



Solomon Islands
Government

Office of the
Auditor General



OAG Building
Mud Alley Street
P.O Box G18,
Honiara,
Solomon Islands.



Phone:
(677) 28886



Email:
admin@oag.gov.sb

Website:
www.oag.gov.sb

Mr. Donald Kiriau
Chief Executive Officer
Solomon Islands Electricity Authority
P.O Box 6
HONIARA
SOLOMON ISLANDS

Your Ref:
Our Ref: 1150-MID-2020
Date: 15 October 2021

Dear Mr. Kiriau,

Independent Auditor's Report of the Solomon Islands Electricity Authority (SIEA) for the year ended 31 December 2020

I am pleased to advise you that I have today submitted to your Chairman a copy of my Independent Auditors Report on the financial statements of the Solomon Islands Electricity Authority for the year ended 31 December 2020. I have also forwarded a copy to the Minister for Finance pursuant to section 47(3) of the Public Finance and Audit Act [Cap. 120], for the purposes stipulated in subsection 4.

A management letter detailing the issues identified during the audit is also enclosed for your information.

I would also like to congratulate the finance team on their efforts in ensuring that SIEA continues to meet State Owned Enterprise (SOE) Act reporting deadline and receive an unqualified audit opinion.

Yours sincerely,

David Dennis

Auditor-General

Cc: Director Economics Reform Unit, MoFT.

Cc: Chief Financial Officer, SIEA

Solomon Islands Electricity Authority
trading as SOLOMON POWER
For the year ended 31 December 2020

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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 2020 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 O.B.E – Chairman
James Apaniai
John B Houanihau
Muriel Ha'apue-Dakamac
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 2020, 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 \$75,164,011 (2019: \$91,097,546).

Dividends

The Directors have not declared a dividend for the financial year ended 2020, however \$5,000,000 was paid during the year relating to 2019 (2019: \$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 \$2,742,493 (2019: \$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.

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.

Dated at Honiara this 15th day of October 2021.

Signed in accordance with a resolution of the Directors.



Director



Director



**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 audited the accompanying financial statements of Solomon Islands Electricity Authority (the Solomon Islands Electricity Authority) which comprise the Statement of Financial position as at 31 December 2020, and the Statements of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 30.

In my opinion the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis of 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 Organization of Supreme Audit Institutions (INTOSAI) Code of Ethics, 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. Our opinion on the financial statements does not cover the other information and we 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 Those Charged with Governance for the Financial Statements

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

**Independent Auditor's Report to the Members of Solomon Islands Electricity Authority
Trading as Solomon Power
Report on the Audit of the Financial Statements (continued)**

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

Those charged with governance 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 (ISSAI) 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 identify during my audit.

**Independent Auditor's Report to the Members of Solomon Islands Electricity Authority
Trading as Solomon Power
Report on the Audit of the Financial Statements (continued)**

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:

- i) 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;
- ii) to the best of my knowledge and according to the information and explanations given to us, the financial statements give the information required by the Electricity Act (Cap. 128) State Owned Enterprises Act 2007 and Public Finance and Audit Act (Cap. 120) in the manner so required; and
- iii) the Authority did not comply with the requirements of the Public Finance and Audit Act (Cap 120) and the Electricity Act (Cap. 128), which require the financial statements to be submitted to the Office of the Auditor General not later than 3 months of the following year to which the financial statements relate. The signed statements were presented to me on 15 October 2021 following my appointment as Auditor-General on 24 September 2021.



David Dennis
Auditor-General
15 October 2021

Office of the Auditor-General
Honiara, Solomon Islands

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2020

	Notes	2020	2019
		\$	Restated \$
Operating income			
Electricity sales	7 (a)	438,602,254	480,466,462
Amortisation of deferred income	20	7,912,793	7,715,936
Other operating income	9	6,036,746	8,933,899
Reversal of credit impairment	17	-	2,743,565
Total operating income		452,551,793	499,859,862
Expenses			
Generation and distribution	10	193,956,700	225,341,289
Administration	11	68,004,504	70,175,187
Operating	12	25,900,773	23,761,915
Depreciation and amortisation	14	68,271,394	64,259,234
Depreciation of right-of-use assets	24	4,034,902	3,664,350
Interest expense		1,211,154	2,505,667
Inventory and asset write-off		13,686,603	18,773,115
Credit impairment charge	17	2,630,743	-
Total expenses		377,696,773	408,480,757
Gain from operations		74,855,020	91,379,105
Foreign exchange gain/(loss)		308,991	(281,559)
Net profit for the year		75,164,011	91,097,546
Other comprehensive income		-	-
Total comprehensive income for the year		75,164,011	91,097,546

The notes disclosed on pages 38 to 65 are an integral part of the financial statements.

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Statement of financial position
As at 31 December 2020

		2020	2019	2018
Assets	Notes	\$	Restated \$	Restated \$
Current assets				
Cash and cash equivalents	15	287,715,658	310,620,237	303,524,441
Inventories	16	58,274,089	51,531,306	22,451,241
Receivables	17	61,170,200	61,305,594	61,766,690
Prepayments		10,938,231	7,305,488	13,755,419
Total current assets		418,098,178	430,762,625	401,497,791
Non-current assets				
Property, plant and equipment	14	1,016,645,806	968,691,157	859,782,324
Right-of-use assets	24	9,372,122	7,984,758	-
Receivables	17	-	-	798,672
Government bonds	18	70,000,000	30,000,000	30,000,000
Total non-current assets		1,096,017,928	1,006,675,915	890,580,996
Total assets		1,514,116,106	1,437,438,540	1,292,078,787
Liabilities				
Current liabilities				
Deferred income	20	7,912,793	7,715,936	6,392,961
Trade and other payables	21	41,261,564	42,284,899	46,156,524
Lease liabilities	24	3,549,946	2,036,765	-
Borrowings from SIG	22	2,802,313	3,599,000	3,599,000
Employee benefits	23	2,067,344	4,244,521	6,778,721
Total current liabilities		57,593,960	59,881,121	62,927,206
Non-current liabilities				
Deferred income	20	129,891,315	122,181,545	74,065,116
Lease liabilities	24	2,625,414	2,191,165	-
Borrowings from SIG	22	17,888,282	19,495,564	10,928,257
Employee benefits	23	15,098,534	12,834,555	10,401,164
Total non-current liabilities		165,503,545	156,702,829	95,394,537
Total liabilities		223,097,505	216,583,950	158,321,743
Equity				
Contributed capital	19	246,933,170	246,933,170	246,933,170
Asset revaluation reserve	14	373,878,875	376,621,368	384,889,703
Accumulated profit		670,206,556	597,300,052	501,934,171
Total equity		1,291,018,601	1,220,854,590	1,133,757,044
Total equity and liabilities		1,514,116,106	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 38 to 65 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 2020

	Contributed capital	Asset revaluation reserves	Accumulated retained earnings	Total
	\$	\$	\$	\$
Balance at 1 January 2019 (as previously reported)	246,933,170	384,889,703	507,246,500	1,139,069,373
Adjustment (refer note 6)	-	-	(5,312,329)	(5,312,329)
Restated balance as at 1 January 2019	246,933,170	384,889,703	501,934,171	1,133,757,044
Net profit for the year	-	-	91,097,546	91,097,546
Disposal of revalued property, plant and equipment	-	(8,268,335)	8,268,335	-
Transaction with owners of SIEA directly recognised in equity				
Dividend declared during the year	-	-	(4,000,000)	(4,000,000)
Restated balance at 1 January 2020	246,933,170	376,621,368	597,300,052	1,220,854,590
Total comprehensive income for the year				
Net profit for the year	-	-	75,164,011	75,164,011
Other comprehensive income	-	-	-	-
Disposal of revalued property, plant and equipment	-	(2,742,493)	2,742,493	0
Transactions with owners of SIEA directly recognised in equity				
Dividend declared and paid during the year	-	-	(5,000,000)	(5,000,000)
Grants received during the year	-	-	-	-
Prior period adjustment	-	-	-	-
Balance at 31 December 2020	246,933,170	373,878,875	670,206,556	1,291,018,601

The notes disclosed on pages 38 to 65 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 2020

	Notes	2020 \$	2019 \$
Operating Activities			
Cash receipts from customers		447,405,137	493,403,694
Cash payments to suppliers and employees		<u>(304,516,422)</u>	<u>(351,966,157)</u>
Net cash provided by Operating Activities		<u>142,888,715</u>	<u>141,437,537</u>
Investing Activities			
Net investment in debt securities		(40,000,000)	-
Acquisition of property, plant and equipment	14	<u>(129,892,644)</u>	<u>(191,872,350)</u>
Net cash used in Investing Activities		<u>(169,892,644)</u>	<u>(191,872,350)</u>
Financing Activities			
Dividend paid		(5,000,000)	(4,000,000)
Net movement in SIG Borrowings	22	(2,403,970)	8,567,308
Cash receipts from donor grants	20	15,819,420	57,155,340
Payment for lease liability	24	<u>(4,316,100)</u>	<u>(4,192,037)</u>
Net cash provided by Financing Activities		<u>4,099,350</u>	<u>57,530,611</u>
Net decrease in cash and cash equivalents		(22,904,579)	7,095,796
Cash and cash equivalents at 1 January		<u>310,620,237</u>	<u>303,524,441</u>
Cash and cash equivalents at 31 December	15	<u><u>287,715,658</u></u>	<u><u>310,620,237</u></u>

The notes disclosed on pages 38 to 65 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 2020

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.

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.

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 (f) – Employee benefits

6 Restatement

During the financial year, the Authority was subject to allowances and benefits tax audit by the Inland Revenue Division of Solomon Islands whereby it was discovered Solomon Power had a tax shortfall on non-cash tax benefit from 2015 to 2019 financial year relating to allowances and benefits paid to employees. During the year, Solomon Power paid \$6,905,277 to Inland Revenue to cover the shortfall.

The prior period errors highlighted above have been corrected by restating each of the affected financial statement line items for prior periods. The following tables summaries the impacts on the Authority's financial statements.

Statement of financial position

	As previously reported		Impact of restatement			
			Adjustment		As restated	
	2018	2019	2018	2019	2018	2019
Trade and other payables	40,844,195	35,379,622	5,312,329	1,592,948	46,156,524	42,284,899
Total current liabilities	57,614,877	52,975,844	5,312,329	1,592,948	62,927,206	59,881,121
Total liabilities	153,009,411	209,678,672	5,312,329	1,592,948	158,321,740	216,583,949
Accumulated profit	507,246,500	604,205,329	(5,312,329)	(1,592,948)	501,934,171	597,300,052
Total equity	1,139,069,373	1,227,759,867	(5,312,329)	(1,592,948)	1,133,757,044	1,220,854,590
Total equity and liabilities	1,292,078,784	1,437,438,539	-	-	1,292,078,784	1,437,438,539

Solomon Islands Electricity Authority
trading as **SOLOMON POWER**
Notes to the financial statements
For the year ended 31 December 2020

6 Restatement (continued)

Statement of profit or loss and other comprehensive income

	As previously reported		Impact of restatement			
			Adjustment		As restated	
	2018	2019	2018	2019	2018	2019
Administration expenses	81,605,507	68,582,240	5,312,329	1,592,948	86,917,836	70,175,188
Total expenses	389,120,299	406,887,811	5,312,329	1,592,948	394,432,628	408,480,759
Gain from operations	79,917,905	92,972,051	5,312,329	1,592,948	74,605,576	91,379,103
Net profit for the year	80,080,065	92,690,494	(5,312,329)	(1,592,948)	74,767,736	91,097,546
Total comprehensive income for the year	80,080,065	92,690,494	(5,312,329)	(1,592,948)	74,767,736	91,097,546

There is no material impact on the Company's profit and no impact on the total operating, investing or financing cash flows for the year ended 31 December 2020.

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.

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.

Revenue including upfront fees is recognised net of VAT and discount over time and the progress is determined based on kilowatts (units) consumed. This provide a faithful depiction of the transfer of the good as the customer simultaneously receives and consumes the benefits provided by the Company's performance of the electricity revenue contract.

The transaction price is determined based on approved tariffs at the time the service had been rendered and units of kilowatts consumed by the customers. The transaction price includes the non-refundable upfront fees as it not considered to be a significant material right. The transaction price is considered to be variable due to the following:

- Tiered-pricing for commercial and industrial customers; and
- Estimate of unbilled electricity supplied to 'domestic' customers

The variable consideration is included in the transaction price only to the extent that it is 'highly probable' that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. For Solomon Power however the considerations are constrained because it is calculated based on actual units consumed during the period, thus consideration for the period is known.

	2020	2019
	S	S
Revenue from contracts with customers		
Kilowatt sales	314,443,256	343,420,680
Cash Power Sales	123,353,890	135,781,104
Sales works	805,108	1,264,678
	<u>438,602,254</u>	<u>480,466,462</u>
Other revenue		
Amortisation of deferred income	7,912,793	7,715,936
Interest received	4,463,177	2,600,551
Income from asset relocation	-	2,494,784
Tina Hydro refunds	204,583	789,647
Stale cheques	332,617	972,915
Other income	1,036,369	2,076,002
Total revenue	<u>452,551,794</u>	<u>497,116,297</u>

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Notes to the financial statements
For the year ended 31 December 2020

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 2020

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*

e) Property, plant and equipment (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.

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.

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*

e) Property, plant and equipment (continued)

iii. Revaluation of property, plant and equipment (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.

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*

e) Property, plant and equipment (continued)

vi. 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.

f) 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.

For each future year the amounts of entitlements expected to be paid on termination of employment have been determined by making a projection of each employee based on their current salary, age and service, as well as assumed rates of death, disablement, retirement, resignation and rates of inflation. The resulting cash flows have then been converted to a present value by discounting from the expected date of payment to the valuation date at the assumed discount rate to determine the total liability.

g) Taxation

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

h) 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.

i) 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*

j) Grants

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

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and SIEA will comply with the conditions associated with the grant and are then recognised in 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.

k) 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.

l) Leases

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*

1) Leases (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, temporary staff residences 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*

i) Leases (continued)

Under IAS 17

ii) 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

Trade receivables

SIEA uses a provision matrix to determine the lifetime expected credit losses. It is based on the SIEA's historical observed default rates, and is 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 S	Loss allowance S	Credit impaired
2020				
Current - 30 days past due	12.19%	18,888,278	2,302,481	No
30 - 59 days past due	23.99%	6,752,283	1,619,873	No
60 - 89 days past due	46.03%	3,778,189	1,739,100	No
90 or more days in past due	64.60%	15,769,610	10,187,514	Yes
		<u>45,188,360</u>	<u>15,848,968</u>	
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>46,294,078</u>	<u>13,197,678</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
	%	\$	\$	
2020				
Current - 30 days past due	9.70%	1,401,214	135,918	No
30 - 59 days past due	11.81%	1,123,926	132,736	No
60 - 89 days past due	12.36%	1,200,321	148,360	No
90 or more days in past due	8.08%	9,393,893	758,905	Yes
		<u>13,119,354</u>	<u>1,175,919</u>	
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>1,689,095</u>	

Loss rates are based on actual credit loss experienced over the past three years.

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 is not considered material by management on reporting date.

Cash and cash equivalents

SIEA held cash and cash equivalents of \$287,715,658 at 31 December 2020 (2019: \$310,620,237). 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 2020 (2019: \$nil)

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8 Financial risk management continued

Debt investment securities

SIEA held debt investment securities of \$70,000,000 at 31 December 2020 (2019: \$30,000,000). 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 2020 (2019: \$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.

The following are the contractual maturities of financial liabilities:

31 December 2020

	Carrying amount \$	6 months or less \$	6-12 months \$	Greater than 1 year \$	Total \$
Financial liabilities					
Trade and other payables	39,154,138	39,154,138	-	-	39,154,138
Solomon Islands Government loan	20,690,595	1,814,969	1,786,945	20,353,430	23,955,344
Lease liability	6,175,360	2,131,972	1,335,210	4,248,594	7,715,776
	<u>66,020,093</u>	<u>43,101,079</u>	<u>3,122,155</u>	<u>24,602,024</u>	<u>70,825,258</u>

31 December 2019

	Carrying amount \$	6 months or less \$	6-12 months \$	Greater than 1 year \$	Total \$
Financial liabilities					
Trade and other payables	40,059,430	40,059,430	-	-	40,059,430
Solomon Islands Government loan	23,094,564	2,261,391	2,225,401	21,805,139	26,291,932
Lease liability	4,227,930	2,671,918	2,671,918	4,270,902	9,614,738
	<u>67,381,924</u>	<u>44,992,739</u>	<u>4,897,319</u>	<u>26,076,041</u>	<u>75,966,100</u>

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8 Financial risk management *continued*

iii) Market risk

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

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 \$139 million (2019: \$177 million) comprises 37% (2019: 43%) 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	436,300	468,800
Expenditure	<u>363,488</u>	<u>391,288</u>
Net Profit	<u>72,812</u>	<u>77,512</u>

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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	2020 \$	2019 \$
9 Other operating income			
Other		1,033,869	1,904,951
Income from asset relocation		-	2,494,784
Tina Hydro refunds		204,583	789,647
Stale cheques		332,617	972,915
Reconnections		2,500	1,500
Interest received		4,463,177	2,600,551
Unconditional grant income		-	169,551
		<u>6,036,746</u>	<u>8,933,899</u>
10 Generation and distribution			
Fuel		139,365,434	177,077,975
Lubricating oil		3,178,396	3,255,571
Other		2,836,800	2,820,000
Personnel	13	32,023,737	26,212,457
Repairs and maintenance		<u>16,552,333</u>	<u>15,975,286</u>
		<u>193,956,700</u>	<u>225,341,289</u>

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11 Administration	Note	2020 \$	2019 \$
Advertising		1,124,892	1,440,630
Bank fees		338,749	243,767
Computer bureau charges		2,957,213	1,785,710
Consultancy fees		2,027,023	4,376,917
Directors fees and expenses		262,431	454,377
Electricity		2,988,165	3,187,531
Electricity rebate		4,440,976	4,952,714
Freight		1,002,644	1,339,369
Insurance		2,522,861	2,504,500
Personnel	13	36,268,465	32,772,778
Printing and stationery		2,040,856	2,218,161
Professional fees		2,003,733	2,569,010
Property expenses		3,483,851	3,821,232
Telecommunications		3,602,101	3,387,565
Travel and accommodation		2,940,544	3,527,978
Tax Penalties		-	1,592,948
		<u>68,004,504</u>	<u>70,175,187</u>
12 Operating expenses			
Customs handling charges		3,713,480	4,083,563
Personnel	13	13,101,391	11,861,047
Repairs and maintenance		4,365,298	3,580,032
Vehicle costs		4,720,604	4,237,273
		<u>25,900,773</u>	<u>23,761,915</u>
13 Personnel expenses			
Salaries and wages		61,180,430	49,716,519
NPF		3,225,264	3,033,529
Retirement benefit expense		2,916,114	3,644,767
Others		14,071,785	14,451,467
		<u>81,393,593</u>	<u>70,846,282</u>
Personnel expenses classed by function is as follows:			
Generation and distribution		32,023,737	26,212,457
Administration		36,268,465	32,772,778
Operating expenses		13,101,391	11,861,047
		<u>81,393,593</u>	<u>70,846,282</u>

Average number of employees during the year was 286 (2019: 278)

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14 Property, plant and equipment

Cost / Revaluation	Buildings		Generators		Plant and equipment		Distribution network		Furniture & equipment		Motor vehicles		Tools		Work in progress		Total		
	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD	
Balance as 1 January 2019	56,167,034	184,152,191	264,824,894	75,431,941	293,653,269	31,634,863	27,466,868	10,754,710	89,720,189	1,033,805,959									
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	191,872,351	191,872,351			
Disposals	(79,000)	(3,364,001)	(2,133,322)	(3,436,715)	(15,996,261)	(768,922)	(104,251)	(25,752)	-	(25,908,224)									
Work in progress capitalised	7,681,046	8,876,777	14,135,829	33,636,926	43,390,519	3,466,605	2,195,639	1,658,495	(115,041,836)										
Balance at 31 December 2019	63,769,080	189,664,967	276,827,401	105,632,152	321,047,527	34,332,546	29,558,256	12,387,453	166,550,704	1,199,770,086									
Additions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	129,892,645	129,892,645			
Disposals	(204,864)	(4,455,053)	-	(11,249)	(11,880,722)	(4,601,367)	(1,193,673)	(1,482,657)	-	(23,829,585)									
Work in progress capitalised	-	18,936,025	172,488	5,500,790	39,856,064	6,670,243	2,656,268	1,638,845	(75,430,723)										
Balance at 31 December 2020	63,564,216	204,145,939	276,999,889	111,121,693	349,022,869	36,401,422	31,020,851	12,543,641	221,012,626	1,305,833,146									
Breakdown of cost/revaluation																			
Revaluations	34,688,634	45,126,962	47,010,361	69,097,405	177,955,513	-	-	-	-	373,878,875									
Cost	28,875,582	159,018,977	229,989,528	42,024,288	171,067,356	36,401,422	31,020,851	12,543,641	221,012,626	931,954,271									
Balance at 31 December 2020	63,564,216	204,145,939	276,999,889	111,121,693	349,022,869	36,401,422	31,020,851	12,543,641	221,012,626	1,305,833,146									
Accumulated depreciation and impairment loss																			
Balance as 1 January 2019	10,666,289	18,161,096	57,110,621	12,418,140	27,919,322	18,328,211	22,029,328	7,390,629	-	174,023,636									
Depreciation	-	9,189,636	25,312,296	5,387,539	13,337,005	4,313,600	2,291,368	1,845,685	-	61,677,129									
Amortisation of leasehold land - restated	2,582,103	-	-	-	-	-	-	-	-	2,582,103									
Depreciation on disposed assets	-	(887,482)	(1,974,455)	(1,546,217)	(1,921,818)	(749,185)	(104,251)	(20,531)	-	(7,203,939)									
Balance at 31 December 2019	13,248,392	26,463,250	80,448,462	16,259,462	39,334,509	21,892,626	24,216,445	9,215,783	-	231,078,929									
Depreciation	-	9,339,779	26,157,696	6,129,677	15,003,625	5,077,336	2,101,589	1,879,589	-	65,689,291									
Amortisation of leasehold land	2,582,103	-	-	-	-	-	-	-	-	2,582,103									
Depreciation on disposed assets	-	(1,065,844)	-	(11,248)	(2,062,097)	(4,369,833)	(1,193,674)	(1,460,287)	-	(10,162,983)									
Balance at 31 December 2020	15,830,495	34,737,185	106,606,158	22,377,891	52,276,037	22,600,129	25,124,360	9,635,085	-	289,187,340									
Carrying amounts																			
At 31 December 2018	45,500,745	165,991,095	207,714,273	63,013,801	265,733,947	13,306,652	5,437,540	3,364,081	89,720,189	859,782,323									
At 31 December 2019	50,520,688	163,201,717	196,378,939	89,372,690	281,713,018	12,439,920	5,341,811	3,171,670	166,550,704	968,691,157									
At 31 December 2020	47,733,721	169,408,754	170,393,731	88,743,802	296,746,832	13,801,293	5,896,491	2,908,556	221,012,626	1,016,645,806									

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14 Property, plant and equipment *continued*

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

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

- Generators
- Distribution network
- Plant and equipment

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

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

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

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

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 disposal loss of \$13,686,603 (2019: \$18,773,115), which was the 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.

	2020	2019
	S	S
Perpetual Estate Land	11,427,500	11,427,500
Fixed Term Estate	52,136,716	52,341,580
Depreciation of Fixed Term Estate	(15,830,495)	(13,248,392)
	<u>47,733,721</u>	<u>50,520,688</u>

15 Cash and cash equivalents

Short-term deposits	151,994,576	61,339,727
Cash on hand	47,000	47,000
Cash at bank	135,674,082	249,233,510
	<u>287,715,658</u>	<u>310,620,237</u>

The short-term deposits amounting to \$860,573 and \$151,134,003 (2019: \$61,339,727) are invested with ANZ Banking Group Ltd - Solomon Islands Branch and Bred Bank Solomon at rates of between 0.5% and 2.0% respectively. 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.

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	2020	2019
	\$	\$
16 Inventories		
Electrical and mechanical	58,274,089	51,531,306

Fuel and lubricants 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.

17 Receivables

Current

Trade receivables - kilowatt	45,188,360	46,294,077
Allowance for impairment - kilowatt	(15,848,968)	(13,197,677)
Trade receivables - CashPower	13,119,354	9,649,159
Allowance for impairment - CashPower	(1,175,918)	(1,689,094)
Related party - Solomon Islands Water Authority	-	890,436
Staff advances	292,119	181,696
Allowance for impairment- staff advances	(31,787)	(18,170)
Unread meters	12,953,676	14,174,933
World Bank	3,597,737	3,736,823
Asian Development Bank	880,800	244,593
Other debtors	2,194,827	1,038,818
	<u>61,170,200</u>	<u>61,305,594</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. The debt was fully repaid during 2020.

Allowance for impairment

Balance at the beginning of the year	14,904,941	18,196,151
Impairment recognised	2,630,743	(2,743,565)
Bad debts written off during the year	(479,011)	(547,645)
Balance at 31 December	<u>17,056,673</u>	<u>14,904,941</u>

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18 Government bonds	2020	2019
	\$	\$
Government bonds	70,000,000	30,000,000

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.

On 11 May 2020 SIEA purchased Covid-19 Domestic Development Bonds with a face value of \$40M 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 11 May 2030 and there is a 3 year grace period before principal repayments commence.

19 Contributed capital		
Contributed capital	246,933,170	246,933,170

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	129,897,481	80,458,077
Additional deferred income	15,819,420	57,155,340
Deferred income recognised during the year	(7,912,793)	(7,715,936)
Balance at 31 December	137,804,108	129,897,481

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

Current	7,912,793	7,715,936
Non-current	129,891,315	122,181,545
	137,804,108	129,897,481

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), 2019 (\$9.902 million) and 2020 (\$1.596 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), 2019 (\$37.731 million) and 2020 (\$6,639 million) 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 (\$0.387 million) and 2020 (\$15.8 million) grants 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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21 Trade and other payables	2020	2019
	\$	\$
Current		
Trade creditors	331,173	2,099,943
Other payables and accruals	33,308,629	33,005,426
Contractual liabilities	2,107,426	2,225,469
Consumer deposits	5,514,336	4,954,061
	<u>41,261,564</u>	<u>42,284,899</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	23,094,565	14,527,257
Borrowings	-	12,225,280
Principal Repayments	(2,403,970)	(3,657,972)
Balance at 31 December	<u>20,690,595</u>	<u>23,094,565</u>

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

Current	2,802,313	3,599,000
Non-current	17,888,282	19,495,565
	<u>20,690,595</u>	<u>23,094,565</u>

23 Employee entitlements

Current	2,067,344	4,244,521
Non-current	15,098,534	12,834,555
	<u>17,165,878</u>	<u>17,079,076</u>

Movement is made up of the following:

Opening balance	17,079,076	17,179,881
Provisions made during the year	5,308,635	6,671,198
Provisions utilised during the year	(5,221,833)	(6,772,003)
Closing balance	<u>17,165,878</u>	<u>17,079,076</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.

	2020	2019
	\$	\$
Property, plant and equipment owned	1,016,645,806	968,691,157
Right-of-use assets	9,372,122	7,984,758
Total assets	<u>1,026,017,928</u>	<u>976,675,915</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
2020	\$	\$	\$
Balance at 1 January	3,943,826	4,040,932	7,984,758
Additions	477,503	5,239,221	5,716,724
Leases cancelled	-	(294,458)	(294,458)
Depreciation charge	(20,996)	(4,013,906)	(4,034,902)
Balance at 31 December	4,400,333	4,971,789	9,372,122
2019			
Balance at 1 January	-	5,711,989	5,711,989
Additions	3,943,826	2,237,712	6,181,538
Leases cancelled	-	(244,419)	(244,419)
Depreciation charge	-	(3,664,350)	(3,664,350)
Balance at 31 December	3,943,826	4,040,932	7,984,758

Lease liabilities included in the statement of financial position at 31 December	2020	2019
	\$	\$
i.) As a lessee		
Current	3,549,946	2,036,765
Non-current	2,625,414	2,191,165
Balance at 31 December	6,175,360	4,227,930

Amounts recognised in profit or loss

Interest on lease liabilities	842,594	498,750
Expenses relating to short-term leases	419,869	987,722
	1,262,463	1,486,472

Amounts recognised in statement of cash flows

Total cash outflow for leases	4,316,100	4,192,037
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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	34,485	37,620
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25 Related parties

a) Directors

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

Name

David K.C. Quan – chairman
 James Apaniai
 John B Houanihau
 Muriel Ha'apue-Dakamae
 Rovaly 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	2020	2019
	\$	\$
Included in trade receivables are the following amounts receivable from related entities:		
Central Bank of Solomon Islands	130,192	238,528
Central Provincial Government	14,359	20,670
Choiseul Provincial Government	19,361	18,633
Commodity Export Marketing Authority	-	14,693
Guadalcanal Provincial Government	46,723	-
Home Finance Corporation	29,799	35,413
Honiara City Council	1,230,972	1,176,533
Makira/Ulawa Provincial Government	71,761	17,625
Malaita Provincial Government	29,023	105,543
Provincial Hospital	512,526	594,345
Solomon Airlines Limited	164,383	185,651
Solomon Islands Broadcasting Corporation	234,438	206,191
Solomon Islands Government	19,584,302	14,636,081
Solomon Islands National University	1,220,904	1,362,977
Solomon Islands Ports Authority	575,953	34,216
Solomon Islands Postal Corporation	4,441	260,823
Solomon Islands Tourist Authority	-	(5,617)
Solomon Islands Water Authority	-	1,077,302
Temotu Provincial Government	46,222	6,719
Western Provincial Government	65,619	79,016
Isabel Provincial Government	62,949	53,148
	<u>24,043,927</u>	<u>20,118,490</u>

Receivables for the Solomon Islands Water Authority includes the Trade Receivables - kilowatt that relates to this organisation.

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 Occupational Health Safety, Manager Business Administration, Power Generation Lead Engineer, General Manager Special Projects, Chief Information & Communications Technology Officer, Manager Human Resources & Learning, Manager Projects - Customer Services, Manager Management Accounting, Manager Legal & Contracts Services 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	<u>14,077,326</u>	<u>12,101,811</u>
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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 2020 amounted to \$719,000,000 (2019: \$839,000,000). These commitments are in relation to property, plant and equipment.

	2020	2019
	\$	\$
Less Than 1 Year	215,000,000	227,000,000
Between 1 year and 5 years	504,000,000	612,000,000
	<u>719,000,000</u>	<u>839,000,000</u>

Contingent liabilities

Litigation is a common occurrence in the industry due to the nature of the business undertaken. The Authority has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Authority makes adjustments to account for any adverse effects which the claims may have on its financial standing. Based on the Authority's legal counsel, the claims against the Authority does not have meritorious grounds and management assessed the claims have reasonable prospects of being struck out. As a result, management believes that its defence in Court or arbitration has reasonable prospects of success. Management also does not consider a reliable estimate can be made at this stage in the event the Authority is not successful though it is considered for this event to occur is remote.

SIEA on 8 July 2021 terminated its engineering, procurement and construction (EPC) contract with CBS Power Solutions Pte Ltd (CBS) on the basis that CBS was in breach of the contract and had failed to remedy the breaches, and as a consequence of the termination, SIEA may be entitled to claim damages from CBS. Prior to the contract termination, CBS had issued claim notices to SIEA claiming entitlement to costs which SIEA has denied liability. SIEA and CBS have competing claims against each other which may be resolved by mutual agreement or by international arbitration. SIEA and CBS are currently in "without prejudice" negotiations to discuss a possible amicable settlement of both CBS's claims prior to termination and SIEA's entitlement for CBS's breach of contract.

27 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.

28 Significant event during the year

Impact of COVID-19

COVID-19 has had a dramatic impact on Solomon Islands society and economy. In the electricity sector there has been a decline in consumer demand as well as lower tariff during the year. This has generally translated into lower electricity tariff during the year.

Notwithstanding this, SIEA's operations has remained relatively resilient to COVID-19. The entity's generation and distribution assets both in Honiara and Outstations have been operating largely unaffected during the year. Whilst the travel restrictions have caused some delays to the capital projects and overhaul of generators, the programme network extension in Honiara and at the Outstations progressed as plan.

The Authority has reviewed the assumptions adopted in asset valuation processes in the context of the potential impact of COVID-19. Currently, it is not expected that COVID-19 will have a material, adverse impact on SIEA operations or the carrying value of its various assets. This is largely due to the long-life nature of these assets.

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29 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. However, this funding closed on the 31st March 2019. 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 9,477,863 from these programmes since their commencement (2019: USD 8,284,155). The 2020 balance consists of the following funds, IDA H9130 – USD 1,948,784, IDA H4150 – USD 3,834,859, TF A2923 - USD 2,193,565, IDA 3270 - USD 1,300,525 and TF A7425 - USD 200,129.

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.

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:

	2020 USD	2019 USD	
Designated Account			
Balance at 1 January	946,194	75,618	
Receipts	117,805	1,112,728	
Expenditures	143,722	242,153	
Balance at 31 December	<u>920,277</u>	<u>946,194</u>	
Grants			
IDA H4150	-	-	
IDA H9130	-	(5,478)	
TF A2923	693,053	818,786	
IDA D3270	500,525	800,000	
TF A7425	129	200,000	
Balance at 31 December	<u>1,193,708</u>	<u>1,813,308</u>	
Credit Funds IDA 53790			
Balance at 1 January	3,124,511	2,009,303	
Borrowings	-	1,547,088	
Principal repayments	336,278	431,880	
Balance at 31 December	<u>2,788,234</u>	<u>3,124,511</u>	
e) Project Financial Report	2020	2019	Cumulative (PTD)
	USD	USD	USD
Balance at 1 January	946,194	75,618	-
Source of Funds			
IDA H4150	-	-	3,834,859
IDA H9130	-	(5,478)	1,948,784
TF A2923	693,053	818,786	2,193,565
IDA D3270	500,525	800,000	1,300,525
TF A7425	129	200,000	200,129
IDA 53790	-	1,547,088	5,925,941

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World Bank Financing *continued*

Total Source of Funds	1,193,708	3,360,396	15,403,804
Total Available	2,139,902	3,436,014	15,403,804
Use of Funds			
Component A	623,560	1,206,992	5,622,961
Component B	397,613	-	633,678
Component C	-	1,273,934	7,959,814
Component D	196,791	47,946	244,737
Component E	348	323	13,782
Total Uses of Funds	1,218,312	2,529,195	14,474,973
Net Difference	921,589	906,818	928,832
Exchange Gain / (Loss)	1,312	(39,375)	8,555
Closing Balance	920,277	946,194	920,277

30 Subsequent Events

A. New Electricity Tariff regulation

On 1 May 2021, SIEA implemented a new tariff regulation which is effective for the next five years. The new tariff has resulted in an average reduction of non-fuel component of the tariff by up to 22% compared to the old tariff regime. This decrease in tariff has resulted in an overall increase of demand for electricity up to 5%. However total sales for FY 2021 is projected to fall by up to 40m as a result of implementation of the new tariff regulation.

B. Others

On 16 June 2021 SIEA signed a loan and grant financing agreement of SBD 181.36 million (USD \$22.67million) with Australia Infrastructure financing facility for the Pacific (AIFFP) for the development of Tina Hydro Project 66KV transmission system. The system includes a 22km transmission line to connect the Tina River Hydropower site to the electricity grid in Homara by end of 2023. SIEA has not yet reached financial close and has therefore not drawn down on both the grant and loan facility.

On 8 July 2021 SIEA terminated the contract with CBS Power Solutions Pte Ltd (CBS) an engineering, procurement and construction (EPC) contractor engaged to construct five solar hybrid projects. This resulted after CBS failed to perform their contractual obligations after they abandoned the project sites. The projects have reach 90% completion and SIEA will commission the projects with the support of an external engineering firm. The total project costs will likely remain within the original project budget.

On 1 October 2021 the authority has purchased 60 million bond from the Solomon Islands Government to support the government development budget. On 5 October 2021 SIEA then sold the same 60m bond to the Central Bank of Solomon Islands (CBSI) through the secondary market at a price of S60,026,666.67 which comprises of the bond face value and interest accrued to SIEA.