



Solomon Islands Electricity Authority

Financial Statements

For the year ended

31 December 2014

Solomon Islands Electricity Authority
For the year ended 31 December 2014

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Solomon Islands Electricity Authority Directors' report

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Solomon Islands Electricity Authority (SIEA) as at 31 December 2014 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

Directors

The Directors in office at the date of this report and at any time during the financial year and up until the date the financial statements were authorised for issue are as follows:

Name

Adrian Wickham - chairman (appointed August 2011)
David Laurie - (appointed April 2010)
Douglas Alex - (retired August 2014)
Harry Zoleveke - (appointed June 2012)
Henry Kapu - (appointed June 2012)
Henry Tobani - (retired August 2014)
John Bosco - (appointed September 2014)
Nanette Tutua - (retired August 2014)
Rovaly Sike - (appointed September 2014)
Sebastian Ilala - (appointed June 2012)
Yolande Yates - (appointed September 2014)

State of affairs

In complying with the Electricity Act (Cap 128) and the State Owned Enterprises Act of 2007, the Directors hereby submit the financial statements of SIEA consisting of the statement of financial position as at 31 December 2014, statement of comprehensive income, statement of changes in equity and statement of cash flows of SIEA for the year then ended.

Principal activity

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

Results

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

Dividends

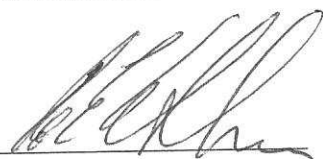
The Directors recommended that no dividends be declared or proposed for the year.


Significant events

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

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

Signed in accordance with a resolution of the Directors.



Director

Director



INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Electricity Authority

Report on the Financial Statements

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

Directors' and Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on the Financial Statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

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

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

Opinion

In my opinion, the financial statements of the Solomon Islands Electricity Authority give a true and fair view of the financial position of the authority as at 31 December 2014 and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Robert Cohen
Acting Auditor-General
31 March, 2015

Office of the Auditor-General
Honiara, Solomon Islands

Solomon Islands Electricity Authority
Statement of comprehensive income
For the year ended 31 December 2014

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

The notes disclosed on pages 32 to 49 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of financial position
As at 31 December 2014

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

Signed for and on behalf of the Board of Directors

Director

Director

The notes disclosed on pages 32 to 49 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of changes in equity
For the year ended 31 December 2014

	Note	Contributed capital SBD	Asset revaluation reserves SBD	Accumulated retained earnings SBD	Total SBD
Balance at 1 January 2013		246,933,170	236,758,838	(22,931,051)	460,760,957
Total comprehensive loss for the year					
Net profit for the year		-	-	46,336,352	46,336,352
Revaluation of property, plant and equipment	12	-	62,715,894	-	62,715,894
Prior period adjustment	11	-	-	1,355,277	1,355,277
Balance at 31 December 2013		246,933,170	299,474,732	24,760,578	571,168,481
Balance at 1 January 2014		246,933,170	299,474,732	24,760,578	571,168,481
Total comprehensive income for the year					
Net profit for the year		-	-	91,415,268	91,415,268
Balance at 31 December 2014		246,933,170	299,474,732	116,175,846	662,583,749

The notes disclosed on pages 32 to 49 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of cash flows
For the year ended 31 December 2014

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

The notes disclosed on pages 32 to 49 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2014

1 Reporting entity

Solomon Islands Electricity Authority (SIEA) is a state owned enterprise established under the Solomon Islands Electricity Authority Act 2007. SIEA's registered office and principal place of business is at the Ranadi Complex, East Honiara, Solomon Islands.

There are no subsidiary companies.

2 Nature of operations

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

3 Basis of preparation

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

a) Presentation of currency

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

4 Measurement basis

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

5 Specific accounting policies

a) Basis of consolidation

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

b) Goodwill

SIEA does not recognise any goodwill.

c) Revenue

SIEA recognises revenue as it provides services or delivers products to customers and the consideration becomes recoverable. Revenue is measured at the fair value of the consideration received or receivable.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2014

d) Financial instruments

i. Non-derivative financial assets

SIEA initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that SIEA becomes a party to the contractual provisions of the instruments.

SIEA derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by SIEA is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, SIEA has a legal right to offset the amounts and intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

SIEA classifies non-derivative financial assets into loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

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

Accounts receivables

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

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

Other financial assets at fair value through profit or loss

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

Available for sale financial assets

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

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

Solomon Islands Electricity Authority
Notes to the financial statements
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ii. Non-derivative financial liabilities

All financial liabilities are recognised initially on the trade date, which is the date that SIEA becomes a party to the contractual provisions of the instrument. SIEA derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, SIEA has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

SIEA classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise provisions, trade and other payables.

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

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

iii. Contributed capital

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

e) Impairment

i. Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to SIEA on terms that SIEA will not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Solomon Islands Electricity Authority
Notes to the financial statements
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ii. Loans and receivables

SIEA considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment SIEA uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic conditions and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease is reversed through profit or loss.

iii. Non-financial assets

The carrying amounts of SIEA's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is an indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

f) Inventories

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

g) Investments

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

Solomon Islands Electricity Authority
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h) Property, plant and equipment

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

Purchased items including software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have materially different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

i. Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to SIEA and its cost can be measured reliably. The costs of the day-to-day servicing and maintenance of property, plant and equipment are recognised in the profit or loss as incurred.

ii. Depreciation

Depreciation is based on either the cost or revalued amount of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately

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

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

Freehold land - unlimited
Leasehold land - 50 or 75 years as per the lease agreements
Distribution network - 20 to 60 years (5% - 1.66% depreciation p.a.)
Non-operational buildings including office buildings and houses - 40 years (2.5% depreciation p.a.)
Generators - 20 years (5% depreciation p.a.)
Operational buildings including power stations - 20 years (5% depreciation p.a.)
Generation plant & equipment - 10 years (10% depreciation p.a.)
Furniture & equipment - 5 years (20% depreciation p.a.)
Information technology - 5 years (20% depreciation p.a.)
Motor vehicles - 5 years (20% depreciation p.a.)
Tools - 3 years (33% depreciation p.a.)

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2014

iii. Revaluation of property, plant and equipment

Land, property, plant and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation of assets. The fair values are recognised in the financial statements of SIEA, and are reviewed at the end of each reporting period to ensure that the carrying value of assets is not materially different to their fair values.

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

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

Any revaluation increase arising on the revaluation of assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of assets is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the asset revaluation reserve, is transferred directly to retained earnings.

iv. Impairment of assets

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

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

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

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

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2014

v. Investment property

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

vi. Leased assets

SIEA presently is a lessee from the Solomon Islands Government in accordance to Government legislation. SIEA is not a lessee of other property, plant and equipment under any finance or operating leases, nor is it presently a lessor of property, plant and equipment under operating leases.

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

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

vii. Intangible assets

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

Software - 3 to 7 years

Easements - indefinite

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

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

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

i) Capital work in progress

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2014

j Non-current assets held for sale

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

k) Employee benefits

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

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

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

Contributions to defined contribution plans are expensed when incurred.

SIEA deducts and pays 5 per cent of the employee's gross salaries and contributes 7.5 per cent of employee's gross salaries to the Solomon Islands National Provident Fund. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

l) Taxation

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

m) Foreign currency transactions

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

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

n) Cash flow statement

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

o) Grants

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

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and SIEA will comply with the conditions associated with the grant and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset. Grants that compensate SIEA for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2014

6 Financial risk management

Overview

SIEA has exposure to the following risks from its use of financial instruments:

- i) Credit risk
- ii) Liquidity risk
- iii) Market risk
- iv) Interest rate risk

This note presents information about SIEA's exposure to each of the above risks and SIEA's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of SIEA's risk management framework. SIEA's risk management policies are established to identify and analyse the risks faced by SIEA, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and SIEA's activities. SIEA, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

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

i) Credit risk

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

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

SIEA establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified, and a collective component in respect of estimated losses incurred but not yet identified.

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

	2014	2013
	SBD	SBD
Cash at bank	75,368,436	129,326,625
Receivables - current	56,121,114	47,889,023
- non-current	5,962,260	8,686,381
	<u>137,451,810</u>	<u>185,902,028</u>

Receivables are determined impaired as follows:

Trade and other receivables

Gross receivables	100,612,480	93,988,112
Provision for impairment	(38,529,107)	(37,412,708)
	<u>62,083,374</u>	<u>56,575,404</u>

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ii) Liquidity risk

Liquidity risk is the risk that SIEA will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. SIEA's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to SIEA's reputation.

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

The following are the contractual maturities of financial liabilities:

31 December 2014

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

31 December 2013

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

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iii) Market risk

Market risk is the risk that changes in market prices, such as fuel prices, foreign exchange rates and interest rates will affect SIEA's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

SIEA is subject to a quarterly tariff review. The tariff is based upon the Honiara Consumer Price Index and the fuel price movements based upon the 2005 Tariff Price Regulation. Fuel at \$207,156,539 (\$200,596,481 in 2013) comprises over half the expenditure of SIEA so movements in fuel prices are critical to the profitability of SIEA. Fortunately the quarterly tariff review considers the fuel price movements, therefore there is a natural hedge against fuel price movements. Taking 2014 as the base, the following percentage movements in fuel prices will have the following effect on revenue, expenditure and profit.

Percentage Change In Fuel Price					
	0.00%	-5.00%	5.00%	-10.00%	10.00%
Revenue	446,557,471	437,837,655	455,277,288	429,117,839	463,997,104
Expenditure	355,142,203	345,484,187	364,800,220	335,826,170	374,458,237
Net Profit	91,415,268	92,353,468	90,477,068	93,291,669	89,538,867

iv) Interest rate risk

Interest rate risk is the risk that a change in interest rates will impact net interest costs and borrowings. SIEA has no borrowings and therefore the interest rate risk is minimal.

	2014 SBD	2013 SBD
7 Other operating income		
Community service obligation	24,595,989	10,000,000
Other	2,598,540	1,534,843
Reconnections	246,333	24,067
Gain / (loss) on disposal of fixed assets	(13,076,343)	260,700
	<u>14,364,520</u>	<u>11,819,610</u>
8 Generation and distribution		
Bought in electricity	3,228,334	11,265,063
Fuel	207,156,539	200,596,481
Lubricating oil	2,234,023	3,206,656
Other	481,684	239,546
Personnel	17,043,229	7,775,303
Repairs and maintenance	24,087,995	39,404,652
	<u>254,231,805</u>	<u>262,487,701</u>

During April 2014, a new payroll system called MIPS was implemented. This replaced the 30 year-old legacy NCS payroll system and has resulted in a reclassification of personnel expenditure from Administration to Generation and Distribution expenditure during the period. IAS 1 "Presentation of Financial Statements" requires an entity to reclassify comparative amounts unless the reclassification is impracticable. Given the complexity and configuration of the legacy system, management deemed it to be impracticable to reliably estimate the comparative personnel expenditure allocated between Administration and Generation and Distribution costs. Expenditure details in the legacy system were based upon location whereas as MIPS allocates costs based upon function. The new cost classification methodology by function is now required to calculate costs for tariff setting purposes resulting in improved cost control and better allocation of personnel expenditure. The effect of the personnel costs is disclosed in notes 8 and 9 is compared below.

Personnel - Generation & distribution (note 8)	17,043,229	7,775,303
Personnel - Administration (note 9)	15,374,658	23,710,915
	<u>32,417,887</u>	<u>31,486,218</u>

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

10 Operating expenses

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

11 Prior period adjustment

The prior period adjustment was due to exchange rate variances on the trade creditors recognised at the end of 2013. Various outstanding purchase orders at the end of 2013 were denominated in other currencies and converted to Solomon Island Dollars as at 31st December 2013. The actual payments were at the exchange rates relevant on the date of payment. The difference lead to this prior period adjustment.

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12 Property, plant and equipment

Cost / Revaluation

Balance as 1 January 2013

Off set of accumulated depreciation as a result of a revaluation

Adjustment to asset revaluation reserve resulting from a

Additions

Disposals

Work in progress capitalised

Revaluation decrement

Balance at 31 December 2013

Additions

Disposals

Work in progress capitalised

Balance at 31 December 2014

Breakdown of cost/revaluation

2011 Valuation

2013 Valuation

Cost

Balance at 31 December 2014

Depreciation and impairment loss

Balance as 1 January 2013

Depreciation

Off set of accumulated depreciation as a result of a revaluation

Depreciation on disposed assets

Balance at 31 December 2013

Depreciation

Amortisation of leasehold land

Depreciation on disposed assets

Balance at 31 December 2014

Carrying amounts

At 1 January 2013

At 31 December 2013

At 31 December 2014

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

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12 Property, plant and equipment (continued)

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

Generators
Distribution network
Plant and equipment

The valuation methodology utilised by SKM was the optimised depreciated replacement cost (ODRC) approach which is generally considered to represent the minimum cost of replacing the service potential embodied in the network with modern equivalent assets in the most efficient manner from an engineering perspective given the service requirements, the age and condition of the existing assets.

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

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

Both these valuations were completed in December 2013 and adopted in the financial statements as at 31 December 2013. There was no valuation in 2014 hence there are no comparative figures.

SIEA holds both Perpetual Estate Land and Leasehold Land. In 2014, it was agreed with the Auditor General that leasehold land should be amortised resulting in the figure for amortisation of land. This breakup is shown below.

	2014	2013
	SBD	SBD
Perpetual Estate Land	3,468,740	3,190,877
Leasehold Land	23,283,197	23,283,197
Amortisation of Leasehold Land	(1,234,665)	-
	<u>25,517,272</u>	<u>26,474,074</u>

13 Cash and cash equivalents

	2014	2013
	SBD	SBD
Cash on hand	43,000	41,000
Cash at bank	75,368,436	129,326,625
	<u>75,411,436</u>	<u>129,367,625</u>

14 Inventories

Electrical and mechanical	8,855,512	7,458,153
	<u>8,855,512</u>	<u>7,458,153</u>

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

15 Receivables

Current		
Trade receivables - kilowatt (Kwh)	68,269,984	63,717,522
Allowance for impairment - kilowatt (Kwh)	(24,912,530)	(29,870,221)
Trade receivables - CashPower	16,499,246	14,997,010
Allowance for impairment - CashPower	(13,559,978)	(7,511,960)
Related party - Solomon Islands Water Authority	937,500	937,500
Related party - Solomon Islands Broadcasting Corporation	600,000	360,000
Staff advances	247,259	288,159
Allowance for impairment- staff advances	(56,598)	(30,526)
Unread meters	13,904,118	14,276,602
Other debtors	8,096,232	5,001,540
	<u>70,025,232</u>	<u>62,165,625</u>
Non-current		
Related party - Solomon Islands Water Authority	4,687,500	5,625,000

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

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

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

This interest expense was first recognised in the accounts for 2014. The effective interest rates was 5.29% for SIWA and 3.11% for SIBC.

Interest Expense		
Interest Expense - Solomon Islands Water Authority	909,668	-
Interest Expense - Solomon Islands Broadcasting Corporation	186,953	-
	<u>1,096,621</u>	<u>-</u>

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

16 Contributed capital

Contributed capital	<u>246,933,170</u>	<u>246,933,170</u>
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Capital represents the Government's contribution to the establishment of SIEA. This is not in the form of shares.

17 Deferred income

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

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

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

In 2007 the Government of Japan entered into an agreement with Solomon Islands Government to fund the construction of the Lungga Generator and Power Station on behalf of SIEA. The funding of these capital works is a non-reciprocal grant. The value of the capital works was approximately \$48 million and has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the profit or loss over the life of the power station.

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

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

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

19 Related parties

a) Directors

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

Name

Adrian Wickham - chairman (appointed August 2011)
David Laurie - (appointed April 2010)
Douglas Alex - (retired August 2014)
Harry Zoleveke - (appointed June 2012)
Henry Kapu - (appointed June 2012)
Henry Tobani - (retired August 2014)
John Bosco - (appointed September 2014)
Nanette Tutua - (retired August 2014)
Roaly Sike - (appointed September 2014)
Sebastian Ilala - (appointed June 2012)
Yolande Yates - (appointed September 2014)

Directors' fees and expenses are disclosed in Note 9.

SIEA's transactions with Directors were at arms length.

b) Identity of related parties

As SIEA is the sole provider of electricity in the Solomon Islands all government and government related entities are its related parties. Other related parties include directors and employees of SIEA.

c) Amounts receivable from related parties

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

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

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

d) Transactions with key management personnel

Key management personnel comprises of the General Manager, Chief Executive Officer, Chief Financial Officer, Chief Engineer, Legal Officer, Financial Controller, Generation Manager, Distribution Manager, Customer Services Manager, Outstation Manager, Corporate Services Manager, Capital Works Manager, Regulatory Manager, Property Manager, Health & Safety Manager and the directors as listed in 19 (a).

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

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

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

20 Commitments and contingencies

Capital commitments

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

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

Contingent liabilities

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

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

21 Capital management

SIEA's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

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

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

22 Subsequent events

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