Solomon Islands Electricity Authority

Financial Statements

For the year ended

31 December 2012

Solomon Islands Electricity Authority
For the year ended 31 December 2012

Contents

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 (the "Authority") as at 31 December 2012 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)
Alex Douglas - (appointed February 2010)
Anthony Makabo - (resigned June 2012)
David Laurie - (appointed April 2010)
Harry Zoleveke - (appointed June 2012)
Henry Kapu - (appointed June 2012)
Henry Tobani - (appointed February 2008)
Mamu Paza - (resigned June 2012)
Nanette Tutua - (appointed February 2008)
Sebastian Ilala - (appointed June 2012)
Stephen Panga - (resigned June 2012)

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 the Authority consisting of the statement of financial position as at 31 December 2012, statement of comprehensive income, statement of changes in equity and statement of cash flows of the Authority for the year then ended.

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

Results
The net profit for the year was SBD 62,715,982 (2011: profit of SBD 50,557,403).

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

Solomon Islands Electricity Authority
Directors' report (continued)

Significant events

On 31 May 2012 a debt settlement agreement was signed between Solomon Islands Government (SIG), Solomon Islands Water Authority (SIWA) and the Authority under which the parties agreed to settle the SIWA debt owing to the Authority by way of payments over a number of years. The agreement also resulted in a write off of by the Authority which was covered by an existing provision.

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

Dated at 3 pm this 21st day of March 2013.

Signed in accordance with a resolution of the Directors.

Director **Director**

Solomon Islands Office
of the Auditor-General

INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Electricity Authority

I was engaged to audit the accompanying financial statements of the Solomon Islands Electricity Authority ("the Authority"), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes 3 to 21.

Directors and management's responsibility for the financial statements

Directors and 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 the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

My responsibility is to express an opinion on these 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 my 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, I consider internal control relevant to the Authority's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 audit opinion.

Audit Opinion

In my opinion, the financial statements of the Solomon Islands Electricity Authority gives a true and fair view of the financial position of the Authority as at 31 December 2012 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

The Authority has complied with Section 14 of the *State Owned Enterprises Act 2007* which requires the Authority to provide audited financial statements to the responsible Minister within 3 months of the financial year end.

Edward Ronia
Auditor-General

Office of the Auditor General
Honiara, Solomon Islands

25 March 2013

Solomon Islands Electricity Authority
Statement of comprehensive income
For the year ended 31 December 2012

	Note	2012 SBD	2011 SBD *Restated*
Operating income			
Electricity sales		397,574,602	351,476,721
Other operating income	5	16,382,894	25,778,452
Total operating income		**413,957,496**	**377,255,173**
Less expenses			
Generation and distribution	6	265,904,450	262,084,210
Administration	7	38,638,345	34,104,002
Depreciation	8	27,645,159	11,584,061
Bad debts written off		-	29,999,287
Allowance for uncollectability	14	(4,178,999)	(27,886,761)
Inventory write-off		106,936	4,579,138
Impairment loss/revaluation decrement - property, plant and equipment	11	-	2,387,857
Operating expenses	10	22,222,816	9,831,559
Profit from operations		63,618,789	50,571,820
Foreign exchange losses		902,806	14,417
Net profit for the year		62,715,982	50,557,403
Other comprehensive income			
Revaluation (decrement) / increment		4,985,383	173,343,210
Total comprehensive income for the year		67,701,365	223,900,613

The notes on pages 9 to 23 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of changes in equity
For the year ended 31 December 2012

	Contributed capital	Asset revaluation reserves	Accumulated losses	Total
	SBD	SBD	SBD	SBD
Balance at 1 January 2011	**249,306,687**	**58,430,245**	**(154,588,342)**	**153,148,590**
Impact of restatement of JAICA debt	44,159,999		(10,020,695)	34,139,304
Restated	293,466,686	58,430,245	(164,609,037)	187,287,894
Total comprehensive loss for the year				
Net profit for the year	-	-	50,557,403	50,557,403
Other comprehensive income	-	173,343,210	-	173,343,210
Transaction with owners of the Authority directly recognised in equity				
Grant received during the year	3,739,177	-	-	3,739,177
Balance at 31 December 2011	**297,205,863**	**231,773,455**	**(114,051,634)**	**414,927,684**
Total comprehensive income for the year				
Net profit for the year	-	-	62,715,982	62,715,982
Prior period adjustment	-	4,985,383	-	4,985,383
Grant received during the year	7,260,744	-	-	7,260,744
Balance at 31 December 2012	**304,466,607**	**236,758,838**	**(51,335,652)**	**489,889,793**

Solomon Islands Electricity Authority
Statement of financial position
As at 31 December 2012

Assets	Note	2012 SBD	2011 SBD *Restated*
Non-current assets			
Property, plant and equipment	11	318,346,242	328,611,390
Receivables	14	6,562,500	-
Total non-current assets		**324,908,742**	**328,611,390**
Current assets			
Cash and cash equivalents	12	99,823,333	19,459,307
Inventories	13	8,421,876	10,469,647
Receivables	14	82,890,567	67,390,902
Total current assets		**191,135,776**	**97,319,856**
Total assets		**516,044,518**	**425,931,246**
Equity			
Contributed capital	15	304,466,607	297,205,863
Reserves		236,758,838	231,773,455
Accumulated losses		(51,335,652)	(114,051,634)
Total equity		**489,889,793**	**414,927,684**
Non-current liabilities			
Employee benefits		-	375,471
Total non-current liabilities		-	**375,471**
Current liabilities			
Trade and other payables	17	26,154,724	10,628,091
Total current liabilities		**26,154,724**	**10,628,091**
Total liabilities		**26,154,724**	**11,003,562**
Total equity and liabilities		**516,044,518**	**425,931,246**

Signed for and on behalf of the Board of Directors

Director **Director**

The notes on pages 9 to 23 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of cash flows
For the year ended 31 December 2012

	Note	2012 SBD	2011 SBD
Operating activities			
Cash received from customers		395,171,524	359,231,224
Cash paid to suppliers and employees		(302,412,871)	(345,183,159)
Net cash provided by operating activities		**92,758,654**	**14,048,065**
Investing activity			
Net payments for property, plant and equipment	11	(12,394,628)	(7,496,050)
Net cash used in investing activity		**(12,394,628)**	**(7,496,050)**
Net increase in cash and cash equivalents		**80,364,026**	**6,552,015**
Cash and cash equivalents at 1 January		19,459,307	12,907,292
Cash and cash equivalents at 31 December	12	**99,823,333**	**19,459,307**

The notes on pages 9 to 23 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2012

1. Reporting entity

Solomon Islands Electricity Authority (the "Authority") is a state owned enterprise established under the Solomon Islands Electricity Authority Act 2007. The Authority's registered office and principal place of business is Ranadi Complex, East Honiara, Solomon Islands. The principal activity of the Authority during the year was the generation and distribution of electricity to the Solomon Islands. There were no significant changes in the nature of the activities of the Authority during the financial year.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved by the Board of Directors on 18th March 2013

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis except where stated. The accounting policies have been consistently applied by the Authority and are consistent with those used in the previous year. Certain comparative amounts have been reclassified to conform with the current year's presentation.

(c) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Authority except for IFRS 9 Financial Instruments and IFRS 13 Fair Value Measurement, which become mandatory for the Authority's 2015 financial statements and could change the classification and measurement of financial assets.

(d) Functional and presentation currency

The financial statements are presented in Solomon Island Dollars ("SBD"), which is the Authority's functional and presentation currency.

(e) Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is 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 11 - Property, plant and equipment
Note 14 - Receivables
Note 19 - Contingent liabilities

3. Significant accounting policies

The principal accounting policies adopted by the Authority are stated to assist in a general understanding of the financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to Solomon Island Dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Solomon Island Dollars at the exchange rate at that date. The foreign currency gain or loss on translation is recognised in the profit or loss.

(b) Financial instruments

(i) Non derivative financial assets

The Authority 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 the Authority becomes a party to the contractual provisions of the instruments.

The Authority 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 the Authority 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, the Authority 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.

The Authority classifies non-derivative financial assets into loans and receivables.

<u>Loans and receivables</u>

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.

Loans and receivables comprise cash and cash equivalents, and receivables.

<u>Cash and cash equivalents</u>

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

<u>Receivables</u>

Trade receivables and other assets are measured at initial recognition at fair value. Subsequently, appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss when there is objective evidence that the asset is impaired.

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Non derivative financial liabilities

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

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

Other financial liabilities comprise trade and other payables.

(iii) Contributed capital

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

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are initially measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased 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 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.

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

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) 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 is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. The estimated useful lives are as follows:

Land	Not depreciated
Buildings	2.0%
Plant and equipment	5.7%
Distribution network	5.0%
Tools	10.5%
Office furniture and equipment	15.0%
Motor vehicles	20.0%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(iv) Revaluation

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 the Authority, 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.

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.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

3. Significant accounting policies (continued)

(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 the Authority on terms that the Authority 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

(ii) Loans and receivables

The Authority 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 the Authority 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 the Authority'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.

3. Significant accounting policies (continued)

(f) Income tax

The Authority is exempt from income tax under the Solomon Islands Electricity Authority Act 2007.

(g) Exceptional items

Exceptional items are those that in management's view need to be disclosed by virtue of their size or incidence. Such items are included on the income statement caption to which they relate, and are separately disclosed in the notes to the financial statements.

(h) Employee benefits

i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Authority deducts and pays 5 percent of the employees' gross salaries and contributes 7.5 percent of employees 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.

ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in the profit or loss as the related service is provided.

(i) Trade payables, provisions and other payables

Trade and other payables are stated at cost. A provision is recognised in the statement of financial position when the Authority has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(j) Revenue recognition

Revenue earned from the provision of electricity services is measured at the fair value of the consideration received or receivable. Revenue is recognised when the service has been provided to the customer and the consideration is recoverable.

(k) Finance income and expenses

Finance income comprises of unrealised foreign exchange gains and losses.

(l) 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 the Authority 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 the Authority for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

(m) Comparative figures

Because of a change in the Authority's chart of accounts on 1 January 2012 some of the 2011 figures in the statement of comprehensive income and associated notes are not strictly comparative to the 2012 figures. Where possible and if considered appropriate some of the 2011 amounts have been amended to make them more comparable to the 2012 amounts.

4. Financial risk management

Overview

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

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

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

(i) Credit risk

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

<u>Receivables</u>

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

The Authority 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.

4. Financial risk management (continued)

(i) Credit risk (continued)

The Authority's maximum exposure to credit risk is as follows:

	2012 SBD	2011 SBD
Cash at bank	99,782,333	19,422,807
Receivables - current	68,828,930	54,390,902
- non current	6,562,500	-
	175,173,763	73,813,709

Receivables are determined impaired as follows:

	2012 SBD	2011 SBD
Trade and other receivables		
Gross receivables	103,816,017	93,556,987
Provision for impairment	(34,987,087)	(39,166,085)
	68,828,930	54,390,902

(ii) Liquidity risk

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

Typically the Authority ensured that is has sufficient cash on hand to meet operational expenses including the servicing of financial obligations; 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 2012

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
Financial liabilities				
Trade and other payables	26,154,724	26,154,724	-	-
	26,154,724	26,154,724	-	-

4. Financial risk management (continued)

(ii) Liquidity risk (continued)

31 December 2011

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
Financial liability				
Trade and other payables	10,628,091	10,628,091	-	-
	10,628,091	10,628,091	-	-

(iii) Market risk

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

The Authority is subject to a tariff review on a regular basis with the next one being due in 2013. The outcome of such a review on the pricing of electricity cannot be presently determined.

(iv) Interest rate risk

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

	2012 SBD	2011 SBD
5. Other operating income		
Included in other operating income are the following:		
Community service obligation	11,248,016	7,848,016
Installation fees	3,314,930	-
Drum deposits refund	-	2,546,760
Reconnections	24,280	253,833
Amortisation of consumer capital contribution	-	14,274,633
Other	1,795,668	855,210
	16,382,894	**25,778,452**

6. Generation and distribution

Included in generation and distribution expenses are the following:

	2012 SBD	2011 SBD
Repairs and maintenance and lubricants	38,796,862	15,660,661
Distribution lines	1,639,976	1,189,263
Fuel	212,879,191	227,900,876

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2012

	2012 SBD	2011 SBD
7. Administration		
Included in administration expenses are the following:		
Board fees and expenses	125,601	163,645
Computer bureau charges	624,600	642,221
Customs and port charges	-	5,159,569
Electricity rebate	927,482	582,662
Freight	121,593	2,213,878
Fuel stock adjustments	-	4,908,595
Electricity	1,248,876	5,130,430
Customs duty & GST	-	4,621,386
Printing and stationery	1,520,311	844,721
Repairs and maintenance	-	2,949,738
Rent	709,030	159,604
Travel and accommodation	1,209,587	1,272,701
8. Depreciation		
Generation	15,358,235	8,748,449
Distribution	5,931,268	1,442,431
Administration	6,355,656	1,393,181
	27,645,159	11,584,061
9. Personnel expenses		
Wages and salaries expense	17,732,692	14,304,100
Key management compensation	1,423,604	1,855,804
National Provident Fund contributions	1,713,338	1,140,859
Housing allowance and shift allowances	1,934,029	1,498,213
Other staff related costs	2,776,180	1,484,829
	25,579,842	20,283,805
10. Operating expenses		
Included in operating expenses are the following:		
Customs and port charges	511,097	-
Repairs and maintenance	10,790,415	-

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2012

11. Property, plant and equipment

	Land & Buildings operational	Land & Buildings non-operational	Generators	Plant and equipment	Distribution network	Office furniture and equipment	Motor vehicles	Tools	Work in progress	Total
	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD
Cost / Revaluation										
Balance as 1 January 2011	**17,522,760**	**13,985,470**	-	**144,543,234**	**28,878,995**	**2,416,714**	**8,554,503**	**298,282**	**59,037**	**216,258,995**
Additions	-	-	-	4,006,845	1,323,463	1,154,623	547,633	168,038	295,448	7,496,050
Off set of accumulated depreciation as a result of a revaluation	-	-	-	(44,451,339)	(10,018,006)	-	(4,889,829)	(199,970)	-	(59,559,144)
Revaluation increment	-	-	-	42,822,011	130,308,984	-	-	212,215	-	173,343,210
Revaluation decrement	-	-	-	-	-	-	(1,871,805)	-	-	(1,871,805)
Balance at 31 December 2011	**17,522,760**	**13,985,470**	-	**146,920,751**	**150,493,436**	**3,571,337**	**2,340,502**	**478,565**	**354,485**	**335,667,306**
Off set of accumulated depreciation as a result of a revaluation	(4,022,109)	-	-	-	-	-	-	-	-	(4,022,109)
Adjustment to asset revaluation reserve resulting from a revaluation	1,025,142	3,960,241	-	-	-	-	-	-	-	4,985,383
Reclassifications	-	-	115,410,018	(115,565,575)	-	-	-	155,557		-
Additions	-	-	197,670	90,250	1,540,960	2,069,913	5,632,773	246,819	2,616,243	12,394,628
Work in progress capitalised	-	-	-	-	1,669,468	-	-	-	(1,669,468)	-
Balance at 31 December 2012	**14,525,793**	**17,945,711**	**115,607,688**	**31,445,425**	**153,703,864**	**5,641,250**	**7,973,276**	**880,941**	**1,301,260**	**349,025,208**
Breakdown of cost/revaluation										
2010 Valuation	14,525,793	17,945,711	-	-	-	-	-	-	-	32,471,504
2011 Valuation	-	-	115,410,018	31,355,175	152,162,903	-	2,340,502	634,122	-	301,902,721
Cost	-	-	197,670	90,250	1,540,960	5,641,250	5,632,773	246,819	1,301,260	14,650,983
Balance at 31 December 2012	**14,525,793**	**17,945,711**	**115,607,688**	**31,445,425**	**153,703,864**	**5,641,250**	**7,973,276**	**880,941**	**1,301,260**	**349,025,208**
Depreciation and impairment loss										
Balance as 1 January 2011	**4,209,267**	**65,609**	-	**36,035,839**	**8,567,361**	**1,449,167**	**4,019,739**	**167,965**	-	**54,514,947**
Depreciation	151,872	316,720	-	8,415,500	1,450,645	347,229	870,090	32,005	-	11,584,061
Off set of accumulated depreciation as a result of a revaluation	-	-	-	(44,451,339)	(10,018,006)	-	(4,889,829)	(199,970)	-	(59,559,144)
Impairment loss	-	-	-	-	-	516,052	-	-	-	516,052
Balance at 31 December 2011	**4,361,139**	**382,329**	-	-	-	**2,312,448**	-	-	-	**7,055,916**
Depreciation	339,030	935,659	15,358,235	3,004,855	5,931,268	556,001	1,444,594	75,517	-	27,645,159
Off set of accumulated depreciation as a result of a revaluation	(4,022,109)	-	-	-	-	-	-	-	-	(4,022,109)
Balance at 31 December 2012	**678,059**	**1,317,988**	**15,358,235**	**3,004,855**	**5,931,268**	**2,868,448**	**1,444,594**	**75,517**	-	**30,678,966**
Carrying amounts										
At 1 January 2011	13,313,493	13,919,861	-	108,507,395	20,311,634	967,548	4,534,764	130,317	59,037	161,744,048
At 31 December 2011	13,161,621	13,603,141	-	146,920,751	150,493,436	1,258,890	2,340,502	478,565	354,485	328,611,390
At 31 December 2012	**13,847,733**	**16,627,723**	**100,249,453**	**28,440,570**	**147,772,596**	**2,772,802**	**6,528,682**	**805,424**	**1,301,260**	**318,346,242**

11 Property, plant and equipment (continued)

During 2009 the Authority engaged Sinclair Knights Mertz (SKM) to carry out an independent valuation of the following classes of assets:

Plant and equipment
Distribution network
Motor vehicles
Tools

The valuation excluded land, property and buildings owned by the Authority.

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.

The valuation was effective 1 January 2012 and was adopted in the financial statements as at 31 December 2011.

During 2012 the Authority also revalued land and buildings based on valuation reports prepared by Value Solutions Appraisal in 2010 and 2011. The result of this revaluation is a increase in land and buildings and a increment to the asset revaluation reserve of $4,985,383 as shown in the table above.

	2012 SBD	2011 SBD
12. Cash and cash equivalents		
Cash on hand	41,000	36,500
Cash at bank	99,782,333	19,422,807
	99,823,333	19,459,307
13. Inventories		
Fuel and lubricants	2,461,596	5,532,281
Electrical and mechanical	5,960,280	4,937,366
	8,421,876	10,469,647
14. Receivables		
Current		
Trade receivables - kilowatt (Kwh)	66,894,078	80,423,475
Allowance for impairment - kilowatt (Kwh)	(25,276,161)	(29,426,551)
Trade receivables - CashPower	14,799,195	9,620,517
Allowance for impairment - CashPower	(9,620,517)	(9,620,517)
Related party receivable - Solomon Islands Water Authority	15,937,500	-
Staff advances	375,623	377,803
Allowance for impairment- staff advances	(90,408)	(119,017)
Unread meters	14,061,636	13,000,000
Other debtors	5,809,620	3,135,192
	82,890,567	67,390,902
Non - current		
Related party receivable - Solomon Islands Water Authority	6,562,500	-
	6,562,500	-

In the prior year trade receivables and allowance for impairment in relation to CashPower receivables were netted off and shown as nil value. The presentation in the current year shows the amounts grossed up and therefore this change has also been made to the prior year comparatives.

14. Receivables (continued)

On 31 May 2012 an agreement was signed between Solomon Islands Government (SIG), Solomon Islands Water Authority (SIWA) and Solomon Islands Electricity Authority (SIEA) where debt owed by SIWA of $7,500,000 was converted into a loan with 0% interest rate for a term of 8 years commencing on 1 January 2013.

	2012 SBD	2011 SBD
Allowance for impairment		
Balance at 1 January	39,166,085	57,432,329
Impairment recognised re Kwh receivables	(4,178,999)	2,112,526
Impairment recognised re CashPower receivables	-	9,620,517
Bad debts written off during the year	-	(29,999,287)
Balance at 31 December	34,987,087	39,166,085

15. Contributed capital

	2012 SBD	2011 SBD
Contributed capital	304,466,607	297,205,863

Capital represents Government's contribution on the establishment of Solomon Islands Electricity Authority. This is not in the form of shares.

In 2012 the Government of Solomon Islands provided a grant amounting to $4,028,740 (2011: $3,739,177) under the Solomon Islands Sustainable Energy Project. This has been accounted for as a capital transaction as the government has provided this grant in its capacity as a shareholder.

16. Restatement

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 the Authority. The funding of these capital works is a non reciprocal grant. The value of the capital works was approximately $48 million and has been up til 2012 accounted for by the Authority as a non-current asset with a corresponding amount taken to deferred income . The deferred income was being amortised over the life of the power station.

During 2012 the Authority reviewed the terms of the agreement and determined that it was more correctly treated as a contribution from Solomon Islands Government given the nature of the agreement. The impact of this change on the statement of financial position and income statement for 2011 is set out below.

	SBD Original	SBD Adjustment	SBD Restated
Grant revenue	2,505,234	(2,505,234)	-
Deferred income	31,634,071	(31,634,071)	-
Accumulated loss	(101,525,705)	(12,525,929)	(114,051,634)
Contributed capital	253,045,685	44,159,999	297,205,684

The impact on opening accumulated losses and contributed capital is shown in the statement of changes in equity.

17. Trade and other payables

	2012 SBD	2011 SBD
Current		
Trade creditors	22,960,825	4,499,719
Other payables and accruals	2,389,183	6,014,546
Consumer deposits	804,716	113,826
	26,154,724	10,628,091

18. Related parties

(a) Directors

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

Name

Adrian Wickham - chairman
Alex Douglas
Anthony Makabo - (resigned June 2012)
David Laurie
Harry Zoloveke (appointed June 2012)
Henry Kapu (appointed June 2012)
Henry Tobani
Mamu Paza - (resigned June 2012)
Nanette Tutua
Sebastian Ilala (appointed June 2012)
Stephen Panga - (resigned June 2012)

Directors fees and expenses are disclosed in Note 7.

The Authority's transactions with Directors were on normal terms and conditions.

(b) Identity of related parties

As the Authority 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 the Authority.

(c) Amounts receivable from related parties

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

	2012 SBD	2011 SBD
Central Provincial Government	3,706	25,703
Commodity Export Marketing Authority	122,485	225,583
Home Finance Corporation	30,034	61,918
Honiara City Council	345,295	163,969
Makira/Ulawa Provincial Government	776	6,032
Malaita Provincial Government	315,186	1,206,589
Provincial Hospital	3,401,861	2,576,292
Solomon Airlines Limited	133,525	3,527
Solomon Islands Broadcasting Corporation	4,398,289	3,432,536
Solomon Islands College of Higher Education	312,537	444,442
Solomon Islands Government	16,136,635	5,153,725
Solomon Islands Ports Authority	75,115	260,528
Solomon Islands Postal Corporation	968	192,802
Solomon Islands Printers Limited	-	275,100
Solomon Islands Water Authority	24,104,287	27,500,000
Soltai Fishing and Processing Limited	-	3,288,172
Temotu Provincial Government	108,614	80,480
Western Provincial Government	193,858	427,689
Ysabel Provincial Government	63,437	40,880
	49,746,607	45,365,967

18. Related parties (continued)

(d) Transactions with key management personnel

Key management personnel comprises of the General Manager, Chief Financial Officer, Chief Engineer, Legal Officer, Manager Generation, Manager Administration and Manager Customer Services.

In addition to their salaries, the Authority also provides non-cash benefits to key management personnel.

Key management compensation to executive management is disclosed in Note 9.

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

19. Commitments and contingencies

Capital commitments

The Authority undertakes capital works and purchases assets according to an approved budget when management consider sufficient funds available. Capital commitments as at 31 December 2012 amounted to $169,000,000 (2011: $96,000,000). These commitments are in relation to property, plant and equipment.

Contingent liabilities

The Authority is a party to five minor legal trade related cases. The Directors do not expect the outcome of any action to have a material effect on the Authority's financial position.

20 Capital management

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

The Authority is not subject to any externally imposed capital requirements.

21 Subsequent events

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