVERNANCE PRACTICES

Role of the Board

As required by Section 6 (4) of the State-Owned Enterprises Action 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 as at 31st December 2020

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

Name	Position	Appointment	Term
Mr David K.C. Quan, M.B.E	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 State-Owned Enterprise 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 towards 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 State-Owned Enterprise must not:
  a) agree to the business of the State-Owned Enterprise being carried out on or in a manner likely to create a substantial risk of serious loss to the State-Owned Enterprises creditors or, and
  b) Cause or allow the business of a State-Owned Enterprise to be carried out on or in a manner likely to create substantial risk of loss to the State-Owned Enterprise creditors.
- A Director must not agree to the State-Owned Enterprise incurring an obligation unless the Director believes at the time, on reasonable grounds, that the State-Owned Enterprise will be able to perform the obligation when it is required to do so.
- A Director of a State-Owned Enterprise, 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 12 meetings during the financial year, which ended 31 December 2020. Of these, five were scheduled meetings and the rest extra-ordinary meetings. The regular business of the Board covers corporate governance, financial performances and risk management, business investment and strategic matters.

Board Committees

There are three Board Sub-committees, Audit Finance Governance and Risk, 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, Governance & Risk Sub-committee

Membership:

1. Muriel Ha'apue-Dakame – Chairlady
2. David K.C. Quan, M.B.E. – Member
3. James Apaniai – Member
4. John Bosco Houanihau – Member
5. Rovaly Sike – Member

Number of meetings: 2

HR Sub-Committee

Membership:

1. John Bosco Houanihau – Chairman
2. David K.C. Quan, M.B.E. – Member
3. Muriel Ha'apue-Dakame – Member
4. James Apaniai – Member
5. Rovaly Sike – Member

Number of meetings: 2

Technical Sub-Committee

Membership:

1. Rovaly Sike – Chairman
2. David K.C. Quan, M.B.E. – Member
3. Muriel Ha'apue-Dakame – Member
4. James Apaniai – Member
5. John Bosco Houanihau – Member

Number of meetings: 1

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 2020 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 O.B.E – Chairman

James Apaniai

John B Houanihau

Muriel Ha'apue-Dakamae

Rovaly Sike

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 2020, 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 $75,164,011 (2019: $91,097,546).

Dividends

The Directors have not declared a dividend for the financial year ended 2020, however $5,000,000 was paid during the year relating to 2019 (2019: $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.

Transfer from asset revaluation reserves to retained earnings

The Directors resolved to transfer $2,742,493 (2019: $8,268,335) from asset revaluation reserves to retained earnings as a result of de- recognition of assets during the financial year.

DIRECTORS' REPORT (cont'd)

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' 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 year 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.

Legal and regulatory requirements

The State Owned Enterprises Act 2007 (SOE Act) requires the Authority to deliver its audited financial statement to its Accountable Ministers within three months of the financial year end to which the financial statement relates.The Authority completed its audited field work with KPMG and subsequently delivered its financial statement to the office of the Auditor General (OAG) on 12 March 2021 for review and sign off. The Authority was advised on 12 March 2021 by the OAG that the position of the Auditor General was vacant and no person had been appointed as Auditor General, and that while the position of the Auditor General was vacant, the OAG was and would be unable to certify and report on the audit done in respect of the Authority's financial statement. The consequence of this was that despite the Authority delivering its financial statement to the OAG on 12 March 2021, OAG could not certify and report on the Authority's financial statement before the required three months' period under the SOE Act, and hence the Authority could not deliver its audited financial statement before the required three months' period under the SOE Act.

The Authority in its best efforts to comply with its obligations under the SOE Act has submitted its financial statement to both its Accountable Ministers on 30 March 2021 and both ministries acknowledged receiving copies of the financial statement.

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.

Dated at Honiara this 15th day of October 2021.

Signed in accordance with a resolution of the Directors.

Director

Director

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 audited the accompanying financial statements of Solomon Islands Electricity Authority (the Solomon Islands Electricity Authority) which comprise the Statement of Financial position as at 31 December 2020, and the Statements of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 30.

In my opinion the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). 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 Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, 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.

Other information

Management is responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the financial statements and my auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

Independent Auditor's Report to the Members of Solomon Islands Electricity Authority Trading as Solomon Power
Report on the Audit of the Financial Statements (continued)

In preparing the financial statements, management is 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 management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for 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 of Supreme Audit Institutions (ISSAI) 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.

As part of an audit in accordance with ISSAIs, 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 identify during my audit.

Independent Auditor's Report to the Members of Solomon Islands Electricity Authority Trading as Solomon Power
Report on the Audit of the Financial Statements (continued)

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;

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 the Electricity Act (Cap. 128) State Owned Enterprises Act 2007 and Public Finance and Audit Act (Cap. 120) in the manner so required; and

iii) the Authority did not comply with the requirements of the State Owned Enterprises Act, 2007, which requires the audited financial statements to be submitted to the Minister within three months of the financial year end to which the financial statements relate. The process was delayed due to the timing of my appointment as Auditor-General. The signed statements were presented to me on 15 October 2021 following my appointment as Auditor-General on 24 September 2021.

David Dennis
Auditor-General
15 October 2021

Office of the Auditor-General
Honiara, Solomon Islands

SOLOMON ISLANDS ELECTRICITY AUTHORITY TRADING AS **SOLOMON POWER**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020	2019 Restated
		$	$
Operating income			
Electricity sales	7 (a)	438,602,254	480,466,462
Amortisation of deferred income	20	7,912,793	7,715,936
Other operating income	9	6,036,746	8,933,899
Reversal of credit impairment	17	-	2,743,565
Total operating income		**452,551,793**	**499,859,862**
Expenses			
Generation and distribution	10	193,956,700	225,341,289
Administration	11	68,004,504	70,175,187
Operating	12	25,900,773	23,761,915
Depreciation and amortisation	14	68,271,394	64,259,234
Depreciation of right-of-use assets	24	4,034,902	3,664,350
Interest expense		1,211,154	2,505,667
Inventory and asset write-off		13,686,603	18,773,115
Credit impairment charge	17	2,630,743	-
Total expenses		**377,696,773**	**408,480,757**
Gain from operations		**74,855,020**	**91,379,105**
Foreign exchange gain/(loss)		308,991	(281,559)
Net profit for the year		**75,164,011**	**91,097,546**
Other comprehensive income		-	-
Total comprehensive income for the year		**75,164,011**	**91,097,546**

The notes disclosed on pages 38 to 67 are an integral part of the financial statements

SOLOMON ISLANDS ELECTRICITY AUTHORITY TRADING AS **SOLOMON POWER**

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	2020	2019 Restated	2018 Restated
Assets		**$**	**$**	**$**
Current assets				
Cash and cash equivalents	15	287,715,658	310,620,237	303,524,441
Inventories	16	58,274,089	51,531,306	22,451,241
Receivables	17	61,170,200	61,305,594	61,766,690
Prepayments		10,938,231	7,305,488	13,755,419
Total current assets		**418,098,178**	**430,762,625**	**401,497,791**
Non-current assets				
Property, plant and equipment	14	1,016,645,806	968,691,157	859,782,324
Right-of-use assets	24	9,372,122	7,984,758	-
Receivables	17	-	-	798,672
Government bonds	18	70,000,000	30,000,000	30,000,000
Total non-current assets		**1,096,017,928**	**1,006,675,915**	**890,580,996**
Total assets		**1,514,116,106**	**1,437,438,540**	**1,292,078,787**
Liabilities				
Current liabilities				
Deferred income	20	7,912,793	7,715,936	6,392,961
Trade and other payables	21	41,261,564	42,284,899	46,156,524
Lease liabilities	24	3,549,946	2,036,765	-
Borrowings from SIG	22	2,802,313	3,599,000	3,599,000
Employee benefits	23	2,067,344	4,244,521	6,778,721
Total current liabilities		**57,593,960**	**59,881,121**	**62,927,206**
Non-current liabilities				
Deferred income	20	129,891,315	122,181,545	74,065,116
Lease liabilities	24	2,625,414	2,191,165	-
Borrowings from SIG	22	17,888,282	19,495,564	10,928,257
Employee benefits	23	15,098,534	12,834,555	10,401,164
Total non-current liabilities		**165,503,545**	**156,702,829**	**95,394,537**
Total liabilities		**223,097,505**	**216,583,950**	**158,321,743**
Equity				
Contributed capital	19	246,933,170	246,933,170	246,933,170
Asset revaluation reserve	14	373,878,875	376,621,368	384,889,703
Accumulated profit		670,206,556	597,300,052	501,934,171
Total equity		**1,291,018,601**	**1,220,854,590**	**1,133,757,044**
Total equity and liabilities		**1,514,116,106**	**1,437,438,540**	**1,292,078,787**

Signed for and on behalf of the Board of Directors

Director **Director**

The notes disclosed on pages 38 to 67 are an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Contributed capital	Asset revaluation reserves	Accumulated retained earnings	Total
	$	$	$	$
Balance at 1 January 2019 (as previously reported)	**246,933,170**	**384,889,703**	**507,246,500**	**1,139,069,373**
Adjustment (refer note 6)	-	-	(5,312,329)	(5,312,329)
Restated balance as at 1 January 2019	246,933,170	384,889,703	501,934,171	1,133,757,044
Net profit for the year	-	-	91,097,546	91,097,546
Disposal of revalued property, plant and equipment	-	(8,268,335)	8,268,335	-
Transaction with owners of SIEA directly recognised in equity				
Dividend declared during the year	-	-	(4,000,000)	(4,000,000)
Restated balance at 1 January 2020	**246,933,170**	**376,621,368**	**597,300,052**	**1,220,854,590**
Total comprehensive income for the year				
Net profit for the year				
Other comprehensive income	-	-	75,164,011	75,164,011
Disposal of revalued property, plant and equipment	-	(2,742,493)	2,742,493	0
Transactions with owners of SIEA directly recognised in equity				
Dividend declared and paid during the year	-	-	(5,000,000)	(5,000,000)
Grants received during the year	-	-	-	-
Prior period adjustment	-	-	-	-
Balance at 31 December 2020	**246,933,170**	**373,878,875**	**670,206,556**	**1,291,018,601**

The notes disclosed on pages 38 to 67 are an integral part of the financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020	2019
		$	$
Operating Activities			
Cash receipts from customers		447,405,137	493,403,694
Cash payments to suppliers and employees		(304,516,422)	(351,966,157)
Net cash provided by Operating Activities		**142,888,715**	**141,437,537**
Investing Activities			
Net investment in debt securities		(40,000,000)	-
Acquisition of property, plant and equipment	14	(129,892,644)	(191,872,350)
Net cash used in Investing Activities		**(169,892,644)**	**(191,872,350)**
Financing Activities			
Dividend paid		(5,000,000)	(4,000,000)
Net movement in SIG Borrowings	22	(2,403,970)	8,567,308
Cash receipts from donor grants	20	15,819,420	57,155,340
Payment for lease liability	24	(4,316,100)	(4,192,037)
Net cash provided by Financing Activities		**4,099,350**	**57,530,611**
Net decrease in cash and cash equivalents		(22,904,579)	7,095,796
Cash and cash equivalents at 1 January		310,620,237	303,524,441
Cash and cash equivalents at 31 December	15	**287,715,658**	**310,620,237**

The notes disclosed on pages 38 to 67 are an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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, Solomon Islands.

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 Island Government's owned electricity supply systems.

3 Basis of preparation

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

***a)* Presentation of currency**

The financial statements are presented in Solomon Islands Dollars ("SBD"), which is SIEA's functional and presentation currency. All financial information is presented in Solomon Islands 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 unless stated otherwise.

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 property, plant and equipment
- Note 7 (e) (iv) – Impairment of non-financial assets
- Note 7 (f) – Employee benefits

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

6 Restatement

During the financial year, the Authority was subject to allowances and benefits tax audit by the Inland Revenue Division of Solomon Islands whereby it was discovered Solomon Power had a tax shortfall on non-cash tax benefit from 2015 to 2019 financial year relating to allowances and benefits paid to employees. During the year, Solomon Power paid $6,905,277 to Inland Revenue to cover the shortfall.

The prior period errors highlighted above have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summaries the impacts on the Authority's financial statements.

Statement of financial position

			Impact of restatement			
	As previously reported		Adjustment		As restated	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**
Trade and other payables	40,844,195	35,379,622	5,312,329	1,592,948	46,156,524	42,284,899
Total current liabilities	57,614,877	52,975,844	5,312,329	1,592,948	62,927,206	59,881,121
Total liabilities	153,009,411	209,678,672	5,312,329	1,592,948	158,321,740	216,583,949
Accumulated profit	507,246,500	604,205,329	(5,312,329)	(1,592,948)	501,934,171	597,300,052
Total equity	1,139,069,373	1,227,759,867	(5,312,329)	(1,592,948)	1,133,757,044	1,220,854,590
Total equity and liabilities	1,292,078,784	1,437,438,539	-	-	1,292,078,784	1,437,438,539

Statement of profit or loss and other comprehensive income

			Impact of restatement			
	As previously reported		Adjustment		As restated	
	2018	**2019**	**2018**	**2019**	**2018**	**2019**
Administration expenses	81,605,507	68,582,240	5,312,329	1,592,948	86,917,836	70,175,188
Total expenses	389,120,299	406,887,811	5,312,329	1,592,948	394,432,628	408,480,759
Gain from operations	79,917,905	92,972,051	5,312,329	1,592,948	74,605,576	91,379,103
Net profit for the year	80,080,065	92,690,494	(5,312,329)	(1,592,948)	74,767,736	91,097,546
Total comprehensive income for the year	80,080,065	92,690,494	(5,312,329)	(1,592,948)	74,767,736	91,097,546

There is no material impact on the Company's profit and no impact on the total operating, investing or financing cash flows for the year ended 31 December 2020.

7 Summary of significant accounting policies

a) Revenue

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.

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 30 days thus there is no significant financing component.

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.

Revenue including upfront fees is recognised net of VAT 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 Company's performance of the electricity revenue contract.

The transaction price is determined based on approved tariffs at the time the service had been rendered and units of kilowatts consumed by the customers. The transaction price includes the non-refundable upfront fees as it not considered to be a significant material right. The transaction price is considered to be variable due to the following:
- Tiered-pricing for commercial and industrial customers; and
- Estimate of unbilled electricity supplied to 'domestic' 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. For Solomon Power however the considerations are constrained because it is calculated based on actual units consumed during the period, thus consideration for the period is known.

	2020	2019
Revenue from contracts with customers	**$**	**$**
Kilowatt sales	314,443,256	343,420,680
Cash Power Sales	123,353,890	135,781,104
Sales works	805,108	1,264,678
	438,602,254	480,466,462
Other revenue		
Amortisation of deferred income	7,912,793	7,715,936
Interest received	4,463,177	2,600,551
Income from asset relocation	-	2,494,784
Tina Hydro refunds	204,583	789,647
Stale cheques	332,617	972,915
Other income	1,036,369	2,076,002
Total revenue	452,551,794	497,116,297

7 Summary of significant accounting policies *continued*

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 Fair Value Through Profit and Loss (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.

***ii.** Classification and subsequent measurement*

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive Income (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

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.

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's 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

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 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

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.

7 Summary of significant accounting policies *continued*

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).
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 (if any) would relate to investments in listed securities.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for- trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets
SIEA derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which SIEA neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

SIEA enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities
SIEA derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. SIEA also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, SIEA currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

7 Summary of significant accounting policies *continued*

c) Impairment of non-derivative financial assets

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:

ECLs are a probability-weighted estimate of credit losses. They are measured as follows: the present value of all cash shortfalls (i.e. the difference between the cash flows owed to the authority 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

7 Summary of significant accounting policies *continued*

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.

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.

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.

***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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

7 Summary of significant accounting policies *continued*

e) Property, plant and equipment (continued)

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

Land, buildings, generators and plants 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.

***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.

7 Summary of significant accounting policies *continued*

e) Property, plant and equipment (continued)

***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.

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.

***vi.* Capital work in progress**

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

f) 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

An 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.

For each future year the amounts of entitlements expected to be paid on termination of employment have been determined by making a projection of each employee based on their current salary, age and service, as well as assumed rates of death, disablement, retirement, resignation and rates of inflation. The resulting cash flows have then been converted to a present value by discounting from the expected date of payment to the valuation date at the assumed discount rate to determine the total liability.

g) Taxation

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

7 Summary of significant accounting policies *continued*

h) Foreign currency transactions

Transactions denominated in a foreign currency that are not hedged are converted at the prevalent 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.

i) 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.

j) Grants

An unconditional grant related to an asset is recognised in profit or loss as other income when the grant becomes receivable.

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and SIEA will comply with the conditions associated with the grant and are then recognised in 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.

k) Provisions

SIEA recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount 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.

l) Leases

At inception of contract, SIEA assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, SIEA assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified;
- SIEA has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- SIEA has the right to direct the use of the asset. SIEA has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, SIEA has the right to direct the use of the asset if either:
  - SIEA has the right to operate the asset: or
  - SIEA designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, SIEA allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, SIEA has elected not to separate non-lease components and account for the leases and non-lease components as a single lease.

7 Summary of significant accounting policies *continued*

l) Leases (continued)

As a lessee

SIEA recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re- measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, SIEA's incremental borrowing rate. Generally, SIEA uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that SIEA is reasonably certain to exercise, lease payments in an optional renewal period if SIEA is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless SIEA is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured where there is a change in future lease payments arising from a change in an index or rate, if there is a change in SIEA's estimate of the amount expected to be payable under a residual value guarantee, or if SIEA changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

SIEA has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less, temporary staff residences and leases of low-value assets, including IT equipment. SIEA recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17

***i)* As a lessor**

When SIEA acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, SIEA makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, SIEA considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When SIEA is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which SIEA applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, SIEA applies IFRS 15 to allocate the consideration in the contract.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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:

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

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

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.

8 Financial risk management *continued*

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

Kilowatt debtors:	Weighted average loss rates	Gross carrying amount	Loss allowance	Credit impaired
	%	$	$	
2020				
Current - 30 days past due	12.19%	18,888,278	2,302,481	No
30 - 59 days past due	23.99%	6,752,283	1,619,873	No
60 - 89 days past due	46.03%	3,778,189	1,739,100	No
90 or more days in past due	64.60%	15,769,610	10,187,514	Yes
		45,188,360	15,848,968	
2019				
Current - 30 days past due	11.79%	21,650,569	2,552,403	No
30 - 59 days past due	22.00%	10,104,633	2,223,082	No
60 - 89 days past due	46.03%	4,086,015	1,880,793	No
90 or more days in past due	62.58%	10,452,861	6,541,400	Yes
		46,294,078	13,197,678	

i) Credit risk

Cash power debtors	Weighted average loss rates	Gross carrying amount	Loss allowance	Credit impaired
	%	$	$	
2020				
Current - 30 days past due	9.70%	1,401,214	135,918	No
30 - 59 days past due	11.81%	1,123,926	132,736	No
60 - 89 days past due	12.36%	1,200,321	148,360	No
90 or more days in past due	8.08%	9,393,893	758,905	Yes
		13,119,354	**1,175,919**	
2019				
Current - 30 days past due	9.70%	59,132	5,736	No
30 - 59 days past due	11.81%	102,124	12,061	No
60 - 89 days past due	12.36%	153,173	18,932	No
90 or more days in past due	17.70%	9,334,730	1,652,366	Yes
		9,649,159	**1,689,095**	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

8 Financial risk management *continued*

Loss rates are based on actual credit loss experienced over the past three years.

The movement in the allowance for impairment in respect of trade receivables and other receivables during the year is disclosed in note 17.

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 is not considered material by management on reporting date.

Cash and cash equivalents

SIEA held cash and cash equivalents of $287,715,658 at 31 December 2020 (2019: $310,620,237). 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, the authority did not recognise an impairment allowance against cash and cash equivalents as at 31 December 2020 (2019: $nil)

Debt investment securities

SIEA held debt investment securities of $70,000,000 at 31 December 2020 (2019: $30,000,000). 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.

The Authority did not recognise an impairment allowance against debt securities as at 31 December 2020 (2019: $nil)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

8 Financial risk management *continued*

The following are the contractual maturities of financial liabilities:

31 December 2020	Carrying amount	6 months or less	6-12 months	Greater than 1 year	Total
	$	$	$	$	$
Financial liabilities					
Trade and other payables	39,154,138	39,154,138	-	-	39,154,138
Solomon Islands Government loan	20,690,595	1,814,969	1,786,945	20,353,430	23,955,344
Lease liability	6,175,360	2,131,972	1,335,210	4,248,594	7,715,776
	66,020,093	43,101,079	3,122,155	24,602,024	70,825,258

31 December 2019	Carrying amount	6 months or less	6-12 months	Greater than 1 year	Total
	$	$	$	$	$
Financial liabilities					
Trade and other payables	40,059,430	40,059,430	-	-	40,059,430
Solomon Islands Government loan	23,094,564	2,261,391	2,225,401	21,805,139	26,291,932
Lease liability	4,227,930	2,671,918	2,671,918	4,270,902	9,614,738
	67,381,924	44,992,739	4,897,319	26,076,041	75,966,100

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) Regulations 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 $139 million (2019: $177 million) comprises 37% (2019: 43%) of the expenditure of SIEA, so movements in fuel prices are critical to the profitability of SIEA. The monthly tariff review however 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 fuel pricing 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 decrease	100bp increase
	$000	$000
Revenue	436,300	468,800
Expenditure	363,488	391,288
Net Profit	72,812	77,512

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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	2020 $	2019 $
9 Other operating income			
Other		1,033,869	1,904,951
Income from asset relocation		-	2,494,784
Tina Hydro refunds		204,583	789,647
Stale cheques		332,617	972,915
Reconnections		2,500	1,500
Interest received		4,463,177	2,600,551
Unconditional grant income		-	169,551
		6,036,746	8,933,899
10 Generation and distribution			
Fuel		139,365,434	177,077,975
Lubricating oil		3,178,396	3,255,571
Other		2,836,800	2,820,000
Personnel	13	32,023,737	26,212,457
Repairs and maintenance		16,552,333	15,975,286
		193,956,700	225,341,289

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 $	2019 $
11 Administration			
Advertising		1,124,892	1,440,630
Bank fees		338,749	243,767
Computer bureau charges		2,957,213	1,785,710
Consultancy fees		2,027,023	4,376,917
Directors fees and expenses		262,431	454,377
Electricity		2,988,165	3,187,531
Electricity rebate		4,440,976	4,952,714
Freight		1,002,644	1,339,369
Insurance		2,522,861	2,504,500
Personnel	13	36,268,465	32,772,778
Printing and stationery		2,040,856	2,218,161
Professional fees		2,003,733	2,569,010
Property expenses		3,483,851	3,821,232
Telecommunications		3,602,101	3,387,565
Travel and accommodation		2,940,544	3,527,978
Tax Penalties		-	1,592,948
		68,004,504	70,175,187
12 Operating expenses			
Customs handling charges		3,713,480	4,083,563
Personnel	13	13,101,391	11,861,047
Repairs and maintenance		4,365,298	3,580,032
Vehicle costs		4,720,604	4,237,273
		25,900,773	23,761,915
13 Personnel expenses			
Salaries and wages		61,180,430	49,716,519
NPF		3,225,264	3,033,529
Retirement benefit expense		2,916,114	3,644,767
Others		14,071,785	14,451,467
		81,393,593	70,846,282

Personnel expenses classed by function is as follows:

Generation and distribution	32,023,737	26,212,457
Administration	36,268,465	32,772,778
Operating expenses	13,101,391	11,861,047
	81,393,593	70,846,282

Average number of employees during the year was 286 (2019: 278)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

14 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 2019	**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**
Additions	-	-	-	-	-	-	-	-	191,872,351	191,872,351
Disposals	(79,000)	(3,364,001)	(2,133,322)	(3,436,715)	(15,996,261)	(768,922)	(104,251)	(25,752)	-	(25,908,224)
Work in progress capitalised	7,681,046	8,876,777	14,135,829	33,636,926	43,390,519	3,466,605	2,195,639	1,658,495	(115,041,836)	-
Balance at 31 December 2019	**63,769,080**	**189,664,967**	**276,827,401**	**105,632,152**	**321,047,527**	**34,332,546**	**29,558,256**	**12,387,453**	**166,550,704**	**1,199,770,086**
Additions	-	-	-	-	-	-	-	-	129,892,645	129,892,645
Disposals	(204,864)	(4,455,053)	-	(11,249)	(11,880,722)	(4,601,367)	(1,193,673)	(1,482,657)	-	(23,829,585)
Work in progress capitalised	-	18,936,025	172,488	5,500,790	39,856,064	6,670,243	2,656,268	1,638,845	(75,430,723)	-
Balance at 31 December 2020	**63,564,216**	**204,145,939**	**276,999,889**	**111,121,693**	**349,022,869**	**36,401,422**	**31,020,851**	**12,543,641**	**221,012,626**	**1,305,833,146**
Breakdown of cost/revaluation										
Revaluations	34,688,634	45,126,962	47,010,361	69,097,405	177,955,513	-	-	-	373,878,875	
Cost	28,875,582	159,018,977	229,989,528	42,024,288	171,067,356	36,401,422	31,020,851	12,543,641	221,012,626	931,954,271
Balance at 31 December 2020	**63,564,216**	**204,145,939**	**276,999,889**	**111,121,693**	**349,022,869**	**36,401,422**	**31,020,851**	**12,543,641**	**221,012,626**	**1,305,833,146**
Accumulated depreciation and impairment loss										
Balance as 1 January 2019	**10,666,289**	**18,161,096**	**57,110,621**	**12,418,140**	**27,919,322**	**18,328,211**	**22,029,328**	**7,390,629**	**-**	**174,023,636**
Depreciation	-	9,189,636	25,312,296	5,387,539	13,337,005	4,313,600	2,291,368	1,845,685	-	61,677,129
Amortisation of leasehold land - restated	2,582,103	-	-	-	-	-	-	-	-	2,582,103
Depreciation on disposed assets	-	(887,482)	(1,974,455)	(1,546,217)	(1,921,818)	(749,185)	(104,251)	(20,531)	-	(7,203,939)
Balance at 31 December 2019	**13,248,392**	**26,463,250**	**80,448,462**	**16,259,462**	**39,334,509**	**21,892,626**	**24,216,445**	**9,215,783**	**-**	**231,078,929**
Depreciation	-	9,339,779	26,157,696	6,129,677	15,003,625	5,077,336	2,101,589	1,879,589	-	65,689,291
Amortisation of leasehold land	2,582,103	-	-	-	-	-	-	-	-	2,582,103
Depreciation on disposed assets	-	(1,065,844)	-	(11,248)	(2,062,097)	(4,369,833)	(1,193,674)	(1,460,287)	-	(10,162,983)
Balance at 31 December 2020	**15,830,495**	**34,737,185**	**106,606,158**	**22,377,891**	**52,276,037**	**22,600,129**	**25,124,360**	**9,635,085**	**-**	**289,187,340**
Carrying amounts										
At 31 December 2018	45,500,745	165,991,095	207,714,273	63,013,801	265,733,947	13,306,652	5,437,540	3,364,081	89,720,189	859,782,323
At 31 December 2019	50,520,688	163,201,717	196,378,939	89,372,690	281,713,018	12,439,920	5,341,811	3,171,670	166,550,704	968,691,157
At 31 December 2020	**47,733,721**	**169,408,754**	**170,393,731**	**88,743,802**	**296,746,832**	**13,801,293**	**5,896,491**	**2,908,556**	**221,012,626**	**1,016,645,806**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

14 Property, plant and equipment *continued*

SIEA has a policy to revalue infrastructure and property assets every 3 to 5 years. The last such revaluation was completed in 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 profit or loss.

During the year management undertook a fixed asset verification of its buildings, plant and equipment to ascertain its existence and value, which resulted in a disposal loss of $13,686,603 (2019: $18,773,115), which was the book value of assets not in existence or no longer operational.

SIEA holds both Perpetual Estate Lands and Fixed Term Estate (FTE) Lands. In 2014, it was agreed with the Auditor General that FTE lands should be treated under IAS 16 Property, Plant and Equipment and depreciated over the term of the FTE. This was owing to the fact that as per the Land and Titles Act (Cap 133), the holder of FTEs in Land has the right to occupy, use and enjoy the Land for a fixed period of time and the holder of the FTE may dispose of it either in whole or in part.

	2020	2019
	$	$
Perpetual Estate Land	11,427,500	11,427,500
Fixed Term Estate	52,136,716	52,341,580
Depreciation of Fixed Term Estate	(15,830,495)	(13,248,392)
	47,733,721	50,520,688
15 Cash and cash equivalents		
Short-term deposits	151,994,576	61,339,727
Cash on hand	47,000	47,000
Cash at bank	135,674,082	249,233,510
	287,715,658	310,620,237

The short-term deposits amounting to $860,573 and $151,134,003 (2019: $61,339,727) are invested with ANZ Banking Group Ltd - Solomon Islands Branch and Bred Bank Solomon at rates of between 0.5% and 2.0% respectively. The deposits have terms of between on-call and one month. Accordingly, these short-term deposits have been considered as cash and cash equivalents for the purpose of the statement of cash flow.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

16 Inventories

	2020	2019
	$	$
Electrical and mechanical	58,274,089	51,531,306

Fuel and lubricants held on site on consignment basis from the supplier, South Pacific Oil Ltd, through a contract signed in 2018. Therefore, no fuel and lubricants are recorded in SIEA's inventory.

17 Receivables

Current

Trade receivables - kilowatt	45,188,360	46,294,077
Allowance for impairment - kilowatt	(15,848,968)	(13,197,677)
Trade receivables - CashPower	13,119,354	9,649,159
Allowance for impairment - CashPower	(1,175,918)	(1,689,094)
Related party - Solomon Islands Water Authority	-	890,436
Staff advances	292,119	181,696
Allowance for impairment- staff advances	(31,787)	(18,170)
Unread meters	12,953,676	14,174,933
World Bank	3,597,737	3,736,823
Asian Development Bank	880,800	244,593
Other debtors	2,194,827	1,038,818
	61,170,200	61,305,594

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. The debt was fully repaid during 2020.

Allowance for impairment

Balance at the beginning of the year	14,904,941	18,196,151
Impairment recognised	2,630,743	(2,743,565)
Bad debts written off during the year	(479,011)	(547,645)
Balance at 31 December	17,056,673	14,904,941

18 Government bonds

	2020	2019
	$	$
Government bonds	70,000,000	30,000,000

On 1 December 2018 SIEA purchased Domestic Development Bonds with a face value of $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.

On 11 May 2020 SIEA purchased Covid-19 Domestic Development Bonds with a face value of $40M 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 11 May 2030 and there is a 3 year grace period before principal repayments commence

19 Contributed capital

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

Contributed capital represents the Solomon Islands Government's equity contributions to SIEA. This is not in the form of shares.

20 Deferred income

Balance at 1 January	129,897,481	80,458,077
Additional deferred income	15,819,420	57,155,340
Deferred income recognised during the year	(7,912,793)	(7,715,936)
Balance at 31 December	137,804,108	129,897,481

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

Current	7,912,793	7,715,936
Non-current	129,891,315	122,181,545
	137,804,108	129,897,481

In 2007, the Government of Japan entered into an agreement with Solomon Islands Government to fund the construction of Lungga Generator and Power Station on behalf of 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 million was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of a 33kV underground power cable from Lungga Power Station to Ranadi Substation. 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 underground power cable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

20 Deferred income *continued*

In 2013, a grant of approximately $1.493 million was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of 11kV switchgear in Honiara Power Station. 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.

In 2013, a grant of approximately $0.839 million 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 $0.765 million was received from the Asian Development Bank to fund the construction of a Coconut Oil Conditioning Unit in 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 million was received from the Asian Development Bank to fund the procurement of a Generator Set in 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 $0.867 million 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 $32.5 million was received from the United Arab Emirates Pacific Partnership Fund and the Ministry of Finance and Treasury of the Government of New Zealand to fund a 1000 kW grid connect solar farm 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 million 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 million), 2018 ($3.888 million), 2019 ($9.902 million) and 2020 ($1.596 million) 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 is being amortised to the statement of comprehensive income over the life of the project.

In 2017 ($0.306 million), 2018 ($5.476 million), 2019 ($37.731 million) and 2020 ($6,639 million) 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 $67 million) has been utilised and the asset capitalised to the Fixed Asset register.

In 2018 ($9.778 million) and 2019 ($9.125 million) 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 the 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.

20 Deferred income *continued*

In 2018, grants totaling approximately $10.516 million 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'a Ridge and for the relocation of the 11kV feeder 12 from Lungga Power Station to East Honiara Substation. 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, transformers and the feeder.

In 2019 ($0.387 million) and 2020 ($15.8 million) grants were received from the World Bank through the Solomon Islands Electricity Access and Renewable Energy Expansion Project (SIEAREEP) to fund construction of renewable energy hybrid mini- grids, electricity connections in low income areas, grid-connected solar power and the enabling of environment and project management. Total expected grant for the project is around $113.296 million. The deferred income will be amortised to the statement of comprehensive income upon subsequent completion of the specific projects. The capitalisation of the completed project will also be made into the Fixed Asset register.

21 Trade and other payables

	2020	2019
	$	$
Current		
Trade creditors	331,173	2,099,943
Other payables and accruals	33,308,629	33,005,426
Contractual liabilities	2,107,426	2,225,469
Consumer deposits	5,514,336	4,954,061
	41,261,564	42,284,899

22 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 have been 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. SISEP facility closed on 31st March 2019. To date the following principal amounts have been borrowed and repaid under this loan agreement.

Balance at 1 January	23,094,565	14,527,257
Borrowings	-	12,225,280
Principal Repayments	(2,403,970)	(3,657,972)
Balance at 31 December	20,690,595	23,094,565

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

Current	2,802,313	3,599,000
Non-current	17,888,282	19,495,565
	20,690,595	23,094,565

NOTES TO THE FINANCIAL STATEMENTS

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23 Employee entitlements

Current	2,067,344	4,244,521
Non-current	15,098,534	12,834,555
	17,165,878	17,079,076

Movement is made up of the following:

Opening balance	17,079,076	17,179,881
Provisions made during the year	5,308,635	6,671,198
Provisions utilised during the year	(5,221,833)	(6,772,003)
Closing balance	17,165,878	17,079,076

24 Leases

***i)* As a lessee**

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property.

	2020	**2019**
	$	**$**
Property, plant and equipment owned	1,016,645,806	968,691,157
Right-of-use assets	9,372,122	7,984,758
Total assets	**1,026,017,928**	**976,675,915**

SIEA leases various assets including land and buildings. Information about leases for which SIEA is a lessee is presented below:

Right-of-use assets	**Land**	**Buildings**	**Total**
2020	**$**	**$**	**$**
Balance at 1 January	3,943,826	4,040,932	7,984,758
Additions	477,503	5,239,221	5,716,724
Leases cancelled	-	(294,458)	(294,458)
Depreciation charge	(20,996)	(4,013,906)	(4,034,902)
Balance at 31 December	**4,400,333**	**4,971,789**	**9,372,122**
2019			
Balance at 1 January	-	5,711,989	5,711,989
Additions	3,943,826	2,237,712	6,181,538
Leases cancelled	-	(244,419)	(244,419)
Depreciation charge	-	(3,664,350)	(3,664,350)
Balance at 31 December	3,943,826	4,040,932	7,984,758

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

24 Leases *continued*

Lease liabilities included in the statement of financial position at 31 December	**2020**	**2019**
***i.)* As a leasee**	**$**	**$**
Current	3,549,946	2,036,765
Non-current	2,625,414	2,191,165
Balance at 31 December	6,175,360	4,227,930
Amounts recognised in profit or loss		
Interest on lease liabilities	842,594	498,750
Expenses relating to short-term leases	419,869	987,722
	1,262,463	1,486,472
Amounts recognised in statement of cash flows		
Total cash outflow for leases	4,316,100	4,192,037

***ii)* As a lessor**

Lease income from lease contracts in which SIEA acts as a lessor is as below:

Operating Lease

Lease income	34,485	37,620

25 Related parties

***a)* Directors**

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

Name
David K.C. Quan – chairman
James Apaniai
John B Houanihau
Muriel Ha'apue-Dakamae
Rovaly Sike

Directors' fees and expenses are disclosed in Note 11.

SIEA's transactions with Directors were at arms length.

***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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

24 Leases *continued*

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

	2020	2019
	$	$
Included in trade receivables are the following amounts receivable from related entities:		
Central Bank of Solomon Islands	130,192	238,528
Central Provincial Government	14,359	20,670
Choiseul Provincial Government	19,361	18,633
Commodity Export Marketing Authority	-	14,693
Guadalcanal Provincial Government	46,723	-
Home Finance Corporation	29,799	35,413
Honiara City Council	1,230,972	1,176,533
Makira/Ulawa Provincial Government	71,761	17,625
Malaita Provincial Government	29,023	105,543
Provincial Hospital	512,526	594,345
Solomon Airlines Limited	164,383	185,651
Solomon Islands Broadcasting Corporation	234,438	206,191
Solomon Islands Government	19,584,302	14,636,081
Solomon Islands National University	1,220,904	1,362,977
Solomon Islands Ports Authority	575,953	34,216
Solomon Islands Postal Corporation	4,441	260,823
Solomon Islands Tourist Authority	-	(5,617)
Solomon Islands Water Authority	-	1,077,302
Temotu Provincial Government	46,222	6,719
Western Provincial Government	65,619	79,016
Isabel Provincial Government	62,949	53,148
	24,043,927	20,118,490

Receivables for the Solomon Islands Water Authority includes the Trade Receivables - kilowatt that relates to this organisation.

25 Related parties *continued*

***d)* Transactions with key management personnel**

Key management personnel comprises of the Chief Executive Officer, Chief Financial Officer, General Manager Capital Works, Chief Engineer, General Manager Corporate Services, General Manager Customer Services, Manager Finance, Manager Regulatory, Manager Land & Buildings, Manager Generation and Outstations, Manager Distribution, Manager Occupational Health Safety, Manager Business Administration, Power Generation Lead Engineer, General Manager Special Projects, Chief Information & Communications Technology Officer, Manager Human Resources & Learning, Manager Projects - Customer Services, Manager Management Accounting, Manager Legal & Contracts Services and the Directors as listed in note 25 (a).

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

Short-term employee benefits	14,077,326	12,101,811

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

FOR THE YEAR ENDED 31 DECEMBER 2020

26 Commitments and contingencies

Capital commitments

SIEA undertakes capital works and purchases assets according to an approved budget when management considers that sufficient funds are available. Capital commitments as at 31 December 2020 amounted to $719,000,000 (2019: $839,000,000). These commitments are in relation to property, plant and equipment.

	2020	2019
	$	$
Less Than 1 Year	215,000,000	227,000,000
Between 1 year and 5 years	504,000,000	612,000,000
	719,000,000	839,000,000

Contingent liabilities

Litigation is a common occurrence in the industry due to the nature of the business undertaken. The Authority has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Authority makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the Authority's legal counsel, the claims against the Authority does not have meritorious grounds and management assessed the claims have reasonable prospects of being struck out. As a result, management believes that its defence in Court or arbitration has reasonable prospects of success. Management also does not consider a reliable estimate can be made at this stage in the event the Authority is not successful though it is considered for this event to occur is remote.

SIEA on 8 July 2021 terminated its engineering, procurement and construction (EPC) contract with CBS Power Solutions Pte Ltd (CBS) on the basis that CBS was in breach of the contract and had failed to remedy the breaches, and as a consequence of the termination, SIEA may be entitled to claim damages from CBS. Prior to the contract termination, CBS had issued claim notices to SIEA claiming entitlement to costs which SIEA has denied liability. SIEA and CBS have competing claims against each other which may be resolved by mutual agreement or by international arbitration. SIEA and CBS are currently in "without prejudice" negotiations to discuss a possible amicable settlement of both CBS's claims prior to termination and SIEA's entitlement for CBS's breach of contract.

27 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.

28 Significant event during the year

Impact of COVID-19

COVID-19 has had a dramatic impact on Solomon Islands society and economy. In the electricity sector there has been a decline in consumer demand as well as lower tariff during the year. This has generally translated into lower electricity tariff during the year.

Notwithstanding this, SIEA's operations has remained relatively resilient to COVID-19. The entity's generation and distribution assets both in Honiara and Outstations have been operating largely unaffected during the year. Whilst the travel restrictions have caused some delays to the capital projects and overhaul of generators, the programme network extension in Honiara and at the Outstations progressed as plan.

The Authority has reviewed the assumptions adopted in asset valuation processes in the context of the potential impact of COVID-19. Currently, it is not expected that COVID-19 will have a material, adverse impact on SIEA operations or the carrying value of its various assets. This is largely due to the long-life nature of these assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

29 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. However, this funding closed on the 31st March 2019. 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 9,477,863 from these programmes since their commencement (2019: USD 8,284,155). The 2020 balance consists of the following funds, IDA H9130 – USD 1,948,784, IDA H4150 – USD 3,834,859, TF A2923 - USD2,193,565, IDA 3270 - USD 1,300,525 and TF A7425 - USD 200,129.

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.

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:

	2020	2019
Designated Account	**USD**	**USD**
Balance at 1 January	946,194	75,618
Receipts	117,805	1,112,728
Expenditures	143,722	242,153
Balance at 31 December	920,277	946,194
Grants		
IDA H4150	-	-
IDA H9130	-	(5,478)
TF A2923	693,053	818,786
IDA D3270	500,525	800,000
TF A7425	129	200,000
Balance at 31 December	1,193,708	1,813,308
Credit Funds IDA 53790		
Balance at 1 January	3,124,511	2,009,303
Borrowings	-	1,547,088
Principal repayments	336,278	431,880
Balance at 31 December	2,788,234	3,124,511

29 World Bank Financing *continued*

e) **Project Financial Report**	**2020 USD**	**2019 USD**	**Cumulative (PTD) USD**
Balance at 1 January	946,194	75,618	-
Source of Funds			
IDA H4150	-	-	3,834,859
IDA H9130	-	(5,478)	1,948,784
TF A2923	693,053	818,786	2,193,565
IDA D3270	500,525	800,000	1,300,525
TF A7425	129	200,000	200,129
IDA 53790	-	1,547,088	5,925,941
Total Source of Funds	1,193,708	3,360,396	15,403,804
Total Available	2,139,902	3,436,014	15,403,804
Use of Funds			
Component A	623,560	1,206,992	5,622,961
Component B	397,613	-	633,678
Component C	-	1,273,934	7,959,814
Component D	196,791	47,946	244,737
Component E	348	323	13,782
Total Uses of Funds	1,218,312	2,529,195	14,474,973
Net Difference	921,589	906,818	928,832
Exchange Gain / (Loss)	1,312	(39,375)	8,555
Closing Balance	920,277	946,194	920,277

30 Subsequent Events

A. New Electricity Tariff regulation

On 1 May 2021, SIEA implemented a new tariff regulation which is effective for the next five years. The new tariff has resulted in an average reduction of non- fuel component of the tariff by up to 22% compared to the old tariff regime. This decrease in tariff has resulted in an overall increase of demand for electricity up to 5%. However total sales for FY 2021 is projected to fall by up to 40m as a result of implementation of the new tariff regulation.

B. Others

On 16 June 2021 SIEA signed a loan and grant financing agreement of SBD 181.36 million (USD $22.67million) with Australia Infrastructure financing facility for the Pacific (AIFFP) for the development of Tina Hydro Project 66KV transmission system. The system includes a 22km transmission line to connect the Tina River Hydropower site to the electricity grid in Honiara by end of 2023. SIEA has not yet reached financial close and has therefore not drawn down on both the grant and loan facility.

On 8 July 2021 SIEA terminated the contract with CBS Power Solutions Pte Ltd (CBS) an engineering, procurement and construction (EPC) contractor engaged to construct five solar hybrid projects. This resulted after CBS failed to perform their contractual obligations after they abandoned the project sites. The projects have reach 90% completion and SIEA will commission the projects with the support of an external engineering firm. The total project costs will likely remain within the original project budget.

On 1 October 2021 the authority has purchased 60 million bond from the Solomon Islands Government to support the government development budget. On 5 October 2021 SIEA then sold the same 60m bond to the Central Bank of Solomon Islands (CBSI) through the secondary market at a price of $60,026,666.67 which comprises of the bond face value and interest accrued to SIEA.


SolomonPower