

Solomon Islands Electricity Authority

Financial Statements

For the year ended

31 December 2011



Solomon Islands Electricity Authority
For the year ended 31 December 2011

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Solomon Islands Electricity Authority

Directors' report

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Solomon Islands Electricity Authority (the "Authority") as at 31 December 2011 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 Tobani - (appointed February 2008)
Henry Kapu - (appointed June 2012)
Mamu Paza - (resigned June 2012)
Nanette Tutua - (appointed February 2008)
Sebastian Illala - (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 2011, 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 SBD53,062,637 (2010: loss of SBD69,917,236).

Dividends

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

Solomon Islands Electricity Authority Directors' report (continued)

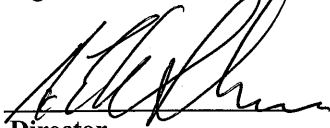
Significant and subsequent events

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 results in a write off of by the Authority which is caused by the existing provision.

Apart from this event, 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 Honiara this 21st day of August, 2012.

Signed in accordance with a resolution of the Directors.


Director


Director



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 2011, 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.

Because of the matters described in the basis for disclaimer of opinion on the statement of comprehensive income, statement of changes in equity and statement of cash flows paragraph, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statement of comprehensive income, statement of changes equity and statement of cash flows. However, I did obtain sufficient and appropriate audit evidence to provide a basis for an unmodified opinion on the statement of financial position.

Basis for Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows

I was unable to express an opinion on the financial statements of the Authority for the year ended 31 December 2010 due to the significant limitations on the scope of my work and therefore any potential adjustments that may have been necessary in the areas of property, plant and equipment, inventories, trade and other receivables, trade and other payables, revenue and expenses. As a consequence, I was unable to satisfy myself as to the appropriateness of the loss for the year ended 31 December 2010 and the accumulated losses at 31 December 2010.

INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Electricity Authority

Basis for Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows (continued)

The results and cash flows of the Authority for the year ended 31 December 2011 would be affected to the extent of any misstatement or omission within property, plant and equipment, inventories, trade and other receivables, trade and other payables, revenue and expenses and accumulated losses as at 31 December 2010.

Disclaimer of Opinion on the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows

In my opinion, because of the limitations on the scope of my work as described in the qualifications paragraphs above, and the effect of such adjustments, if any, as might have been determined to be necessary had the limitations in the scope not existed, I am unable to, and do not, express an opinion of the results of the Authority's operations and its cash flows for the year ended 31 December 2011.

Unmodified Opinion on the Statement of Financial Position

In my opinion, the statement of financial position of the Solomon Islands Electricity Authority gives a true and fair view of the financial position of the Authority as at 31 December 2011 in accordance with International Financial Reporting Standards and the State Owned Enterprises Act.

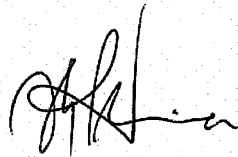
Report on Other Legal and Regulatory Requirements

Lack of compliance with Public Finance and Audit Act

The Authority has not complied with the requirements of the *Public Finance and Audit Act* which requires the audited financial statements to be placed before the Minister responsible before 31 March of the following year to which the financial statements relate.

Lack of compliance with the State Owned Enterprises Act

The Authority has not complied with Section 14 of the *State Owned Enterprises Act* 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

28 September 2012

Solomon Islands Electricity Authority
Statement of comprehensive income
For the year ended 31 December 2011

	Note	2011 SBD	2010 SBD
Electricity sales		351,476,721	258,871,110
Grant income	16	2,505,234	2,505,234
Other operating income	5	<u>25,778,452</u>	<u>1,391,943</u>
		379,760,407	262,768,287
Less expenses			
Generation	6	(255,406,121)	(208,453,859)
Distribution	7	(4,740,520)	(2,707,513)
Workshops		(1,937,569)	(3,401,267)
Administration	8	(34,104,002)	(29,276,195)
Bad debts written off		(29,999,287)	-
Allowance for uncollectability		27,886,761	(57,315,926)
Inventory obsolescence - write-off		(4,579,138)	(7,576,926)
Impairment loss/revaluation decrement - property, plant and equipment	11	(2,387,857)	(738,353)
Other expenses		<u>(21,444,454)</u>	<u>(23,353,522)</u>
Gain / (loss) from operations		53,048,220	(70,055,274)
Finance income	10	14,417	138,038
Net profit / (loss) for the year		<u>53,062,637</u>	<u>(69,917,236)</u>
Other comprehensive income			
Revaluation surplus	11	173,343,210	3,922,425
			-
Total comprehensive income / (loss) for the year		<u><u>226,405,847</u></u>	<u><u>(65,994,811)</u></u>

The notes on pages 8 to 24 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of changes in equity
For the year ended 31 December 2011

	Contributed capital SBD	Asset revaluation reserves SBD	Accumulated losses SBD	Total SBD
Balance at 1 January 2010	246,933,170	54,507,821	(86,276,106)	215,164,885
<i>Total comprehensive loss for the year</i>				
Net loss for the year	-	-	(69,917,236)	(69,917,236)
Other comprehensive income	-	3,922,425	-	3,922,425
<i>Transaction with owners of the Authority directly recognised in equity</i>				
Grant received during the year	3,978,518	-	-	3,978,518
Restatement-prior period adjustment	(1,605,000)		1,605,000	
Balance at 31 December 2010	249,306,688	58,430,246	(154,588,342)	153,148,592
<i>Total comprehensive income for the year</i>				
Net profit for the year	-	-	53,062,637	53,062,637
Other comprehensive income	-	173,343,210	-	173,343,210
<i>Transaction with owners of the Authority directly recognised in equity</i>				
Grant received during the year	3,739,177	-	-	3,739,177
Balance at 31 December 2011	253,045,865	231,773,456	(101,525,705)	383,293,616

The notes on pages 8 to 24 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of financial position
As at 31 December 2011

Assets	Note	2011 SBD	2010 SBD
Non-current assets			
Property, plant and equipment	11	<u>328,611,390</u>	<u>161,744,048</u>
Total non-current assets		<u>328,611,390</u>	<u>161,744,048</u>
Current assets			
Cash and cash equivalents	12	19,459,307	12,907,292
Inventories	13	10,469,647	11,609,628
Receivables	14	<u>67,390,902</u>	<u>51,493,896</u>
Total current assets		<u>97,319,856</u>	<u>76,010,816</u>
Total assets		<u>425,931,246</u>	<u>237,754,864</u>
Equity			
Contributed capital	15	253,045,865	249,306,688
Reserves		231,773,456	58,430,246
Accumulated losses		<u>(101,525,705)</u>	<u>(154,588,342)</u>
Total equity		<u>383,293,616</u>	<u>153,148,592</u>
Non-current liabilities			
Deferred income	16	31,634,071	34,139,305
Trade and other payables	17	-	12,997,412
Employee benefits		<u>375,471</u>	<u>769,764</u>
Total non-current liabilities		<u>32,009,542</u>	<u>47,906,481</u>
Current liability			
Trade and other payables	17	<u>10,628,088</u>	<u>36,699,791</u>
Total current liability		<u>10,628,088</u>	<u>36,699,791</u>
Total liabilities		<u>42,637,630</u>	<u>84,606,272</u>
Total equity and liabilities		<u>425,931,246</u>	<u>237,754,864</u>

Signed for and on behalf of the Board of Directors

Director

Director

The notes on pages 8 to 24 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of cash flows
For the year ended 31 December 2011

	Note	2011 SBD	2010 SBD
Operating activities			
Cash received from customers		361,369,970	193,140,028
Cash paid to suppliers and employees		<u>(347,321,905)</u>	<u>(177,172,394)</u>
Net cash provided by operating activities		<u>14,048,065</u>	<u>15,967,634</u>
Investing activity			
Payments for property, plant and equipment	11	<u>(7,496,050)</u>	<u>(6,780,653)</u>
Net cash used in investing activity		<u>(7,496,050)</u>	<u>(6,780,653)</u>
Net increase in cash and cash equivalents		6,552,015	9,186,981
Cash and cash equivalents at 1 January		<u>12,907,292</u>	<u>3,720,311</u>
Cash and cash equivalents at 31 December	12	<u><u>19,459,307</u></u>	<u><u>12,907,292</u></u>

The notes on pages 8 to 24 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

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 21.08.12.

(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 2011, 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 2013 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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

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.

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 effective interest method, less any impairment losses.

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

Cash and cash equivalents

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

Receivables

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.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

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 of 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 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.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

Depreciation is based on the cost 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.

(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.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

3. Significant accounting policies (continued)

(c) Property, plant and equipment (continued)

(iii) Depreciation

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%
Plant and equipment	5.7%
Distribution network	5%
Office furniture and equipment	15%
Motor vehicles	20.0%
Tools	10.5%

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

(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, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and selling prices.

(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 security.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

3. Significant accounting policies (continued)

(e) Impairment (continued)

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 in impairment loss is reversed through profit or loss.

(ii) 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.

(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.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

3. Significant accounting policies (continued)

(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 consideration is recoverable.

(k) Finance income

Finance income comprises of unrealised foreign exchange gain.

(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.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

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.

Receivables

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 asset 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.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

4. Financial risk management (continued)

(i) Credit risk (continued)

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

	2011	2010
	SBD	SBD
Cash at bank	19,422,807	12,890,292
Receivables - current	54,390,902	35,200,167
	<u>73,813,709</u>	<u>48,090,459</u>

Receivables are determined impaired as follows:

<u>Trade and other receivables</u>		
Gross receivables	83,936,470	92,632,496
Provision for impairment	(29,545,568)	(57,432,329)
	<u>54,390,902</u>	<u>35,200,167</u>

(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 it 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 and financial assets:

31 December 2011

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
<u>Financial assets</u>				
Cash and cash equivalents	19,459,307	19,459,307	-	-
Receivables	54,390,902	54,390,902	-	-
	<u>73,850,209</u>	<u>73,850,209</u>	<u>-</u>	<u>-</u>
<u>Financial liability</u>				
Trade and other payables	10,628,088	10,628,088	-	-
	<u>10,628,088</u>	<u>10,628,088</u>	<u>-</u>	<u>-</u>

Solomon Islands Electricity Authority
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4. Financial risk management (continued)

(ii) Liquidity risk (continued)

31 December 2010

	Carrying amount SBD	6 months or less SBD	6-12 months SBD	Greater than 1 year SBD
<u>Financial assets</u>				
Cash at bank	12,907,292	12,907,292	-	-
Trade and other receivables	35,200,167	35,200,167	-	-
	<u>48,107,459</u>	<u>48,107,459</u>	<u>-</u>	<u>-</u>
<u>Financial liability</u>				
Trade and other payables	49,697,203	36,699,791	-	12,997,412
	<u>49,697,203</u>	<u>36,699,791</u>	<u>-</u>	<u>12,997,412</u>

(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.

Tariff review

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.

	2011 SBD	2010 SBD
5. Other operating income		
Included in other operating income are the following:		
Community Service Obligation	7,848,016	-
Drum deposits refund	2,546,760	-
Reconnections	253,833	34,256
Amortisation of consumer capital contribution	14,274,633	538,389
Other	<u>855,210</u>	<u>819,298</u>
6. Generation		
Included in generation expenses are the following:		
Depreciation	8,748,449	8,689,125
Engines and lubricants	15,660,661	17,031,387
Fuel	<u>227,900,876</u>	<u>174,456,188</u>

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For the year ended 31 December 2011

	2011	2010
	SBD	SBD
7. Distribution		
Included in distribution expenses are the following:		
Depreciation	1,442,431	1,434,698
Distribution lines	<u>1,189,263</u>	<u>1,606,706</u>
8. Administration		
Included in administration expenses are the following:		
Board fees and expenses	163,645	431,679
Computer bureau charges	642,221	1,770,624
Customs and port charges	5,159,569	4,350,118
Depreciation	1,393,181	1,319,018
Allowance for impairment - staff debtors	2,614	116,403
Electricity rebate	582,662	1,411,232
Freight	2,213,878	1,358,966
Fuel Stock Adjustments	4,908,595	393,557
Electrical stock adjustment	-	3,145,733
Electricity	5,130,430	-
Customs Duty & GST	4,621,386	4,350,118
Printing and stationery	844,721	611,014
Repairs and maintenance	2,949,738	1,721,319
Rent	159,604	226,226
Travel and accommodation	<u>1,272,701</u>	<u>1,646,926</u>
9. Personnel expenses		
Wages and salaries expense	15,697,632	16,119,092
Key management compensation	1,855,804	1,616,357
National Provident Fund contributions	1,140,859	1,105,743
Housing allowance and shift allowances	1,498,213	1,748,160
Other staff related costs	1,484,829	592,059
	<u>21,677,337</u>	<u>21,181,411</u>
10. Finance income		
Unrealised foreign exchange gains	<u>14,417</u>	<u>138,038</u>

Solomon Islands Electricity Authority
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11. Property, plant and equipment

	Land and building operational SBD	Land and building non operational SBD	Plant and equipment SBD	Distribution network SBD	Office furniture and equipment SBD	Motor vehicles SBD	Tools SBD	Work in progress SBD	Total SBD
Cost / Revaluation									
Balance as 1 January 2010	17,190,200	13,406,260	105,275,105	23,790,618	2,186,624	6,851,407	229,899	-	168,930,113
Adjustment for prior period errors	-	405,371	38,500,603	1,519,445	(99,441)	46,150	16,223	-	40,388,351
Additions	332,560	13,960	767,526	3,568,932	329,532	1,656,946	52,160	59,037	6,780,653
Off set of accumulated depreciation as a result of revaluation	-	(3,762,546)	-	-	-	-	-	-	(3,762,546)
Revaluation increment	-	3,922,425	-	-	-	-	-	-	3,922,425
Balance at 31 December 2010	17,522,760	13,985,470	144,543,234	28,878,995	2,416,715	8,554,503	298,282	59,037	216,258,996
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 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	3,571,338	2,340,502	478,565	354,485	335,667,307
Breakdown of cost/revaluation									
- 2010 Valuation	-	13,985,470	146,920,751	150,493,436	-	2,340,502	478,565	-	13,985,470
- 2011 Valuation	-	-	-	-	3,571,338	-	-	354,485	300,233,254
- Cost	17,522,760	-	-	-	-	-	-	-	21,448,583
Balance at 31 December 2011	17,522,760	13,985,470	146,920,751	150,493,436	3,571,338	2,340,502	478,565	354,485	335,667,307
Depreciation and impairment loss									
Balance as 1 January 2010	3,102,292	3,431,929	27,523,258	7,119,351	1,120,503	3,194,055	110,509	-	45,601,897
Depreciation	368,622	337,997	8,201,165	1,326,268	234,291	769,027	20,068	-	11,257,438
Off set of accumulated depreciation as a result of revaluation	-	(3,762,546)	-	-	-	-	-	-	(3,762,546)
Impairment loss	738,353	-	-	-	-	-	-	-	738,353
Adjustment for prior period errors	-	58,229	311,416	121,742	94,374	56,657	37,388	-	679,806
Balance at 31 December 2010	4,209,267	65,609	36,035,839	8,567,361	1,449,168	4,019,739	167,965	-	54,514,948
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 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	-	-	2,312,449	-	-	-	7,055,917
Carrying amounts									
At 1 January 2010	14,087,908	9,974,331	77,751,847	16,671,267	1,066,121	3,657,352	119,390	-	123,328,216
At 31 December 2010	13,313,493	13,919,861	108,507,395	20,311,634	967,547	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	1,258,889	2,340,502	478,565	354,485	328,611,390

Solomon Islands Electricity Authority
Notes to the financial statements
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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 has been adopted in the financial statements as at 31 December 2011.

	2011 SBD	2010 SBD
12. Cash and cash equivalents		
Cash on hand	36,500	17,000
Cash at bank	19,422,807	12,890,292
	<u>19,459,307</u>	<u>12,907,292</u>
	2011 SBD	2010 SBD
13. Inventories		
Fuel and lubricants	5,532,281	4,749,962
Electrical and mechanical	4,937,366	6,859,666
	<u>10,469,647</u>	<u>11,609,628</u>
	2011 SBD	2010 SBD
14. Receivables		
<u>Current</u>		
Trade receivables	80,423,475	92,006,745
Allowance for impairment - trade receivables	(29,426,551)	(57,315,926)
Staff advances	377,803	625,751
Allowance for impairment- staff advances	(119,017)	(116,403)
Unread meters	13,000,000	16,293,729
Other debtors	3,135,192	-
	<u>67,390,902</u>	<u>51,493,896</u>

Solomon Islands Electricity Authority
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	2011 SBD	2010 SBD
14. Receivables (continued)		
<u>Allowance for impairment</u>		
Balance at 1 January	(57,432,329)	-
Impairment recognised	(2,112,526)	(57,432,329)
Bad debts written off during the year	29,999,287	-
Balance at 31 December	<u>(29,545,568)</u>	<u>(57,432,329)</u>

	2011 SBD	2010 SBD
15. Contributed capital		
Contributed capital	<u>253,045,865</u>	<u>249,306,688</u>

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

In 2011 the Government of Solomon Islands provided a grant amounting to \$3,739,177 (2010: \$2,373,518) 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.

	2011 SBD	2010 SBD
16. Deferred income		
Balance at 1 January	34,139,305	36,644,539
Grant income recognised in profit and loss	<u>(2,505,234)</u>	<u>(2,505,234)</u>
Balance at 31 December	<u>31,634,071</u>	<u>34,139,305</u>

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

	2011 SBD	2010 SBD
17. Trade and other payables		
<u>Current</u>		
Trade creditors	4,499,716	26,068,776
Other payables and accruals	6,014,546	10,564,106
Consumer deposits	113,826	66,909
	<u>10,628,088</u>	<u>36,699,791</u>
<u>Non current</u>		
Consumer capital contributions	<u>-</u>	<u>12,997,412</u>

Solomon Islands Electricity Authority

Notes to the financial statements

For the year ended 31 December 2011

17. Trade and other payables (continued)

Consumer capital contributions relate to fees collected from customers for the establishment of distribution networks. During the year a review was performed of this balance and the amortisation period was reduced due to there being no requirement to refund the contributions to the customer.

From 1 January 2012 these contributions are being taken to Profit or Loss when received.

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

Henry Tobani

Mamu Paza - (resigned June 2012)

Nanette Tutua

Stephen Panga - (resigned June 2012)

Directors fees and expenses are disclosed in Note 8.

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:

	2011 SBD	2010 SBD
Central Provincial Government	25,703	-
Commodity Export Marketing Authority	225,583	-
Home Finance Corporation	61,918	-
Honiara City Council	163,969	115,306
Makira/Ulawa Provincial Government	6,032	822,202
Malaita Provincial Government	1,206,589	1,239,663
Provincial Hospital	2,576,292	-
Sasape Marina Limited	-	54,891
Solomon Airlines Limited	3,527	55,915
Solomon Islands Broadcasting Corporation	3,432,536	2,409,247
Solomon Islands College of Higher Education	444,442	1,835,224
Solomon Islands Government	5,153,725	5,677,064

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Notes to the financial statements
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18. Related parties (continued)

(c) Amounts receivable from related parties (continued)

	2011	2010
	SBD	SBD
Solomon Islands Ports Authority	260,528	219,346
Solomon Islands Postal Corporation	192,802	55,527
Solomon Islands Printers Limited	275,100	65,770
Solomon Islands Tourist Authority	-	7,391
Solomon Islands Water Authority	27,500,000	22,635,612
Soltai Fishing and Processing Limited	3,288,172	1,616,576
Temotu Provincial Government	80,480	36,862
Western Provincial Government	427,689	902,060
Ysabel Provincial Government	40,880	445,962
	<u>45,365,967</u>	<u>38,194,618</u>

(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

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 2011 amounted to SBD96,000,000 (2010: SBD96,107,213). These commitments are in relation to property, plant and equipment.

Contingent liabilities

The Authority is defendant in two cases relating to unfair dismissal of employees. The Directors do not expect the outcome of any action to have a material effect on the Authority's financial position.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2011

19. Commitments and contingencies (continued)

Contingent liabilities (continued)

The Authority maintains a letter of credit of SBD12,000,000 for the purchase of spare parts for the diesel generator and motor vehicles from Japan with ANZ Banking Group Limited - Solomon Islands Branch. The letter of credit had not been utilised by the Authority and expired on 23 March 2012.

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

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 results in a write off of by the Authority which is caused by the existing provision.

Apart from this event, 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.