
SIEA: 2023 Statement of Corporate Objectives

29th December
2022

This document is in compliance with
the requirements of section 13 of the
Solomon Islands State-Owned
Enterprise Act 2007

Contents

1. INTRODUCTION	3
2. 2022 IN REVIEW	4
2.1 Assets and Energy; Maintain reliable power supply	4
2.1.1 Honiara Power Supply	4
2.1.2 Outstations Power Supply	5
2.2 Assets and Energy; Diversify assets into more renewable generation solutions.	5
2.3 Employee Relations and Welfare; Workforce management and skills development	7
2.4 Customer Loyalty; Increase customer base	8
2.4.1 Network Extensions	9
2.4.2 Output Based Aid	10
2.5 Operational Excellence; reducing technical losses	10
2.6 Other Highlights	11
2.6.1 New Office Complexes	11
2.6.2 Information, Communications and Technology	11
2.6.4 Legal Division	12
2.6.4 Stakeholder Engagement - Community Support	14
2.6.5 Financial Situation	15
3 SP'S OBJECTIVES	16
3.1 SP's Vision	16
3.2 SP's Mission	16
3.3 SP's Values	16
3.4 SP's Strategic Themes and Initiatives	17
3.5 Strategic Plan and Key Result Areas	17
4. PLANS TO ADDRESS SP'S STRATEGIES	21
4.1 Capital Expenditure Programme – 2022 to 2024	21
4.2 Funding the Capital Expenditure Programmes	21
4.3 Funding Sustainability	22
5 GOVERNANCE OVERVIEW	23
5.1 Introduction	23
5.2 Business Scope	23
5.3 SP's Duties	23
5.4 The Role of Electricity Supply Systems	23
5.5 Nature and Scope of Commercial Activities ²	23

5.6	Corporate Social Responsibility	24
5.7	Regulatory Framework.....	24
5.8	Relationship to the National Development Plan	24
6	CAPITAL STRUCTURE TARGETS AND FORECAST RATIOS.....	25
7	PERFORMANCE TARGETS AND INDUSTRY MEASURES	26
8	DIVIDEND POLICY	27
9	ELECTRICITY TARIFF.....	28
10	INFORMATION TO BE REPORTED.....	29
11	ACTIVITIES FOR WHICH COMPENSATION IS SOUGHT INFORMATION TO BE REPORTED.....	30
12	SUBSIDIARY COMPANIES	31
13	OTHER MATTERS AGREED BY THE SHAREHOLDING MINISTERS AND THE BOARD.....	31
14	COMMERCIAL VALUE OF THE SHAREHOLDERS' INVESTMENT	31
15	ACCOUNTING POLICIES	32
	APPENDIX A – DEFINITIONS	32
	APPENDIX B - ACCOUNTING POLICIES	34
	1. Reporting entity	34
	2. Nature of Operations	34
	3. Basis of Preparation	34
	4. Measurement Basis.....	34
	5. Use of estimates and judgments.....	34
	6. Specific Accounting Policies	34
	7. New Standards adopted	40
	APPENDIX C – CAPITAL PROJECTS 2022 to 2028.....	41
	APPENDIX D – SP STRATEGIC PLAN 2022 to 2027	42
	APPENDIX E – Statement of Financial Position – 2021 (Audited), 2022 Forecast, 2023 Budget, 2024 to 2028 Forecast.....	43
	APPENDIX F – Statement of Comprehensive Income – 2021(Audited), 2022 Forecast, 2023 Budget, 2024 to 2028 Forecast	44

1. INTRODUCTION

Solomon Power (SP) diligently aims to fulfil its vision of “energising the nation” by effectively carrying out its mission of providing “safe, reliable, affordable and accessible supply of electricity to the Solomon Islands”. As one of the largest State Owned Enterprise (SOE) in the country, SP is undertaking its energy mandate with an earnest desire to build the nation both in terms of providing electricity access to more homes around the country through more renewable energy, as well as driving more capital projects in the provinces. Ultimately, SP is striving and will work hard to reach the target of 23% of Solomon Islanders and 80% of Honiara residents having access to electricity by 2025. Furthermore, SP will strive to reach the target of 100% renewable energy in Honiara by 2030.

The effects & aftermath of the November 2019 Riots and Covid 19 travel restrictions and community transmission, which resulted in downturn of the Solomon Islands economic growth, continue to hamper our progress. Furthermore, the Russian & Ukraine war and its impact on World Fuel prices and its cascading effects through to the high fuel tariff & charges, was tough for our customers. The government exemption on import duty and sales tax was a welcome relief for SP & its customers. Nonetheless, SP being a resilient and financially stable SOE have been able to successfully navigate through out this period and has been able to progress some of its 2022 plans as well maintain its operations.

In 2022, SP implemented its Corporate Strategy Plan 2022 – 2027 with a focus on five core Strategic Themes. These were, an effective Business Model, Financial Sustainability, engaged Stakeholders, robust Infrastructure and committed Environment and Social Safeguards. We have continued to maintain reliable power supply in both Honiara & Outstations. We have increased renewable generation production, with the inclusion of grid connect solar at Kirakira, Tulagi & Munda. We have extended the network at 11 locations throughout the country including Supizae (the first line extension between two islands). We continue to invest in our committed employees with skills development and promotion of staff into senior levels. We have extended the network and increased our customer base by 3% to 25,056.

2023 being the second year under this Strategy, SP will continue with it plans towards achieving the KPIs set under that Strategy Plan, taking into the consideration the following major events and changes that will occur in 2023; volatile fuel prices, the progress of Tina River Hydro Project, Pacific Games 2023, SIEA Act Amendment & IPP Regulation.



Figure 1: Network Extension Supizae

2. 2022 IN REVIEW

The Key drivers of 2022 budget were the following Key Result Areas

- KRA 1 - Assets and Energy; Maintain reliable power supply
- KRA 3 - Assets and Energy; Diversify assets into more renewable generation solutions
- KRA 2 - Employee relations and Welfare; workforce management and skills development
- KRA 10 - Customer Loyalty; increase customer base
- KRA 14 - Operational Excellence; reducing technical losses

2.1 Assets and Energy; Maintain reliable power supply

Total Customer Minutes Lost (CML) in the year to September 2022 was 16.1 million CML, compared to 10.5 million CML over the same period in 2021. There were delays in the implementation of major maintenances, however overall, SP's network has been quite stable and reliable compared to a decade ago. Below are some of factors contributing to the CML.

2.1.1 Honiara Power Supply

Solomon Power is committed to providing safe and reliable power supply at all its locations. However, the impact of Covid 19 global pandemic, caused considerable delays on the scheduled major overhauls of the generators at Lungga Power Station. Consequently, two generators experienced mechanical failures due to parts exceeding their life span. Another generator experienced a major fault in its alternator windings. As result of that, generation capacity reduced by about 3.5MW to 17MW against a demand of 16MW during the third quarter of 2022. Scheduled load sheds were carried out as and when one or two of the operational generators were taken off due to faults or major maintenances, due to the reduced generation capacity. On the upside, three major overhauls were completed by mid-2022. Two additional major overhauls are anticipated to be completed by the end of 2022. These will improve the available generation capacity and reliability of power in Honiara.

Inevitably, unplanned outages took place due to faults on the generation, transmission and distribution systems, in Honiara. A major outage occurred in April when a snake accessed the High Voltage (11kV) Switching panels at Lungga Power Station, and caused a fault on the bus bars, which resulted in the total outage for several hours. A thorough clean-up was done and integrity tests were carried out on the bus bars insulation. Fortunately, the insulation strength was still within recommended ranges. Following the above incident, assessment was carried out on the condition of the 33kV and 11KV switchgears and bus systems at the old Lungga Power Station. The assessment indicated that the condition of certain circuit breakers has deteriorated and need to be replaced. Procurement of the critical spares have been progressed ahead of the implementation of the major electrical upgrade project for the Lungga Power Station.

Planned outages also took place all throughout the year. These relates to necessary works required such as vegetation management and asset relocation as part of Kukum Highway upgrade phase 2, Pacific Games Construction works at KGVI & Panatina and International Airport Upgrade.

Construction of a critical High Voltage (11KV) link between the West Ranadi and Kola South Feeders was also progressed to enable this part of the network to back feed from either feeder in the event of a major fault.

2.1.2 Outstations Power Supply

Reliability of Power Supply continued to be stable in all our provincial stations. In Taro & Seghe for a period of time, resorted to 100% diesel generation when there were faults with the Solar. Both stations are now back on Solar Hybrid generation, with diesel generator as back up.

2.2 Assets and Energy; Diversify assets into more renewable generation solutions.

Solomon Power's medium term goal is to transition to more renewable energy solutions. It has accordingly embarked on a variety of renewable energy projects around the country. This is part of a strategy to reduce costs by displacing diesel in thermal generation, reduce greenhouse gas emissions and contribute to reducing non-technical losses.

Unfortunately, the impact of the Covid pandemic particularly on travel restrictions, force majeure changes in law conditions, and supply chain disruptions have led to unfortunate delays in the projects.

One key project is the ADB-funded Solar Hybrid project at Kirakira, Tulagi, Malu'u, Munda and Lata. This is to convert the five existing outstations into hybrid generation systems. It was delayed when the Contractor left the country, nonetheless, SP progressed this project. The Contractor has completed the installation of the solar panels, inverters, battery storage systems and associated switchgear at Munda, Kirakira and Tulagi. The installation of the associated battery storage system in Noro has been completed. We have partially commissioned the Hybrid at Kirakira in 2021 and at Tulagi in first half of 2022. Munda hybrid was partially commissioned in the second half of 2022. The remaining two sites (Maluu and Lata) will be partially commissioned in 2023.



Figure 2: Munda Solar Hybrid

Another Solar Hybrid project delayed by Covid-19 is the New Zealand MFAT and SP funded hybrid power station for Hauhui (Malaita Province), Namugha (Makira Province), Sasamunga (Choiseul

Province) and Vonunu (Western Province). The New Zealand Government is providing grant funds of NZ\$7.15million for these four hybrid locations and also for increasing access to electricity to potential customers. These has now progressed into final detailed design stage. These hybrids will be commissioned in 2024.

The Solomon Islands Electricity Access and Renewable Energy Expansion Project (SIEAREEP) with funding totalling USD19.95m (Grant USD14.40m and Loan USD5.55m) from various donors for mini-hybrid plants, grid connect solar, improving access to electricity and technical assistance was approved by the World Bank in 2018. Under this project we will increase the renewable energy capacity at existing Henderson Fighter 1 by an additional 2 MW, install 220kW solar plant on the roof of our Head Office Building and commission 5 hybrid stations in the Provinces. In relation to this project the following are the updates:

- The contract for the 2 MW solar farm at Henderson was signed in 2021 and it is in detailed designed stage.
- The 220kW solar plant was re-tendered in the first half of 2022.
- The proposed hybrids at Baolo, Bina, Dala, Tingoa and Visale was re-tendered in the first half of 2022

We have secured additional land in first half of 2022 at Henderson Fighter 1 area (500 metres from existing Solar farm facility) suitable for a 1MW solar farm. The proposed project for an additional 1MW at Tanagai was retendered in first half of 2022. For the land acquired at Ambu, Auki, we have submitted our plans to donors for potential funding.

The survey and sub-division work related to the land at Afio in Malaita Province is complete and we are in the final stages of land registration. This is for a hybrid generating system made up of up to 150 kW of solar.

The 150 kW mini-hydro generation plant in Buala has been operational since May 2016 and is displacing on an average 2500 litres of diesel every month.

Buala Power Station Flood Protection works and forebay repair works have been completed in first half of 2022. This project will ensure the Power Station is protected against the risk of flooding and ensures the forebay stores maximum amount of water for maximising the hydro output at any instant.

2.2.1 Tina River Hydropower Project

Tina River Hydropower Development Project (TRHDP) in Guadalcanal Province, a project of national significance aiming to generate 15 MW capacity that will be connected to Honiara power grid when operational. Being the off taker under a Power Purchase Agreement, SP's involvement and role was significant to achieving the project with other stakeholders including SIG. Following financial close on 12 December 2019, the project has ever since stalled with delays for almost two (2) years which is a significant concern being an off taker. This involves associated delays with Environment and Social Safeguards documentation inclusive of the Covid 19 pandemic related impacts. Despite inevitable challenges, a Project Safeguard Action Plan (PSAP) was devised and agreed by project stakeholders

to enable fast tracking outstanding CESMPs issue thus to enable construction of the Hydropower Facility noting that approval was also granted for Access Road Lots 1, 2 and 3 previously before implementation of the PSAP. An indicative forecast to achieve Project Commercial Date (PCD) will be around year 2026 or 2027.

SP's commitment to its Component under the TRHDP, Component 3 - Transmission Lines, is in a working progress following execution of funding arrangements on 16th June 2021 with Australian Infrastructure Financing Facility for the Pacific (AIFFP) and Export Finance Australia (EFA). A total of USD27.4million project budget that consisted of both loan, grant, contingency and SIG's/SP's financial commitment component. The project will involve construction of Transmission lines from the proposed Tina hydropower station to the existing Lungga Power Station. Transmission Lines will span approximately 22km from Tina end to the Lungga termination point. With the setup of an internal Project Management Unit (PMU), this enable achieving some of the key milestones of the project initiation such as completion of detailed designs, continuous reporting, stakeholder engagement, project documentation and soon aiming at procurement for Consultant support experts and Construction Contractor in 1st quarter of 2023. However, given the associated nature of this project under TRHDP, its timing and progress depends on the major TRHDP components.

Under Component four (4) of Tina River Hydropower Development Project through the Community Benefit Sharing Project, SP has also completed a Network Extension of High Voltage (HV) and Low Voltage (LV) that spans over a stretch of approximately 12km from existing Black-Post grid to Tina village. This project scope includes connecting a total of 141 customers. Potential interests from communities and services such as schools, clinics and smaller businesses along the network have been forth coming following completion of this network which was scoped for further planning and considerations.

2.3 Employee Relations and Welfare; Workforce management and skills development

Solomon Power has a growing, very motivated and committed workforce. Permanent staff numbers grew from 301 at the beginning of the year to 310 by September. Around 21% of the workforce and executive are female.

As a large and modern SOE, an effective workforce management system is utilized to bring the best out of the staff and implement SP's core mandates. Workforce initiatives include an effective recruitment, induction and exit program that guides new recruits to settle into their respective positions, while at the same time, attend a 3-days induction session that enables them to have a basic understanding of the other areas of the business. On the conclusion of their employment, staff are also taken through an exit process.

In the year to September 2022, 17¹ permanent staff were recruited and 16² employees exited the organization. This is a 5% attrition rate, which is higher than the annual turn-over target of 2%. The high attrition rate was mainly due to the majority of resignations (11) being from the mandatory COVID 19 Vaccination Policy implemented by SP.

¹ Five were Graduate Trainees absorption to permanent roles

² 11 resigned under COVID 19 Policy, 1 early retirement, 2 normal retirements and 2 terminated

The Board also endorsed for the role of Deputy Chief Executive Officer to be re-instated back as part of the Executive Management Team. It approved for the General Manager Customer Services to act as the Deputy Chief Executive Officer pending formal approval process. The Board also endorsed the renewal of the contract of the Chief Information Communication Technology Officer (CICTO). As part of succession planning for the Chief Engineers position, two Deputy Chief Engineers were appointed. Either of them shall assume the position when the contract of the Chief Engineer expires in 2023³.

SP's performance management systems links departmental KRAs and KPIs into each officer's KPI for the year. This ensures staff are accountable for organizational, divisional and individual goals, and are also rewarded with appropriate bonuses where the goals are achieved. Moreover, as part of continuous review and improvement of employee policies, the SP board approved new and revised home-based work, accrued retirement and hazard allowance policies.

The Authority's training and development programs are aimed at developing technically competent staff, while at the same time ensure staff have a well-rounded understanding of the business and its other obligations.

During 2022, SP extended the time period of trade Apprenticeship and Line Mechanic Programs to end of 2023⁴. This is because of the disruptions caused by the COVID 19 to the schedule programs and trainings. The extension is to enable the proper completion of the requirements of the programs. The Graduate Trainees had successfully completed the program and were absorbed into fulltime positions.

The company also organized short courses either internally or through the support of stakeholder organizations for its staff. This include among others, technical workshops on renewable energy Integration in Pacific Island Grids, alternative fuels for energy trading in Pacific Islands, Maintenance, Inspection, Diagnostic Testing and Refurbishment of Electrical Equipment and Introduction of Hybrid Power Generation System. Other essential trainings included on CISCO trainings, supporting employees through crisis and Association of workplace Investigators.

As a dynamic organization, SP provides investment in its staff with long term training opportunities (full-time & part-time). Three staff had successfully completed their programs. One employee completed a Bachelor of Accounting at SINU and graduated from the program in September. Two senior staff also successfully completed their MBA studies and are awaiting formal graduation in October 2022. One staff is into the last year of his degree program in electrical engineering at Fiji National University. Two officers undertaking part-time studies at USP continued with their degree programs. Furthermore, two staff also continued with their on-line part-time studies in CPA program.

2.4 Customer Loyalty; Increase customer base

Ultimately, SP is striving and will work hard to reach the target of 23% of Solomon Islanders and 80% of Honiara residents having access to electricity by 2025. To assist with this, in 2022 SP continued with its network extension plans. Supported with the OBA program, (which enabled low income households to connect to the grid) more customers were connected to the grid.

Total number of active and billable customers for all locations for both kW and Cash power by 30th September was 25,056; with a total of 2,133 (9%) on kW and 22,923 (91%) on Cash power. This was a growth of 3% compared to December 2021. A total of 730 customers were energised by

³ The term of the incumbent CE shall expire in 31st July 2023

⁴ Both programs extended to 23rd December 2023

September this year however customers with properties destroyed in the November 2021 riots were removed from SP's records in January 2022.

Growth in customers were across both in Honiara and in the provinces, particularly through the Output-Based-Aid (OBA) program. Honiara customer numbers grew 3% to 19,110 and accounted for 76% of SP's total customer base.

In September we started using the Utility Star Platinum (USP) New Connection Form. This feature enables us to track the process of an application leading to greater visibility, transparency and accountability which in turn will improve the customer waiting time to be connected to the grid.

2.4.1 Network Extensions

As part of its mission to deliver power to the populace, Solomon Power has been rolling out its 11kV and 415V line network extension program in the country. Out of the 61 approved extensions between 2015 and first half of year 2022 a total of 49 line extensions have been energised of which, 44 are located in Honiara and 5 in the provincial outstations. Another 5 recent approved network extension projects were currently under construction both in Honiara and the outstations. As a common known challenge for SP, grievance resolution to 3 other approved network extension projects impedes temporary hold-up. Remaining 4 approved network extension projects have been scheduled for implementation towards the last quarter of year 2022 through to year 2023.

11 Network Extension Projects were energised in the first half of 2022. They were: Lungga (High Voltage/Low Voltage – HV/LV), Jericho-2 (LV), Nine Ridge (LV), Forest Valley (LV), Kilu'ufi (LV), Kwainaketo (LV/HV), Namobaula (LV), Gwaisaia and Mt Zion (LV), Noro-NFD (LV), Buala-Kindu (LV), Supizae (LV). Other network extensions scoped within third and second quarter of 2022 is progressing planning processes, and will later be subject to decision making and approval for implementation in the next couple of years as far as 2024.



Figure 3. Network Extension at Kwainaketo, Malaita Province



Figure 4. Customer Awareness prior to line construction

2.4.2 Output Based Aid

The Output Based Aid Programme (OBA) subsidises the funding of the service line connections and house wiring of targeted for low income customers. The implementation of the programme commenced end 2016 under the World Bank Funded Electricity Access Expansion Project. Component 1 of the project progressed through 2017 to March 2020 and remarkably provided electricity connection to a total of 2,488 customers.

Solomon Power continued the Global Partnership for Results Based Approaches(GPRBA) programme under component 2 of the Solomon Islands Electricity Access and Renewable Energy Expansion Project under which there is a grant funding of USD2.5million for connection to another 2,500 low income earners after the re-allocation of US\$1M in IDA grant financing of which Solomon Power had already livened 2,458 customers by the end of September 2022.

One of the challenges faced by SP in implementing the RBA Programme is subsidiary budget to further the Programme as previously allocated fund for 2,500 customers is already and fully committed. From the savings of this programme, an additional 350 units of house wiring materials were ordered which arrived in Honiara mid-July 2022. SP will continue to connect the additional customers in Honiara. Meanwhile, SP have had number of dialogue with Lender (s) to possibly seek funding arrangements or reallocation between GPRBA components to allow for new connections until the new proposal is approved by the World Bank.

2.5 Operational Excellence; reducing technical losses

The total losses (both Technical & Non-Technical Losses) YTD as at 30th September 2022 stands at 19%. A study done by SKM in 2012 estimated the Technical losses to be 11%. Therefore, Non-Technical Losses as at 30th September is 8%. The following was done during the period of January 2022 – September 2022

- We set up a Technical Losses Committee to review the findings and outstanding action items of the Report.
 - We reconfigured LV network in Honiara for certain areas to address overloaded, and underload distribution transformers. This include load sharing between adjacent distribution transformers for optimum operation.
 - Over 10 substations were upgraded due to overloaded distribution transformers and optimal placement of distribution transformers in Honiara and have addressed the load balancing on the distribution transformers.
 - Progressed data logging on over 35 distribution transformers in Honiara to update studies and make recommendations for further optimization and losses reduction.
- We are reviewing the production figures (Source of data).
 - Reviewed production and consumption data for Tulagi. This include reviewing the method of data recording, assumptions and recommendations.
 - Reviewed consumptions of kWh through some Honiara feeders (Transformers).
- Our meter inspections for 2022 was delayed due to the Covid 19 community transmission. It was only in the second half of the year that we resumed our program. This included the following.
 - Replacement of old electro-magnetic domestic Kilowatt hour meters to digital meters
 - Inspection of commercial customers' meters from White River to Point Cruz.
 - Inspection of 250 cashpower meters due to non-payments made for cashpower for over 90 day period.
 - Inspection of cash power meters with reduction in consumption.

- Meter Survey in Munda & Noro commenced in October.
 - o Review of CT metering and multiplying factors in the billing system.
 - o Reviewing our process for average billing of faulty meters or accounts with illegal bypasses.
- In 2021 the total losses were 18%. We will continue with our plans to bring the losses down to 17% or less.

2.6 Other Highlights

2.6.1 New Office Complexes

SP strives to promote nation building, provincial development and providing a better experience for all of its customers. We relocated from Hyundai Mall to Anthony Saru Building in May 2022. The office at Anthony Saru Building has additional office space resulting in SP offering additional services (aside from cashiering). The SP office in Noro formally opened in July 2022. The Lata Office has also been completed, but is awaiting formal commissioning anytime this year.



Figure 5: Noro Office

2.6.2 Information, Communications and Technology

Solomon Power relies on Information and Communications Technology (ICT) to support its day-to-day activities and business continuity preparedness.

Information and Communications Technology Division continued to support and improve the full suite of business applications, the communication networks to offices and power house sites in Honiara, the communication links to all the 11 Outstations in the Provinces, managing all the IT equipment, managing 160 Terabytes of storage space for corporate information and managing 24 production and 21 disaster recovery servers across three (2 on-shore and 1 off-shore) Data Centre environments for the organisation.

The implementation of the automated timesheet approvals in the Microix System across SP offices in the provinces has progressed. Aside from Honiara office sites, the Time clocks are now successfully installed at nine (9) of the provincial outstations.

The ICT division has been actively supporting Customer Services Division in managing the third party cash power vendors. Currently a total of six vendors now have arrangements with SP to sell cash power through digital channels, and at least one other partner has started negotiations to also offer cash power vending services in the country.

A significant improvement to SP ICT Data Backup, Disaster Recovery (DR) and Business Continuity Plan (BCP) processes has been achieved in 2022.

Despite the challenges faced during Covid-19 lockdowns and working from home arrangements, ICT ensured that core systems, applications, infrastructure and communications links were made available to key staff.

2.6.4 Legal Division

Legal Division was established in 2022. A key result area for the division is business continuity and risk, with the specific objective being to minimize the adverse impact from risks inherent in the business of Solomon Power through effective legal, compliance, and contracts management. To achieve this, the key activities under taken in 2022 & to be undertaken in 2023 are:

- 1. Strengthening the internal capacity of Legal Division to more effectively carry out its role and meet the internal demands for its legal services.** The Legal Division is currently staffed by the Legal Counsel, a Senior Legal Officer, and a Compliance Officer. In 2022, the Senior Legal Officer was recruited to specifically handle litigation and disputes. This has contributed to Solomon Power obtaining favourable outcomes from two High Court cases (one being a case against Solomon Power by a private company for compensation for the termination of a power purchase agreement being struck out, and the other being a case by Solomon Power to recover unpaid arrears from a customer being settled by consent order), as well as avoiding litigation in other disputes through favourable settlements. The Compliance Officer was also recruited in 2022 to handle internal compliance matters. This has contributed to Solomon Power's internal policies being reviewed and strengthened, including a formal disciplinary rules and procedure policy being implemented. For 2023, another officer will be recruited on a short-term basis to provide legal and administrative support. This should result in improved data collection, management, and analysis that will produce more detailed information critical for effective strategic decision-making.
- 2. Progressing the timely and cost-effective resolution of legal disputes and proceedings to achieve a favourable outcome for Solomon Power.** Due to the nature of its business, and in particular as party to various contracts relating to the development of major capital projects, Solomon Power is exposed to risks of legal proceedings. Solomon Power is currently involved in international arbitration proceedings concerning a dispute over the termination of a contract for the construction of five (5) solar-hybrid plants at various sites in the provinces. Overseas legal counsel has been engaged to represent Solomon Power in the arbitration proceedings which is expected to be completed in 2023. A favourable outcome for Solomon Power would involve obtaining an arbitral award for compensation and the attainment of certain property rights to plants and equipment procured under the contract necessary for the plants to be fully commissioned. Solomon Power is also involved in a High Court case against a customer seeking the recovery of unpaid arrears, which is expected to be

completed by 2023. A favourable outcome for Solomon Power would involve obtaining a judgment in its favour.

- 3. Strengthening the selection and monitoring of contractors to ensure that contracts are completed on time and on budget.** Recent experience, especially after the COVID-19 pandemic in 2020, has highlighted the risks inherent in contracts that rely on overseas contractors and suppliers (who are vulnerable to global supply chain issues) and which can have serious adverse consequences, such as project delays, increased costs, and disputes. For 2023, Legal Division will take a more proactive approach in actively monitoring the contracts being entered into by Solomon Power, including the terms and conditions of contracts, the selection of contractors, and the performance of contractors to ensure that potential risks and issues are identified at an early stage and measures put in place to ensure any risks and issues are managed effectively and lead to favourable outcomes for Solomon Power. This should result in improvements in capital projects executed in 2023 being progressed and completed on time and on budget.
- 4. Strengthening the use of Solomon Power’s statutory rights and powers under the Electricity Act to more effectively prevent, detect, and recover losses caused by illegal or unauthorised use of electricity by consumers.** The illegal or unauthorised use of electricity by consumers result in non-technical losses which has a direct impact on Solomon Power’s revenue and profitability as well as the price of electricity. The Electricity Act contains specific provisions that gives Solomon Power certain rights and powers to assist it in preventing, detecting, and recovering losses caused by such illegal or unauthorised use. For 2023, Legal Division will take a more proactive approach in actively monitoring and improving the systems, policies, and procedures that relate to the prevention and detection of illegal or unauthorised use of electricity by consumers (such as tampered meters and illegal bypass of meters), and the recovery of losses from such unauthorised or illegal use. This should result in the reduction of non-technical losses. Legal Division will also seek measures to have Solomon Power’s statutory rights and powers strengthened to ensure Solomon Power is able to fully enforce such rights and powers to more effectively carry out its statutory functions.
- 5. Strengthening staff compliance with Solomon Power’s internal policies and procedures.** In 2022, a formal disciplinary rules and procedure policy was implemented to promote standards that would regulate staff conduct in the course of their employment with Solomon Power. For 2023, to further strengthen the effectiveness of this policy, Legal Division will take a leading role in close collaboration with other internal stakeholders in reviewing and strengthening this policy as well as other policies applicable to staff conduct, such as policies on whistleblowing and conflict of interest.

2.6.4 Stakeholder Engagement - Community Support

As a valued and committed stakeholder in Solomon Islands society, Solomon Power has started to be more actively engaged in community activities and events.

In July 2021, the SP signed a \$1 million sponsorship agreement with the Solomon Islands Football Federation (SIFF) to support the IUMI PLAY programme that would develop young and talented footballers in all provinces in the country. The program was delayed due to disruptions caused by the COVID-19 community transmission in the beginning of the year. Therefore, SP had extended the sponsorship agreement to 31st December 2022.

In the peak of the COVID-19 community transmission during the first quarter of 2022, SP responded positively to the request by SIG for support through leasing three vehicles to be used for COVID-19 lockdown operations. It also provided food supplies to the COVID-19 medical team at NRH. Furthermore, throughout the course of the year, SP also provided other community support such.

- Donated a 3 in one Printer/Photocopier/Scanner machine to Endoscopy Unit at the National Referral Hospital
- Supported Solomon Airlines with International Nurse's Day VIP scenic flight
- Donated building materials for Burns Creek Clinic Project
- Technical assistance to Helena Goldie Hospital Solar Connection
- Provision of fuel and lubricant towards John Coleridge Patterson University Project
- Participated with various organizations in Honiara with cleanup as part of the World Environment day
- Partnered with Solomon Airlines and other Tourism bodies in the Annual Peace Marathon
- Electricity Safety Awareness at Honiara Schools



Figure 6: Electricity Safety Awareness – Honiara School



Figure 7: Annual Peace Marathon



Figure 8: Iumi Play Program Tulagi

2.6.5 Financial Situation

SP has achieved good financial results and importantly exceptional accountability standards with unqualified audits of its Financial Statements for the last nine financial years from 2012 to 2021.

SP has had significant investment into the network and also sustainably operate as a business and will continue to do so in the foreseeable future. SP has already embarked on a plan to invest \$1.5 billion capital funds over the period 2023-2028.

In 2021, sales has gone up by 1.1% was compared to the -0.2% achieved in 2020. SP's budgeting process for FY2022 took into account a forecast growth in sales of 1.5%, budgeted return on investment of 9% to 10% and Net Profit of \$64 million. This is premised on an anticipated growth in customer numbers partly due to the successful ongoing implementation of the Output Based Aid Programme and the network extensions in Honiara and at the Outstations.

Sales (kWh) in the first nine months of 2022 fell, compared to the same period in 2021 with a decrease of 2.2%. In comparison with the period in 2020, the sales results in 2022 were also lower by 1.3%. With the implementation of the new tariff regulation in May 2021, energy sold to customers were expected to pick up considerably. Due to the economic downturn brought about by Covid-19 and the still relatively high electricity charges made worse by surging fuel prices, electricity demand from customers has fallen below expectations.

Despite drop in sales (kWh), sales (\$) rose due to the increase in the electricity charges that was triggered by the fuel price increases, Net Profit After Tax to circa \$49million compared to the budgeted NPAT of \$64million for 2022. The below expected profit performance is due to high R&M costs for generation and depreciation costs going up significantly as a result of asset revaluation that happened at 2021 year end.

3 SP'S OBJECTIVES⁵

SP's principal objective as set out under Section 4 of the SOE Act is:

“to operate as a successful business and, to this end, to be:

- a) As profitable and efficient as comparable businesses that are not owned by the Crown...; and*
- b) A good employer; and*
- c) An organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates.”*

To achieve these objectives SP has developed, and annually reviews, its Vision, Mission, Values, Strategic Objectives and Key Result Areas. This is articulated in SP's Statement of Corporate Objectives and is summarised as follows.

3.1 SP's Vision

Energising Our Nation

3.2 SP's Mission

To provide a safe, reliable, affordable and accessible supply of electricity to the Solomon Islands

3.3 SP's Values

- 1. Respect for our Customers and our People*
- 2. Improvement through Change & Innovation*
- 3. Meeting our Service Quality Commitments*
- 4. Care for the Environment*
- 5. Individual Responsibility for our Actions*
- 6. Honesty and Trust*
- 7. Teamwork*

⁵ State Owned Enterprises Act, Section 13 (2) (a)

3.4 SP's Strategic Themes and Initiatives

Strategic Themes	Initiatives
An Effective Business Model	Our customers will trust and value our services because we listen to them
	We will invest in our committed and valued employees
Financial Sustainability	We will grow our business to a stronger and financially sustainable business
Robust and expanded Infrastructure	We will diversify our large and reliable asset base into renewable energy solutions
	We will use scale and national presence to add value to the nation
	We will use sound risk management principles to manage the challenges
Engaged Stakeholders	Our Operational Excellent Business Model will support strong performance, delivery and returns to our stakeholders
Committed to Environmental and Social safeguards	We will be a socially and environmentally responsible organisation

3.5 Strategic Plan and Key Result Areas

Budgetary emphasis should be placed on the strategic plan and on the Key Result Areas (KRAs). There are a number of things in this strategic plan and Key Results Areas that need detailed project plans to be developed that may change the cost allocations within the overall budget. Most have been accounted for within the capital or operational budgets. Key drivers of this budget are the following KRAs.

- KRA 1 - Assets and Energy; Maintain reliable power supply
- KRA 3 - Assets and Energy; Diversify assets into more renewable generation solutions
- KRA 2 - Employee Relations and Welfare; workforce management and skills development
- KRA 10 - Customer Loyalty; Increase customer base
- KRA 14 - Operational Excellence; reducing technical losses

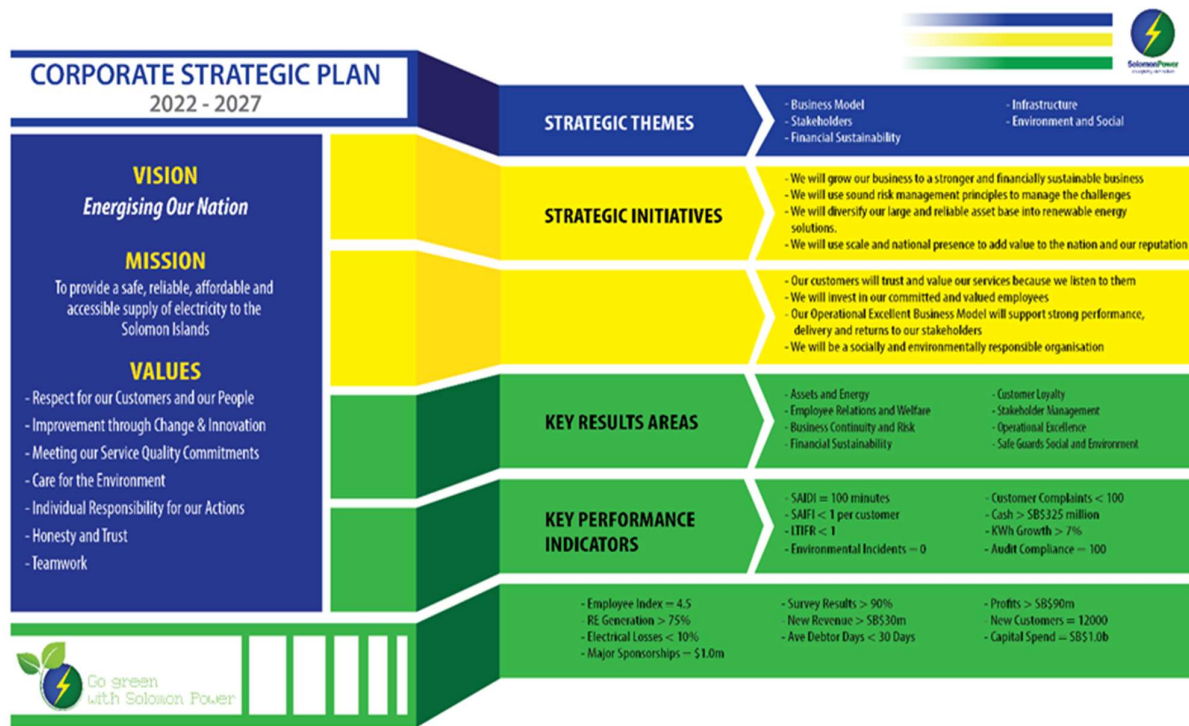


Figure 9- The Strategic Plan aka "Plan on a Page"

To move towards these objectives, SP has developed the following Key Result Areas for 2023.

Key Result Area	Strategic Initiatives	Annual Objectives	Accountable Executive
1. Assets and Energy; Maintain reliable power supply	Our customers will trust and value our services because we listen to them	Ensure smooth operation and reliability of generation and transmission systems.	CE
2. Assets and Energy; effectively develop plans and implement special projects	We will diversify our large and reliable asset base into renewable energy solutions	Effectively develop plans and implement special projects	GM SPP
3. Assets and Energy; Diversify assets into more renewable	We will diversify our large and reliable asset base into renewable energy solutions	Implement renewable energy projects	GM CW

generation solutions			
4. Assets and Energy; extend distribution network	We will use scale and national presence to add value to the nation	Extend distribution and transmission network.	GM CW & CE
5. Assets and Energy; modernize and implement regulatory functions	We will use scale and national presence to add value to the nation	Modernize and effectively carry out regulatory functions	CE
6. Assets and Energy; develop cost-effective land, building & other operational assets	We will use scale and national presence to add value to the nation	Efficiently manage and develop corporate assets (land, building, fleet) to support operations	GM Corp Svc
7. Employee Relations and Welfare; workforce management and skills development	We will invest in our committed and valued employees	Effectively manage employee performance, skills development and welfare	GM Corp Svc
8. Financial Sustainability; Effectively manage financial resources	We will grow our business to a stronger and financially sustainable business	Effectively manage financial resources	CFO
9. Financial Sustainability; new income streams	We will grow our business to a stronger and financially sustainable business	Study and appropriately implement potential new business opportunities	GM SPP & CICTO
10. Customer Loyalty; Increase customer base	Our customers will trust and value our services because we listen to them	Increase total customers and sales volumes through effective customer management	GM Cust Svc & CE

11. Customer Loyalty; reduce waiting times for customer connections	Our customers will trust and value our services because we listen to them	Efficiently and prudently reduce backlog of customer connections.	GM Cust Svc & CE
12. Customer Loyalty; develop capital recovery options for customers	Our customers will trust and value our services because we listen to them	Develop capital recovery options for customers in sparsely connected areas	GM Cust Svc
13. Stakeholder Management; sponsorships & messaging	Our Operational Excellent Business Model will support strong performance, delivery and returns to our stakeholders	Support community activities, maximize its messaging and promote SP.	CEO, GM Cust Svc & GM Corp Svc
14. Operational Excellence; reducing technical losses	Our Operational Excellent Business Model will support strong performance, delivery and returns to our stakeholders	Reduce technical and non-technical losses	CE & GM Cust Svc
15. Operational Excellence; effective ICT Systems	Our Operational Excellent Business Model will support strong performance, delivery and returns to our stakeholders	Ensure ICT systems are effectively used to support operations	CICTO
16. Social and Environmental Safeguards	We will be a socially and environmentally responsible organisation	Ensure compliance with social and environmental safeguards	GM Corp Svc & GM CW
17. Business Continuity & Risk; Robust risk based auditing	We will use sound risk management principles to manage the challenges	Effectively utilize risk based auditing	MIA
18. Business Continuity & Risk; Effective legal, compliance and contracts management	We will use sound risk management principles to manage the challenges	Ensure compliance and minimize risks associated with legal and contractual matters.	LC
19. Business Continuity & Risk; ICT BCP	We will use sound risk management principles to manage the challenges	Ensure ICT solutions are used to support BCP	CICTO

CE – Chief Engineer

CFO - Chief Financial Officer

GMCW –General Manager Capital Works

LC - Legal Counsel

GM SPP - General Manager Special
Projects & Planning

GM Cust Svc - General Manager Customer
Service

MIA – Manager
Internal Audit

CICTO – Chief Information,
Communication & Technology Officer

GM Corp Svc - General Manager Corporate
Service

4. PLANS TO ADDRESS SP's STRATEGIES

4.1 Capital Expenditure Programme – 2022 to 2024

SP's priority for the three year period (2022 – 2024) is to diversify its large and reliable asset base into more renewable energy. This shall be done through the following projects areas:

- Tina Hydro 66kV transmission lines and associated systems upgrades that will be ready before the Tina Hydro Power Plant is commissioned.
- Solar Hybrid Projects
 - Complete and commission the ADB, MFAT, WB funded hybrids, and progress design, procurement and construction of new Hybrid stations in the provinces.
- Grid connected solar projects to enhance Honiara's renewable generation mix.
- SCADA Master Station, fibre and protection upgrade
- New generator as backup for renewable generation systems in Honiara
- Network extensions in Honiara and the outstations
- Substation upgrades
- Implement new call centre system
- Corporate projects including offices and residences
 - Warehouses, Auki Office and other operational buildings

A full list of Capital Expenditure Projects is shown in [Appendix C](#).


4.2 Funding the Capital Expenditure Programmes

The CAPEX Program of \$1.35B (2021-2027) has been balanced with the available sources of funding and the Board's parameters on minimum Working Capital. There is funding through the SIEAREEP project with World Bank, ADB funding for Solar Hybrids at five existing outstations, funding from MFAT, NZ Government for Solar Hybrids and funding from AIFFP for Tina River project. The funds from World Bank, ADB and MFAT, NZ, AIFFP and surplus cash generated from operational functions, defines the CAPEX envelope for SP.

The proposed mix of funding is as follows:

Statement of Cash Flows

2021 Actual, 2022 Forecast, 2023 Budget, 2024 -2028 Forecast



	AUDITED 2021 SBD	BUDGET 2022 SBD	FORECAST 2023 SBD	FORECAST 2024 SBD	FORECAST 2025 SBD	FORECAST 2026 SBD	FORECAST 2027 SBD	FORECAST 2028 SBD
Operating activities								
Cash received from customers	448,725,032	488,181,127	582,463,869	544,887,006	493,266,399	471,155,641	472,864,088	480,811,959
Cash paid to suppliers and employees	(327,059,595)	(389,608,376)	(427,804,906)	(393,238,037)	(343,225,199)	(315,280,717)	(314,038,238)	(320,696,402)
Net cash provided by operating activities	121,665,437	98,572,751	154,658,963	151,648,968	150,041,200	155,874,924	158,825,850	160,115,557
Investing Activities								
Net payments for property, plant and equipment	(115,157,221)	(122,043,543)	(237,608,685)	(290,355,242)	(316,729,563)	(281,750,413)	(202,089,596)	(151,295,412)
Domestic Development Bonds - SIG	-	4,285,714	7,142,857	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Self-insurance Fund net payments	-	-	(50,000,000)	-	-	-	-	-
Net cash used in investing activity	(115,157,221)	(117,757,829)	(280,465,827)	(280,355,242)	(306,729,563)	(271,750,413)	(192,089,596)	(141,295,412)
Financing activities								
LOANS RECEIVED								
- IDA CREDIT	-	-	29,131,700	39,131,700	19,131,700	-	-	-
- AIFFP	-	-	11,400,000	14,904,000	29,244,000	29,244,000	-	-
TOTAL	-	-	40,531,700	54,035,700	48,375,700	29,244,000	-	-
Principal Repaid								
- IDA CREDIT	(2,802,313)	(986,414)	(2,802,313)	(2,802,313)	(2,802,313)	(5,229,955)	(5,229,955)	(5,229,955)
- AIFFP	-	-	-	-	-	(2,777,400)	(2,777,400)	(2,777,400)
Interest Repaid								
- IDA CREDIT	(922,230)	(810,444)	(1,089,988)	(1,111,139)	(476,316)	(2,089,626)	(1,877,971)	(1,673,643)
- AIFFP	-	-	(23,237)	(30,380)	(59,610)	(59,610)	(616,583)	(593,253)
TOTAL	(3,724,543)	(1,796,859)	(3,915,539)	(3,943,632)	(3,338,239)	(10,156,590)	(10,501,908)	(10,274,251)
Interest on bond	3,500,018	3,446,429	3,232,143	2,803,571	2,303,571	1,803,571	1,303,571	803,571
TOTAL	3,500,018	3,446,429	3,232,143	2,803,571	2,303,571	1,803,571	1,303,571	803,571
Grants Received								
- IDA Grants - (USD2m)	-	-	-	-	-	-	-	-
- IDA/SREP/SID-DOCK	1,208,208	1,278,064	49,317,034	25,482,996	-	-	-	-
- NZ Aid Grant	-	-	10,000,000	7,029,063	-	-	-	-
- Output Based Aid Program (OBA)	13,954,357	9,248,200	-	-	-	-	-	-
- AIFFP	-	-	7,600,000	9,936,000	39,500,000	39,500,000	-	-
- Other	-	15,343,747	-	-	-	-	-	-
TOTAL	15,162,565	25,870,012	66,917,034	42,448,060	39,500,000	39,500,000	-	-
Debt repayments received (SIBC / SIWA)	-	-	-	-	-	-	-	-
Dividends	(4,000,000)	(2,475,063)	(3,434,143)	(3,466,957)	(3,333,606)	(3,426,487)	(3,292,284)	(3,282,094)
Net cash provided by Financing activities	10,938,040	25,044,518	103,331,194	91,876,542	83,507,426	56,964,494	(12,490,621)	(12,752,773)
CASH BALANCES								
Net increase in cash and cash equivalents	17,446,255	5,859,440	(22,475,670)	(36,829,732)	(73,180,937)	(58,910,995)	(45,754,368)	6,067,372
- Cash & Cash Equivalents - OPENING	293,132,625	310,578,880	316,438,320	293,962,650	257,132,919	183,951,981	125,040,987	79,286,619
Cash & Cash Equivalents - CLOSING	310,578,880	316,438,320	293,962,650	257,132,919	183,951,981	125,040,987	79,286,619	85,353,991
Minimum Working Capital (3 months fuel)	43,652,868	63,784,735	66,082,544	51,789,834	39,101,043	6,085,304	7,010,395	7,975,022

4.3 Funding Sustainability

To fund the \$1.35B (2021-2027) CAPEX Programme, SP needs to draw upon all available financing resources. The Board has set a Debt to Equity limit of 30%. The proposed funding mix remains within those parameters into the medium term (2027).

INTEREST SUMMARY	2021	2022	2023	2024	2025	2026	2027	2028
- AIFFP Loan	-	-	23,237	30,380	59,610	59,610	616,583	593,253
- IDA CREDIT	922,230	810,444	1,089,988	1,111,139	476,316	2,089,626	1,877,971	1,673,643
TOTAL	922,230	810,444	1,113,226	1,141,519	535,926	2,149,235	2,494,553	2,266,896
LOAN BALANCE								
- IDA CREDIT	32,640,962	31,654,548	57,983,935	94,313,322	110,642,708	105,412,753	100,182,798	94,952,843
- AIFFP	-	-	11,400,000	26,304,000	55,548,000	82,014,600	79,237,200	76,459,800
TOTAL	32,640,962	31,654,548	69,383,935	120,617,322	166,190,708	187,427,353	179,419,998	171,412,643
Debt to Equity Ratio (%)	15.61%	19.99%	24.42%	23.82%	24.60%	24.67%	21.80%	21.10%
Return on Equity	5.46%	3.40%	4.54%	4.39%	4.06%	4.01%	3.72%	3.58%
Self-Financing Ratio (at least 25%)	106%	81%	65%	52%	47%	55%	79%	106%

5 GOVERNANCE OVERVIEW

5.1 Introduction

This Statement of Corporate Objectives (SCO) is submitted by the Board of Directors of the Solomon Islands Electricity Authority (SP) in accordance with Section 13 of the State Owned Enterprises Act 2007 (SOE Act). It sets out the Board's overall intentions and objectives for SP for the year commencing 1 January 2023 and the following two financial years.

5.2 Business Scope

SP is the owner, manager, operator and/or licensor of electricity supply infrastructure in areas of operation throughout the Solomon Islands as directed by the Minister under Section 13(1) (b) of the Electricity Act 1969.

Its present areas of electricity supply operation include the towns and general surrounds of Honiara, Auki, Buala, Gizo, Kirakira, Lata, Malu'u, Munda, Noro, Seghe, Taro and Tulagi.

5.3 SP's Duties

Its duties (as per Section 13 of the Electricity Act) are:

- (a) to manage and work any electrical installations transferred to the Authority by the Government and such other installations and apparatus as may be acquired by the Authority;*
- (b) to establish, manage and work such electrical installations as the Minister may from time to time require or as the Authority may from time to time deem it expedient to establish;*
- (c) to secure the supply of electricity at reasonable prices;*
- (d) to promote and encourage the generation of electricity with a view to the economic development of Solomon Islands;*
- (e) to advise the Minister on all matters relating to the generation, transmission, distribution and use of electricity;*
- (f) to ensure standards of safety, efficiency and economy in respect of the production, transmission, distribution and use of electricity.*

5.4 The Role of Electricity Supply Systems

The supply of electricity systems is essential for the proper development of towns to meet modern living standards in the country, and to facilitate its economic development. Increasing the reliability of supply is a necessary pre-requisite to growth in industrial and commercial investments.

5.5 Nature and Scope of Commercial Activities²

SP's principal commercial activities are:

- a) Generation and distribution of electricity supply to connected customers in approved areas;
- b) Operation, maintenance and development of assets that are necessary to achieve these outcomes on a long term sustainable basis; and

- c) The approved expansion of services to increased areas of operation.

Any significant departure from these principal activities will be discussed initially with Shareholding Ministers, and then their approval sought through amended Statements of Corporate Objectives.

5.6 Corporate Social Responsibility

SP's prime corporate social responsibility is to provide reliable and safe electricity supply systems within its area of operations, while working in partnership with the community to plan, deliver and operate infrastructure in such a manner which seeks to mitigate the social and environmental impacts of SP's activities. This includes working closely with existing and new customers, landowners and agencies on current and future activities.

SP will work to develop performance targets and reporting frameworks to show how these responsibilities are embedded in SP's functions and actions.

5.7 Regulatory Framework

SP is governed directly under the SOE Act 2007, the Electricity Act 1969, the Electricity Regulations 1993 and the SOE Regulations 2010.

As regards securing regulated revenue, it is empowered, under Section 13 of the Electricity Act, to:

...exercise and perform its functions under this Act as to secure that the total revenues of the Authority are sufficient to meet its total outgoings properly chargeable to revenue account, including depreciation, loan redemption and interest on capital, taking one year with another and making adequate allowance for any increase or decrease in the cost of replacing any property owned and used by the Authority.

The Minister may, under Section 14 of the Electricity Act, give directions to the Authority:

...in relation to matters that appear to him to affect the interests of Solomon Islands...

There are no regulated service standards for SP's electricity delivery performance, other than those stated in Part II of Electricity Regulations regarding frequency and voltage variations, etc. SP has developed a set of standards and performance measures that are used for internal management purposes. In addition, a Customer Survey was carried out in 2018 which aligns with our plan to carry out such survey every two years to assess our performance in relation to our customers' expectations. However, due to the challenges faced as a result of the Covid-19 pandemic we did not undertake a survey as scheduled in 2020. A customer survey is currently being conducted.

As an SOE, SP is expected to also obey all other Acts and Regulations that may affect its work, unless otherwise directed by the Minister. Reviews have taken place to ensure compliance with all of the relevant Acts and Regulations.

5.8 Relationship to the National Development Plan

The Government has developed and published a National Development Plan (NDP). The following extracts from the NDP that relate to SP and SP's actions in relation to them are commented on as follows:

- **Focus Area Objective 5 – 1: Enabling Environment for Private Sector Led Growth:** SP is closely following the SOE legislation to ensure that it operates as a sustainable business; the objective of the SISEP Project. Furthermore, SP is encouraging private sector participation in the sector by developing Distributed Generation Regulations and by working with Independent Power Producers (IPPs) when needed.
- **Focus Area Objective 5 – 2: Enabling Environment for Private Sector Led Growth:** SP has already signed a Power Purchase Agreement with Tina Hydropower Limited for the Tina River Hydro Project. We are also well prepared for any privatisation plans that the Government may have in the future.
- **Focus Area Objective 6 – Energy Sector Planning and Management:** SP is undertaking more active publicity to bring to the attention of all sectors of the community the issues surrounding the energy sector. It will also support the Government with any policy issues, legislation and regulations. Recently SP has provided critical input to the Government’s National Energy Policy 2019. Furthermore, SP is assisting the Ministry of Mines, Energy and Rural Electrification for the development of the scope for the review of the Electricity Act and Regulations.
- **Focus Area Objective 6 – Electricity - 1:** the main focus of SP is to provide reliable and affordable energy in all urban centres. Renewable energy sources are being investigated; the involvement of Independent Power Producers (IPPs) is being encouraged; over 87% of SP’s customer base is now on pre-paid Cashpower meters; and the managerial and technical expertise of the organisation is being strengthened in preparation for Public Private Participation (PPP).
- **Focus Area Objective 6 – Electricity – 2:** SP is working closely with other agencies and Governments such as the World Bank, the Asian Development Bank, Japan International Cooperation Agency and the NZ Government to increase the supply and coverage to rural areas. There is a focus on hydro power, where possible, solar power, and encouragement of community and private participation.
- **Focus Area Objective 6 – Electricity – 3:** SP actively promotes energy conservation and is working with the Electrical Contractors’ Association to improve the standards of equipment being installed throughout the country.

6 CAPITAL STRUCTURE TARGETS AND FORECAST RATIOS

The estimated capital structure at end 2022, and those forecast for the next three years are as follows:

Capital structure and Investment (as per IFRS)	2022 Forecast	2023 Budget	2024 Plan	2025 Plan
Debt (\$M)	295m	377m	384m	412m
Equity (\$M)	1,480m	1,545m	1,611m	1,675m

Debt to Equity (\$M)	20%	24.4%	23.8%	24.6%
Capital Investment (\$M)	122m	238m	290m	317m

SP's intent is that investment-related expenditures can be recovered from connected customers over time. It is SP's intention that it should be able to fund a portion of its investments from its own cash-flows, donor funding and loans through Solomon Islands Government and if necessary borrow the remainder on the basis of its own balance sheet.

7 PERFORMANCE TARGETS AND INDUSTRY MEASURES⁶

The targets for SP's performance are detailed below. They are contingent on no unexpected or materially adverse events occurring. These ratios are explained in Appendix A. SAIFI and SAIDI are internationally recognised measures of Electricity Distribution and Generation Companies' performance indicators.

a) To be as profitable and efficient as comparable businesses:

Operational Performance Targets	2022 Forecast	2023 Budget	2024 Plan	2025 Plan
System Interruption Frequency Index (SAIFI)	3.0 times	3.0 times	3.0 times	3.0 times
System Interruption Duration Index (SAIDI)	100 minutes	140 minutes	140 minutes	140 minutes
kWh Sales Growth	0%	1.5%	1.5%	1.5%
Average Tariff	\$7.1525	\$7.1426	\$6.3008	\$5.5730

Financial Performance Targets	2022 Forecast	2023 Budget	2024 Plan	2025 Plan
Net Profit (\$M)	49m	69m	69m	67m
Current Ratio	4.1	3.9	4.1	3.9
ROA (%)	2.9%	3.7%	3.5%	3.3%
Return on Equity (%)	3.4%	4.5%	4.4%	4.1%

Commercial Performance Targets	2021 Forecast	2022 Budget	2023 Plan	2024 Plan
Collections ratio (%)	90	90	90	90
Losses – Technical and non-technical	17.0%	17.0%	17.0%	17.0%
Debtors Days (excluding SIG)	30	30	30	30
Number of customers	23,500	26,000	28,000	30,000

b) To be a good employer:

Non-Financial Performance Targets	2021	2022	2023	2024
-----------------------------------	------	------	------	------

⁶ State Owned Enterprises Act, Section 13 (2) (e)

	Forecast	Budget	Plan	Plan
No. of Lost Time Injuries	0	0	0	0
LTIFR (Lost Time Injury frequency Rate)	0	0	0	0
% Staff Turnover (non-retirement)	2.0%	2.0%	2.0%	2.0%
No. of Unfair Dismissal Case Lost	0	0	0	0

c) To be an organisation that exhibits a sense of social responsibility:

Corporate Social Responsibility		
Area	Target	2023 Proposed Actions
Environmental Care	Compliance with environmental laws and regulations.	<ul style="list-style-type: none"> Identify relevant laws, regulations and consents, and establish current performance. Work with Ministry of Environment to resolve bulk, electronic and oil waste disposal issues. Ensure that EIS and EMP are in place for Capital Works projects where required. Implement work Programme to improve performance. Prepare an annual sustainability report
Public Safety	Public accidents due to SIEA operations reduced by 20%	<ul style="list-style-type: none"> Identify and track incidents. Identify remedial actions that can be taken. Use the media to communicate safety issues to the public. Advise the public on how to deal with safety issues.
Climate Change	Identify greenhouse gas emissions resulting from SIEA activities	<ul style="list-style-type: none"> Catalogue sources of emissions from SIEA activities, and commence Programme of estimating emissions from the top three areas. Continue with Energy Efficiency and Demand Management Programmes through the media.

8 DIVIDEND POLICY⁷

This dividend policy provides guidelines that SP should use to determine how much of its earnings it should pay to its Shareholders, the responsible Ministers. This should be negotiated annually between the Board and the Shareholding Ministers and agreed in writing as part the Statement of Corporate Objectives.

This negotiated dividend will consider SP's:

- Capital Structure
- Cash Flow
- Working Capital requirements
- Capital Investment Plans

⁷ State Owned Enterprises Act, Section 13 (2) (f)

- An appropriate contingency for financial flexibility

The Board considered on 20th November 2018 a number of options for the dividend policy including:

No Dividend Policy

SP will use all its internally generated funds to reinvest in its infrastructure or to reduce tariffs.

Residual Dividend Policy

Dividends will only be paid if there are retained earnings left over after SP has financed all investment projects capable of generating acceptable returns. This method leads to volatility which governments don't normally like.

Dividend Stability Policy

Dividends are set at a fraction of annual Net Profit. This approach reduces uncertainty for the Shareholder.

CSO as Dividend Policy

The Board adopted the CSO as Dividend Policy in 2016 and \$4.4m was the dividend for 2016. In 2017, there was no CSO received from MOFT. A \$1.5 million was received in 2018 as CSO from the Ministry of Finance and Treasury. No CSO was requested in both 2020 and 2021 financial years.

Hybrid Dividend Policy

SP would set a dividend that is a small fraction of its annual Net Profits over the medium term. SP could top this up if Net Profits over the medium term significantly exceeds this forecast average. This final approach is most commonly used now. The Board has deliberated on 20th November 2018 and opted to adopt a Hybrid Dividend Policy. It should be noted that the Net Profit used to calculate the dividend amount is based on operating profit only and does not include revaluation increments if any.

Parameters are

Fraction of Net Profit – 5% per annum Stability

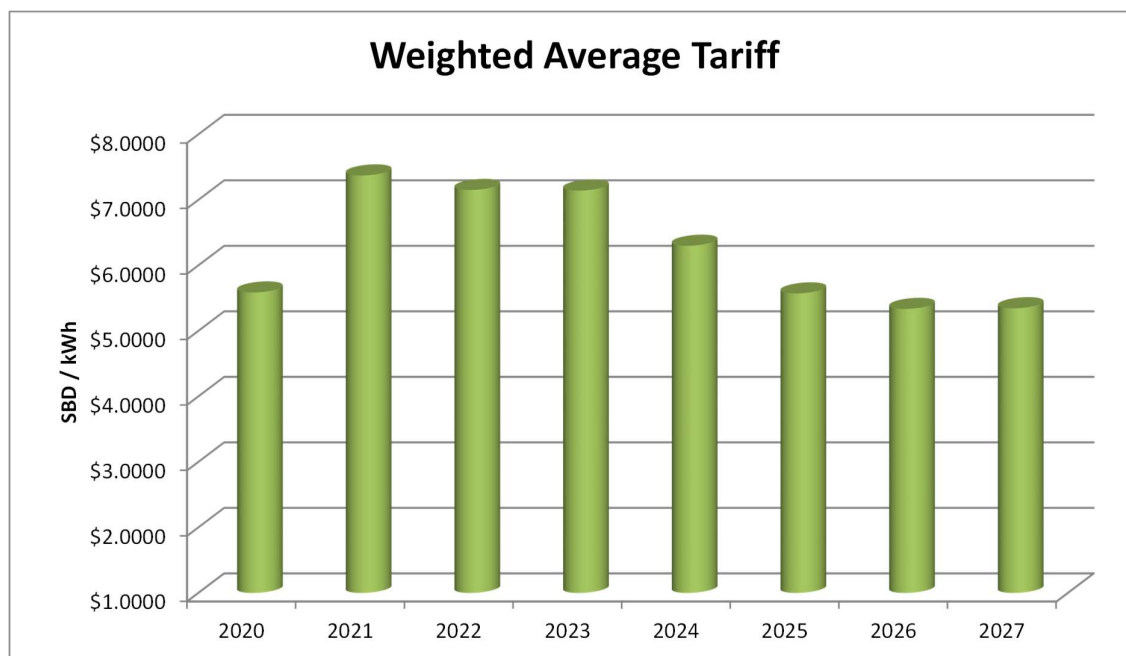
Residual – Excess of NPAT \$100m at 10%

Year	2022 Forecast	2023 Budget	2024 Plan	2025 Plan
Dividend	\$2.5m	\$3.4m	\$3.5m	\$3.3m

In recommending payment of dividends to shareholders, SP Directors will follow the policies of similar public companies, and will comply with Section 14 of the SOE Act.

9 ELECTRICITY TARIFF

2023 Budget and the next 5 years forecasting is based on the 2021 electricity tariff regulation.



To reduce the tariff further SP is required to increase its customer base, reduce outages and non-technical losses which will subsequently increase electricity demand; and also reduce its fuel costs by increasing its generation through Renewable Energy Sources. Reduction in the tariff charges as shown in the graph above is the impact of reduction in fuel costs due to the commissioning of new solar farms and hybrids and the expected commissioning Tina hydro in 2026.

10 INFORMATION TO BE REPORTED⁸

To enable the Shareholding Ministers to assess the value of their investment in SP, any information that would normally be supplied to a controlling private shareholder will be made available.

An annual report for each financial year, including audited financial statements, will be submitted in accordance with Section 14 of the SOE Act. The annual report will:

- Contain sufficient information to enable an informed assessment to be made of SP's operations, including a comparison with the SCO; and
- State the dividend payable to the shareholders for the relevant financial year.

SP will also submit the following information to the Shareholding Ministers:

- Half-yearly reports in accordance with Section 15 of the SOE Act, which will include unaudited profit and loss, balance sheet and cash flow statements together with such details as are necessary to permit an informed assessment of the company's performance during that reporting period; and

⁸ State Owned Enterprises Act, Section 13 (2) (g)

- Draft of SP's Strategy Plan and a draft SCO, which will be made available to Shareholding Ministers for discussion prior to the commencement of the financial year to which the plan and the SCO relates.

SP will, in addition, provide other information relating to the affairs of the company as might be requested by the Shareholding Ministers pursuant to section 19 of the SOE Act and in accordance with good continuous disclosure practice.

11 ACTIVITIES FOR WHICH COMPENSATION IS SOUGHT INFORMATION TO BE REPORTED⁹

SP will, in accordance with Section 8 of the SOE Act and Part 6 of the State Owned Enterprises Regulation 2010 (The Regulations), seek compensation sufficient to allow SP's position to be restored if the Government wishes SP to undertake activities or assume obligations that, in SP's view, will:

- Result in a reduction of SP's profit or net worth; or
- Modify or expand the electricity networks in ways that might negatively affect its ongoing capacity, security and/or reliability

There are two major areas where the Government has requested SP to provide services that would otherwise be non-commercial.

- Provision of Electricity supply in the Outstations; and
- Operation and Maintenance of Streetlights in Honiara and the Outstations,

The provision of power to the Outstations is non-commercial because of the cost of fuel transport, the size of the operation and the relatively high level overheads associated with the provision of power in these small areas. SP has made significant improvements to the efficiency of operations in the outstations with the effect that some outstation operations are making a reasonable return and the other outstations are close to breaking even. SP will continue this effort through a number of initiatives including automation of the outstations, improved fuel delivery mechanisms, implementing renewable energy (solar & Hydro) and Supervisory Control and Data Acquisition Systems (SCADA).

The provision of Streetlights in Honiara and the Outstations has been an area of neglect due to provincial governments (in the main), town councils and some ministries not taking responsibility for this function. The Government therefore decided in 2014 to request SP to perform this important civic function on behalf of the Government. This function has been costed and started in 2015 and has since been completed.

The Government in 2016, has written to SP stating that CSO will be allocated to Capital Projects.

In 2018 the Solomon Islands Government had committed and paid \$1.5 million as CSO for services in the Provinces and for Streetlights in Honiara and at the Outstations. The Government and SP will agree the scope and cost of the Community Service Obligations (CSO) scheme in the future. In 2019, 2020

⁹ State Owned Enterprises Act, Section 13 (2) (g)

2021 and 2022, SP did not make a request for CSO payment. However, this position may change in subsequent years.

12 SUBSIDIARY COMPANIES

SP has no subsidiary companies at present. SP is currently exploring options to setup subsidiary companies. SP will consult with the Shareholding Ministers in due course.

13 OTHER MATTERS AGREED BY THE SHAREHOLDING MINISTERS AND THE BOARD

There are no other matters that have been agreed by the Shareholding Ministers and SP Board for inclusion in this statement pursuant to Section 13(2)(j) of the SOE Act. Any such matters will be formally reported as appropriate in Annual Reports.

14 COMMERCIAL VALUE OF THE SHAREHOLDERS' INVESTMENT

The principal physical assets of SP primarily include:

- Lungga Power Station.
- Honiara Power Station.
- Henderson Solar Farm.
- 33kV, 11kV and LV overhead, underground and substation network and metering systems in Honiara.
- Outstation Power stations at: Auki, Buala, Gizo, Kirakira, Lata, Malu'u, Munda, Noro, Seghe, Taro and Tulagi
- 11kV and LV overhead and substation networks and metering systems associated with the above Outstation Power stations.
- Head Office building in Ranadi including the extension of the ground floor.
- 71 staff houses and 51 land parcels in Honiara.
- 33 staff houses in the various Outstations.
- 49 ha of land under perpetual or fixed term estate.

In addition, the company has significant intellectual capital in staff, company processes and procedures.

The audited estimate of the current commercial value of the Shareholders' investment in SP was \$1,657M as at the end of 2021. This compares with a value of \$1,291M as at end 2020 based on the audited 2020 accounts.

15 ACCOUNTING POLICIES¹⁰

SP has adopted IFRS standards as the basis of its accounting policies as regards the measurement and reporting of profit, cash-flow, movements in equity, and financial position.

Details of SP's accounting policies and their application are given in Appendix B.

APPENDIX A – DEFINITIONS

Capital Structure and Investment	
Debt	“Debt” equals current and non-current debt and finance leases
Equity	“Equity” equals share capital, reserves and accumulated retained earnings.
Total Funds Employed	“Total Funds Employed” equals current liabilities, non-current liabilities and equity.
Ratio of (Debt) to (Debt plus Equity) ¹¹	Self-explanatory
Capital Investment	Capital investment equals total capital expenditure, excluding net property acquisitions/disposals
Operational Performance Targets	
SAIFI	System Average Interruption Frequency Index
SAIDI	System Average Interruption Duration Index
Load-shed Index	Number of days with load-shed events due to lack of generation capacity
Revenue per KWh	In SBD
Financial Performance Targets	
Operating profit margin (%)	[Earnings before interest, tax, depreciation, amortisation (EBITDA)] divided by [total revenue].
Interest coverage (times)	[Earnings before interest, tax, depreciation, amortisation, (EBITDA) less cash tax], divided by [interest paid].
Return on assets (ROA) (%)	[Earnings before interest and tax expense (EBIT)], divided by [average capital employed]. <i>Capital employed is made up of current assets plus fixed assets (excluding works under construction), less current liabilities (excluding current debt, interest payable and income in advance).</i>
Return on equity (ROE) (%)	Profit After Tax divided by equity.
Commercial Performance Targets	
Collections ratio (%)	(Revenue Received)/ (Revenue Billed)
Aged Debt Index	Self-explanatory

¹⁰ State Owned Enterprises Act, Section 13 (2) (d)

¹¹ State Owned Enterprises Act, Section 13 (2) (c)

(\$M >90 days)	
Debtor Days	Number of days to collect the outstanding debt
Customer Service Index	No. of written complaints from customers

APPENDIX B - ACCOUNTING POLICIES¹²

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.

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.

6. Specific Accounting Policies

a) Basis of Consolidation

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

b) Goodwill

SP does not recognise any goodwill.

¹² State Owned Enterprises Act, Section 13 (2) (d)

c) 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.

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.

- 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.

d) Accounts Receivable

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed and its contractual cash flow characteristics. Accounts receivable are designated as per the 'Held to Collect' business model and an allowance matrix is used to measure the expected credit loss of accounts receivable.

e) Inventories

Stocks of materials are recorded at the lower of cost and net realisable value after due consideration for excess and obsolete items. Cost is determined on a weighted average basis.

f) Investments

SP has no non-core investments.

g) Other Financial Assets at Fair Value through Profit or Loss

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

h) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. These assets are carried at amortised cost using the Held to Collect business model.

i) Trade and Other Payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid.

Provisions are liabilities of uncertain timing or amount. They are measured at the amounts expected to be paid when the liabilities are settled.

j) Available for Sale Financial Assets

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

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

k) Property, Plant and Equipment

Property, plant and equipment are recognised at cost less accumulated depreciation. Cost is determined by including all costs directly associated with bringing the assets to their location and condition for their intended use.

l) 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 use.

m) Depreciation

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

The estimated useful lives are as follows:

Power Stations - 20 years

Freehold Buildings – 40 years

Overhead and Underground distribution networks - 20 years

Metering system assets- 20 years

IT Assets – 5 years

Vehicles – 5 years

Administration Assets - 10 years

n) Non-Current Assets Held for Sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition and is expected to be completed within one year from the date of classification.

o) Investment Property

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

p) Leased Assets

SIEA has applied IFRS 16 using the modified retrospective approach.

As a lessee

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

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

As a lessor

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

q) Intangibles

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 the SP 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. SP 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 SP 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.

r) Impairment of Assets

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

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a

pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the income statement 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.

s) Debt

Debt is designated as fair value through profit or loss on the basis of preventing an “accounting mismatch”. The company’s net debt is managed as one integrated portfolio; therefore, measuring derivatives and net debt on different bases would create a recognition inconsistency or accounting mismatch.

Fair values of quoted debt are based on prices current at balance date.

The effect on fair values of credit risk (i.e. the premium over the basis interest rate risk for credit to reflect the credit rating of the relevant counterparty) is based on quoted market prices.

t) Employee Benefits

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

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

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated cash flows to be made by SP in respect of services provided by employees up to reporting date.

Contributions to defined contribution plans are expensed when incurred.

u) Taxation

The part of the Income of the Authority which is derived from the sale of electricity shall not be liable to income tax.

v) Foreign Currency Transactions

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

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

w) Translation of Foreign Group Entities

SP has no foreign or other subsidiaries.

x) 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.

y) Grants

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

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

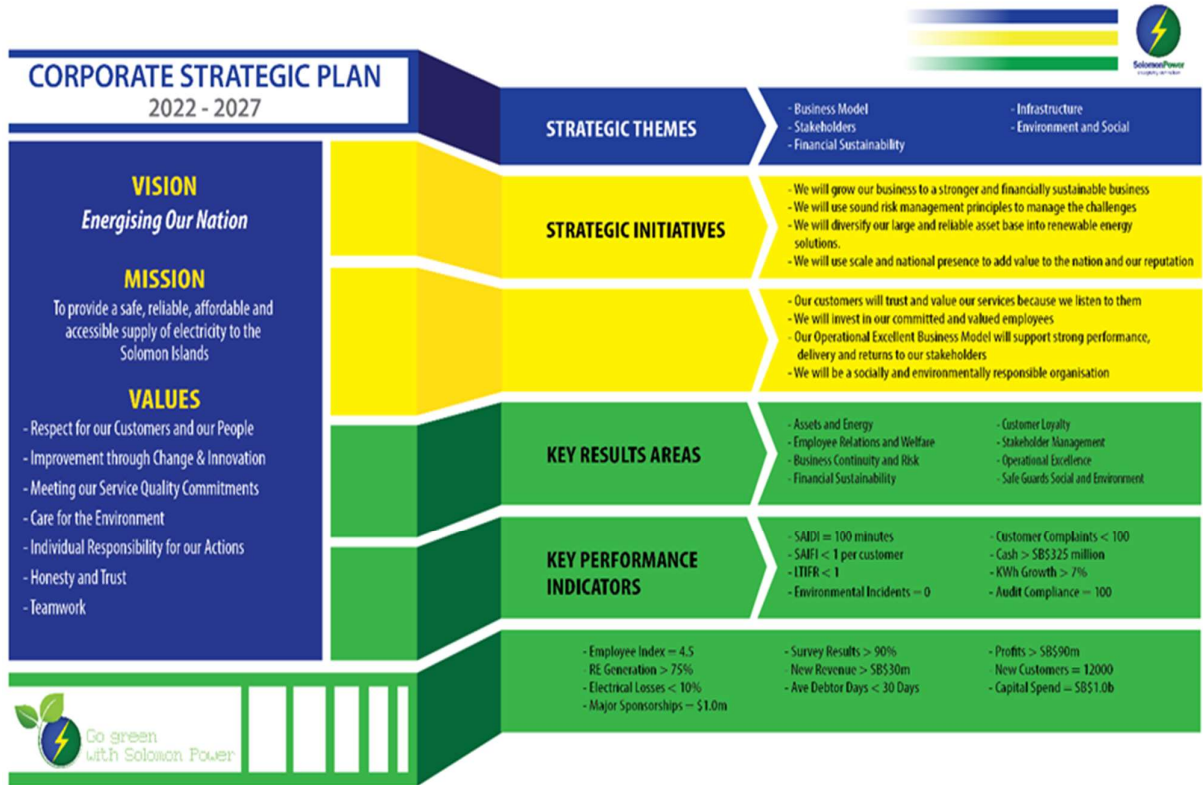
7. New Standards adopted

SP has adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as on 1st January 2018. Further, SP has adopted IFRS 16 Leases which is effective from 1st January 2019.

APPENDIX C - CAPITAL PROJECTS 2022 to 2028

SOLOMON POWER								
CAPITAL BUDGET - 2022 Forecast, 2023 Budget, 2024 - 2028 Forecast								
27-Oct-22								
PROJECT	2022	2023	2024	2025	2026	2027	2028	TOTAL
	FORECAST WIP							
New Diesel Generator for Lungga 4 Mw		20,000,000	25,000,000					45,000,000
Henderson 2 MW Solar Expansion	4,000,000	8,000,000	4,000,000					16,000,000
Henderson Fighter 1.32ha		1,500,000	10,000,000	9,000,000				20,500,000
SDA 3MW Solar Farm					10,000,000	10,000,000		20,000,000
Solar - Ranadi Head Office Roof	200,000	2,100,000						2,300,000
Central BESS - 3.5MW					600,000	600,000	15,000,000	16,200,000
Data Centre Building	9,000,000	1,200,000	2,100,000					12,300,000
Tanagal 1 MW Solar Farm	1,440,000	8,000,000	3,600,000	1,400,000				14,440,000
Old Lungga Electrical Upgrade	500,000	7,000,000	13,000,000	10,000,000	10,000,000	10,000,000		50,500,000
Enclosure East Honiara Substation		1,700,000						1,700,000
Lof 4 - 1x 12.5/15MVA 11/33kV Lungga Transformer	500,000							500,000
SCADA Implementation - Master Station	2,500,000	2,500,000	2,500,000	2,500,000				10,000,000
SCADA Implementation - Protection Upgrade	2,500,000	1,000,000	2,500,000	2,500,000				8,500,000
SCADA Implementation - OPGW/ADSS		2,500,000	5,500,000	5,000,000	5,000,000	5,000,000		23,000,000
East Honiara Feeder 1 Realignment to main road from Alligator to Blackpost			2,500,000	2,500,000				5,000,000
66kV transmission - Tina River Hydro - Lungga		19,000,000	24,840,000	87,680,000	65,760,000	21,920,000		219,200,000
66kV transmission - Design and Tehnical Support	300,000	239,958	239,958	959,831	719,873	239,958		2,699,578
TOTAL MAJOR	20,940,000	74,739,958	95,779,958	121,539,831	92,079,873	47,759,958	15,000,000	467,839,578
SECONDARY PROJECTS								
BUILDING PROJECTS								
Green Village Construction	2,000,000	3,000,000	5,000,000	5,000,000	5,000,000	5,000,000		25,000,000
WORLD BANK ACCESS PROJECT								-
Output Based Aid Program (OBA)	2,000,000							2,000,000
Mbokona (Urosshill Trust Board)		727,273						727,273
Areatakiki & TNK		727,273						727,273
Gegema, Malavale & Jericho-2		727,273						727,273
Stone Field (Kaibia)		727,273						727,273
Barana-2		727,273						727,273
North-West Guadalcanal		727,273						727,273
Atama & Anuke		727,273						727,273
Afolomae		727,273						727,273
Vichu		727,273						727,273
Kindu-Alunda		727,273						727,273
Kirakira Police Quarters		727,273						727,273
Town Ground to White River Diversions for ADB Road Upgrade Works		2,500,000	17,500,000					20,000,000
SP New Fuel Meters								-
SYSTEMS								
ICT - Strategy	1,000,000	1,000,000	2,000,000	1,000,000	1,000,000	1,000,000		7,000,000
ICT - Corporate storage capacity	100,000	50,000	50,000	50,000	50,000	50,000		350,000
ICT - Suprima upgrade	200,000	200,000	150,000	100,000	100,000	150,000		900,000
HR Document Management System			100,000	50,000				-
Call Center System								-
Smart Meters								-
OWNER ENGINEER								-
Owners Engineers - 5MW								-
Owners Engineers - 33kV								-
Owners Engineers - SISEP 2								-
TOTAL SECONDARY	5,300,000	14,750,000	24,800,000	6,200,000	6,150,000	6,200,000	-	63,250,000
OUTSTATIONS PROJECTS								
Ambu Solar Farm - 2MW with BESS		500,000,000	7,500,000	16,000,000	12,000,000	4,000,000		40,000,000
Buala - Hydropower		610,000			490,000			1,100,000
Buala Electrical Upgrade		800,000						800,000
Gizo Mile 6 Solar Farm		1,500,000	5,000,000	10,000,000	10,000,000			26,500,000
Noro Generation			2,500,000	100,000	2,500,000	10,000,000	15,000,000	32,500,000
Noro-Munda new overhead 11kV link & ADSS				8,000,000	8,000,000			16,000,000
ADB FUNDED SOLAR								
Tulagi 150kw solar farm	500,000	50,000						550,000
Kirikira 150kw solar farm	500,000	50,000						550,000
Lata 150kw solar farm	500,000	1,000,000						1,500,000
Maluu 150kw solar farm	500,000	700,000						1,200,000
Munda 1mw solar farm	500,000	50,000						550,000
Hybrid - Consultant								-
HYBRID MICRO GRIDS								
New Power Station - Afo			2,000,000	5,000,000	3,000,000			10,000,000
New Power Station - Hauhui			1,500,000					6,000,000
New Power Station - Sasamuga	2,000,000	2,500,000	1,500,000					6,000,000
New Power Station - Vonunu	2,000,000	2,500,000	1,500,000					6,000,000
New Power Station - Namugha	2,000,000	2,500,000	1,500,000					6,000,000
New Power Station - Visale	1,000,000	5,000,000	5,000,000	5,000,000	4,000,000			20,000,000
New Power Station - Tingoa	1,000,000	5,000,000	5,000,000	5,000,000	4,000,000			20,000,000
New Power Station - Dala	1,000,000	5,000,000	5,000,000	5,000,000	4,000,000			20,000,000
New Power Station - Bina	1,000,000	5,000,000	5,000,000	5,000,000	4,000,000			20,000,000
New Power Station - Baoko	1,000,000	5,000,000	5,000,000	5,000,000	4,000,000			20,000,000
Solar Hybrid 1 - Kia				400,000	5,000,000	5,000,000	5,000,000	15,400,000
Solar Hybrid 2 - Kolotubi				400,000	5,000,000	5,000,000	5,000,000	15,400,000
Solar Hybrid 3 - Biluru				400,000	5,000,000	5,000,000	5,000,000	15,400,000
Solar Hybrid 4 - santa Ana				400,000	5,000,000	5,000,000	5,000,000	10,400,000
Solar Hybrid 5 - Lambi				400,000	5,000,000	5,000,000	5,000,000	10,400,000
Solar Hybrid 6 - Ulawa			500,000	5,000,000	5,000,000			10,500,000
Solar Hybrid 7 - Kiu				400,000	500,000	5,000,000	5,000,000	10,900,000
Solar Hybrid 8 - Foondo				400,000	500,000	5,000,000	5,000,000	10,900,000
Solar Hybrid 9 - Talakali				400,000	500,000	5,000,000	5,000,000	10,900,000
Solar Hybrid 10 - Marau		300,000	5,000,000	5,000,000				10,300,000
Solar Hybrid 11 - Pakera		500,000	5,000,000	5,000,000	10,000,000			20,500,000
Solar Hybrid 12 - Talibau			500,000	2,500,000	2,500,000	2,500,000	2,500,000	10,500,000
Solar Hybrid 13 - Emu Harbour Ranogga			500,000	2,500,000	2,500,000	2,500,000	5,000,000	13,000,000
Solar Hybrid 14 - Avuligo			500,000	5,000,000	5,000,000	5,000,000	5,000,000	20,500,000
Solar Hybrid 15 - Kameosi			500,000	5,000,000	2,500,000			8,000,000
Solar Hybrid 16 - Tataba			500,000	5,000,000	2,500,000			8,000,000
More Solar Farms		5,000,000	6,000,000	18,000,000	15,000,000	15,000,000		59,000,000
TOTAL OUTSTATIONS	15,500,000	46,060,000	67,000,000	122,700,000	117,490,000	79,000,000	67,500,000	515,250,000
TOTAL BUILDINGS	11,334,645	18,532,142	25,504,045	778,131	-	-	-	56,148,963
GENERATION PROJECTS								
TOTAL GENERATION	1,000,000	6,105,000	7,825,000	2,380,000	2,065,000	1,995,000	6,630,000	28,000,000
DISTRIBUTION PROJECTS								
TOTAL DISTRIBUTION	15,640,000	2,550,000	12,560,000	12,170,000	14,100,000	12,200,000	12,000,000	81,220,000
BUSINESS AS USUAL PROJECTS (BAU)								
TOTAL BAU	35,675,500	57,215,385	56,886,240	50,961,601	49,865,539	54,934,639	50,165,412	355,704,316
Employment Costs	16,653,398	17,656,200						34,309,598
TOTAL PROJECTS	122,043,643	237,608,685	290,355,242	316,729,563	281,750,413	202,089,596	161,295,412	1,601,722,455

APPENDIX D – SP STRATEGIC PLAN 2022 to 2027



APPENDIX E – Statement of Financial Position – 2021 (Audited), 2022 Forecast, 2023 Budget, 2024 to 2028 Forecast

Solomon Islands Electricity Authority Statement of financial position 2021 Audited, 2022 Forecast, 2023 Budget, 2024-2028 Forecast								
	AUDITED 31-Dec-21 SBD\$	FORECAST 31-Dec-22 SBD\$	BUDGET 31-Dec-23 SBD\$	FORECAST 31-Dec-24 SBD\$	FORECAST 31-Dec-25 SBD\$	FORECAST 31-Dec-26 SBD\$	FORECAST 31-Dec-27 SBD\$	FORECAST 31-Dec-28 SBD\$
Assets								
Non-current assets								
Property, plant and equipment	889,984,357	967,911,616	1,153,434,851	1,211,751,769	1,346,898,739	1,458,453,760	1,511,076,714	1,586,577,913
Right of use Assets	6,199,391	6,199,391	6,199,391	6,199,391	6,199,391	6,199,391	6,199,391	6,199,391
Works In Progress	245,001,926	226,110,797	203,916,695	271,074,031	312,378,500	347,364,370	371,360,864	357,896,144
Government Bonds	70,000,000	65,714,286	58,571,429	48,571,429	38,571,429	28,571,429	18,571,429	8,571,429
Total non-current assets	1,211,185,674	1,265,936,090	1,422,122,366	1,537,596,619	1,704,048,059	1,840,588,949	1,907,208,398	1,959,244,877
Current assets								
Cash In the Bank	305,114,911	316,391,320	293,915,650	257,085,919	183,904,981	124,993,987	79,239,619	85,306,991
Petty Cash	47,000	47,000	47,000	47,000	47,000	47,000	47,000	47,000
Debtors	65,009,253	117,977,492	122,804,491	110,162,453	99,518,592	96,887,410	98,523,251	100,253,741
Stocks	59,400,027	59,701,121	67,867,577	74,141,290	82,963,862	90,290,907	94,121,879	97,223,703
Prepayments	15,948,459	15,948,459	15,948,459	15,948,459	15,948,459	15,948,459	15,948,459	15,948,459
Short Term Assets	-	-	-	-	-	-	-	-
Total current assets	445,519,649	510,065,392	500,583,177	457,385,120	382,382,894	328,167,762	287,880,207	298,779,893
Total assets	1,656,705,322	1,776,001,482	1,922,705,542	1,994,981,739	2,086,430,953	2,168,756,711	2,195,088,605	2,258,024,770
Liabilities								
Current Liabilities	53,421,344	125,811,353	129,425,808	113,062,384	98,641,206	92,845,505	94,796,886	96,814,078
Deferred Income	136,457,859	137,324,218	177,435,716	148,969,773	145,928,266	147,709,831	117,544,309	124,110,853
Lease Liabilities	1,126,723	1,126,723	1,126,723	1,126,723	1,126,723	1,126,723	1,126,723	1,126,723
Term Liabilities & Loans	32,640,962	31,654,548	69,383,935	120,617,322	166,190,708	187,427,353	179,419,998	171,412,643
Total liabilities	223,646,889	295,916,843	377,372,182	383,776,202	411,886,903	429,109,412	392,887,916	393,464,298
Net Assets	1,433,058,433	1,480,084,639	1,545,333,361	1,611,205,537	1,674,544,050	1,739,647,299	1,802,200,689	1,864,560,472
Equity								
Contributed capital	246,933,170	246,933,170	246,933,170	246,933,170	246,933,170	246,933,170	246,933,170	246,933,170
Reserves	445,427,015	445,427,015	445,427,015	445,427,015	445,427,015	445,427,015	445,427,015	445,427,015
Accumulated Profits / (Losses)	740,698,248	787,724,453	852,973,175	918,845,352	982,183,864	1,047,287,113	1,109,840,503	1,172,200,286
Total equity	1,433,058,433	1,480,084,639	1,545,333,361	1,611,205,537	1,674,544,050	1,739,647,299	1,802,200,689	1,864,560,472

APPENDIX F – Statement of Comprehensive Income – 2021(Audited), 2022 Forecast, 2023 Budget, 2024 to 2028 Forecast

Statement of Comprehensive Income

2021 Audited, 2022 Forecast, 2023 Budget, 2024 -2028 Forecast

	AUDITED	FORECAST	BUDGET	FORECAST	FORECAST	FORECAST	FORECAST	FORECAST
	2021	2022	2023	2024	2025	2026	2027	2028
	SBD	SBD	SBD	SBD	SBD	SBD	SBD	SBD
Operating Income								
Electricity sales								
CashPower Sales	126,592,855	142,891,747	163,835,386	146,969,447	132,769,305	129,259,005	131,441,405	133,750,079
Kwh Sales	321,645,248	393,258,308	409,348,302	367,208,176	331,728,639	322,958,034	328,410,835	334,179,136
CashPower Fees	1,905,097	935,157	916,454	898,125	880,162	862,559	845,308	828,402
Kwh Fees	192,887	189,029	185,249	181,544	177,913	174,354	170,867	167,450
Sundry Income	4,484,965	989,296	1,342,614	1,327,845	1,313,239	1,298,793	1,284,506	1,270,377
	454,821,051	538,263,537	575,628,004	516,585,137	466,869,258	454,552,745	462,152,922	470,195,443
Less Cost of Sales								
Electricity Bought	3%	16%	6%	-11%	-11%	-3%	2%	2%
Fuel Oil	174,611,472	255,138,939	264,330,175	207,159,336	156,404,171	24,341,217	28,041,581	31,900,089
Lubricating Oil	3,442,106	3,373,263	3,305,798	3,239,682	3,174,889	3,111,391	3,049,163	2,988,180
Generation R&M	8,176,368	15,607,194	9,175,200	8,991,696	8,811,862	8,635,625	8,462,912	8,293,654
	186,229,946	274,119,396	276,811,174	219,390,715	168,390,922	146,088,232	149,553,656	153,181,923
Gross Profit	268,591,105	264,144,142	298,816,831	297,194,422	298,478,337	308,464,513	312,599,266	317,013,521
<i>Margin</i>	59%	49%	52%	58%	64%	68%	68%	67%
Other Operating Expenses								
Distribution R&M	4,817,525	5,108,516	4,108,516	4,184,934	4,262,774	4,342,061	4,422,824	4,505,088
Metering R&M	890,308	568,252	578,821	589,587	600,554	611,724	623,102	634,692
Property R&M	1,507,359	2,872,186	3,390,000	3,453,054	3,517,281	3,582,702	3,649,340	3,717,218
Employment Costs	71,248,435	83,657,945	86,992,289	88,610,345	90,258,498	91,937,306	93,647,340	95,389,180
	78,463,627	92,206,898	95,069,625	96,837,920	98,639,106	100,473,793	102,342,606	104,246,178
Operating Profit	190,127,478	171,937,244	203,747,205	200,356,502	199,839,231	207,990,720	210,256,660	212,767,343
<i>Margin</i>	42%	32%	35%	39%	43%	46%	45%	45%
Other Income or Adjustments								
Grant Income	6,316,451	6,104,842	7,926,225	10,933,952	11,027,400	9,245,835	7,621,127	7,621,127
Grant Income - IDA	2,789,587	4,622,497	3,736,637	4,725,879	4,725,879	4,725,879	4,725,879	4,725,879
Bond Income	3,500,018	7,732,143	10,375,000	12,803,571	12,303,571	11,803,571	11,303,571	10,803,571
	12,606,056	18,459,481	22,037,863	28,463,403	28,056,851	25,775,285	23,650,577	23,150,577
Overheads								
Training & Dev.	610,723	1,760,338	2,995,826	3,051,549	3,108,308	3,166,122	3,225,012	3,284,997
ICT	6,438,175	6,223,798	5,425,399	5,526,311	5,629,101	5,733,802	5,840,451	5,949,083
Vehicle Costs	4,198,478	3,575,597	3,598,387	3,665,317	3,733,492	3,802,935	3,873,669	3,945,720
Consultants	3,567,855	5,019,783	7,806,000	7,951,192	8,099,084	8,249,727	8,403,172	8,559,471
Customs & Logistics	4,462,621	2,683,950	2,502,168	2,548,708	2,596,114	2,644,402	2,693,588	2,743,689
Personnel Costs	7,532,021	6,541,154	6,058,547	6,171,235	6,286,020	6,402,940	6,522,035	6,643,345
Finance & Fees	13,677,146	11,738,312	13,358,787	13,607,260	13,860,355	14,118,158	14,380,756	14,648,238
Travelling	2,970,544	3,478,917	3,584,601	3,651,275	3,719,189	3,788,366	3,858,829	3,930,604
OHS Costs	1,344,252	1,511,866	623,535	635,133	646,947	658,980	671,237	683,722
Other Admin Costs	10,666,451	10,511,171	13,585,311	13,837,998	14,095,384	14,357,558	14,624,609	14,896,627
Total Overhead Costs	55,468,264	53,044,885	59,538,561	60,645,978	61,773,994	62,922,990	64,093,357	65,285,494
Financial Costs								
Depreciation	71,997,946	87,040,127	96,473,653	97,723,653	98,973,653	100,223,653	101,473,653	102,723,653
Interest on Loans	945,390	810,444	1,089,988	1,111,139	476,316	2,089,626	2,494,553	2,266,896
Total Financial Costs	72,943,336	87,850,571	97,563,642	98,834,793	99,449,970	102,313,279	103,968,207	104,990,549
NET PROFIT	74,321,934	49,501,269	68,682,865	69,339,133	66,672,118	68,529,736	65,845,673	65,641,877
<i>Margin</i>	16%	9%	12%	13%	14%	15%	14%	14%
<i>ROE</i>	5.5%	3.4%	4.5%	4.4%	4.1%	4.0%	3.7%	3.6%
<i>ROA</i>	4.7%	2.9%	3.7%	3.5%	3.3%	3.2%	3.0%	2.9%