Solomon Islands Electricity Authority
trading as SOLOMON POWER
For the year ended 31 December 2018

Contents

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 2018 and the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

Directors

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

Name

David K.C. Quan – chairman (reappointed December 2018)
Harry Zoleveke - (retired on 1 December 2018)
Henry Kapu - (retired on 1 December 2018)
James Apaniai - (appointed on 17 December 2018)
John B Houanihau- (reappointed December 2018)
Muriel Ha'apue-Dakamae - (appointed on 17 December 2018)
Rovaly Sike- (reappointed December 2018)
Sebastian Ilala - (retired on 1 December 2018)
Yolande Yates - (retired on 1 December 2018)

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 2018, 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 SBD 80,080,065 (2017 restated: SBD 77,648,682).

Dividends

The Directors have not declared a dividend for the current year (2017: SBD 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.

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 period have not, in the opinion of the directors been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

Other circumstances

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

Significant events

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

Dated at Honiara this 26 day of March 2019.

Signed in accordance with a resolution of the Directors.

Director

Director

Solomon Islands Office of the Auditor-General

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

Report on the Audit of the Financial Statements

Opinion

I have in joint consultation with the Board of the Solomon Islands Electricity Authority ("the Authority") pursuant to Electricity Act [Cap.128] contracted KPMG Fiji which is part of the KPMG International network to assist me to audit the accompanying financial statements of the Solomon Islands Electricity Authority, which comprise the statement of financial position as at 31 December 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flow statements for the year then ended, and notes 1 to 29 comprising of a summary of significant accounting policies and information.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2018, and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Responsibilities of Management and Directors for the Financial Statement

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) 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 ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

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

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

Report on Other Legal and Regulatory Requirements

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

In my opinion:

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; and

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 Electricity Act (Cap. 128), in the manner so required

Peter Lokay

Auditor-General

Date 26/03/2019

Office of the Auditor-General

Honiara, Solomon Islands

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Statement of comprehensive income
For the year ended 31 December 2018

	Notes	2018 SBD	Restated 2017 SBD
Operating income			
Electricity sales		457,156,336	428,039,827
Amortisation of deferred income		6,395,050	10,393,400
Other operating income	9	5,486,818	2,545,325
Total operating income		**469,038,204**	**440,978,551**
Expenses			
Generation and distribution	10	224,175,081	207,601,960
Administration	11	81,605,507	59,683,883
Operating	12	22,830,031	31,148,030
Depreciation and amortisation	15	56,672,749	53,679,089
Allowance for uncollectability	18	3,714,358	11,396,373
Interest expense		30,434	389,387
Inventory & asset write-off		92,140	(145,261)
Total expenses		**389,120,299**	**363,753,461**
Gain from operations		**79,917,905**	**77,225,091**
Foreign exchange gain		162,160	423,591
Net profit for the year		**80,080,065**	**77,648,682**
Other comprehensive income			
Total comprehensive income for the year		**80,080,065**	**77,648,682**

The notes disclosed on pages 37 to 69 are an integral part of the financial statements.

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Statement of financial position
As at 31 December 2018

Assets	Notes	2018 SBD	Restated 2017 SBD
Current assets			
Cash and cash equivalents	16	303,524,441	221,808,007
Held to maturity investment		-	45,542,195
Inventories	17	22,451,241	20,910,019
Receivables	18	61,766,690	50,142,206
Prepayments		13,755,419	3,042,350
Total current assets		**401,497,791**	**341,444,777**
Non-current assets			
Property, plant and equipment	15	859,782,324	793,197,801
Receivables	18	798,672	1,660,609
Government bonds	19	30,000,000	-
Total non-current assets		**890,580,996**	**794,858,410**
Total assets		**1,292,078,787**	**1,136,303,187**
Liabilities			
Current liabilities			
Deferred income	21	6,392,961	6,392,961
Trade and other payables	22	40,844,195	32,007,084
Solomon Islands Borrowings	23	3,599,000	2,924,999
Employee benefits	24	6,778,721	193,818
Total current liabilities		**57,614,877**	**41,518,861**
Non-current liabilities			
Deferred income	21	74,065,116	50,801,158
Solomon Islands Borrowings	23	10,928,257	-
Employee benefits	24	10,401,161	-
Total non-current liabilities		**95,394,534**	**50,801,158**
Total liabilities		**153,009,411**	**92,320,019**
Equity			
Contributed capital	20	246,933,170	246,933,170
Asset revaluation reserve		384,889,703	384,889,703
Accumulated profit		507,246,503	412,160,294
Total equity		**1,139,069,376**	**1,043,983,168**
Total equity and liabilities		**1,292,078,787**	**1,136,303,187**

Signed for and on behalf of the Board of Directors

Director

Director

The notes disclosed on pages 37 to 69 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 2018

	Note	Contributed capital SBD	Asset revaluation reserves SBD	Accumulated retained earnings SBD	Total SBD
Balance at 1 January 2017		246,933,170	384,889,703	338,511,612	970,334,486
Total comprehensive loss for the year					
Net profit for the year - restated	14	-	-	77,648,682	77,648,682
Transaction with owners of SIEA directly recognised in equity					
Dividend declared during the year		-	-	(4,000,000)	(4,000,000)
Balance at 31 December 2017 - restated		246,933,170	384,889,703	412,160,294	1,043,983,168
Balance at 1 January 2018 - restated		246,933,170	384,889,703	412,160,294	1,043,983,168
Impact of change in accounting policy	6 (b) (iii)	-	-	15,006,144	15,006,144
Adjusted balance at 1 January 2018		246,933,170	384,889,703	427,166,438	1,058,989,312
Total comprehensive income for the year					
Net profit for the year		-	-	80,080,065	80,080,065
Balance at 31 December 2018		246,933,170	384,889,703	507,246,503	1,139,069,376

The notes disclosed on pages 37 to 69 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 2018

	Notes	2018 SBD	2017 SBD
Operating Activities			
Cash receipts from customers		463,137,780	420,124,487
Cash payments to suppliers and employees		(311,164,705)	(319,714,724)
Net cash provided by Operating Activities		**151,973,075**	**100,409,763**
Investing Activities			
Net redemption of debt securities		15,542,195	47,305,214
Net payments for property, plant and equipment		(123,060,103)	(132,866,048)
Net cash used in Investing Activities		**(107,517,908)**	**(85,560,834)**
Financing Activities			
Dividend paid		(4,000,000)	-
Net movement in SIG Borrowings		11,602,259	-
Cash receipts from donor grants		29,659,008	5,771,599
Net cash provided by Financing Activities		**37,261,267**	**5,771,599**
Net increase in cash and cash equivalents		81,716,434	20,620,528
Cash and cash equivalents at 1 January		221,808,007	201,187,479
Cash and cash equivalents at 31 December	16	**303,524,441**	**221,808,007**

The notes disclosed on pages 37 to 69 are an integral part of the financial statements.

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, East Honiara, Solomon Islands.

There are no subsidiary companies.

2 Nature of operations

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

3 Basis of preparation

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

This is the first set of the Authority's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 6.

a) Presentation of currency

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

4 Measurement basis

The measurement basis adopted in the preparation of these financial statements is historical cost except as modified for certain non-current assets and financial instruments as identified in specific accounting policies below.

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 non-current assets
- Note 7 (e) (iv) – Impairment of non-current assets
- Note 7 (g) – Employee benefits

6 New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2018

Apart from the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019, and have not been applied in preparing these financial statements. None of the new standards is expected to have a significant effect on the financial statements of SIEA except for IFRS 16 "Leases".

IFRS 16 'Leases', removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. The standard is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The impact of this standard on the financial statements of the Authority has not yet been fully determined.

Change in accounting policies

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

a) IFRS 15 Revenue from Contracts with Customers

SIEA has adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2018. As a result, the Authority has changed its accounting policy for revenue recognition as detailed below.

The Authority has applied IFRS 15 using the cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

Revenue from distribution and sale of electricity

Previously, the Authority recognised revenue from the generation, transmission, distribution and sale of electricity to domestic, commercial and industrial customers including unbilled revenue from the last billing date to the end of year and other electricity related revenue upon delivery of electricity to the customer (point-in-time). The customer accepted the service and the related risks and rewards from the service at this point in time. Revenue was thus recognised at this point provided that the revenue could be measured reliably and the recovery of the consideration was probable.

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

There is however, no impact as at 1 January 2018 as a result of changes in accounting for electricity revenue. This is because as at 1 January 2018, there were no contracts that were determined to be not complete.

6 New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2018 *continued*

b) IFRS 9 - Financial Instruments

SIEA has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

The nature and effects of the key changes to the Authority's accounting policies resulting from its adoption of IFRS 9 are summarised below.

As a result of the adoption of IFRS 9, the Authority adopted consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of comprehensive income. The Authority's approach was to present impairment losses on trade receivables as "allowance for uncollectability". No change is required for this approach under IFRS 9. Impairment losses relating to other financial assets are presented under 'finance costs', similar to the presentation under IAS 39, and not presented separately in the statement of comprehensive income due to materiality considerations.

Additionally, the Authority adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

***i.* Classification of financial assets and financial liabilities**

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

For an explanation of how the Authority classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 7(b).

***ii.* Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

***iii.* Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - o The determination of the business model within which a financial asset is held; and
  - o The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Company assumed that the credit risk on the asset had not increased significantly since its initial recognition.

6 New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2018 ***continued***

Retained earnings	Impact of adopting IFRS 9 on opening balance SBD $000
Closing balance under IAS 39 (31 December 2017)	412,160
Impact of expected credit losses under IFRS 9	15,006
Opening balance under IFRS 9 (1 January 2018)	427,166

iv. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Authority's financial assets and financial liabilities as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	31-Dec-17 Original carrying amount under IAS 39 31-Dec-17 $000	1-Jan-18 New carrying amount under IFRS 9 on 1-Jan-18 $000
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	221,808	221,808
Receivables	Loans and receivables	Amortised cost	51,803	66,809
Term deposit investments	Held-to-	Amortised cost	45,542	45,542
Total financial assets			319,153	334,159
Financial liabilities				
Trade and other payables	Other financial liabilities	Other financial liabilities	32,007	32,007
Borrowings	Other financial liabilities	Other financial liabilities	2,925	2,925
Total financial liabilities			34,932	34,932

SIEA's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 7(b). The application of these policies resulted in the reclassifications set out in the table above and further explained below.

1. Debt and investment securities that were previously classified as held-to-maturity are now classified at amortised cost. The Authority intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. No allowance for impairment was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

2. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. A decrease of $15,006,144 in the allowance for impairment was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

6 New Standards, amendments, annual improvements and interpretations which have been issued but not adopted as at 31 December 2018 *continued*

3. Cash and cash equivalents that were classified as loans and receivables under IAS 39 are now classified at amortised cost. No allowance for impairment was recognised in opening retained earnings at 1 January 2018 on transition to IFRS 9.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

Financial assets	**carrying amount at 31 December 2017 $000**	**Re-measurement $000**	**IFRS 9 carrying amount at 1 January 2018 $000**
Amortised cost			
Cash and cash equivalents:			
Brought forward: Loans and receivables	221,808		
Carried forward: Amortised cost			221,808
Trade and other receivables:			
Brought forward: Loans and receivables	51,803		
Re-measurement		15,006	
Carried forward: Amortised cost			66,809
Debt securities:			
Brought forward: Loans and receivables	45,542		
Carried forward: Amortised cost			45,542

7 Summary of significant accounting policies

a) Revenue

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 14 days thus there is no significant financing component. Additionally, discount is provided to some customers against the approved tariff rates.

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.

7 Summary of significant accounting policies *continued*

Revenue recognition under IFRS 15 applicable from 1 January 2018

Revenue including upfront fees is recognised net of GST 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 Authority's performance of the electricity revenue contract.

The transaction price is determined based on tariffs approved by Ministry of Mines, Energy and Rural Electrification at the time the service had been rendered and units of kilowatts consumed by the customers. The transaction price is considered to be variable due to the following:

- Tiered-pricing for customers; and
- Estimate of unbilled electricity supplied to 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. In respect to the considerations from:

a) Read meter customers, these are not constrained because it is calculated based on actual units consumed during the period, thus variability due to tiered-pricing on consideration for the period is known.

b) Unread meter customers, the unbilled electricity supplied at period end is estimated based on previous periods' average consumption (expected value). Similarly, the monthly billed consideration is estimated as well. Management consider this to be best estimate of the transaction price without incurring undue cost and time and thus not necessary for SIEA to quantify all possible outcomes using complex models and techniques. Additionally, the full transaction price not considered constrained as the likelihood and potential magnitude of the revenue reversal is not considered by management to be significant.

SIEA had applied the practical expedient in paragraph 121 of IFRS 15 and did not disclose information about remaining performance obligations that have an original expected duration of one year or less.

Revenue recognition under IAS 18 and IAS 11 applicable before 1 January 2018

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

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 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.

7 Summary of significant accounting policies *continued*

ii. Classification and subsequent measurement

Financial assets – policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; 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.

Financial assets: Business model assessment – Policy applicable from 1 January 2018

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.

7 Summary of significant accounting policies *continued*

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 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 – Policy applicable from 1 January 2018

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 the 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 – Policy applicable from 1 January 2018

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.
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).

7 **Summary of significant accounting policies *continued***

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 relates (if any) would relate to investments in listed securities.

Financial instruments – policy applicable before 1 January 2018

i. **Non-derivative financial assets**

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

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

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

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

Loans and receivables

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

Cash and cash equivalents

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

Accounts receivables

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

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

7 Summary of significant accounting policies *continued*

Other financial assets at fair value through statement of comprehensive income

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

Held-to-maturity investments

SIEA has "held to maturity" investments that are measured initially at fair value. These investments are held to provide security for Letter of Credit given to suppliers for various capital projects being constructed for SIEA. The length of time to maturity is matched to the key milestones of these capital projects and are usually less than a year. A nominal interest rate of 0.5% per annum is earned on these investments.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

***ii.* Non-derivative financial liabilities**

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

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

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

Other financial liabilities comprise trade and other payables, and Solomon Islands Government loan which are carried at amortised cost.

***iii.* Contributed capital**

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

7 Summary of significant accounting policies *continued*

c) Impairment

***i.* Non-derivative financial assets**

<u>Policy applicable from 1 January 2018</u>

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.

Measurement of ECLs:

<u>Trade receivables</u>

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 adjusted by a forward-looking estimate that includes the probability of a worsening economic environment within the next year. At each reporting date, the Authority updates the observed default history and forward-looking estimates.

7 Summary of significant accounting policies *continued*

Debt securities including cash at bank and term deposit investments

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity 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.

Policy applicable before 1 January 2018

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

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

***ii.* Loans and receivables**

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

7 Summary of significant accounting policies *continued*

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

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

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.

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

i. Subsequent expenditure

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

ii. Depreciation

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

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

7 Summary of significant accounting policies *continued*

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, property, plant and buildings 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.

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.

7 Summary of significant accounting policies *continued*

iv. Impairment of non-financial assets

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

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

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

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

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

v. Intangible assets

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

Software - 3 to 7 years
Easements - indefinite

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

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

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

7 Summary of significant accounting policies *continued*

f) Capital work in progress

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

g) Employee benefits

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

Short-term benefits

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

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

Long-term benefits

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

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated cash flows to be made by SIEA in respect of future benefits that employees have earned in return for their services in the current and prior periods.

h) Taxation

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

i) Foreign currency transactions

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

j) Cash flow statement

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

7 Summary of significant accounting policies *continued*

k) Grants

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

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

l) Provisions

SIEA recognises provisions when there is a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision 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.

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:

8 Financial risk management *continued*

i) Credit risk

Credit risk is the risk of financial loss to SIEA if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from SIEA's receivables from customers, investment in debt securities, and cash and call deposits.

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

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

Expected credit loss assessment for trade and other receivables as at 1 January 2018 and 31 December 2018

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 kwh debtors and cash power debtors as at:

Kwh debtors:

	Weighted average loss rates	Gross carrying amount SBD	Loss allowance SBD	Credit impaired
1-Jan-18				
Current - 30 days past due	11.96%	19,826,714	2,370,857	No
30 - 59 days past due	23.53%	14,237,418	3,350,258	No
60 - 89 days past due	45.15%	7,073,262	3,193,918	No
90 or more days in past due	61.39%	12,110,651	7,435,110	Yes
		53,248,045	16,350,144	
31-Dec-18				
Current - 30 days past due	12.19%	25,748,106	3,138,423	No
30 - 59 days past due	23.99%	12,297,105	2,949,588	No
60 - 89 days past due	46.03%	7,665,957	3,528,433	No
90 or more days in past due	62.58%	11,477,661	7,182,651	Yes
		57,188,829	16,799,096	

8 Financial risk management *continued*

Cash power debtors:

	Weighted average loss	Gross carrying SBD	Loss allowance SBD	Credit impaired
1-Jan-18				
Current - 30 days past due	5.13%	31,571	1,620	No
30 - 59 days past due	6.25%	46,944	2,934	No
60 - 89 days past due	6.54%	5,071,352	331,485	No
90 or more days in past due	6.93%	7,891,869	547,013	Yes
		13,041,735	883,051	
31-Dec-18				
Current - 30 days past due	9.70%	111,682	10,832	No
30 - 59 days past due	11.81%	51,469	6,081	No
60 - 89 days past due	12.36%	65,630	8,109	No
90 or more days in past due	13.10%	10,280,322	1,346,999	Yes
		10,509,105	1,372,022	

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

The movement in the allowance for impairment in respect of trade receivables and other receivables during the year is disclosed in note 18. Comparative amounts for 2018 represent the allowance account for impairment losses under IAS 39.

Impairment on other receivables from Solomon Islands Government and state-owned entities has been measured on the 12 month expected loss basis, and the resulted impairment losses was and is not considered material by management on date of initial application of IFRS 9 and reporting date respectively.

Cash and cash equivalents

SIEA held cash at bank of $221,808,007 at 31 December 2018 (2017: $201,187,479). 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 on initial application of IFRS 9, the Authority did not recognise an impairment allowance against cash and cash equivalents as at 1 January 2018. The amount of the allowance did not change during 2018.

8 Financial risk management *continued*

Debt investment securities

SIEA held debt investment securities of $75,872,816 at 31 December 2018 (2017: $45,542,195). 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.

On initial application of IFRS 9, the Authority did not recognise an impairment allowance against debt investment securities as at 1 January 2018. The amount of the allowance did not change during 2018.

Credit risk under IAS 39

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

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

	2017 SBD
Cash at bank	221,765,007
Term deposit investments	45,542,195
Receivables - current	82,420,732
- non-current	1,660,609
	351,388,543

Receivables are determined impaired as follows:

Trade and other receivables

Gross receivables	82,420,732
Provision for impairment	(32,278,526)
	50,142,206

***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 is 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.

Solomon Islands Electricity Authority
trading as SOLOMON POWER
Notes to the financial statements
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8 Financial risk management *continued*

The following are the contractual maturities of financial liabilities:

31 December 2018

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

31 December 2017

Financial liabilities	**Carrying amount SBD**	**6 months or less SBD**	**6-12 months SBD**	**Greater than 1 year SBD**	**Total SBD**
Trade and other payables	32,007,084	32,007,084	-	-	32,007,084
Solomon Islands Government l	2,924,999	3,087,019	-	-	3,087,019
	34,932,083	35,094,103	-		35,094,103

***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) Regulation 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 $180,667,381 (2017: $137,645,095) comprises 47% of the expenditure of SIEA, so movements in fuel prices are critical to the profitability of SIEA. Fortunately, the monthly tariff review 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 interest rates 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	**100bp increase**
	$000	**$000**
Revenue	447,900	490,300
Expenditure	370,928	407,128
Net Profit	76,972	83,172

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.

9 Other operating income	Note	2018 SBD	2017 SBD
Community service obligation		1,500,000	-
Other		1,926,230	2,540,795
Reconnections		3,200	4,530
Gain on disposal of fixed assets		196,773	-
Unconditional grant income		1,860,615	-
		5,486,818	2,545,325

10 Generation and distribution	Note	2018 SBD	2017 SBD
Bought in electricity		-	3,561,954
Fuel		180,667,381	137,645,095
Lubricating oil		3,888,180	4,590,875
Other		4,010,500	4,460,864
Personnel	13	23,828,353	25,407,717
Repairs and maintenance		11,780,667	31,935,454
		224,175,081	207,601,960

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11 Administration

	Note	2018 SBD	2017 SBD
Advertising		1,682,314	2,430,499
Bank fees		257,000	319,713
Computer bureau charges		1,659,243	1,865,089
Consultancy fees		11,273,094	18,089,604
Directors fees and expenses		451,588	627,570
Electricity		2,969,773	2,949,745
Electricity rebate		5,080,129	4,632,483
Freight		505,717	205,032
Insurance		2,558,392	2,338,014
Personnel	13	39,187,093	10,202,013
Printing and stationery		1,829,337	2,146,769
Professional fees		1,504,846	1,080,046
Property expenses		4,895,004	4,628,537
Telecommunications		3,631,425	3,372,687
Travel and accommodation		4,120,552	4,796,083
		81,605,507	59,683,883

12 Operating expenses

	Note	2018 SBD	2017 SBD
Customs handling charges		4,948,308	5,945,648
Personnel	13	12,030,377	17,866,359
Repairs and maintenance		1,909,207	3,882,631
Vehicle costs		3,942,139	3,453,391
		22,830,031	31,148,030

13 Personnel expenses

	2018 SBD	2017 SBD
Salaries and wages	45,429,198	41,573,283
Superannuation	3,046,477	2,749,261
Retirement benefit expense	15,833,287	-
Others	10,736,861	9,153,545
	75,045,823	53,476,089

Personnel expenses classed by function is as follows:

	2018 SBD	2017 SBD
Generation and distribution	23,828,353	25,407,717
Administration	39,187,093	10,202,013
Operating expenses	12,030,377	17,866,359
	75,045,823	53,476,089

14 Prior period adjustments

During the financial year it was identified that the leasehold land revalued in December 2016 and included in property, plant and equipment had been erroneously depreciated based on its cost and not on the revalued amount.

Statement of financial position

As at 31 December 2018	Previously reported	Impact of restatement Adjustment	Restated
	2017	2017	2017
Property, plant and equipment	795,429,205	(2,231,404)	793,197,801
Total non-current assets	797,089,814	(2,231,404)	794,858,410
Total assets	1,138,534,591	(2,231,404)	1,136,303,187
Retained earnings	414,391,698	(2,231,404)	412,160,294
Total equity	1,046,214,572	(2,231,404)	1,043,983,168
Total equity and liabilities	1,138,534,591	(2,231,404)	1,136,303,187

Statement of comprehensive income

As at 31 December 2018	Previously reported	Impact of restatement Adjustment	Restated
	2017	2017	2017
Depreciation and amortisation	51,447,685	2,231,404	53,679,089
Total expenses	361,667,318	2,231,404	363,898,722
Operating profits	79,456,495	(2,231,404)	77,225,091
Net profit	79,880,086	(2,231,404)	77,648,682
Total comprehensive income for the year	79,880,086	(2,231,404)	77,648,682

15 Property, plant and equipment

	Land SBD	Buildings SBD	Generators SBD	Plant and equipment SBD	Distribution network SBD	Furniture & equipment SBD	Motor vehicles SBD	Tools SBD	Work in progress SBD	Total SBD
Cost / Revaluation										
Balance as 1 January 2017	53,831,179	157,548,120	190,166,769	49,998,834	200,310,571	21,120,828	24,395,595	6,487,235	76,878,824	780,737,955
Additions	4,112	-	-	-	668,067	-	-	-	132,193,868	132,866,048
Disposals	-	-	(1,843,635)	-	-	(280,347)	-	-	-	(2,123,982)
Work in progress capitalised	1,296,071	9,791,803	52,781,356	10,006,546	22,784,409	3,739,609	722,680	1,485,646	(102,608,119)	-
Balance at 31 December 2017	55,131,363	167,339,922	241,104,490	60,005,380	223,763,048	24,580,090	25,118,275	7,972,881	106,464,573	911,480,021
Additions	-	-	-	-	-	-	-	-	123,570,342	123,570,342
Disposals	(4,112)	-	-	-	(227,976)	-	(958,867)	(53,449)	-	(1,244,404)
Work in progress capitalised	1,039,783	16,812,269	23,720,404	15,426,561	70,118,198	7,054,773	3,307,460	2,835,278	(140,314,726)	-
Balance at 31 December 2018	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
Breakdown of cost/revaluation										
2011 Valuation	-	-	-	-	-	-	1,172,968	249,941	-	1,422,910
2013 Valuation	564,117	6,658,552	171,550	17,130,540	25,668,207	-	-	-	-	50,192,966
2016 Valuation	49,751,225	61,916,918	93,373,939	30,899,771	168,190,283	-	-	-		404,132,137
Cost	5,851,691	115,576,721	171,279,404	27,401,631	99,794,780	31,634,863	26,293,899	10,504,769	89,720,189	578,057,947
Balance at 31 December 2018	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
Depreciation and impairment loss										
Balance as 1 January 2017	3,703,995	1,037,089	17,107,540	5,511,731	8,520,169	11,031,057	15,605,099	4,183,305	-	66,699,983
Depreciation	-	8,169,065	21,566,588	1,579,051	8,859,808	4,139,523	4,255,485	1,643,499	-	50,213,020
Amortisation of leasehold land - restated	3,466,069	-	-	-	-	-	-	-	-	3,466,069
Depreciation on disposed assets	-	-	(1,843,635)	-	-	(253,218)	-	-	-	(2,096,853)
Balance at 31 December 2017 - restated	7,170,064	9,206,154	36,830,493	7,090,782	17,379,977	14,917,362	19,860,583	5,826,804	-	118,282,220
Depreciation	-	8,954,942	20,280,128	5,327,358	10,542,195	3,410,849	3,096,065	1,564,988	-	53,176,524
Amortisation of leasehold land	3,496,225	-	-	-	-	-	-	-	-	3,496,225
Depreciation on disposed assets	-	-	-	-	(2,850)	-	(927,320)	(1,164)	-	(931,334)
Balance at 31 December 2018	10,666,289	18,161,096	57,110,621	12,418,140	27,919,322	18,328,211	22,029,328	7,390,629	-	174,023,635
Carrying amounts										
At 31 December 2016	50,127,184	156,511,031	173,059,229	44,487,104	191,790,402	10,089,772	8,790,496	2,303,930	76,878,824	714,037,972
At 31 December 2017 - restated	47,961,298	158,133,768	204,273,996	52,914,598	206,383,071	9,662,728	5,257,691	2,146,077	106,464,573	793,197,801
At 31 December 2018	45,500,745	165,991,095	207,714,273	63,013,802	265,733,947	13,306,652	5,437,540	3,364,082	89,720,189	859,782,324

15 Property, plant and equipment *continued*

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

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

Generators
Distribution network
Plant and equipment

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

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

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

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

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

	2018 SBD	2017 SBD
Perpetual Estate Land	11,506,500	3,194,989
Leasehold Land	44,660,534	51,936,373
Amortisation of Leasehold Land	(10,666,289)	(7,170,064)
	45,500,745	47,961,298

16 Cash and cash equivalents

Short-term deposits	45,749,190	-
Cash on hand	45,030	43,000
Cash at bank	257,730,221	221,765,007
	303,524,441	221,808,007

The short-term deposits amounting $45,731,711 were re-invested with ANZ Banking Group Limited - Solomon Islands Branch at the rate of 0.5%. The short-term deposits have a maturity term of a month from the date of inception. Accordingly, these short-term deposits have been considered as cash and cash equivalents for the purpose of the statement of cash flow.

17 Inventories

Electrical and mechanical	22,451,241	20,910,019
	22,451,241	20,910,019

Fuel and lubricants are paid for on consumption from supplies held on site on consignment basis from the supplier, South Pacific Oil Ltd, through a contract signed in 2012. Therefore, no fuel and lubricants are not recorded in SIEA's inventory.

18 Receivables

	2018 SBD	2017 SBD
Current		
Trade receivables - kilowatt (Kwh)	57,188,829	53,221,567
Allowance for impairment - kilowatt (Kwh)	(16,799,096)	(19,276,118)
Trade receivables - CashPower	10,509,105	13,041,735
Allowance for impairment - CashPower	(1,372,022)	(12,963,221)
Related party - Solomon Islands Water Authority	937,500	937,500
Related party - Solomon Islands Broadcasting Corporation	353,131	891,426
Staff advances	248,589	312,409
Allowance for impairment- staff advances	(25,033)	(39,187)
Unread meters	10,025,866	13,847,290
Other debtors	699,821	168,804
	61,766,690	50,142,206
Non-current		
Related party - Solomon Islands Water Authority	937,500	1,875,000
Deferred income - Solomon Islands Water Authority	(138,828)	(273,049)
Related party - Solomon Islands Broadcasting Corporation	-	61,705
Deferred income - Solomon Islands Broadcasting Corporation	-	(3,047)
	798,672	1,660,609
Total receivables	62,565,362	51,802,815

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

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

Allowance for impairment

	2018	2017
Balance at the beginning of the year	32,278,526	29,342,815
Transition adjustment on the initial application of IFRS 9	(15,006,144)	-
Balance at 1 January 2018	17,272,382	29,342,815
Impairment recognised	3,714,358	11,396,373
Bad debts written off during the year	(2,790,589)	(8,460,662)
Balance at 31 December	18,196,151	32,278,526

19 Government bonds

	2018 SBD	2017 SBD
Government bonds	30,000,000	-

On 1 December 2018 SIEA purchased domestic development bonds with a face value of SBD $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.

20 Contributed capital

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

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

21 Deferred income

Balance at 1 January	57,194,119	61,815,920
Additional deferred income	29,659,008	1,771,160
Deferred income recognised during the year	(6,395,050)	(6,392,961)
Balance at 31 December	80,458,077	57,194,119

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

Current	6,392,961	6,392,961
Non-current	74,065,116	50,801,158
	80,458,077	57,194,119

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

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

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

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

21 Deferred income *continued*

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

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

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

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

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

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

In 2017, ($1,465,000) and 2018 ($3,888,000) initial 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 will be amortised to the statement of comprehensive income over the life of the project once the full amount of the grant (approximately $17,000,000) has been utilised and the asset capitalised to the Fixed Asset register.

In 2017, ($306,000) and 2018 ($5,476,000) initial grants were received from the Asian Development Bank (ADB) to fund the construction of five grid connected solar power plants in an effort to increase the supply of reliable, clean electricity. The deferred income will be amortised to the statement of comprehensive income over the life of the project once the full amount of the grant (approximately $17,000,000) has been utilised and the asset capitalised to the Fixed Asset register.

In 2018, a grant of approximately $9,778,000 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 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 $10,516,000 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 Ridge and Lungga. 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 and transformers.

22 Trade and other payables

	2018 SBD	2017 SBD
Current		
Trade creditors	1,222,550	1,722,699
Other payables and accruals	32,931,424	26,388,552
Contractual liabilities	2,182,389	-
Consumer deposits	4,507,832	3,895,832
	40,844,195	32,007,084

23 Solomon Islands Government loan agreement

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

	2018	2017
Balance at 1 January	2,924,998	4,252,283
Borrowings	15,201,259	13,294,758
Principal Repayments	(3,599,000)	(14,622,043)
Balance at 31 December	14,527,257	2,924,998
Analysis of borrowings expected to be settled within one year and more than one year:		
Current	3,599,000	2,924,999
Non-current	10,928,257	-
	14,527,257	2,924,999

24 Employee entitlements

	2018	2017
Current	6,778,721	193,818
Non-current	10,401,161	-
	17,179,881	193,818
Movement is made up of the following:		
Opening balance	193,818	391,109
Provisions made during the year	18,493,772	611,811
Provisions utilised during the year	(1,507,709)	(809,102)
Closing balance	17,179,881	193,818

25 Related parties

a) Directors

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

Name

David K.C. Quan – chairman (reappointed December 2018)
Harry Zoleveke - (retired on 1 December 2018)
Henry Kapu - (retired on 1 December 2018)
James Apaniai - (appointed in 17 December 2018)
John B Houanihau- (reappointed December 2018)
Muriel Ha'apue-Dakamae - (appointed on 17 December 2018)
Rovaly Sike- (reappointed December 2018)
Sebastian Ilala - (retired on 1 December 2018)
Yolande Yates - (retired on 1 December 2018)

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

Included in trade receivables are the following amounts receivable from related entities:	2018 SBD	2017 SBD
Central Bank of Solomon Islands	350,507	168,464
Central Provincial Government	47,940	16,920
Choiseul Provincial Government	43,981	-
Commodity Export Marketing Authority	20,079	-
Home Finance Corporation	38,408	38,354
Honiara City Council	871,766	818,911
Makira/Ulawa Provincial Government	28,439	26,250
Malaita Provincial Government	134,915	82,443
Ministry of Fisheries and Marine Resources	-	2,686,345
Provincial Hospital	1,053,182	61,132
Solomon Airlines Limited	210,225	218,035
Solomon Islands Broadcasting Corporation	681,621	1,114,805
Solomon Islands Government	17,816,845	16,174,509
Solomon Islands National University	1,190,823	576,469
Solomon Islands Ports Authority	449,711	392,944
Solomon Islands Postal Corporation	79,825	143,966
Solomon Islands Tourist Authority	23,968	-
Solomon Islands Water Authority	4,816,982	3,355,717
Temotu Provincial Government	71,649	8,691
Western Provincial Government	90,151	307,712
Isabel Provincial Government	41,365	117,724
	28,062,383	26,309,390

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

d) Transactions with key management personnel

Key management personnel comprises of the Chief Executive Officer, Chief Financial Officer, General Manager Capital Works, Chief Engineer, General Manager Corporate Services, Manager Customer Services, Manager Electrical Engineering, Manager Finance, Regulatory Manager, Manager Land & Buildings, Manager Human Resources and Administration, Manager Generation and Outstations, Manager Distribution, Manager Generation, Manager Projects, Manager Health Safety and Environment, Information Technology Specialist, Project Engineer and the directors as listed in note 21 (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	15,527,096	13,064,624
	15,527,096	13,064,624

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.

26 Commitments and contingencies

Capital commitments

SIEA undertakes capital works and purchases assets according to an approved budget when management consider that sufficient funds are available. Capital commitments as at 31 December 2018 amounted to $710,000,000 (2017: $863,000,000). These commitments are in relation to property, plant and equipment.

	2018 SBD	2017 SBD
Less Than 1 Year	287,000,000	208,000,000
Between 1 year and 5 years	850,000,000	655,000,000
	1,137,000,000	863,000,000

Contingent liabilities

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

a) A claim by a former employee for unfair dismissal which is in the process of being settled for approximately $33,000; and

b) A claim by a member of the public arising from an incident whereby a child was electrocuted and burnt. Compensation of $1.3 million has been demanded, but the legal advice provided to SIEA has estimated that if liability is proven, damages of up to $125,000 may be awarded.

27 World Bank Financing

a) Financial Support Received

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

b) Grants

SIEA has received total grants of USD 6,782,961 from these programmes since their commencement (2017: USD 4,886,242). The 2017 balance consists of the following funds, IDA H9130 – USD 550,371, IDA H4150 – USD 4,146,973 and TF A2923 - USD188,898.

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.

27 World Bank Financing *continued*

d) Use of the Proceeds

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

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

	2018 USD	2017 USD
Designated Account		
Balance at 1 January	43,661	24,747
Receipts	279,862	195,075
Expenditures	247,905	176,162
	75,618	43,661
Grants		
IDA H4150	-	14,222
IDA H9130	1,403,891	302,249
TF A2923	492,828	188,898
	1,896,719	505,369
Credit Funds IDA 53790		
Balance at 1 January	366,210	551,383
Borrowings	2,078,572	1,748,897
Principal Repayments	435,479	1,934,071
Balance at 31 December	2,009,303	366,210

28 Capital management

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

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

29 Subsequent events

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