



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

**Financial Statements**

**For the year ended**

**31 December 2017**

**Solomon Islands Electricity Authority**  
**trading as SOLOMON POWER**  
**For the year ended 31 December 2017**

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**Solomon Islands Electricity Authority**  
**trading as SOLOMON POWER**  
**Directors' report**

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Solomon Islands Electricity Authority (SIEA), trading as Solomon Power, as at 31 December 2017 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

**Directors**

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

**Name**

David K.C. Quan - chairman (appointed 19 February 2016)  
Harry Zoleveke - (appointed June 2012)  
Henry Kapu - (appointed June 2012)  
John B Houanihau - (appointed September 2014)  
Rovaly Sike - (appointed September 2014)  
Sebastian Ilala - (appointed June 2012)  
Yolande Yates - (appointed September 2014)

**State of affairs**

In complying with the Electricity Act (Cap 128) and the State Owned Enterprises Act of 2007, the Directors hereby submit the financial statements of SIEA consisting of the statement of financial position as at 31 December 2017, 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 comprehensive income for the year was SBD 79,880,086 (2016: SBD 205,463,841).

**Dividends**

The Directors have declared but not yet paid a dividend of SBD 4,000,000 for the year (2016: SBD 4,400,400).

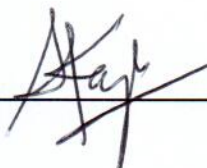
**Significant events**

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

Dated at Honiara this 26<sup>th</sup> day of March 2018.

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 Audit of the Financial Statements**

#### ***Opinion***

I have in joint consultation with the Board of the Authority pursuant to the Electricity Act [Cap.128] contracted Ernst & Young Fiji which is part of the EY International network to assist me to audit the accompanying financial statements of the Solomon Islands Electricity Authority, which comprise the statement of financial position as at 31 December 2017, the statement of comprehensive and other income, statement of changes in equity and statement of cash flow for the year then ended, and Notes 1 to 23 comprising of a summary of significant accounting policies and information.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

#### ***Basis for Opinion***

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

#### ***Responsibilities of Management and Directors for the Financial Statement***

Management and Directors are responsible for the preparation and fair presentation of the Financial Statements in accordance with IFRS and the State Owned Enterprise Act 2007, and for such internal control as the management and Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error

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

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

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

My objective is to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my



opinion. Reasonable assurance is a high level of assurance, but is not guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or aggregate, they could reasonably be expected to influence the economic decisions of users taken on basis of the financial statements.

As part of an audit in accordance with ISA, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

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

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

I also provide management and Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguard.



Peter Lokay  
Auditor-General  
27 March 2018

Office of the Auditor-General  
Honiara, Solomon Islands

**Solomon Islands Electricity Authority**  
**trading as SOLOMON POWER**  
**Statement of comprehensive income**  
**For the year ended 31 December 2017**

	Notes	2017 SBD	2016 SBD
<b>Operating income</b>			
Electricity sales		428,039,827	437,528,391
Grant income		10,393,400	6,436,883
Other operating income	7	2,545,325	6,437,901
<b>Total operating income</b>		<b>440,978,551</b>	<b>450,403,175</b>
<b>Expenses</b>			
Generation and distribution	8	207,601,960	187,348,883
Administration	9	59,683,883	61,343,934
Operating	10	31,148,030	30,807,434
Depreciation and amortisation	11	51,447,685	46,006,826
Allowance for uncollectability	14	11,396,373	(861,604)
Interest expense		389,387	-
Inventory & asset write-off		(145,261)	1,134,219
Revaluation decrement - property, plant & equipment	11	-	158,334
<b>Total expenses</b>		<b>361,522,057</b>	<b>325,938,025</b>
<b>Gain from operations</b>		<b>79,456,495</b>	<b>124,465,150</b>
Foreign exchange gain / (loss)		423,591	(4,416,280)
<b>Net profit for the year</b>		<b>79,880,086</b>	<b>120,048,870</b>
<b>Other comprehensive income</b>			
Revaluation increment - property, plant & equipment	11	-	85,414,971
<b>Total comprehensive income for the year</b>		<b>79,880,086</b>	<b>205,463,841</b>

The notes disclosed on pages 36 to 53 are an integral part of the financial statements.



**Solomon Islands Electricity Authority**  
**trading as SOLOMON POWER**  
**Statement of financial position**  
**As at 31 December 2017**

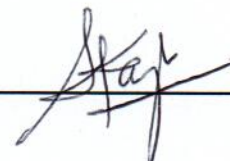
<b>Assets</b>	<b>Notes</b>	<b>2017 SBD</b>	<b>2016 SBD</b>
<b>Current assets</b>			
Cash and cash equivalents	12	221,808,007	201,187,479
Held to maturity investment		45,542,195	92,847,409
Inventories	13	20,910,019	15,458,291
Receivables	14	50,142,206	50,846,761
Prepayments		3,042,350	1,066,037
<b>Total current assets</b>		<b>341,444,777</b>	<b>361,405,978</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	795,429,205	714,037,972
Receivables	14	1,660,609	3,234,185
<b>Total non-current assets</b>		<b>797,089,814</b>	<b>717,272,157</b>
<b>Total assets</b>		<b>1,138,534,591</b>	<b>1,078,678,135</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Deferred income	16	6,392,961	6,392,961
Trade and other payables	17	34,932,083	46,136,620
Employee benefits		193,818	391,109
<b>Total current liabilities</b>		<b>41,518,861</b>	<b>52,920,690</b>
<b>Non-current liabilities</b>			
Deferred income	16	50,801,158	55,422,959
<b>Total non-current liabilities</b>		<b>50,801,158</b>	<b>55,422,959</b>
<b>Total liabilities</b>		<b>92,320,019</b>	<b>108,343,649</b>
<b>Equity</b>			
Contributed capital	15	246,933,170	246,933,170
Asset revaluation reserve		384,889,703	384,889,703
Accumulated profit		414,391,698	338,511,612
<b>Total equity</b>		<b>1,046,214,572</b>	<b>970,334,486</b>
<b>Total equity and liabilities</b>		<b>1,138,534,591</b>	<b>1,078,678,135</b>

Signed for and on behalf of the Board of Directors

Director



Director



The notes disclosed on pages 36 to 53 are an integral part of the financial statements.

Solomon Islands Electricity Authority  
trading as **SOLOMON POWER**  
Statement of changes in equity  
For the year ended 31 December 2017

	Note	Contributed capital  SBD	Asset revaluation reserves SBD	Accumulated retained earnings  SBD	Total  SBD
<b>Balance at 1 January 2016</b>		<b>246,933,170</b>	<b>299,474,732</b>	<b>222,863,143</b>	<b>769,271,045</b>
<b>Total comprehensive income for the year</b>					
Net profit for the year		-	-	120,048,870	120,048,870
Revaluation of property, plant and equipment	11	-	85,414,971	-	85,414,971
<b>Transaction with owners of SIEA directly recognised in equity</b>					
Dividend declared during the year		-	-	(4,400,400)	(4,400,400)
<b>Balance at 31 December 2016</b>		<b>246,933,170</b>	<b>384,889,703</b>	<b>338,511,612</b>	<b>970,334,486</b>
<b>Balance at 1 January 2017</b>		<b>246,933,170</b>	<b>384,889,703</b>	<b>338,511,612</b>	<b>970,334,486</b>
<b>Total comprehensive income for the year</b>					
Net profit for the year		-	-	79,880,086	79,880,086
<b>Transactions with owners of SIEA directly recognised in equity</b>					
Dividend declared during the year		-	-	(4,000,000)	(4,000,000)
<b>Balance at 31 December 2017</b>		<b>246,933,170</b>	<b>384,889,703</b>	<b>414,391,698</b>	<b>1,046,214,572</b>

The notes disclosed on pages 36 to 53 are an integral part of the financial statements.



**Solomon Islands Electricity Authority**  
**trading as SOLOMON POWER**  
**Statement of cash flows**  
**For the year ended 31 December 2017**

	Notes	2017 SBD	2016 SBD
<b>Operating Activities</b>			
Cash receipts from customers		420,124,487	440,076,358
Cash payments to suppliers and employees		<u>(319,714,724)</u>	<u>(275,135,484)</u>
<b>Net cash provided by Operating Activities</b>		<b><u>100,409,763</u></b>	<b><u>164,940,874</u></b>
<b>Investing Activities</b>			
Withdrawal / (payment) for held to maturity investments		47,305,214	(25,406,671)
Net payments for property, plant and equipment	11	<u>(132,866,048)</u>	<u>(124,972,680)</u>
<b>Net cash used in Investing Activities</b>		<b><u>(85,560,834)</u></b>	<b><u>(150,379,351)</u></b>
<b>Financing Activities</b>			
Cash receipts from donor grants		<u>5,771,599</u>	<u>35,789,560</u>
<b>Net cash provided by Financing Activities</b>		<b><u>5,771,599</u></b>	<b><u>35,789,560</u></b>
<b>Net increase in cash and cash equivalents</b>		20,620,528	50,351,082
Cash and cash equivalents at 1 January		<u>201,187,479</u>	<u>150,836,397</u>
<b>Cash and cash equivalents at 31 December</b>	12	<b><u>221,808,007</u></b>	<b><u>201,187,479</u></b>

The notes disclosed on pages 36 to 53 are an integral part of the financial statements.

**Solomon Islands Electricity Authority**  
**trading as SOLOMON POWER**  
**Notes to the financial statements**  
**For the year ended 31 December 2017**

**1 Reporting entity**

Solomon Islands Electricity Authority (SIEA) is a state owned enterprise established under the Electricity Act (Cap 128) 1969. SIEA's registered office and principal place of business is at the Ranadi Complex, East Honiara, Solomon Islands.

There are no subsidiary companies.

**2 Nature of operations**

The principal activity of SIEA is the generation 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**  
trading as **SOLOMON POWER**  
**Notes to the financial statements**  
**For the year ended 31 December 2017**

**5 Specific accounting policies *continued***

**d) Financial instruments**

**i. Non-derivative financial assets**

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

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

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

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

**Loans and receivables**

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

**Cash and cash equivalents**

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

**Accounts receivables**

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

Subsequently, appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired.

**Other financial assets at fair value through statement of comprehensive income**

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

**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 statement of comprehensive income.



**Solomon Islands Electricity Authority**  
trading as **SOLOMON POWER**  
**Notes to the financial statements**  
**For the year ended 31 December 2017**

**5 Specific accounting policies *continued***

**d) Financial instruments *continued***

**ii. Non-derivative financial liabilities**

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

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

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

Other financial liabilities comprise provisions, trade and other payables.

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

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

**iii. Contributed capital**

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

**e) Impairment**

**i. Non-derivative financial assets**

A financial asset not carried at fair value through statement of comprehensive income 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**  
**trading as SOLOMON POWER**  
**Notes to the financial statements**  
**For the year ended 31 December 2017**

**5 Specific accounting policies *continued***

**e) Impairment *continued***

**ii. Loans and receivables**

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

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

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

**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 statement of comprehensive income.

**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**  
trading as **SOLOMON POWER**  
**Notes to the financial statements**  
**For the year ended 31 December 2017**

**5 Specific accounting policies continued**

**h) Property, plant and equipment**

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

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

The gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within other income/other expenses in statement of comprehensive income. 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 statement of comprehensive income as incurred.

**ii. Depreciation**

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

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

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

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

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



**Solomon Islands Electricity Authority**  
trading as **SOLOMON POWER**  
**Notes to the financial statements**  
**For the year ended 31 December 2017**

**5 Specific accounting policies continued**

**h) Property, plant and equipment continued**

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

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

The primary valuation methodologies used in valuing land and buildings were the direct comparison and income capitalisation approaches crossed check with cost approach. These methodologies use market derived assumptions, including rents, capitalisation 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 are valued on an optimised depreciated replacement cost (ODRC) approach. The ODRC valuation of electricity assets is generally considered to represent the minimum cost of replacing or replicating the service potential embodied in the network with modern equivalent assets in the most efficient way possible from an engineering perspective, given the service requirements, the age and condition of the existing assets and replacement in the normal course of business.

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

Depreciation on revalued buildings is charged to statement of comprehensive income. 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 statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

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**5 Specific accounting policies continued**

**h) Property, plant and equipment continued**

**iv. Impairment of assets continued**

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

**v. Intangible assets**

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

Software - 3 to 7 years  
Easements - indefinite

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

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

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

**i) Capital work in progress**

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

**j Non-current assets held for sale**

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



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**5 Specific accounting policies *continued***

**k) Employee benefits**

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

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

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

Contributions to defined contribution plans are expensed when incurred.

SIEA deducts and pays 5 per cent of the employee's gross salaries and contributes 7.5 per cent of employee's gross salaries to the Solomon Islands National Provident Fund. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in statement of comprehensive income 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 statement of comprehensive income.

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 statement of comprehensive income. The gains or losses in the associated derivative are also recognised in the statement of comprehensive income.

**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 statement of comprehensive income as other income when the grant becomes receivable.

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

**p) Dividends**

Beginning in 2017 SIEA adopted a hybrid dividend policy to determine the amount of the dividend payable to Solomon Islands government each year. It was agreed that dividends will be calculated at a standard rate of 5% per annum on the net profit from operations up to SBD 100 million per annum and at a rate of 10% per annum on any net profit from operations in excess of this amount.



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**6 Specific accounting policies *continued***

**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:

	<b>2017 SBD</b>	<b>2016 SBD</b>
Cash at bank	221,765,007	201,144,479
Receivables - current	36,294,916	37,330,659
- non-current	1,660,609	3,234,185
	<u>259,720,532</u>	<u>241,709,323</u>

Receivables are determined impaired as follows:

**Trade and other receivables**

Gross receivables	70,234,051	69,907,659
Provision for impairment	(32,278,526)	(29,342,815)
	<u>37,955,525</u>	<u>40,564,844</u>

**Solomon Islands Electricity Authority**  
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**6 Specific accounting policies *continued***

**ii) Liquidity risk**

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

Typically SIEA ensures that 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 2017**

	<b>Carrying amount SBD</b>	<b>6 months or less SBD</b>	<b>6-12 months SBD</b>	<b>Greater than 1 year SBD</b>
<b>Financial liabilities</b>				
Trade and other payables	34,932,083	34,932,083	-	-
Employee benefits	193,818	193,818	-	-
	<u>35,125,900</u>	<u>35,125,900</u>	<u>-</u>	<u>-</u>

**31 December 2016**

	<b>Carrying amount SBD</b>	<b>6 months or less SBD</b>	<b>6-12 months SBD</b>	<b>Greater than 1 year SBD</b>
<b>Financial liabilities</b>				
Trade and other payables	46,136,620	46,136,620	-	-
Employee benefits	391,109	391,109	-	-
	<u>46,527,729</u>	<u>46,527,729</u>	<u>-</u>	<u>-</u>

**Solomon Islands Electricity Authority**  
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**6 Specific accounting policies *continued***

**iii) Market risk**

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

SIEA is subject to a quarterly tariff review. The tariff is based upon the 2005 Tariff Price Regulation which is adjusted for the Honiara Consumer Price Index and fuel price movements. Fuel at \$137,645,000 (\$129,691,000 in 2016) comprises about 38% of 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 2017 as the base, the following percentage movements in fuel prices will have the following effect on revenue, expenditure and profit.

	<b>Percentage Change In Fuel Price</b>				
	<b>-10%</b>	<b>-5%</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Revenue	411,600	419,800	428,000	436,200	444,400
Expenditure	334,400	341,300	348,200	355,100	362,000
Net Profit	77,200	78,500	79,800	81,100	82,400

**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.

	<b>2017</b>	<b>2016</b>
	<b>SBD</b>	<b>SBD</b>
<b>7 Other operating income</b>		
Community service obligation	-	4,400,400
Other	2,540,795	2,029,371
Reconnections	4,530	8,130
	<u>2,545,325</u>	<u>6,437,901</u>

**8 Generation and distribution**

Bought in electricity	3,561,954	5,557,395
Fuel	137,645,095	129,691,478
Lubricating oil	4,590,875	3,748,438
Other	4,460,864	1,992,000
Personnel	25,407,717	25,293,211
Repairs and maintenance	31,935,454	21,066,362
	<u>207,601,960</u>	<u>187,348,883</u>



**Solomon Islands Electricity Authority**  
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**9 Administration**

	<b>2017</b>	<b>2016</b>
	<b>SBD</b>	<b>SBD</b>
Advertising	2,430,499	2,100,749
Bank fees	319,713	1,130,589
Computer bureau charges	1,865,089	1,744,076
Consultancy fees	18,089,604	13,301,915
Directors fees and expenses	627,570	394,623
Electricity	2,949,745	3,816,113
Electricity rebate	4,632,483	1,001,382
Freight	205,032	213,246
Insurance	2,338,014	1,596,240
Personnel	10,202,013	19,153,639
Printing and stationery	2,146,769	2,410,953
Professional fees	1,080,046	1,743,848
Property expenses	4,628,537	4,017,097
Tax Penalties	-	206,579
Telecommunications	3,372,687	4,478,374
Travel and accommodation	4,796,083	4,034,508
	<b>59,683,883</b>	<b>61,343,934</b>

**10 Operating expenses**

Customs handling charges	5,945,648	3,392,858
Personnel	17,866,359	17,953,848
Repairs and maintenance	3,882,631	5,650,408
Vehicle costs	3,453,391	3,810,321
	<b>31,148,030</b>	<b>30,807,434</b>

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**11 Property, plant and equipment**

**Cost / Revaluation**

Balance as 1 January 2016

Off set of accumulated depreciation as a result of a revaluation  
Adjustment to asset revaluation reserve resulting from a revaluation  
Additions  
Disposals  
Work in progress capitalised  
Revaluation decrement

	Land SBD	Buildings SBD	Generators SBD	Plant and equipment SBD	Distribution network SBD	Furniture & equipment SBD	Motor vehicles SBD	Tools SBD	Work in progress SBD	Total SBD
Balance as 1 January 2016	26,751,937	34,086,348	129,088,224	54,768,897	179,997,144	15,163,894	23,400,127	5,190,020	163,326,905	631,773,496
	-	(6,721,350)	(25,239,620)	(5,078,656)	(11,947,817)	-	-	-	-	(48,987,442)
	23,601,405	31,814,293	574,422	168,041	29,256,811	-	-	-	-	85,414,971
	-	7,153,024	47,938,778	21,059	965,075	5,587,640	1,181,180	1,297,215	60,828,708	124,972,680
	(38,000)	(1,096,800)	(10,877,536)	(59,064)	(20,303)	-	(185,712)	-	-	(12,277,416)
	3,515,837	92,470,938	48,682,500	178,557	2,059,662	369,294	-	-	(147,276,789)	-
	-	(158,334)	-	-	-	-	-	-	-	(158,334)

Balance at 31 December 2016

Additions  
Disposals  
Work in progress capitalised

Balance at 31 December 2016	53,831,179	157,548,120	190,166,769	49,998,834	200,310,571	21,120,828	24,395,595	6,487,235	76,878,824	780,737,955
	4,112	-	-	-	668,067	-	-	-	132,193,868	132,866,048
	-	-	(1,843,635)	-	-	(280,347)	-	-	-	(2,123,982)
	1,296,071	9,791,803	52,781,356	10,006,546	22,784,409	3,739,609	722,680	1,485,646	(102,608,119)	-

Balance at 31 December 2017

**Breakdown of cost/revaluation**

2011 Valuation  
2013 Valuation  
2016 Valuation  
Cost

Balance at 31 December 2017	55,131,363	167,339,922	241,104,489	60,005,380	223,763,048	24,580,090	25,118,275	7,972,881	106,464,573	911,480,021
	-	-	-	-	-	-	1,172,968	249,941	-	1,422,910
	564,117	6,658,552	171,550	17,130,540	25,668,207	-	-	-	-	50,192,966
	49,751,225	61,916,918	93,373,939	30,899,771	168,190,283	-	-	-	-	404,132,137
	4,816,020	98,764,452	147,559,000	11,975,069	29,904,558	24,580,090	23,945,306	7,722,940	106,464,573	455,732,008

Balance at 31 December 2017

**Depreciation and impairment loss**

Balance as 1 January 2016

Depreciation  
Amortisation of leasehold land  
Off set of accumulated depreciation as a result of a revaluation  
Depreciation on disposed assets

Balance as 1 January 2016	2,469,330	2,860,711	35,841,404	6,906,627	12,657,031	6,793,916	11,279,157	1,975,774	-	80,783,950
	-	5,138,502	17,103,251	3,742,824	7,831,258	4,237,140	4,511,654	2,207,531	-	44,772,161
	1,234,665	-	-	-	-	-	-	-	-	1,234,665
	-	(6,721,350)	(25,239,620)	(5,078,656)	(11,947,817)	-	(185,712)	-	-	(48,987,442)
	-	(240,775)	(10,597,496)	(59,064)	(20,303)	-	-	-	-	(11,103,350)

Balance at 31 December 2016

Depreciation  
Amortisation of leasehold land  
Depreciation on disposed assets

Balance at 31 December 2016	3,703,995	1,037,089	17,107,540	5,511,731	8,520,169	11,031,057	15,605,099	4,183,305	-	66,699,983
	-	8,169,065	21,566,588	1,579,051	8,859,808	4,139,523	4,255,485	1,643,499	-	50,213,020
	1,234,665	-	-	-	-	-	-	-	-	1,234,665
	-	-	(1,843,635)	-	-	(253,218)	-	-	-	(2,096,853)

Balance at 31 December 2017

**Carrying amounts**

At 31 December 2015

At 31 December 2016

At 31 December 2017

Balance at 31 December 2017	4,938,660	9,206,154	36,830,493	7,090,782	17,379,977	14,917,362	19,860,583	5,826,804	-	116,050,816
	24,282,607	31,225,637	93,246,820	47,862,270	167,340,113	8,369,978	12,120,970	3,214,246	163,326,905	550,989,546
	50,127,184	156,511,031	173,059,229	44,487,104	191,790,402	10,089,772	8,790,496	2,303,930	76,878,824	714,037,972
	50,192,703	158,133,768	204,273,996	52,914,598	206,383,071	9,662,728	5,257,691	2,146,077	106,464,573	795,429,205

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**11 Property, plant and equipment continued**

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

In 2016 SIEA engaged Sinclair Knights Merz (SKM) to carry out an independent valuation of the following classes of assets:

Generators  
Distribution network  
Plant and equipment

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

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

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

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

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

	2017 SBD	2016 SBD
Perpetual Estate Land	3,194,989	3,190,877
Leasehold Land	51,936,373	50,640,302
Amortisation of Leasehold Land	(4,938,660)	(3,703,995)
	<u>50,192,703</u>	<u>50,127,184</u>

**12 Cash and cash equivalents**

Cash on hand	43,000	43,000
Cash at bank	221,765,007	201,144,479
	<u>221,808,007</u>	<u>201,187,479</u>

**13 Inventories**

Electrical and mechanical	20,910,019	15,458,291
	<u>20,910,019</u>	<u>15,458,291</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.

**14 Receivables**

**Current**

Trade receivables - kilowatt (Kwh)	53,221,567	48,733,228
Allowance for impairment - kilowatt (Kwh)	(19,276,118)	(14,208,187)
Trade receivables - CashPower	13,041,735	15,602,230
Allowance for impairment - CashPower	(12,963,221)	(15,105,642)
Related party - Solomon Islands Water Authority	937,500	937,500
Related party - Solomon Islands Broadcasting Corporation	891,426	891,426
Staff advances	312,409	289,858
Allowance for impairment- staff advances	(39,187)	(28,986)
Unread meters	13,847,290	13,516,102
Other debtors	168,804	219,233
	<u>50,142,206</u>	<u>50,846,761</u>

**Non-current**

Related party - Solomon Islands Water Authority	1,875,000	2,890,625
Deferred income - Solomon Islands Water Authority	(273,049)	(447,595)
Related party - Solomon Islands Broadcasting Corporation	61,705	829,955
Deferred income - Solomon Islands Broadcasting Corporation	(3,047)	(38,800)
	<u>1,660,609</u>	<u>3,234,185</u>



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**14 Receivables continued**

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

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

	2017 SBD	2016 SBD
<b>Allowance for impairment</b>		
Balance at 1 January	29,342,815	27,847,591
Impairment recognised	11,396,373	(861,604)
Bad debts written off during the year	(8,460,662)	2,356,828
Balance at 31 December	<u>32,278,526</u>	<u>29,342,815</u>

**15 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.

**16 Deferred income**

Balance at 1 January	61,815,920	32,463,243
Additional deferred income	1,771,160	34,120,931
Deferred income recognised during the year	(6,392,961)	(4,768,254)
Balance at 31 December	<u>57,194,119</u>	<u>61,815,920</u>

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

Current	6,392,961	6,392,961
Non-current	<u>50,801,158</u>	<u>55,422,959</u>
	<u>57,194,119</u>	<u>61,815,920</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 statement of comprehensive income over the life of the power station.

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

In 2013 a grant of approximately \$3,058,000 was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of a 33kv cable in Honiara. This project was completed in May 2015 and the value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the cabling.

In 2013 a grant of approximately \$1,493,000 was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of 11kv switchgear in Honiara. This project was completed in January 2015 and the value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the equipment.

In 2013 a grant of approximately \$839,000 was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of cooling radiators at the Lungga Power Station. This project was completed in June 2015 and the value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the radiators.

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**16 Deferred income continued**

In 2015 a grant of approximately \$765,000 was received from the Asian Development Bank to fund the construction of a Coconut Oil Conditioning Unit on Auki. The value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the unit.

In 2015 a grant of approximately \$1,015,000 was received from the Asian Development Bank to fund the procurement of a Generator Set on Auki. The value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the generator.

In 2015 a grant of approximately \$867,000 was received from the Asian Development Bank to fund the procurement of 11kV and 415v Distribution Equipment for the Auki Power Generation and Distribution Pilot Project. The value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the equipment.

In 2016 a grant of approximately \$32,500,000 was received from the United Arab Emirates Pacific Partnership Fund to fund a 50 KW solar grid at Henderson in Honiara. The value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the solar grid.

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

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

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

**17 Trade and other payables**

	<b>2017</b>	<b>2016</b>
	<b>SBD</b>	<b>SBD</b>
<b>Current</b>		
Trade creditors	1,722,700	1,757,259
Other payables and accruals	29,313,550	41,016,269
Consumer deposits	3,895,832	3,363,092
	<u>34,932,083</u>	<u>46,136,620</u>

**18 Related parties**

**a) Directors**

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

**Name**

David K.C. Quan - chairman (appointed 19 February 2016)

Harry Zoleveke - (appointed June 2012)

Henry Kapu - (appointed June 2012)

John B Houanihau - (appointed September 2014)

Rovaly Sike - (appointed September 2014)

Sebastian Ilala - (appointed June 2012)

Yolande Yates - (appointed September 2014)

Directors' fees and expenses are disclosed in Note 9.

SIEA's transactions with Directors were at arms length.



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**18 Related parties continued**

**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**

	<b>2017</b>	<b>2016</b>
	<b>SBD</b>	<b>SBD</b>
Included in trade receivables are the following amounts receivable from related entities:		
Central Bank of Solomon Islands	168,464	315,764
Central Provincial Government	16,920	8,048
Commodity Export Marketing Authority	-	1,207
Home Finance Corporation	38,354	(213,585)
Honiara City Council	818,911	533,399
Makira/Ulawa Provincial Government	26,250	12,881
Malaita Provincial Government	82,443	(5,038)
Ministry of Fisheries and Marine Resources	2,686,345	7,237,938
Provincial Hospital	61,132	83,958
Solomon Airlines Limited	218,035	115,240
Solomon Islands Broadcasting Corporation	1,114,805	2,066,723
Solomon Islands Government	16,174,509	3,076,627
Solomon Islands National University	576,469	453,654
Solomon Islands Ports Authority	392,944	513,271
Solomon Islands Postal Corporation	143,966	118,372
Solomon Islands Tourist Authority	-	17,463
Solomon Islands Water Authority	3,355,717	4,135,438
Temotu Provincial Government	8,691	3,958
Western Provincial Government	307,712	8,315
Isabel Provincial Government	117,724	(693)
	<u>26,309,390</u>	<u>18,482,938</u>

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

**d) Transactions with key management personnel**

Key management personnel comprises of the Chief Executive Officer, Chief Financial Officer, General Manager Capital Works, Chief Engineer, General Manager Corporate Services, General Manager Customer Services, Electrical Engineer, Manager Finance, Regulatory Manager, Property Manager, Manager Human Resources and Administration, Manager Generation and Outstations, Manager Transmission and Distribution, and the directors as listed in note 18 (a).

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

Short-term employee benefits	13,064,624	15,177,340
	<u>13,064,624</u>	<u>15,177,340</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.

**19 Commitments and contingencies**

**Capital commitments**

SIEA undertakes capital works and purchases assets according to an approved budget when management consider that sufficient funds are available. Capital commitments as at 31 December 2017 amounted to \$863,000,000 (2016: \$771,000,000). These commitments are in relation to property, plant and equipment.

Less Than 1 Year	208,000,000	158,000,000
Between 1 year and 5 years	655,000,000	613,000,000
	<u>863,000,000</u>	<u>771,000,000</u>

**Contingent liabilities**

As at the end of the year SIEA was not party to any unsatisfied judgements and did not have any contingent liabilities under contracts or guarantees other than those arising in the normal course of business.



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**20 Solomon Islands Government loan agreement**

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

	2017 SBD	2016 SBD
Balance at 1 January	4,252,283	-
Borrowings	13,294,758	4,252,283
Principal Repayments	14,622,043	-
Balance at 31 December	2,924,999	4,252,283

**21 World Bank Financing**

**a) Financial Support Received**

SIEA has received financial support from the World Bank's International Development Association (IDA) and Output-Based Aid (OBA) programmes since 31 December 2015, for consulting services incurred under the Solomon Islands Sustainable Energy Project (SISEP).

**b) Grants**

SIEA has received total grants of USD 4,886,242 from these programmes since their commencement (2016: USD 4,380,873).

**c) Credit Funds**

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

**d) Use of the Proceeds**

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

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

	2017 USD	2016 USD
<b>Grants</b>		
H415-SB (IDA)	14,222	63,411
H913-SB (IDA)	302,249	148,122
TF A2923 (OBA)	188,898	-
	505,369	211,533
<b>Credit Funds 5379-SB (IDA)</b>		
Balance at 1 January	551,383	-
Borrowings	1,748,897	551,383
Principal Repayments	1,934,071	-
Balance at 31 December	366,210	551,383
<b>Expenses</b>	176,162	226,905

**22 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.

**23 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.