

Solomon Islands Electricity Authority
trading as SOLOMON POWER
For the year ended 31 December 2019

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Solomon Islands Electricity Authority
trading as SOLOMON POWER
Directors' report

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Solomon Islands Electricity Authority ("SIEA" or "the Authority"), trading as Solomon Power, as at 31 December 2019 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

Directors

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

Name

David K.C. Quan – chairman (reappointed on 19 February 2019)
James Apaniai
John B Houanihau
Muriel Ha'apue-Dakamae
Rovaly Sike

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 2019, 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, distribution and sale of electricity in the Solomon Islands as governed by the Electricity Act (Cap 128).

Results

The total comprehensive income for the year was \$92,690,491 (2018: \$80,080,065).

Dividends

The Directors have not declared dividend for the financial year ended 2019 (2018: \$4,000,000).

Going concern

The Directors believe that the Authority will be able to continue to operate for at least 12 months from the date of this report.

Assets

The Directors took reasonable steps before the Authority's financial statements were made out to ascertain that the assets of the Authority were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the Directors were not aware of any circumstances which would render the values attributable to the assets in the financial statements misleading.

Transfer from asset revaluation reserves to retained earnings

The Directors resolved to transfer \$8,268,335 from asset revaluation reserves to retained earnings as a result of de-recognition of assets during the financial year.

Bad and doubtful debts

The Directors took reasonable steps before the Authority's financial statements were made out to ascertain that all known bad debts were written off and adequate provision was made for doubtful debts.

At the date of this report, the Board members are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, inadequate to any substantial extent.

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Directors' report

Directors' report continued

Directors' benefits

No director of the Authority has, since the last financial year, received or become entitled to receive any benefit (other than benefits included in the amount of consultancy fees and directors fees and expenses or shown in the financial statements under related party note) by reason of a contract made with the Authority or a related corporation with the director or with a firm of which he/she is a member or with a company in which a director has a substantial financial interest.

Unusual transactions

The results of the Authority's operations during the financial year have not, in the opinion of the directors been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

Other circumstances


At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render amounts stated in the financial statements misleading.

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 Meke Bay this 23 day of March 2020.

Signed in accordance with a resolution of the Directors.



Director



Director

Solomon Islands Office of the Auditor-General

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOLOMON ISLANDS ELECTRICITY AUTHORITY TRADING AS SOLOMON POWER

Report on the Audit of the Financial Statements

Opinion

I have in joint consultation with the Board of the Solomon Islands Electricity Authority ("the Authority") pursuant to Electricity Act [Cap.128] contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of the Solomon Islands Electricity Authority, which comprise the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flow statements for the year then ended, and notes 1 to 29 comprising of a summary of significant accounting policies and information.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2019, and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Other information

Management is responsible for the other information. The other information comprises the information included in the Directors' report, but does not include the financial statements and my auditors' report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material

misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statement

Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

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

the audit evidence obtained up to the date of my auditors' report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

I have obtained all the information and explanations which, to the best of my knowledge and belief, are necessary for the purposes of my audit.

In my opinion:

- proper books of account have been kept by the Authority, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and
- to the best of my knowledge and according to the information and explanations given to us the financial statements give the information required by Electricity Act (Cap. 128), State Owned Enterprises Act 2007 and Public Finance and Audit Act (Cap. 120) , in the manner so required



Peter Lokay

Auditor-General

24 March 2020

Office of the Auditor-General

Honiara, Solomon Islands

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Statement of comprehensive income
For the year ended 31 December 2019

	Notes	2019 \$	2018 \$
Operating income			
Electricity sales	7 (a)	480,466,462	457,156,336
Amortisation of deferred income	20	7,715,936	6,395,050
Other operating income	9	8,933,899	5,486,818
Reversal of credit impairment	17	2,743,565	-
Total operating income		499,859,862	469,038,204
Expenses			
Generation and distribution	10	225,341,290	224,175,081
Administration	11	68,582,240	81,605,507
Operating	12	23,761,916	22,830,031
Depreciation and amortisation	14	64,259,234	56,672,749
Depreciation of right-of-use assets	24	3,664,350	-
Allowance for credit impairment	17	-	3,714,358
Interest expense		2,505,667	30,434
Inventory and asset write-off	14	18,773,115	92,140
Total expenses		406,887,811	389,170,299
Gain from operations		92,972,051	79,917,905
Foreign exchange (loss)/gain		(281,559)	162,160
Net profit for the year		92,690,491	80,080,065
Other comprehensive income		-	-
Total comprehensive income for the year		92,690,491	80,080,065

The notes disclosed on pages 38 to 67 are an integral part of the financial statements.

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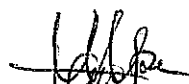
Solomon Islands Electricity Authority
trading as SOLOMON POWER
Statement of financial position
As at 31 December 2019

Assets	Notes	2019 \$	2018 \$
Current assets			
Cash and cash equivalents	15	310,620,237	303,524,441
Inventories	16	51,531,308	22,451,241
Receivables	17	61,305,594	61,766,690
Prepayments		7,305,466	13,735,419
Total current assets		430,762,606	401,477,791
Non-current assets			
Property, plant and equipment	14	966,691,156	859,782,324
Right-of-use assets	24	7,984,758	-
Receivables	17	-	798,672
Government bonds	18	30,000,000	30,000,000
Total non-current assets		1,004,675,914	890,580,996
Total assets		1,437,438,540	1,292,078,787
Liabilities			
Current liabilities			
Deferred income	20	7,715,936	6,392,961
Trade and other payables	21	35,379,621	40,844,195
Lease liabilities	7	2,036,765	-
Borrowings from SLC	22	3,599,000	3,599,000
Employee benefits	23	4,244,522	6,776,721
Total current liabilities		52,975,844	57,614,877
Non-current liabilities			
Deferred income	20	122,161,545	74,065,116
Lease liabilities	7	2,191,164	-
Borrowings from SLC	22	19,495,564	10,928,257
Employee benefits	23	12,834,555	10,401,161
Total non-current liabilities		156,702,828	95,394,534
Total liabilities		209,678,672	153,009,411
Equity			
Contributed capital	19	246,933,170	246,933,170
Asset revaluation reserve	14	376,621,369	384,889,703
Accumulated profit		604,205,329	507,246,503
Total equity		1,227,759,868	1,139,069,376
Total equity and liabilities		1,437,438,540	1,292,078,787

Signed for and on behalf of the Board of Directors



Director



Director

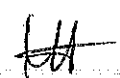
The notes disclosed on pages 58 to 67 are an integral part of the financial statements.



**Solomon Islands Electricity Authority
trading as SOLOMON POWER
Statement of changes in equity
For the year ended 31 December 2019**

	Contributed capital S	Asset revaluation reserves S	Accumulated retained earnings S	Total S
Balance at 1 January 2018	246,933,170	384,889,703	412,160,294	1,043,983,168
Impact of change in accounting policy	-	-	15,006,144	15,006,144
Adjusted balance at 1 January 2018	246,933,170	384,889,703	427,166,438	1,058,989,312
Total comprehensive income for the year				
Net profit for the year	-	-	80,080,065	80,080,065
Balance at 31 December 2018	246,933,170	384,889,703	507,246,503	1,139,069,376
Balance at 1 January 2019	246,933,170	384,889,703	507,246,503	1,139,069,376
Total comprehensive income for the year				
Net profit for the year	-	-	92,690,491	92,690,491
Disposal of revalued property, plant and equipment	-	(8,268,335)	8,268,335	-
Transactions with owners of SIEA directly recognised in equity				
Dividend declared and paid during the year	-	-	(4,000,000)	(4,000,000)
Balance at 31 December 2019	246,933,170	376,621,369	604,205,329	1,227,759,868

The notes disclosed on pages 38 to 67 are an integral part of the financial statements.



Solomon Islands Electricity Authority
trading as SOLOMON POWER
Statement of cash flows
For the year ended 31 December 2019

	Notes	2019 \$	2018 \$
Operating Activities			
Cash receipts from customers		493,403,694	463,137,780
Cash payments to suppliers and employees		<u>(356,158,194)</u>	<u>(311,164,705)</u>
Net cash provided by Operating Activities		<u>137,245,500</u>	<u>151,973,075</u>
Investing Activities			
Net redemption of debt securities		-	15,542,195
Net payments for property, plant and equipment		<u>(191,872,350)</u>	<u>(123,060,103)</u>
Net cash used in Investing Activities		<u>(191,872,351)</u>	<u>(107,517,908)</u>
Financing Activities			
Dividend paid		(4,000,000)	(4,000,000)
Net movement in SIG Borrowings		8,567,308	11,602,259
Cash receipts from donor grants	20	<u>57,155,340</u>	<u>29,659,008</u>
Net cash provided by Financing Activities		<u>61,722,648</u>	<u>37,261,267</u>
Net increase in cash and cash equivalents		7,095,796	81,716,434
Cash and cash equivalents at 1 January		<u>303,524,441</u>	<u>221,808,007</u>
Cash and cash equivalents at 31 December	15	<u>310,620,237</u>	<u>303,524,441</u>

The notes disclosed on pages 38 to 67 are an integral part of the financial statements.

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Notes to the financial statements
For the year ended 31 December 2019

1 Reporting entity

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

There are no subsidiary companies.

2 Nature of operations

The principal activity of SIEA is the generation, distribution and sale of electricity in the Solomon Islands. SIEA is the owner and operator of the Solomon Island Government's 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.

This is the first set of the Authority's annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 6.

a) Presentation of currency

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

4 Measurement basis

The measurement basis adopted in the preparation of these financial statements is historical cost unless stated otherwise.

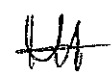
5 Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimates are 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 7 (c) – Impairment of financial assets
- Note 7 (e) (iii) – Revaluation of property, plant and equipment
- Note 7 (e) (iv) – Impairment of non-financial assets
- Note 7 (g) – Employee benefits



Solomon Islands Electricity Authority
trading as SOLOMON POWER
Notes to the financial statements
For the year ended 31 December 2019

6 New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2019

Apart from the adoption of IFRS 16 Leases, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. None of the new standards is expected to have a significant effect on the financial statements of SIEA except for IFRS 16 "Leases".

IFRS 16 'Leases', removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted.

Change in accounting policies

Except for the change below, the Authority has consistently applied the accounting policies to all periods presented in these financial statements.

IFRS 16 Leases

SIEA has applied IFRS 16 with a date of initial application of 1 January 2019. As a result, SIEA has changed its accounting policy for lease contracts as detailed below.

SIEA has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. The details of the changes in accounting policies are disclosed below.

i. Definition of a lease

Previously, SIEA determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, SIEA assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, SIEA elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

ii. As a lessee

As a lessee, SIEA previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to SIEA. Under IFRS 16, SIEA recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

SIEA decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment. For leases of other assets, which were classified as operating under IAS 17, SIEA recognised right-of-use assets and lease liabilities.

iii. As a lessor

SIEA is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. SIEA accounted for its leases in accordance with IFRS 16 from the date of initial application.

Under IFRS 16, SIEA is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, SIEA reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. SIEA concluded that the sub-lease is a finance lease under IFRS 16.

SIEA applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Notes to the financial statements
For the year ended 31 December 2019

New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2019 *continued*

iv. *Impacts on financial statements*

On transition to IFRS 16, SIEA recognised an additional \$5,711,989 right-of-use asset and \$5,711,989 of lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

When measuring lease liabilities, SIEA discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 12%.

	1 January 2019 \$
Operating lease commitments at 31 December 2018 as disclosed under IAS 17	8,567,550
Discounted using the incremental borrowing rate at 1 January 2019	(486,558)
recognition exemption for leases of low value	(1,556,780)
recognition exemption for leases with 12 months of lease term at transition	(812,223)
Lease liabilities recognized at 1 January 2019	<u>5,711,989</u>

7 Summary of significant accounting policies

a) Revenue

Under IFRS 15, revenue is recognised by the Authority when or as it satisfies a performance obligation by transferring a service to a customer, either at a point in time (when) or over time (as). For the generation, distribution and sales of electricity, the customer simultaneously receives and consumes the benefits provided as the Authority renders the service. This has resulted in revenue from sale of electricity being recognised over time which was previously recognised at a point in time under IAS 18.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. SIEA recognises revenue when it transfers control over a product or service to a customer.

Nature and timing of satisfaction of performance obligations and significant payment terms

There is an implied contract between a customer and the Authority for the purchase, delivery, and sale of electricity. This represents a promise to transfer a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. The customer obtains control of the good (electricity) when delivered and consumed by them over time.

Invoices are issued monthly and are usually payable within 30 days thus there is no significant financing component.

Contract with customers permit quantities of electricity consumed to be estimated based on previous months' average consumption in the event the Authority could not conduct the monthly meter readings.

	2019 \$	2018 \$
Revenue from contracts with customers	480,466,462	457,156,336
Other revenue		
Amortisation of deferred income	7,715,936	6,395,050
Interest received	2,600,551	1,165,681
Income from asset relocation	2,494,784	-
Tina Hydro refunds	789,647	-
Stale cheques	972,915	-
Other income	2,076,001	4,321,137
Reversal of credit impairment	2,743,565	-
Total revenue	<u>499,859,862</u>	<u>469,038,204</u>

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Solomon Islands Electricity Authority
trading as SOLOMON POWER
Notes to the financial statements
For the year ended 31 December 2019

7 Summary of significant accounting policies continued

b) Financial instruments

i. Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Authority becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value Through Profit and Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Authority may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Authority may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.



Solomon Islands Electricity Authority
trading as SOLOMON POWER
Notes to the financial statements
For the year ended 31 December 2019

7 Summary of significant accounting policies *continued*

Financial assets: Business model assessment

The Authority makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Authority's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and,
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for de-recognition are not considered sales for this purpose, consistent with the Authority's recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Authority considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Authority considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and,
- terms that limit the Authority's claim to cash flows from specified assets (e.g. nonrecourse features).

A prepayment feature is consistent with solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a significant discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

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7 Summary of significant accounting policies continued

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss. These include short term investments (term deposits).

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. The Authority's equity investments (if any) would relate to investments in listed securities.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

Financial assets

SIEA derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which SIEA neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

SIEA enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

SIEA derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. SIEA also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Offsetting

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

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7 Summary of significant accounting policies *continued*

c) Impairment of non-derivative financial assets

Financial instruments:

SIEA recognises loss allowances for expected credit losses (ECL) on financial assets measured at amortised cost.

SIEA measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12 month ECL

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and cash at bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables is always measured at an amount equal to lifetime ECL as it does not include significant financing component.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Authority considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Authority's historical experience and informed credit assessment and including forward-looking information.

SIEA assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

SIEA considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to SIEA in full, without recourse by the Authority to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

SIEA considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Authority considers this to be Baa3 or higher per rating agency Moody's or BBB- or higher per rating agency Standards & Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which SIEA is exposed to credit risk.

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7 Summary of significant accounting policies *continued*

Measurement of ECLs:

ECLs are a probability-weighted estimate of credit losses. They are measured as follows: the present value of all cash shortfalls (i.e. the difference between the cash flows owed to the authority in accordance with the contract and the cash flows that SIEA expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets:

At each reporting date, the Authority assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position:

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off:

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when SIEA determines that the debtor does not have assets or sources of income or adequate customer deposits that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Authority's procedures for recovery of amounts due.

d) Inventories

Inventory is 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.

e) 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.

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7 Summary of significant accounting policies *continued*

The gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised net within other income/other expenses in statement of comprehensive income. When revalued assets are sold, any related amount included in the asset 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 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 or revalued amount of property, plant and equipment to its estimated residual value over its estimated useful life.

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

Land - Freehold - unlimited
Land - Leasehold - 50 or 75 years as per the lease agreements
Buildings - Operational including power stations - 20 to 30 years
Buildings - Non-operational - 15 to 50 years
Generators - 10 to 40 years
Plant & equipment - 10 to 25 years
Distribution network - 20 to 60 years
Furniture & equipment - 5 years
Furniture & equipment - Information technology - 3 to 5 years
Motor vehicles - 5 years
Tools - 3 to 5 years

The useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

iii. Revaluation of property, plant and equipment

Land, buildings, generators and plants are shown at fair value, based on 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 are the direct comparison and income capitalisation approaches cross checked with cost approach. These methodologies use market derived assumptions, including rents, capitalisation and terminal rates, and discount rates obtained from analysed transactions. The adopted methodologies are considered to provide the best estimate of value.

The Directors propose to have such asset revaluations every three or five years.

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

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7 Summary of significant accounting policies *continued*

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 profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of assets is charged as an expense in statement of comprehensive income to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued assets 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 non-financial assets

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

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

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

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in 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 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 through OCI.

v. Intangible assets

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

Software - 3 to 7 years
Easements - indefinite

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

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

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

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7 Summary of significant accounting policies *continued*

f) 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.

g) 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.

Short-term benefits

Short-term benefits comprises of accrued salaries and wages, bonus, annual leave, and entitlement to Solomon Islands National Provident Fund are expenses as the related service is provided.

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.

Long-term benefits

A early retirement scheme is a long-term benefit provided by SIEA to its employees.

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 future benefits that employees have earned in return for their services in the current and prior periods.

h) Taxation

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

i) Foreign currency transactions

Transactions denominated in a foreign currency that are not hedged are converted at the prevalent exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates prevailing at balance sheet date. Exchange differences arising on the translation or settlement of accounts payable and receivable in foreign currencies are recognised in the statement of comprehensive income.

j) 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.

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7 Summary of significant accounting policies continued

k) Grants

An unconditional grant related to an asset is recognised in statement of comprehensive income as other income when the grant becomes receivable.

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

l) Provisions

SIEA recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation at reporting date. Where a provision is measuring the cash flows estimated to settle the present obligation, its carrying amount is the present value of these cash flows.

m) Leases

SIEA has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 6.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, SIEA determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specified asset or assets; and
- The arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - The purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

Policy applicable from 1 January 2019

At inception of contract, SIEA assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, SIEA assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified;
- SIEA has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- SIEA has the right to direct the use of the asset. SIEA has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, SIEA has the right to direct the use of the asset if either:
 - SIEA has the right to operate the asset; or
 - SIEA designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, SIEA allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, SIEA has elected not to separate non-lease components and account for the leases and non-lease components as a single lease.

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7 Summary of significant accounting policies *continued*
As a lessee

SIEA recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, SIEA's incremental borrowing rate. Generally, SIEA uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that SIEA is reasonably certain to exercise, lease payments in an optional renewal period if SIEA is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless SIEA is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured where there is a change in future lease payments arising from a change in an index or rate, if there is a change in SIEA's estimate of the amount expected to be payable under a residual value guarantee, or if SIEA changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

SIEA has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. SIEA recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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7 Summary of significant accounting policies *continued*

Under IAS 17

In the comparative period, as a lessee SIEA classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Asset held under other leases were classified as operating leases and were not recognised in SIEA's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total expense, over the term of the lease.

i) As a lessor

When SIEA acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, SIEA makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, SIEA considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When SIEA is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which SIEA applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, SIEA applies IFRS 15 to allocate the consideration in the contract.

8 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 Board is assisted in their oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and processes, the result of which is reported to the Board.

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

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8 Financial risk management *continued*

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, investment in debt securities, and cash and call deposits.

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.

The carrying amount of financial assets represents the maximum credit exposure.

Expected credit loss assessment for trade receivables

Trade receivables

SIEA uses a provision matrix to determine the lifetime expected credit losses. It is based on the SIEA's historical observed SIEA uses an allowance matrix to measure the ECLs of Trade receivables from individual customers, which comprise a large number of balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off.

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets from individual customers categorised into kilowatt debtors and cash power debtors as at:

kilowatt debtors:

	Weighted average loss rates	Gross carrying amount \$	Loss allowance \$	Credit impaired
2019				
Current - 30 days past due	11.79%	21,650,569	2,552,403	No
30 - 59 days past due	22.00%	10,104,633	2,223,082	No
60 - 89 days past due	46.03%	4,086,015	1,880,793	No
90 or more days in past due	62.58%	10,452,861	6,541,400	Yes
		<u>46,294,077</u>	<u>13,197,677</u>	
2018				
Current - 30 days past due	12.19%	25,748,106	3,138,423	No
30 - 59 days past due	23.99%	12,297,105	2,949,588	No
60 - 89 days past due	46.03%	7,665,957	3,528,433	No
90 or more days in past due	62.58%	11,477,661	7,182,651	Yes
		<u>57,188,829</u>	<u>16,799,096</u>	

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8 Financial risk management continued

Credit risk continued

Cash power debtors:

	Weighted average loss rates	Gross carrying amount \$	Loss allowance \$	Credit impaired
2019				
Current - 30 days past due	9.70%	59,132	5,736	No
30 - 59 days past due	11.81%	102,124	12,061	No
60 - 89 days past due	12.36%	153,173	18,932	No
90 or more days in past due	17.70%	9,334,730	1,652,366	Yes
		<u>9,649,159</u>	<u>1,689,094</u>	
2018				
Current - 30 days past due	9.70%	111,682	10,832	No
30 - 59 days past due	11.81%	51,469	6,081	No
60 - 89 days past due	12.36%	65,630	8,109	No
90 or more days in past due	13.10%	10,280,322	1,346,999	Yes
		<u>10,509,105</u>	<u>1,372,022</u>	

Loss rates are based on actual credit loss experienced over the past two years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Authority's view of economic conditions over the expected lives of the receivables. Scalar factors are based on actual and forecast GDP growth rates or inflation rates.

The movement in the allowance for impairment in respect of trade receivables and other receivables during the year is disclosed in note 17.

Impairment on other receivables from Solomon Islands Government and state-owned entities has been measured on the 12 month expected loss basis, and the resulted impairment losses was and is not considered material by management on reporting date.

Cash and cash equivalents

SIEA held cash and cash equivalents of \$310,620,435 at 31 December 2019 (2018: \$303,524,441). The cash is held with different banks, whose ratings ranged from Aa3 to Caa1 based on Moody's credit ratings.

Impairment on cash and cash equivalents has been measured on the 12 month expected loss basis and reflects the short maturities of the exposures.

SIEA uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for debt securities.

Accordingly, due to short maturities, the authority did not recognise an impairment allowance against cash and cash equivalents as at 31 December 2019 (2018: \$nil)

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8 Financial risk management *continued*

Debt investment securities

SIEA held debt investment securities of S\$91,337,727 at 31 December 2019 (2018: S\$75,749,190). The debt investment securities are held with institutions which are rated Aa3 to B3 based on Moody's credit ratings. In relation to debt investment securities held with these institutions, the Authority monitors changes in credit risk by tracking published external credit ratings but when external credit ratings are not available or published, SIEA monitors changes in credit risk by reviewing available press and regulatory information.

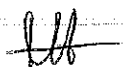
Impairment on debt investment securities held with banks and Solomon Islands Government has been measured on the 12 month expected loss basis.

The Authority did not recognise an impairment allowance against debt securities as at 31 December 2019 (2018: \$nil)

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.

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.



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8 Financial risk management continued

The following are the contractual maturities of financial liabilities:

31 December 2019

	Carrying amount \$	6 months or less \$	6-12 months \$	Greater than 1 year \$	Total \$
Financial liabilities					
Trade and other payables	33,154,153	33,154,153	-	-	33,154,153
Solomon Islands Government loan	23,094,564	2,261,391	2,225,401	21,805,139	26,291,932
	<u>56,248,717</u>	<u>35,415,544</u>	<u>2,225,401</u>	<u>21,805,139</u>	<u>59,446,084</u>

31 December 2018

	Carrying amount \$	6 months or less \$	6-12 months \$	Greater than 1 year \$	Total \$
Financial liabilities					
Trade and other payables	38,661,806	38,661,806	-	-	38,661,806
Solomon Islands Government loan	14,527,257	2,090,045	2,054,055	11,702,423	15,846,523
	<u>53,189,063</u>	<u>40,751,851</u>	<u>2,054,055</u>	<u>11,702,423</u>	<u>54,508,329</u>

iii) Market risk

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

Fuel price risk

SIEA is subject to a monthly tariff review. The tariff is based on The Electricity Tariff (Base Tariff and Tariff Adjustments) Regulations 2016 which is adjusted every month for the Honiara Consumer Price Index (CPI), the Producers Price Index (PPI, USA), the exchange rate between the US\$ and SBD and the fuel price movements. Fuel costs of \$177 million (2018: \$181 million) comprises 43% (2018: 47%) of the expenditure of SIEA, so movements in fuel prices are critical to the profitability of SIEA. The monthly tariff review however considers the fuel price movements, the CPI, PPI and exchange rate changes, therefore there is a natural hedge against market movements.

A change of 100 basis points (bp) in fuel pricing at the reporting date would have increased/ (decreased) profit or loss by amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss	
	100bp decrease \$000	100bp increase \$000
Revenue	478,900	520,800
Expenditure	389,469	424,869
Net Profit	<u>89,431</u>	<u>95,931</u>

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Solomon Islands Electricity Authority
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Notes to the financial statements
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8 Financial risk management continued

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 invested in debt securities and has interest-bearing borrowing from the Solomon Islands Government. These are at a fixed interest rate during the term of the instruments.

Given the fixed nature of interest rates described above, the Authority has a high level of certainty over the impact on cash flows arising from interest income and interest expenses. Accordingly, SIEA does not require simulations to be performed over impact on net profits arising from changes in interest rates.

Furthermore, for those financial assets and financial liabilities which are not carried at fair value, their carrying amount is considered a reasonable approximation of fair value.

v) Currency risk

The Authority is exposed to currency risk to the extent that there is a mismatch between the currencies in which purchases, and borrowings are denominated and the respective functional currencies. The Authority does not have significant exposure to currency risk.

	Note	2019 \$	2018 \$
9 Other operating income			
Community service obligation		-	1,500,000
Other		1,904,950	760,549
Income from asset relocation		2,494,784	-
Tina Hydro refunds		789,647	-
Stale cheques		972,915	-
Reconnections		1,500	3,200
Gain on disposal of fixed assets		-	196,773
Interest received		2,600,551	1,165,681
Unconditional grant income		169,551	1,860,615
		<u>8,933,899</u>	<u>5,486,818</u>
10 Generation and distribution			
Fuel		177,077,975	180,667,381
Lubricating oil		3,255,571	3,888,180
Other		2,820,000	4,010,500
Personnel	13	26,212,457	23,828,353
Repairs and maintenance		15,975,286	11,780,667
		<u>225,341,290</u>	<u>224,175,081</u>

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11 Administration	Note	2019	2018
		\$	\$
Advertising		1,440,630	1,682,314
Bank fees		243,767	257,000
Computer bureau charges		1,785,710	1,659,243
Consultancy fees		4,376,917	11,273,094
Directors fees and expenses		454,377	451,588
Electricity		3,187,531	2,969,773
Electricity rebate		4,952,714	5,080,129
Freight		1,339,369	505,717
Insurance		2,504,500	2,558,392
Personnel	13	32,772,778	39,187,093
Printing and stationery		2,218,161	1,829,337
Professional fees		2,569,010	1,504,846
Property expenses		3,821,232	4,895,004
Telecommunications		3,387,565	3,631,425
Travel and accommodation		3,527,978	4,120,552
		<u>68,582,240</u>	<u>81,605,507</u>
12 Operating expenses			
Customs handling charges		4,083,563	4,948,308
Personnel	13	11,861,047	12,030,377
Repairs and maintenance		3,580,032	1,909,207
Vehicle costs		4,237,273	3,942,139
		<u>23,761,916</u>	<u>22,830,031</u>
13 Personnel expenses			
Salaries and wages		49,716,519	45,429,198
NPF		3,033,529	3,046,477
Retirement benefit expense		3,644,767	15,833,287
Others		14,451,467	10,736,861
		<u>70,846,282</u>	<u>75,045,823</u>
Personnel expenses classed by function is as follows:			
Generation and distribution		26,212,457	23,828,353
Administration		32,772,778	39,187,093
Operating expenses		11,861,047	12,030,377
		<u>70,846,282</u>	<u>75,045,823</u>

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**Solomon Islands Electricity Authority
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14 Property, plant and equipment

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Solomon Islands Electricity Authority
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14 Property, plant and equipment *continued*

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

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

Generators
Distribution network
Plant and equipment

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

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

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

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

During the year, management undertook a fixed asset verification of its buildings, plant and equipment to ascertain its existence and value, which resulted in a net write-off of \$18,773,115, which were book value of assets not in existence or no longer operational.

SIEA holds both Perpetual Estate Lands and Fixed Term Estate (FTE) Lands. In 2014, it was agreed with the Auditor General that FTE lands should be treated under IAS 16 Property, Plant and Equipment and depreciated over the term of the FTE. This was owing to the fact that as per the Land and Titles Act (Cap 133), the holder of FTEs in Land has the right to occupy, use and enjoy the Land for a fixed period of time and the holder of the FTE may dispose of it either in whole or in part.

	2019 \$	2018 \$
Perpetual Estate Land	11,427,500	11,506,500
Fixed Term Estate	52,341,580	44,660,534
Depreciation of Fixed Term Estate	(13,248,392)	(10,666,289)
	<u>50,520,688</u>	<u>45,500,745</u>

15 Cash and cash equivalents

Short-term deposits	61,339,727	45,749,190
Cash on hand	47,000	45,030
Cash at bank	249,233,510	257,730,221
	<u>310,620,237</u>	<u>303,524,441</u>

The short-term deposits amounting to \$61,339,727 (2018: \$45,749,190) are invested with ANZ Banking Group Ltd - Solomon Islands Branch and Bred Bank Solomon at rates of between 0.5% and 2.0%. The deposits have terms of between on-call and one month. Accordingly, these short-term deposits have been considered as cash and cash equivalents for the purpose of the statement of cash flow.

16 Inventories

Electrical and mechanical	51,531,308	22,451,241
	<u>51,531,308</u>	<u>22,451,241</u>

Fuel and lubricants are paid for on consumption from supplies held on site on consignment basis from the supplier, South Pacific Oil Ltd, through a contract signed in 2018. Therefore, no fuel and lubricants are recorded in SIEA's inventory.

Solomon Islands Electricity Authority
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17 Receivables	2019	2018
	\$	\$
Current		
Trade receivables - kilowatt	46,294,077	57,188,829
Allowance for impairment - kilowatt	(13,197,677)	(16,799,096)
Trade receivables - CashPower	9,649,159	10,509,105
Allowance for impairment - CashPower	(1,689,094)	(1,372,022)
Related party - Solomon Islands Water Authority	890,436	937,500
Related party - Solomon Islands Broadcasting Corporation	-	353,131
Staff advances	181,696	248,589
Allowance for impairment- staff advances	(18,170)	(25,033)
Unread meters	14,174,933	10,025,866
World Bank	3,736,823	-
Asian Development Bank	244,593	-
Other debtors	1,038,818	699,821
	<u>61,305,594</u>	<u>61,766,690</u>
Non-current		
Related party - Solomon Islands Water Authority	-	937,500
Deferred income - Solomon Islands Water Authority	-	(138,828)
	<u>-</u>	<u>798,672</u>
Total receivables	<u>61,305,594</u>	<u>62,565,362</u>

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

On 8 May 2013 an agreement was signed between the Solomon Islands Broadcasting Corporation (SIBC) and SIEA whereby the debt owed by SIBC of \$3,661,381 was converted into a loan with 0% interest rate for a term of 5 years commencing on 31 May 2013. The debt was fully repaid during 2019.

Allowance for impairment		
Balance at the beginning of the year	18,196,151	32,278,526
Transition adjustment on the initial application of IFRS 9	-	(15,006,144)
Balance at 1 January 2019	18,196,151	17,272,382
Impairment recognised	(2,743,565)	3,714,358
Bad debts written off during the year	(547,645)	(2,790,589)
Balance at 31 December	<u>14,904,941</u>	<u>18,196,151</u>

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18 Government bonds	2019	2018
	\$	\$

Government bonds	30,000,000	30,000,000
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On 1 December 2018 SIEA purchased domestic development bonds with a face value of \$30M from the Solomon Islands Government. The bonds have an interest rate of 5% per annum which is to be paid semi-annually. The bonds have a maturity date of 1 December 2028 and there is a 3 year grace period before principal repayments commence.

19 Contributed capital

Contributed capital	246,933,170	246,933,170
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Contributed capital represents the Solomon Islands Government's equity contributions to SIEA. This is not in the form of shares.

20 Deferred income

Balance at 1 January	80,458,077	57,194,119
Additional deferred income	57,155,340	29,659,008
Deferred income recognised during the year	(7,715,936)	(6,395,050)
Balance at 31 December	129,897,481	80,458,077

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

Current	7,715,936	6,392,961
Non-current	122,181,545	74,065,116
	129,897,481	80,458,077

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

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

In 2013, a grant of approximately \$3.058 million was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of a 33kV underground power cable from Lungga Power Station to Ranadi Substation. This project was completed in May 2015 and the value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the underground power cable.

In 2013, a grant of approximately \$1.493 million was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of 11kV switchgear in Honiara Power Station. This project was completed in January 2015 and the value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the equipment.

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20 Deferred income *continued*

In 2013, a grant of approximately \$0.839 million was received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund the installation of cooling radiators at the Lungga Power Station. This project was completed in June 2015 and the value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the radiators.

In 2015, a grant of approximately \$0.765 million was received from the Asian Development Bank to fund the construction of a Coconut Oil Conditioning Unit in Auki. The value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the unit.

In 2015, a grant of approximately \$1.015 million was received from the Asian Development Bank to fund the procurement of a Generator Set in Auki. The value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the generator.

In 2015, a grant of approximately \$0.867 million was received from the Asian Development Bank to fund the procurement of 11kV and 415V Distribution Equipment for the Auki Power Generation and Distribution Pilot Project. The value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the equipment.

In 2016, a grant of approximately \$32.5 million was received from the United Arab Emirates Pacific Partnership Fund and the Ministry of Finance and Treasury of the Government of New Zealand to fund a 1000 kW grid connect solar farm at Henderson in Honiara. The value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the solar grid.

In 2016, a grant of approximately \$1.627 million was received from the Italian Ministry for the Environment, Land and Sea to fund simulation software to enable SIEA to carry out electricity network planning together with the necessary training and consulting services. The deferred income will be amortised to statement of comprehensive income over the life of the project once the full amount of the grant has been utilised and capitalised to the Fixed Asset register.

In 2017 (\$1.465 million), 2018 (\$3.888 million) and 2019 (\$9.902 million) grants were received from the Global Partnership on Output-Based Aid to subsidise the cost of providing electricity to low income households. The deferred income is being amortised to the statement of comprehensive income over the life of the project.

In 2017 (\$0.306 million), 2018 (\$5.476 million) and 2019 (\$37.731 million) initial grants were received from the Asian Development Bank (ADB) to fund the construction of five grid connected solar power plants in an effort to increase the supply of reliable, clean electricity. The deferred income will be amortised to the statement of comprehensive income over the life of the project once the full amount of the grant (approximately \$67 million) has been utilised and the asset capitalised to the Fixed Asset register.

In 2018 (\$9.778 million) and 2019 (\$9.125 million) was received from the New Zealand Ministry of Foreign Affairs and Trade to expand the access to affordable, reliable and clean energy in rural areas of the Solomon Islands. The deferred income will be amortised to the statement of comprehensive income over the life of the project once the full amount of the grant has been utilised and capitalised to the Fixed Asset register.

In 2018, grants totalling approximately \$10.516 million were received from the World Bank through the Solomon Islands Sustainable Energy Project (SISEP) to fund construction of power substations and the installation of transformers at Ranadi, Kola'a Ridge and for the relocation of the 11kV feeder 12 from Lungga Power Station to East Honiara Substation. The projects have been partially completed and where applicable the value of the capital works has been accounted for by SIEA as a non-current asset with a corresponding amount taken to deferred income. The deferred income is being amortised to the statement of comprehensive income over the life of the substations, transformers and the feeder.

In 2019, grants totaling approximately \$0.387 million were received from the World Bank through the Solomon Islands Electricity Access and Renewable Energy Expansion Project (SIEAREEP) to fund construction of renewable energy hybrid mini-grids, electricity connections in low income areas, grid-connected solar power and the enabling of environment and project management. Total expected grant for the project is around \$113.296 million. The deferred income will be amortised to the statement of comprehensive income upon subsequent completion of the specific projects. The capitalisation of the completed project will also be made into the Fixed Asset register.

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Solomon Islands Electricity Authority
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21 Trade and other payables	2019	2018
	\$	\$
Current		
Trade creditors	2,099,943	1,222,550
Other payables and accruals	26,100,149	32,931,424
Contractual liabilities	2,225,469	2,182,389
Consumer deposits	4,954,061	4,507,832
	<u>35,379,621</u>	<u>40,844,195</u>

22 Solomon Islands Government loan agreement

Under an agreement signed with the Solomon Islands Government in June 2014, SIEA has been granted a loan facility of up to \$81,883,440 to assist in the financing of the Solomon Islands Sustainable Energy Project (SISEP), at an interest rate of 4% per annum. Under the terms of the agreement the funds have been made available by the Government in a timely manner to facilitate the implementation of SISEP and will be repaid by SIEA over 28 semi-annual payments of principal and interest which commenced from December 2015. SISEP facility closed on 31st March 2019. To date the following principal amounts have been borrowed and repaid under this loan agreement.

Balance at 1 January	14,527,257	2,924,998
Borrowings	12,225,280	15,201,259
Principal Repayments	(3,657,972)	(3,599,000)
Balance at 31 December	<u>23,094,564</u>	<u>14,527,257</u>

Analysis of borrowings expected to be settled within one year and more than one year:

Current	3,599,000	3,599,000
Non-current	19,495,564	10,928,257
	<u>23,094,564</u>	<u>14,527,257</u>

23 Employee entitlements

Current	4,244,522	6,778,721
Non-current	12,834,555	10,401,161
	<u>17,079,076</u>	<u>17,179,881</u>

Movement is made up of the following:

Opening balance	17,179,881	193,818
Provisions made during the year	6,671,198	18,493,772
Provisions utilised during the year	(6,772,003)	(1,507,709)
Closing balance	<u>17,079,076</u>	<u>17,179,881</u>

24 Leases

i) As a lessee

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property.

	2019
	\$
Property, plant and equipment owned	968,691,156
Right-of-use assets	7,984,757
Total assets	<u>976,675,913</u>

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24 Leases continued

SIEA leases various assets including land and buildings. Information about leases for which SIEA is a lessee is presented below:

Right-of-use assets	Land	Buildings	Total
2019	\$	\$	\$
Balance at 1 January	-	5,711,989	5,711,989
Additions	3,943,825	2,237,712	6,181,537
Leases cancelled	-	(244,419)	(244,419)
Depreciation charge	-	(3,664,350)	(3,664,350)
			-
Balance at 31 December	<u>3,943,825</u>	<u>4,040,932</u>	<u>7,984,757</u>

Lease liabilities included in the statement of financial position at 31 December 2019	2019
	\$
Current	2,036,765
Non-current	2,191,164
Balance at 31 December	<u>4,227,929</u>

Amounts recognised in profit or loss

Interest on lease liabilities	498,750
Variable lease payments not included in the measurement of lease liabilities	-
Income from sub-leasing right-of-use assets	-
Expenses relating to short-term leases	987,722
Expenses relating to leases of low-value assets	-
	<u>1,486,472</u>

Amounts recognised in statement of cash flows

Total cash outflow for leases	<u>1,486,472</u>
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ii) As a lessor

Lease income from lease contracts in which SIEA acts as a lessor is as below:

Operating Lease	
Lease income	<u>37,620</u>

25 Related parties

a) Directors

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

Name
David K.C. Quan – chairman (reappointed on 19 February 2019)
James Apaniai
John B Houanihau
Muriel Ha'apue-Dakamae
Roaly Sike

Directors' fees and expenses are disclosed in Note 11.

SIEA's transactions with Directors were at arms length.

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25 Related parties *continued*

b) Identity of related parties

SIEA being a state-owned entity is the sole provider of electricity in Solomon Islands. As a result, Government of Solomon Islands and other government-related entities are its related parties. Other related parties include Directors and key management personnel of SIEA.

c) Amounts receivable from related parties	2019	2018
	\$	\$
Included in trade receivables are the following amounts receivable from related entities:		
Central Bank of Solomon Islands	238,528	350,507
Central Provincial Government	20,670	47,940
Choiseul Provincial Government	18,633	43,981
Commodity Export Marketing Authority	14,693	20,079
Home Finance Corporation	35,413	38,408
Honiara City Council	1,176,533	871,766
Makira/Ulawa Provincial Government	17,625	28,439
Malaita Provincial Government	105,543	134,915
Provincial Hospital	594,345	1,053,182
Solomon Airlines Limited	185,651	210,225
Solomon Islands Broadcasting Corporation	206,191	681,621
Solomon Islands Government	14,636,081	17,816,845
Solomon Islands National University	1,362,977	1,190,823
Solomon Islands Ports Authority	34,216	449,711
Solomon Islands Postal Corporation	260,823	79,825
Solomon Islands Tourist Authority	(5,617)	23,968
Solomon Islands Water Authority	1,077,302	4,816,982
Temotu Provincial Government	6,719	71,649
Western Provincial Government	79,016	90,151
Isabel Provincial Government	53,148	41,365
	<u>20,118,490</u>	<u>28,062,383</u>

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

d) Transactions with key management personnel

Key management personnel comprises of the Chief Executive Officer, Chief Financial Officer, General Manager Capital Works, Chief Engineer, General Manager Corporate Services, General Manager Customer Services, Manager Finance, Manager Regulatory, Manager Land & Buildings, Manager Generation and Outstations, Manager Distribution, Manager Health, Safety, Security and Environment, Manager Business Administration, Power Generation Lead Engineer and the Directors as listed in note 25 (a).

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

Short-term employee benefits	12,101,811	15,527,096
	<u>12,101,811</u>	<u>15,527,096</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.

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26 Commitments and contingencies

Capital commitments

SIEA undertakes capital works and purchases assets according to an approved budget when management considers that sufficient funds are available. Capital commitments as at 31 December 2019 amounted to \$839,000,000 (2018: \$1,137,000,000). These commitments are in relation to property, plant and equipment.

	2019 \$	2018 \$
Less Than 1 Year	227,000,000	287,000,000
Between 1 year and 5 years	612,000,000	850,000,000
	<u>839,000,000</u>	<u>1,137,000,000</u>

Contingent liabilities

Apart from legal work undertaken in the normal course of business, SIEA was party to two legal claims, both of which have been disclosed and in the opinion of the directors will not have a material effect on SIEA's financial position. These claims are as follows:

- a) A claim by a member of the public arising from an incident whereby a child was electrocuted and got burns. Compensation of \$1.3 million has been demanded, but the legal advice provided to SIEA has estimated that if liability is proven, damages of up to \$190,000 may be awarded. However, negotiations are continuing and a full and final settlement amount has yet to be agreed upon.
- b) SIEA may potentially be subject to claims from three electrocutions in Auki, Buala and Honiara. The potential liability and likely financial impact are yet to be determined.

27 World Bank Financing

a) Financial Support Received

SIEA has received financial support from the World Bank's International Development Association (IDA) on the Solomon Islands Sustainable Energy Project (SISEP) since July 2008 to improve operational efficiency, system reliability and financial sustainability of SIEA. Further, the World Bank, through a multi donor trust fund, has also extended financial support on the Output-Based Aid (OBA) programme since August 2016, for increasing access to electricity services in low-income areas of Solomon Islands. In addition to the SISEP and OBA programmes, the World Bank through the IDA has provided further support under the Solomon Islands Electricity Access and Renewable Energy Expansion Project (SIEAREEP) since October 2018. SIEAREEP's objective is to increase access to grid supplied electricity and increase renewable energy generation in the Solomon Islands.

b) Grants

SIEA has received total grants of USD 8,284,155 from these programmes since their commencement (2018: USD 6,782,961). The 2019 balance consists of the following funds, IDA H9130 – USD 1,948,784, IDA H4150 – USD 3,834,859 and TF A2923 – USD 1,500,512, IDA D3270 – USD 800,000 and TF A7425 – USD 200,000. In 2018, the balance for fund IDA H4150 was USD 4,146,973 which did not account for refund applications amounting to USD 312,114. This has subsequently been rectified in 2019.

c) Credit Funds

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

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27 World Bank Financing *continued*

d) Use of the Proceeds

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

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

	2019 USD	2018 USD
Designated Account		
Balance at 1 January	75,618	43,661
Receipts	1,112,728	279,862
Expenditures	242,153	247,905
Balance at 31 December	946,194	75,618
Grants		
IDA H4150	-	-
IDA H9130	(5,478)	1,403,891
TF A2923	818,786	492,828
TF A7425	200,000	-
IDA D3270	800,000	-
Balance at 31 December	1,813,308	1,896,719
Credit Funds IDA 53790		
Balance at 1 January	2,009,303	366,210
Borrowings	1,547,088	2,078,572
Principal Repayments	431,880	435,479
Balance at 31 December	3,124,511	2,009,303

28 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.

29 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.

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