



Solomon Islands Electricity Authority

Financial Statements

For the year ended

31 December 2013

**Solomon Islands Electricity Authority
For the year ended 31 December 2013**

Contents

| | |
|-----------------------------------|-------|
| Directors' report | 26 |
| Independent auditors' report | 27 |
| Statement of comprehensive income | 28 |
| Statement of changes in equity | 29 |
| Statement of financial position | 30 |
| Statement of cash flows | 31 |
| Notes to the financial statements | 33-45 |

Solomon Islands Electricity Authority Directors' report

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Solomon Islands Electricity Authority (SIEA) as at 31 December 2013 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)
Douglas Alex - (appointed February 2010)
David Laurie - (appointed April 2010)
Harry Zoleveke - (appointed June 2012)
Henry Kapu - (appointed June 2012)
Henry Tobani - (appointed February 2008)
Nanette Tutua - (appointed February 2008)
Sebastian Ilala - (appointed 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 SIEA consisting of the statement of financial position as at 31 December 2013, statement of comprehensive income, statement of changes in equity and statement of cash flows of SIEA for the year then ended.

Principal activity

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

Results

The net profit for the year was SBD 46,336,352 (2012: profit of SBD 72,481,960).

Dividends

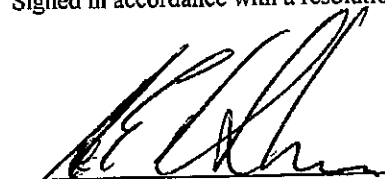
The Directors recommended that no dividends be declared or proposed for the year.

Significant events

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

Dated at Honiara this 28th day of MARCH 2014.

Signed in accordance with a resolution of the Directors.


Director


Director



INDEPENDENT AUDITOR'S REPORT

To the Board of the Solomon Islands Electricity Authority

Report on the Financial Statements

I have audited the accompanying financial statements of Solomon Islands Electricity Authority, which comprise the statement of financial position as at 31 December 2013, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' and Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In my opinion, the financial statements of the Solomon Islands Electricity Authority give a true and fair view of the financial position of the authority as at 31 December 2013 and of its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Robert Cohen
Acting Auditor-General
31 March, 2014

Office of the Auditor-General
Honiara, Solomon Islands

Solomon Islands Electricity Authority
Statement of comprehensive income
For the year ended 31 December 2013

| | Note | 2013 SBD | 2012 SBD |
|---|------|---------------------------|--------------------------|
| Operating income | | | |
| Electricity sales | | 404,299,236 | 397,574,602 |
| Grant income | 19 | 6,151,987 | 9,765,978 |
| Other operating income | 7 | <u>11,819,610</u> | <u>16,382,894</u> |
| Total operating income | | 422,270,834 | 423,723,474 |
| Less expenses | | | |
| Generation and distribution | 8 | 262,487,701 | 265,904,450 |
| Administration | 9 | 52,140,517 | 38,638,345 |
| Depreciation | 13 | 28,370,196 | 27,645,159 |
| Allowance for uncollectability | 16 | 4,919,238 | (4,178,999) |
| Inventory write-off | | 165,471 | 106,936 |
| Revaluation decrement - property, plant and equipment | 13 | 5,958,900 | - |
| Operating expenses | 12 | <u>25,773,013</u> | <u>22,222,816</u> |
| Gain / (loss) from operations | | 42,455,799 | 73,384,766 |
| Foreign exchange gain / (loss) | | <u>3,880,554</u> | <u>(902,806)</u> |
| Net profit / (loss) for the year | | 46,336,352 | 72,481,960 |
| Other comprehensive income | | | |
| Revaluation increment - property, plant and equipment | 13 | 62,715,894 | 4,985,383 |
| Prior period adjustment | 10 | 1,355,277 | - |
| Total comprehensive income / (loss) for the year | | <u>110,407,524</u> | <u>77,467,343</u> |

The notes on pages 33 to 50 are an integral part of the financial statements.

**Solomon Islands Electricity Authority
Statement of changes in equity
For the year ended 31 December 2013**

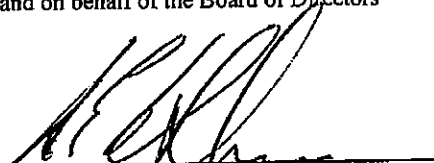
| | Note | Contributed capital SBD | Asset revaluation reserves SBD | Accumulated losses SBD | Total SBD |
|--|------|-------------------------------|---|------------------------------|--------------------|
| Balance at 1 January 2012 | | 246,933,170 | 231,773,455 | (95,413,011) | 383,293,614 |
| Total comprehensive loss for the year | | | | | |
| Net profit for the year | | - | - | 72,481,960 | 72,481,960 |
| Prior period adjustment | | - | 4,985,383 | - | 4,985,383 |
| Balance at 31 December 2012 | | 246,933,170 | 236,758,838 | (22,931,051) | 460,760,957 |
| Balance at 1 January 2013 | | 246,933,170 | 236,758,838 | (22,931,051) | 460,760,957 |
| Total comprehensive income for the year | | | | | |
| Net profit for the year | | - | - | 46,336,352 | 46,336,352 |
| Revaluation of property, plant and equipment | 13 | - | 62,715,894 | - | 62,715,894 |
| Prior period adjustment | 10 | - | - | 1,355,277 | 1,355,277 |
| Balance at 31 December 2013 | | 246,933,170 | 299,474,732 | 24,760,578 | 571,168,481 |


The notes on pages 33 to 50 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of financial position
As at 31 December 2013

| Assets | Note | 2013 SBD | 2012 SBD |
|--------------------------------------|------|---------------------------|---------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 13 | 402,802,573 | 318,346,242 |
| Receivables | 16 | 8,686,381 | 6,562,500 |
| Total non-current assets | | <u>411,488,954</u> | <u>324,908,742</u> |
| Current assets | | | |
| Cash and cash equivalents | 14 | 129,367,625 | 99,823,333 |
| Held to maturity investment | | 13,284,003 | - |
| Inventories | 15 | 7,458,153 | 8,421,876 |
| Receivables | 16 | 62,165,625 | 82,890,567 |
| Prepayments | | 336,706 | - |
| Total current assets | | <u>212,612,112</u> | <u>191,135,776</u> |
| Total assets | | <u>624,101,066</u> | <u>516,044,518</u> |
| Non-current liabilities | | | |
| Deferred income | 18 | 25,861,602 | 26,623,602 |
| Total non-current liabilities | | <u>25,861,602</u> | <u>26,623,602</u> |
| Current liabilities | | | |
| Deferred income | 18 | 6,151,987 | 2,505,234 |
| Trade and other payables | 20 | 20,918,996 | 26,154,724 |
| Total current liabilities | | <u>27,070,984</u> | <u>28,659,958</u> |
| Total liabilities | | <u>52,932,585</u> | <u>55,283,560</u> |
| Equity | | | |
| Contributed capital | 17 | 246,933,170 | 246,933,170 |
| Asset Revaluation Reserves | | 299,474,732 | 236,758,838 |
| Accumulated profits / (losses) | | 24,760,578 | (22,931,051) |
| Total equity | | <u>571,168,481</u> | <u>460,760,957</u> |
| Total equity and liabilities | | <u>624,101,066</u> | <u>516,044,518</u> |

Signed for and on behalf of the Board of Directors


 Director


 Director

The notes disclosed on the subsequent pages are an integral part of the financial statements.

Solomon Islands Electricity Authority
Statement of cash flows
For the year ended 31 December 2013

| | Note | 2013 SBD | 2012 SBD |
|--|------|----------------------------------|---------------------------------|
| Operating activities | | | |
| Cash receipts from customers | | 433,681,223 | 395,171,524 |
| Cash payments to suppliers and employees | | <u>(340,921,196)</u> | <u>(309,673,614)</u> |
| Net cash provided by operating activities | | <u>92,760,027</u> | <u>85,497,910</u> |
| Investing activities | | | |
| Payment for held to maturity investments | | (13,284,003) | - |
| Net payments for property, plant and equipment | 13 | <u>(58,968,473)</u> | <u>(12,394,628)</u> |
| Net cash used in investing activities | | <u>(72,252,476)</u> | <u>(12,394,628)</u> |
| Financing activities | | | |
| Cash receipts from donor grants | | <u>9,036,741</u> | <u>7,260,744</u> |
| Net cash provided by financing activities | | <u>9,036,741</u> | <u>7,260,744</u> |
| Net increase in cash and cash equivalents | | 29,544,292 | 80,364,026 |
| Cash and cash equivalents at 1 January | | <u>99,823,333</u> | <u>19,459,307</u> |
| Cash and cash equivalents at 31 December | 14 | <u><u>129,367,625</u></u> | <u><u>99,823,333</u></u> |

The notes on pages 33 to 50 are an integral part of the financial statements.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

1 Reporting entity

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

There are no subsidiary companies.

2 Nature of operations

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

3 Basis of preparation

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

a) Presentation of currency

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

4 Measurement basis

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

5 Specific accounting policies

a) Basis of consolidation

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

b) Goodwill

SIEA does not recognise any goodwill.

c) Revenue

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

d) Financial instruments

i. Non-derivative financial assets

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

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

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

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

Loans and receivables

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

Cash and cash equivalents

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

Accounts receivables

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

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

Other financial assets at fair value through profit or loss

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

Available for sale financial assets

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

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

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 trade and other payables.

Provisions, Trade & 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 other subsequent contributions by Government.

e) Impairment

i. Non-derivative financial assets

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

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

ii. Loans and receivables

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

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

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

iii. Non-financial assets

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

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

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

f) Inventories

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

g) Investments

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

h) Property, plant and equipment

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

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

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

i. Subsequent Expenditure

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

ii. Depreciation

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

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

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

| |
|---|
| Freehold land - unlimited |
| Leasehold land - life of lease |
| Distribution network - 20 years (5% depreciation p.a.) |
| Non-operational buildings including office buildings and houses - 40 years (2.5% depreciation p.a.) |
| Generators - 20 years (5% depreciation p.a.) |
| Operational buildings including power stations - 20 years (5% depreciation p.a.) |
| Generation plant & equipment - 10 years (10% depreciation p.a.) |
| Furniture & equipment - 5 years (20% depreciation p.a.) |
| Information technology - 5 years (20% depreciation p.a.) |
| Motor vehicles - 5 years (20% depreciation p.a.) |
| Tools - 3 years (33% depreciation p.a.) |

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

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

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

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

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

iv. Impairment of assets

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

Goodwill, 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. An impairment of goodwill is not subsequently reversed.

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

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

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

v. Investment property

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

vi. Leased assets

SIEA is not presently a lessee of property, plant and equipment under any finance or operating leases, nor is it presently a lessor of property, plant and equipment under operating leases.

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

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

vii. Intangible assets

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

Software - 3 to 7 years
Easements - indefinite

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

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

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

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.

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

l) Taxation

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

m) Foreign currency transactions

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

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

n) Cash flow statement

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

o) Grants

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

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

6 Financial risk management

Overview

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

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

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

Risk management framework

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

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

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

i) Credit risk

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

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

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

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

6 Financial risk management (continued)

i) Credit risk (continued)

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

| | 2013 SBD | 2012 SBD |
|-----------------------|-------------|-------------|
| Cash at bank | 129,326,625 | 99,782,333 |
| Receivables - current | 47,889,023 | 68,828,930 |
| - non current | 8,686,381 | 6,562,500 |
| | 185,902,028 | 175,173,763 |

Receivables are determined impaired as follows:

| Trade and other receivables | | |
|-----------------------------|--------------|--------------|
| Gross receivables | 93,988,112 | 110,378,517 |
| Provision for impairment | (37,412,708) | (34,987,087) |
| | 56,575,404 | 75,391,430 |

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 2013

| | Carrying amount SBD | 6 months or less SBD | 6-12 months SBD | Greater than 1 year SBD |
|------------------------------|---------------------------|----------------------------|--------------------|-------------------------------|
| Financial liabilities | | | | |
| Trade and other payables | 20,918,996 | 20,918,996 | - | - |
| | 20,918,996 | 20,918,996 | - | - |

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

6 Financial risk management (continued)

ii) Liquidity risk (continued)

31 December 2012

| | Carrying amount SBD | 6 months or less SBD | 6-12 months SBD | Greater than 1 year SBD |
|----------------------------|---------------------------|----------------------------|--------------------|-------------------------------|
| Financial liability | | | | |
| Trade and other payables | 26,154,724 | 26,154,724 | - | - |
| | <u>26,154,724</u> | <u>26,154,724</u> | <u>-</u> | <u>-</u> |

iii) Market risk

Market risk is the risk that changes in market prices, such as 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 tariff review on a regular basis with the next one being currently undertaken. 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. SIEA has no borrowings and therefore interest rate risk is minimal.

| | 2013 SBD | 2012 SBD |
|---|-------------------|-------------------|
| 7 Other operating income | | |
| Included in other operating income are the following: | | |
| Community service obligation | 10,000,000 | 11,248,016 |
| Installation fees | - | 3,314,930 |
| Reconnections | 24,067 | 24,280 |
| Other | 1,795,543 | 1,795,668 |
| | <u>11,819,610</u> | <u>16,382,894</u> |

8 Generation and distribution

Included in generation and distribution expenses are the following:

| | | |
|-------------------------|--------------------|--------------------|
| Repairs and maintenance | 39,404,652 | 33,697,997 |
| Lubricating Oil | 3,206,656 | 5,098,865 |
| Bought in Electricity | 11,265,063 | 4,425,650 |
| Payroll | 7,775,303 | 7,534,983 |
| Other | 239,546 | 2,267,765 |
| Fuel | 200,596,481 | 212,879,191 |
| | <u>262,487,701</u> | <u>265,904,450</u> |

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

| | 2013 | 2012 |
|--|-------------------|-------------------|
| | SBD | SBD |
| 9 Administration | | |
| Included in administration expenses are the following: | | |
| Payroll | 41,617,711 | 32,151,265 |
| Computer bureau charges | 584,792 | 624,600 |
| Directors fees and expenses | 608,668 | 125,601 |
| Electricity | 2,305,681 | 1,248,876 |
| Electricity rebate | 1,253,961 | 927,482 |
| Freight | 336,085 | 121,593 |
| Printing and stationery | 1,694,296 | 1,520,311 |
| Rent | 1,870,664 | 709,030 |
| Travel and accommodation | 1,868,660 | 1,209,587 |
| | <u>52,140,517</u> | <u>38,638,345</u> |
| 10 Prior Period Adjustments | | |
| The Prior Period Adjustments are due to exchange rate variances on the Trade Creditors recognised at the end of 2012. Various outstanding purchase orders at the end of 2012 were denominated in other currencies and converted to Solomon Dollars as at 31st December 2012. The actual payments were at the exchange rate relevant on the date of payment. The difference lead to this prior period adjustment. | | |
| 11 Personnel expenses | | |
| Wages and salaries expense | 20,691,697 | 19,156,296 |
| National Provident Fund contributions | 2,009,889 | 1,713,338 |
| Housing allowance and shift allowances | 2,486,221 | 1,934,029 |
| Other staff related costs | 2,453,792 | 2,776,180 |
| | <u>27,641,599</u> | <u>25,579,842</u> |
| 12 Operating expenses | | |
| Included in operating expenses are the following: | | |
| Payroll | 8,643,941 | 7,925,899 |
| Repairs and Maintenance | 11,609,963 | 10,246,401 |
| Vehicle Costs | 3,527,187 | 2,806,229 |
| Customs Handling Charges | 1,288,434 | 511,097 |
| Other | 703,489 | 733,190 |
| | <u>25,773,013</u> | <u>22,222,816</u> |

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

13 Property, plant and equipment (continued)

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

Generators
 Distribution network
 Plant and equipment

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

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

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

Both these valuations were completed in December 2013 and adopted in the financial statements as at 31 December 2013.

| | 2013 SBD | 2012 SBD |
|---|--------------------|-------------------|
| 14 Cash and cash equivalents | | |
| Cash on hand | 41,000 | 41,000 |
| Cash at bank | 129,326,625 | 99,782,333 |
| | <u>129,367,625</u> | <u>99,823,333</u> |
| 15 Inventories | | |
| Fuel and lubricants | - | 2,461,596 |
| Electrical and mechanical | 7,458,153 | 5,960,280 |
| | <u>7,458,153</u> | <u>8,421,876</u> |
| Fuel and Lubricants are paid for on consumption from supplies held on site and on consignment by the supplier SPO through a fuel and a lubricants contract signed in 2012. No fuel and lubricants inventories are therefore held by SIEA. | | |
| 16 Receivables | | |
| Current | | |
| Trade receivables - kilowatt (Kwh) | 63,717,522 | 66,894,078 |
| Allowance for impairment - kilowatt (Kwh) | (29,870,221) | (25,276,161) |
| Trade receivables - CashPower | 14,997,010 | 14,799,195 |
| Allowance for impairment - CashPower | (7,511,960) | (9,620,517) |
| Related party receivable - Solomon Islands Water Authority | 937,500 | 15,937,500 |
| Related party receivable - Solomon Islands Broadcasting Corporation | 360,000 | - |
| Staff advances | 288,159 | 375,623 |
| Allowance for impairment- staff advances | (30,526) | (90,408) |
| Unread meters | 14,276,602 | 14,061,636 |
| Other debtors | 5,001,540 | 5,809,620 |
| | <u>62,165,625</u> | <u>82,890,567</u> |
| Non - current | | |
| Related party receivable - Solomon Islands Water Authority | 5,625,000 | 6,562,500 |
| Related party receivable - Solomon Islands Broadcasting Corporation | 3,061,381 | - |
| | <u>8,686,381</u> | <u>6,562,500</u> |

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

16 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.

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.

| | 2013 SBD | 2012 SBD |
|---------------------------------------|-------------------|-------------------|
| Allowance for impairment | | |
| Balance at 1 January | 34,987,087 | 39,166,085 |
| Impairment recognised | 4,919,238 | (4,178,999) |
| Bad debts written off during the year | (2,493,616) | - |
| Balance at 31 December | <u>37,412,708</u> | <u>34,987,087</u> |

17 Contributed capital

| | | |
|---------------------|--------------------|--------------------|
| Contributed capital | <u>246,933,170</u> | <u>246,933,170</u> |
|---------------------|--------------------|--------------------|

Capital represents the Government's contribution on the establishment of SIEA. This is not in the form of shares.

| | 2013 SBD | 2012 SBD |
|--|-------------------|-------------------|
| 18 Deferred income | | |
| Balance at 1 January | 29,128,836 | 31,634,070 |
| Additional deferred income | 5,389,987 | - |
| Deferred income recognised during the year | (2,505,234) | (2,505,234) |
| Balance at 31 December | <u>32,013,589</u> | <u>29,128,836</u> |

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

| | | |
|-------------|-------------------|-------------------|
| Current | 6,151,987 | 2,505,234 |
| Non-current | 25,861,602 | 26,623,602 |
| | <u>32,013,589</u> | <u>29,128,836</u> |

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

In 2013 a grant of approximately \$5.4 million was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund various capital projects. These projects will not be completed until 2014 at which time the deferred income will be amortised to the profit or loss over the life of the projects.

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

19 Correction of a prior period error

In 2012 the non-reciprocal grant from the Government of Japan (see note 18) was treated as a contribution from the Solomon Island Government.

During 2013 SIEA reviewed the terms of this agreement and determined that under International Accounting Standard 20 (IAS20 - Accounting for Government Grants) that the grant should be accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income, which should then be amortised over the life of the power station.

Similarly grants received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) were also treated as a contribution from the Solomon Island Government whereas IAS20 states that they should be treated as revenue and recognised in the profit or loss as other income on a systematic basis in the same period in which the expenses are recognised.

The impact of these two changes on the statement of financial position and income statement for 2012 is set out below.

| | SBD Original | SBD Adjustment | SBD Restated |
|---------------------|-----------------|-------------------|-----------------|
| Grant revenue | - | 9,765,978 | 9,765,978 |
| Deferred income | - | 29,128,836 | 29,128,836 |
| Accumulated loss | (51,335,652) | 28,404,601 | (22,931,051) |
| Contributed capital | 304,466,607 | (57,533,437) | 246,933,170 |

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

The impact on grant income as shown in the statement of comprehensive income is set put below.

| Grant Income | 2013 SBD | 2012 SBD |
|------------------------------------|------------------|------------------|
| Restatement of SISEP grants (2012) | - | 7,260,744 |
| SISEP grant payments (2013) | 3,646,753 | - |
| Restatement of JICA grants | 2,505,234 | 2,505,234 |
| | <u>6,151,987</u> | <u>9,765,978</u> |

20 Trade and other payables

| Current | 2013 SBD | 2012 SBD |
|-----------------------------|-------------------|-------------------|
| Trade creditors | 15,489,150 | 22,960,825 |
| Other payables and accruals | 3,828,350 | 2,389,183 |
| Consumer deposits | 1,601,496 | 804,716 |
| | <u>20,918,996</u> | <u>26,154,724</u> |

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

21 Related parties

a) Directors

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

Name

Adrian Wickham - chairman (appointed August 2011)
 Douglas Alex - (appointed February 2010)
 David Laurie - (appointed April 2010)
 Harry Zoleveke - (appointed June 2012)
 Henry Kapu - (appointed June 2012)
 Henry Tobani - (appointed February 2008)
 Nanette Tutua - (appointed February 2008)
 Sebastian Ilala - (appointed June 2012)

Directors fees and expenses are disclosed in Note 9.

SIEA's transactions with Directors were at arms length.

b) Identity of related parties

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

c) Amounts receivable from related parties

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

| | 2013 SBD | 2012 SBD |
|---|-------------------|-------------------|
| Central Bank of Solomon Islands | 79,470 | 103,055 |
| Central Provincial Government | 3,619 | 3,706 |
| Commodity Export Marketing Authority | - | 122,485 |
| Home Finance Corporation | 21,291 | 30,034 |
| Honiara City Council | 287,077 | 345,295 |
| Makira/Ulawa Provincial Government | 6,054 | 776 |
| Malaita Provincial Government | 70,125 | 315,186 |
| Provincial Hospital | 2,821,311 | 3,401,861 |
| Solomon Airlines Limited | 306,328 | 133,525 |
| Solomon Islands Broadcasting Corporation | 3,906,375 | 4,398,289 |
| Solomon Islands College of Higher Education | 589,303 | 312,537 |
| Solomon Islands Government | 13,530,417 | 16,136,635 |
| Solomon Islands Ports Authority | 406,046 | 75,115 |
| Solomon Islands Postal Corporation | 43,508 | 968 |
| Solomon Islands Water Authority | 6,732,471 | 24,104,287 |
| Temotu Provincial Government | 255 | 108,614 |
| Western Provincial Government | 9,081 | 193,858 |
| Ysabel Provincial Government | 40,808 | 63,437 |
| | <u>28,853,538</u> | <u>49,849,662</u> |

Solomon Islands Electricity Authority
Notes to the financial statements
For the year ended 31 December 2013

21 Related parties (continued)

d) Transactions with key management personnel

Key management personnel comprises of the General Manager, Chief Financial Officer, Chief Engineer, Legal Officer, Financial Controller, Generation Manager, Distribution Manager, Customer Services Manager, Outstation Manager, Corporate Services Manager, Capital Works Manager and the Health & Safety Manager.

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

| | 2013 SBD | 2012 SBD |
|------------------------------|------------------|------------------|
| Short-term employee benefits | 5,310,892 | 4,353,736 |
| | <u>5,310,892</u> | <u>4,353,736</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.

22 Commitments and contingencies

Capital commitments

SIEA undertakes capital works and purchases assets according to an approved budget when management consider sufficient funds available. Capital commitments as at 31 December 2013 amounted to \$316,000,000 (2012: \$169,000,000). These commitments are in relation to property, plant and equipment.

| | 2013 SBD | 2012 SBD |
|----------------------------|--------------------|--------------------|
| Capital Commitments | | |
| Less Than 1 Year | 168,000,000 | 19,000,000 |
| Between 1 year and 5 years | 148,000,000 | 150,000,000 |
| Greater Than 5 years | - | - |
| | <u>316,000,000</u> | <u>169,000,000</u> |

Contingent liabilities

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

The Inland Revenue Department has recently requested that SIEA undertake a review of all withholding tax obligations and the payment of tax on non-cash benefits from 2006 onwards. This review has only recently commenced and whilst SIEA accepts that it will be liable for some backdated tax and possibly penalties and interest this amount can not yet be accurately quantified and accordingly has not been provided for in this years financial statements.

23 Capital management

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

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

SIEA is not subject to any externally imposed capital requirements.

24 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.