Annual Report of Solomon Airlines Limited 2014

Solomon Airlines Limited

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Solomon Airlines Limited

Chairman's Report

On behalf of the Board of Directors, the CEO, Management and Staff of Solomon Airlines Limited, I, hereby, present the Annual Report and Financial Statements for financial year ended 31st December, 2014 together with a record of progress made against key action items planned for the Airline over the course of the 2014 Financial Year.

2014 was not without its challenges. There has been no signs of recovery in the downturn of international passenger movements between Brisbane and Honiara as first experienced in 2012. The devastating April floods impacted on both travel and revenue and our operations have been affected with the prolonged impasse on providing air services between Solomon Islands and Fiji.

In April 2013, ACS Aviation Solutions carried out the on-site phase of the initial IOSA registration audit including an assessment of all ISARPS and required   mandatory assessments as per the IOSA Program Manual. The Audit Team identified 70 findings in the 703 point audit and corrective action plans were implemented to address all findings by April 2014 in order to gain IOSA accreditation and reinstatement of IATA membership. The second phase follow-up renewal audit was conducted in November, 2014. In all 22 findings were   identified of which all root causes and action plans have been accepted with corrective action to be completed by April, 2015. This is a remarkable achievement by the CEO, Management and Staff and provides a solid platform in our negotiations to seek code sharing arrangements with major carriers as well as interline benefits.

It goes without saying, IOSA accreditation comes at a significant investment in terms of cost to the Airline far outweighed by the long term benefits to be gained.

The efficiencies of our Dash 8 operation would be greatly enhanced with the upgrading of more provincial airstrips to all weather, Dash 8 capability. At time of   this Report, the Airline is only servicing four (4) of the twenty-four (24) provincial airstrips in operation with the Dash 8 service, resulting in 60% utilisation of the aircraft. It is vital this number of Dash 8 capable strips be expanded particularly as we strive to make the costly domestic operation profitable in its own right. I would also take this opportunity to point out the significant loss of revenue to the Airline through the forced closure of airstrips be it landowner issues or strips unserviceable in bad weather. Auki, Parasi, Gatokae, Batuna and Ballallae have been closed for some time due to landowner issues.

Seghe, the gateway to Marovo Lagoon, is limited to twin otter and islander aircrafts whilst Fera, Suavanao and   Kira Kira are frequently closed due to bad weather. This is having an enormous impact on tourist operators and our revenue. New airstrips at Manaoba and Lomlom remain uncommissioned. It is sad to note   that not one airport on the densely populated Malaita Province is open at time of this Report. Seven other airstrips have been closed for some time.

CORPORATE AFFAIRS AND ADMINISTRAIONS SERVICES

COR-01   GROWTH INITIATIVES

The Company Plan provided for the establishment of strategic partnerships/alliances in order to meet competition, improve cost efficiencies and maximise aircraft utilisation and seating capacity.

Initiatives developed under the recognised models have the potential for the Airline to remain in a strong sustainable position in the foreseeable future.

(i)   Air Kiribati

The impasse between Solomon Islands and Fiji has put this matter on hold until the issue of Air Service Agreements is resolved.

Partnership with Air Kiribati had progressed well to the point where the matter was with the regulators to approve an AOC for Air Kiribati.

Air Kiribati has yet to enter into an Air Service Agreement with Fiji authorities.

(ii)   Solomon Airlines is looking at a code share arrangement with QANTAS. As a preliminary requirement, the Airline will have to undergo a safety audit by QANTAS.

The final IOSA audit results are to hand in April 2015.

(iii)   The Airline is currently considering options to open up a Honiara/Sydney/Honiara service by mid-2015, and is looking at options to open up a Honiara/Santo service.

(iv)   Introduction of bulk handling and sales initiatives are expected to increase cargo revenue out of Australia and New Zealand.

COR-02   FLEET MANAGEMENT

INTERNATIONAL

Airbus A320 – H4-BUS

To be white tailed and returned to lessor by May, 2016.

The Airline is currently looking at identifying a later model Airbus A320 or other suitable options to replace existing aircraft.

DOMESTIC

Twin Otter – H4-SID

Reached the end of fuselage life in late 2014.

Management has considered three options:
- (a) Source replacement fuselage and utilise all running gear from H4-SID
- (b) Purchase replacement aircraft and dispose of H4-SID on as is basis
- (c) Purchase replacement aircraft and enter into a partnership arrangement rebuilding, for sale, a new aircraft using al running gear from H4-SID on the fuselage previously purchased and sold by the Airline.

Management considered option (c) the most beneficial way forward for the Airline, in the longer term and has sourced funding to purchase   the Twin Otter (H4-OTA), currently on lease.

Under this scenario, the Twin Otter, H4-SID, will then be sold after re-build (joint venture with Hevilift Engineering). The Airline's share of proceeds from this sale will be used to fund the C-Check for the Dash 8.

COR-03   UPGRADING AIRSTRIPS

There still remains an urgent need to upgrade all main provincial airstrips to all weather, Dash 8 capability. First priority as recommended is the upgrading of Taro and repairing Seghe airstrips.

This is a costly project and lack of available funding is the prime reason why little has been done by the relevant authorities to address this important issue.

With our domestic pilots requiring to complete 100 hours night flying in order to gain their ATPL, we would continue to support sourcing of funding to provide lighting at the key Munda and Gizo airports. This initiative will greatly improve Dash 8 utilisation and scheduling efficiencies.

The following highlights what ca only be described as a sad state of affairs. For much of the report period the most densely populated province of Malaita was without an open airstrip. This is having a significant negative impact on domestic revenue.

Current airstrip status is as follows:

Manaoba		Yet to be commissioned
Lomlom		Yet to be commissioned
Seghe		Limited to Islander and Twin Otter aircraft only since May, 2013
Parasi		Remains closed
Auki		Remains closed
Atoifi		Recently opened
Afutara	Closed	
Avuavu	Closed	
Batuna		Closed
Gatokae		Closed
Mbambanakira	Closed	
Nana		Closed
Yandina	Closed	
Kirakira	Closed	
Suavanao		Closed when wet
Fera		Closed when wet

COR-04   PRIVATION OF SOLOMON AIRLINES LIMITED

S I Government policy on privatisation of the Airline is yet to be provided.

COR-05   COMPANY OWNED PROVINCIAL LIMITED

Plans to upgrade the Gizo Office have been deferred due to lack of available funding.

COR-06   COMPANY OWNED RESIDENCES

An audit was carried out earlier this year focusing on conditions, maintenance required together with costs of repairs.

A scheduled program to carry out the works is under consideration by management.

The Board has asked management to draft a position paper on Company owned properties prior to developing a formal policy on the matter.

The Airline has engaged the services of a local consultant to address all Company lease issues. He has completed the initial analysis and the Airline has approved his recommendations moving forward.

COR-07   SUPPORTING GROWTH WITHIN THE TOURISM SECTOR

In February, 2014 the Solomon Islands Visitors Bureau (SIVB) and Solomon Airlines
formalised a Memorandum of Understanding aimed at boosting the destination's overseas profile and increasing international visitation numbers.

Under the agreement both parties will jointly explore and implement activities to promote increased tourist traffic to the Solomon Islands in its existing mature source markets and also other markets seen as offering strong potential to the destination.

The partnership includes the Airline providing assistance with airfares allowing the SIVB to participate in overseas travel shows and other promotional opportunities as well as supporting activities taking place within the Solomon Islands.

Both organisations will join resources and implement the changes seen as necessary to transform the perceptions with which the Solomon Islands are held on the international stage and accordingly, lift tourism to the benefit of everyone involved.

COR-08   COMMUNITY SERVICE OBLIGATIONS

The agreed CSO payment of SB$6 million for 2014, has been slower than originally budgeted with SB$4.2 million paid in tranches over May, June and July.

The Airline is currently analysing the value of lost revenue through provincial airport closures, April floods, reduced passenger movements and the impasse with Fiji.

This will be carried out in conjunction with developing community service obligations budgetary provisions for 2015 and with assistance of the Economic Reform Unit.

ADMINISTRATION

ADM-01   REPORTING

2015 – 2017 Statement of Corporate Objectives as required under the SOE Act of 2007 and Business Plan for the same period was presented to the Economic Reform Unit on 30th October, 2014 for reference to the Honourable Minister of Finance and Treasury. The Annual Report for 2014 is being prepared in draft form pending completion of audit by KPMG.

ADM-02   CBD SALES OFFICE

Relocation from former Printers Office to the Tongs Building at Point Cruz was completed in October, 2014.

This new Travel Centre is now inclusive of Panatina Travel (now closed and staff re-accommodated) all into one consolidated office environment. This is a much more productive office for all our clients and a much better working atmosphere. Solomon Airlines now has four travel centres in Town; Head Office-Henderson; International Airport and the Domestic Airport with both International and Domestic offices open 7 days weekly.

HUMAN RESOURCE

HUR-01   COMPANY STAFF POLICY AND PROCEDURES MANUAL

Manual completed and distributed. Will continue to be regarded as work in progress.

Planned to be available to all staff in soft copy format as part of HR's plan to
introduce on line modules to streamline all HR processes.

HUR-02   FORMAL STAFF APPRAISAL FORM

Modified appraisal forms developed and currently being trialled. Will in time be processed on line (see HUR-01).

HUR-03   GRADUATE TRAINEE POLICY

The next intake is planned for 2016. Interviews will be carried out across all South
Pacific campuses from September 2015 to engage trainees in the nominated disciplines.

HUR-04   STUDENT SCHOLARSHIP

An issue of particular concern to the Airline particularly in the awarding of trainee pilot scholarships.

The Airline's issues are:

- The need to open dialogue with the NTU in order to become involved in the selection process (as the ultimate employer of choice).
- Scholarships being awarded far in excess of requirements.
- Pilot licence requirements. Only NZ or Australian Air Transport Pilots Licences (ATPL) recognised for progression to Dash 8 and Airbus A320.

  A commercial pilots licence will not be recognised by CAASI in the near future
- The need for pilots to acquire 100 hours night flying as part of ATPL requirements.

The Airline will be seeking a meeting with NTU to raise our concerns and offer possible options to resolve these issues.

HUR-05   **STAFF BONUS SCHEME**

Deferred for the time being.

HUR-06   **HR STAFFING**

The position of HR Manager remains vacant. Hernandia, nee Sigimanu, will complete the graduate trainee program in January 2015 and has indicated a preference to work in the HR Department.

HUR-06   **HR STAFFING**

A 4% COLA increase was applied from August, 2014.

CORPORATE SAFETY, SECURITY & AUDIT ADMINISTRATION

CSS-01 <u>**SAFETY MANAGEMENT SYSTEMS**</u>

The development and publication of the new Safety Management Systems Manual, which incorporates Quality Assurance, has provided a single point of reference for the principles and procedures of our safety program for all Solomon Airlines personnel.

This manual also now provides a depth of safety management information for the better understanding and compliance management of all the elements within the wide sphere of safety of operations.

CSS-02 **CORPORATE SAFETY PROGRAM**

The Solomon Airlines Safety Program platform is the ICAO SMS (Safety Management System) 4 Pillar Focus:

- Safety Policies and Objectives
- Safety Risk Management
- Safety Assurance
- Safety Promotion

There are numerous elements to the above and the following subheadings provide the main   activities monitored and managed during 2014 by the Corporate Safety, Security & Audit Department.

CSS-03   GOVERNANCE

Maintaining of Civil Aviation Authority of Solomon Islands approvals for Rule 145 Maintenance and Rule 119 Certification, Air Services Licences and all requirements for Regulators to the States to which Solomon Airlines operate.
A change of maintenance service providers in Australia required Civil Aviation Authority of the Solomon Islands (CAASI) approval processes to be completed.
Formal and disciplined monthly safety meetings (MSG) have been held which review the air operations for safety and security conformance and if required to task the accountable manager to provide corrective and any preventative actions. Additionally an annual management review was conducted across the Company's management system to ensure its continuing suitability, adequacy and effectiveness.

CSS-04   AUDIT PROGRAM

This is our quality assurance platform with the Corporate Safety Department conducting a number of internal audits during the year including for our new Australian based maintenance providers.
The IOSA audit provided an independent operational audit of the Company's international operations.
Additionally an independent audit of the Corporate Safety, Security & Audit department is scheduled for January 2015.
The Civil Aviation Authority of Solomon Islands also conducted an annual audit across all Solomon Airlines operations.

CSS-05   COMPLAINCE TRAINING

A centralised database system, Casini, now provides Companywide tracking of training requirements.
Safety risk management, change management, continuous improvement of SMS and safety performance monitoring training was completed during 2014.
Most operational compliance training (excludes flight crew) has 2 yearly revalidations. A lot of the revalidation training becomes due in 2015.

CSS-06   **AIRS Data Management & Integrated Reporting SYSTEM**

Safety reporting continues to increase which reflects well on staff who are generally embracing the principles of reporting safety and security concerns.

CSS-07   **RESOURCES**

Corporate safety department staff have been given good opportunities with training throughout the year based on IATA recommendations.
The drive by the CEO and the Corporate Safety, Security & Audit Administrator for continuous improvement of safety and security objectives within the department and across the Company has presented challenges with resources to meet the enhancements which have been identified through Civil Aviation audits and the IOSA program.
An enhanced IOSA program becomes effective in 2015. This introduces a significant increase in the number of mandatory conformance elements which will require a very disciplined approach by all staff to maintain this accreditation.

CSS-08   **SAFETY PROMOTION**

Internal safety promotion has been ongoing using all possible platforms (written, spoken and electronic) to promote and communicate safety information to our workforce, and including the inclusion of Safety Information within the Skaelaen Magazine. When applicable, safety articles were also included in the Solomon In-Flight Magazine.

CSS-09   **SECURITY MANAGEMENT**

The Corporate Safety, Security & Audit Administrator holds the responsibility for the aviation security of Solomon Airlines operations. Audits of operations were conducted throughout 2014.

It is recognised that the Solomon Islands is exposed to worldwide criminal and terrorist activities. Solomon Airlines understands our international responsibilities for ensuring our passengers are provided with security measures that meet international standards however we are challenged with this because of the poor aviation security attitude at the international terminal.

CSS-10   EMERGENCY RESPONSE PLANNING

The lack of an Airport Authority Emergency Management Manual has inhibited any coordinated emergency response exercise with all the airport stakeholders.

Solomon Airlines held in-house training exercises. The CEO activated our emergency response plan during the disastrous floods of April and again during a significant systems malfunction in May 2014.

Solomon Airlines also participated in the Ministry of Health Ebola Task Force preparation.

CSS-11   IOSA ACCREDITATION

The airline suite of manuals was reviewed and updated in October 2014 in preparation for the IOSA audit during November 2014.

This audit was conducted by an IATA accredited company, ACS, across 6 days and covered all of the documentation and implementation for Solomon Airlines international operations. A significantly reduced number of audit findings, 22, (down from the 70 the previous year) were identified and these will be actioned before the end of February in order to maintain the IOSA accreditation.

CSS-12   OPERATING CULTURE

All departments hold regular staff briefings and also formal monthly "Safety Action Group" (AOC) meetings. These AOC meetings are linked into the monthly Management Safety Group (MSG) meetings.

The 'Open Door' policy successfully operated by the CEO and Executive Managers, and the visibility of the Board, to staff is a major benefit to maintaining a positive and productive working environment.

2014 had a considerable number of external challenges, including significant flooding across the airfield and Company buildings. The responding teamwork by all staff was most encouraging and appreciated.

Other external challenges, which directly affect our operations and challenge the morale of staff, are the very poor standards of the airport terminals, facilities and the surrounding environments. The Honiara domestic terminal is completely flooded each time there is heavy downpour.

Solomon Airlines has continued to work very hard throughout 2014 to establish and maintain a positive, safety and security conscious culture which meets international expectations. The negative impact on Solomon Airlines of an inadequate civil aviation, airport authority and aviation security services cannot be understated. The inability of these agencies to manage funding, provide reasonable infrastructure including toilets, runways and aircraft parking aprons, to prevent hazards to aircraft from animals roaming the runway, to provide adequate air services training, to provide adequate rescue fire capability and provide operational working relationships which meets ICAO and IATA standards has been most limiting to Solomon Airlines. This also reflects very poorly on any tourism efforts of the Solomon Islands.

FINANCE

FIN-01   SYSTEMS UPGRADE

In August, 2014, the Airline started exploring the development of   Cargo revenue system in AVION. The Cargo revenue system is currently been processed in ARIS. It is expected that the AVION Cargo revenue system to go live in April 2015.

The Airline is also looking at upgrading the current Attaché payroll system into a Greentree system. We expect to roll out the Greentree system in the last quarter of 2015.

FIN-02   POLICIES AND PROCEDURES

The Finance manual is in its final stages of review and is expected to be completed and ready for distribution in the 2nd quarter of 2015.

FIN-03   FINANCIAL REPORTING

Financials are now available within the set time frame of two months from end of each quarter. Efforts to improve this position include the interfacing of the AVION system into the Greentree system and respective functions to ensure data, documentation and information flows are made available to the Finance Department within set time parameters.

FIN-04   STATUTORY ACCOUNTS

The audit for year ended 31st December, 2013 was carried out for the second time by KPMG from Fiji (Sub contracted by OAG). The auditors were very thorough and professional. It is questionable whether a 31st March deadline for submission of an Annual Report and Audited Financial Accounts as required by the SOE Act is either practical or achievable at this time of our restructure process.

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FIN-05   MANAGEMENT OF ACCOUNT RECEIVABLES

Reconciliation and appropriate provision for aged debt has been completed. An additional SBD1,398,737 debts provision was made during the year. These debts provisions are mainly for outport agents who have their agency agreement terminated and recovery proved difficult in the last two to three years.

FIN-06   MANAGEMENT OF ACCOUNT PAYABLES

The Airline is slowly recovering from the strained cash flow position experienced during the year as a result of the flowing impact of April flood and the downward trend in the international revenue.

Repayment schedules have been developed and agreed to by respective accounts. Most of these accounts are expected to be back within terms in 2015.

FIN-07   MANAGEMENT OF FIXED ASSETS

This is an Area of concern in the 2014 KPMG audit. The aircraft inventory room is not set up properly and as a result there are gaps in stock controls. To address this issue the airlines toward the last quarter of 2014 has invested in the expansion of stores building to make more spaces to increase storage capacity of the stores.

The airline has engaged a local consultant to renew all expiring land leases and will conduct a revaluation of land and buildings in 2015. All aircraft (except for the twin otter purchased during the year) has been revalued as at 31 December 2014. The fair values of all aircraft (except the Islander) have declined mainly as a result of the aging fleet and current market condition of the aircraft.

FIN-08   INSURANCE & RISK MANAGEMENT

2014 has been massive years in terms of insurance claims. The Airlines lost around AUD400k worth of Aircraft spares in the April Flood. Aerosure (insurance brokers) managed to negotiate with QBE Insurance to settle USD391,789.28 in two instalment payments in April and August 2014.

The Aircraft insurance cover and General Insurance were renewed with the same brokers and underwriters during the year.

FIN-09   RECORDS MANAGEMENT

A formal records policy is yet to be developed and implemented.Action is well in hand as the Airline shifts toward a paperless office workplace as part of the Airlines' go green environment policy.

FIN-10   IATA CLEARANCE HOUSE

The settlement of interline accounts through the clearance house has been up to date during the year despite the tight cash flow position.

FIN-11   TRAINING AND DEVELOPMENT

In-house training to familiarise all staff with the introduction of the Avion cargo revenue system and Passenger revenue were conducted during the year. IATA training courses have been put on hold pending renewal of IATA membership.

FIN-12   TRAINING AND DEVELOPMENT

The interim audit of account conducted by KPMG shows a much improved reconciliation and accounting of the unavailed revenue which has led to the closure of previous year's qualification on this subject.

Write-off on unavailed travel is done quarterly and variance to the unavailed account adjusted in the books on a more regular basis.

Ticket tracking following the upgrade from ARIS to AVION software have improved the position and allow for more accurate and timely reporting of unearned revenue at any particular point of time.

MANAGEMENT INFORMATION SYSTEMS & IT SERVICES

MIT Services administers and enables the rapid transmission of data and information essential to the company's business. It also provides an efficient and cost-effective means of communication between employees and its stakeholders. Progress based on the first half of 2015 is as follows:

IT-01   INFRASTRUCTURE (Hardware systems, networks, telecommunications, desktops)

Work in this area has continued, with further refinements to our network, security, telecommunications and critical hardware setup. The need for improved real-time network monitoring tools is important, and this is work that we are progressing yet. Despite some common internet speed issues of late, due to system changes with our Internet Service Provider (Solomon Telekom) our communications have overall provided the services expected.

Maintenance to computers, laptops, servers, data back-up devices and other critical hardware have been overall well managed.

The Closed-Circuit Television (CCTV) cameras have proved to be very useful so far this year, helping to resolve incidents identified by various departments. However, the requirements to install additional cameras at other locations is evident, this is dependent on budget availability and EXCO agreement.

Major infrastructure projects ongoing this half of the year have been the phone/data cabling work at the currently renovated Engineering Hanger. Once the building is ready, we will be setting up all IT requirements, ready for use.

IT-02   BUSINESS APPLICATIONS (Software Applications)

System upgrade support provided this first half of the year, have been for the Greentree (HR/Finance), Vectis (Finance), Ascuda (Cargo), Navigator & Bombardier (Engineering) & Amadeus (Commercial) software's.

Other key ongoing work in its initial stages is the planning of Electronic Check-In systems setup for Gizo & Munda Airports. This also involves, installing recently purchased Boarding Pass & Baggage tag printers at these ports as well as installing replacements for the Honiara Domestic Terminal, which were damaged by the April 2014 floods. Aside from this, changes to Qantas connections for the Aviator system (Commercial) also require configuration changes to our systems. This is work that we are continuing to liaise with Qantas & Aviator on.

Other improvements to Management Information Systems are still work in progress.

IT-03   IT STAFFING ORGANISATION

This first half of the year, the section still has the services of two (2) full-time staff, the IT/MIS Manager and the IT Support Officer. The services of a temp IT Support staff were acquired in June for eleven (11) weeks, to assist as staff took leave and attended training.

The intention of the section is to recruit a third full-time staff to take on the role of an IT Support Officer and change the role of the current IT Support Officer to a Systems Administrator. A proposal is to be drafted to EXCO for consideration.

IT-04   IT PROCESSES (Change Management, Escalation, Disaster Recovery, Client Service)

Data backup processes setup across all offices work well and we continue to monitor and maintain these. Early this year, we purchased necessary hardware to assist with testing data recovery processes. As a test, the Head Office main server was successfully restored. This ensures that our data backup processes are working as expected. Another data recovery test is planned for the second half of the year.

In terms of our **Corporate - IT Policy & Procedures** we are enforcing to staff the brief policy as documented in our **Staff Policy and Procedures Manual**. However, a draft version of our revised detailed **IT Policy & Procedures Manual** was provided to EXCO in December 2014 and awaiting endorsement by them.

Once endorsed, we would like to provide training to staff in understanding the proper use of these IT services.

An audit was conducted in March 2015 by KPMG and IT was audited against findings raised from previous audits. We have addressed the findings and await the auditors report for 2015. One of the new issues raised this audit, was the data back-up of the Engineering Inventory Listing on the Take Flight system. As this application is hosted online by the supplier, we would need to have discussions with Engineering and the Take Flight supplier to come to a solution.

Monitoring and management of Telekom accounts and email data usage has continued. We aim to before the end of 2015, automate our reporting of all our Telekom services, so that managers can easily view and manage costs associated to their department's usage.

MAINTENANCE AND AIRWORTHINESS

MAA-01   HANGAR IMPROVEMENTS

This is work in progress which mainly consists of renovation to the Stores and Administration Block. Planned completion date is end of June, 2015.

In the disastrous April floods, well over a metre of water inundated the hangar resulting in loss of spare parts and records as well as office equipment. Clearing up operations took several days.

MAA-02   ON-TIME PERFORMANCE

OTP for release to line of flights following scheduled maintenance has averaged out for the first half of the year at an unacceptable 45% against a target of 85% due to number of breakdowns. Second half of 2014 the average OTP after scheduled maintenance for the Engineering Department only was 100%.

Maintenance on the Dash 8 has improved significantly since the appointment of a LAME dedicated solely to the Dash 8 servicing. We now have two Solomon Islander engineers who are licensed on the Dash 8 – one in Avionics and the other in Engines/Airframe. Overseeing the overall maintenance of the Dash 8 is an expatriate (PNG) engineer.

The Airline continues to identify a suitable candidate to fill the Maintenance Controller position. Appointment of this officer will greatly enhance engineering maintenance services. An expatriate (Filipino) Maintenance Controller has been employed with an understudy soon to be nominated.

MAA-03   ORGANISATION CONTROL MANUALS

The Maintenance and Airworthiness Division is currently assessing training needs of all function staff to ensure understanding and compliance with provisions of the manuals by adopting the new appraisal document which will assist in identifying individual staff remedial requirements. This training is ongoing as manuals are being regularly amended. Latest in-house training was Air Law based on the NZ Rules which CAASI has adopted.

MAA-04   QUALITY ASSURANCE MANUALS

Whilst completed in readiness for the 2013 IOSA audit, the manuals are considered work in progress and reviewed and upgraded as necessary. Like most of our manuals, they keep on getting amended.

MAA-05   PERSONNEL

Number of personnel:

Maintenance and Airworthiness Manager	1
Foreman	1
Maintenance Controller	1
Tech. Records	3
Stores	3
LAME (Avionics)	2
LAME (Eng./Airframe)	4
AME and Tradesman (Avionics)	2
AME and Tradesman (Eng./Airframe)	9

MAA-06   TWIN OTTER – H4-SID

See also COR-02 Fleet Management

As Twin Otter – H4-SID's fuselage life is expiring the aircraft will be ferried to Cairns where any usable parts from H4-SID will be used in a rebuild utilising an alternate fuselage.

MAA-07   ALPHA INDIA

Rebuild completed under insurance claim following heavy landing.

In operation from February, 2014 and has been fully operational since the release to service after the repair.

FLIGHGT OPERATIONS

FLT-01   FLIGHT OPERATIONS MANUAL

The Flight Operations Manual has been reviewed and upgraded prior to the follow up second phase IOSA audit in November, 2014.

FLT-02   AIR TRANSPORT PILOT LICENCES (ATPL)

Under the Civil Aviation Act of 2008, it is mandatory for all newly endorsed command pilots to hold the higher category Air Transport Pilots Licence (ATPL). It is essential to hold this qualification in order to progress to the Dash 8 operation and then proceeding to first officer on the Airbus A320. The majority of our domestic pilots only hold a commercial pilots licence and the Airline is encouraging these pilots to study for the ATPL category.

A requirement of an ATPL is for pilots to carry out 100 hours of night flying. The Airline will support any proposal to install lighting at Gizo and Munda airstrips in order for us to assist pilots with this requirement. Other valid reasons why Government and the Airline should promote this infrastructure development include:

1. Significantly improving aircraft utilisation and cost efficiencies particularly in the Dash 8 operation by improved scheduling to/from tourist destinations coinciding with international flight arrivals and departures

2. Munda airstrip was recently upgraded and could be recognised as an alternate landing site were lighting to be provided

FLT-03   PILOT TRAINING

Under normal circumstances, the Airline would project an intake of two new trainee pilots every two years. It is understood the NTU have granted scholarships far in excess of this requirement. We will be meeting with them to express our concerns and the fact the Airline, as employer of choice, has no involvement in the selection process. We will also put other options on the table at this time for consideration.

FLT-04   PILOT UPGRADES

The Airline is committed to the day where Solomon Islander pilots will be in command of the Airbus A320. Progression requires the following:

- Gaining an Australian or New Zealand ATPL
- First Officer Dash 8
- Preferably command of Dash 8
- First Officer A320
- Command A320

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CABIN SERVICES

CAB-01   **CABIN CREW**

The total number of Cabin Crew currently stands at eighteen all of whom have been cross trained to Airbus A320 and Dash 8 operational requirements. Similarly, they are called upon from time to time to attend at the Belama Club and five have been trained for check-in at the International Terminal.

Proposed additional flight services to Sydney and potential partnership options may require the appointment of an additional set of flight attendants.

All cabin crew are expected to deliver courteous, professional service and project an image that benefits the Airline's image particularly as they are the point of first contact for all passengers including those visiting Solomon Islands for the first time.

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In recognising that training and constant reviews are vital to our success in this area, the following training programs were conducted in 2014:

- 07 January   Aircrew Security Recurrent Training
- 19 January to 04 February   Dangerous Goods Acceptance
- 10 to 21 February   Cabin Manager Training
- 17 March   Hazard Identification and Reporting
- 19 March   Safety Management System & Hazard Identification and Reporting
- 20 March   Safety Management System & Hazard Identification and Reporting
- 07 May   Dangerous Goods Awareness
- 08 May   Dash 8 Safety and Emergency Procedures Recurrent Training
- 24 June   A320 Safety and Emergency Procedures Recurrent Training
- 29 July   A320 Safety and Emergency Procedures Recurrent Training
- 05 August   A320 Safety and Emergency Procedures Recurrent Training
- 08 August   Domestic Flight Crew Initial Training
- 14 August   Domestic Flight Crew Initial Training
- 26 August   Cardio Pulmonary Resuscitation Training
- 03 September   IOSA Awareness for Cabin Managers
- 10 September   Dangerous Goods Awareness
- 18 September   A320 Safety and Emergency Procedures Recurrent Training
- 26 September   Dash 8 Safety and Emergency Procedures Recurrent Training
- 28 September   Dash 8 Safety and Emergency Procedures Recurrent Training
- 03 October   Dash 8 Safety and Emergency Procedures Recurrent Training
- 05 October   A320 Safety and Emergency Procedures Recurrent Training
- 28 October   Dangerous Goods Awareness for Screening Personnel
- 29 October   Dangerous Goods Awareness for Screening Personnel

CAB-02   AIRCRAFT CLEANING

As part of ensuring high levels of customer service and satisfaction are maintained we expect our product and that of other operators to be presented clean, tidy and fully prepared prior to flight board.

Additionally the exterior of our domestic aircraft are being washed down regularly now abundant bore water is available. We are now carrying out in-house cleaning of the Airbus A320 during Wednesday night stop overs in Honiara.

CAB-03   CATERING

Catering on the return Honiara/Brisbane sector, on Honira/Vila/Nadi route and Belama Lounge, is being supplied by the Heritage Park Hotel. ATS out of Fiji supplies in-flight catering for the return Nadi/Vila/Honiara sections.

CAB-04   COMMUNITY INITIATIVE

In 2012, the Airline initiated in association with the Rotary Club of Honiara "in-flight" donations with proceeds collected to support improvements to lower infant mortality in the Solomon Islands. The initiative was discontinued in 2014, however, we are planning to re-introduce the concept again in 2015 with collections in support of needy school programs.

FREIGHT

FRE-01   FREIGHT/CARGO

The Cargo Section satisfactorily complied with all provisions of the IOSA 2014 2nd phase follow-up audit. Cargo is still very much the unexploited source of potential revenue for the Airline.

In order to capture and develop some of the cargo business into Honiara out of New Zealand, the Airline has engaged the services of GSA Cargo Services NZ Ltd.

Our Queensland cargo General Sales Agent (GSA) remains Aircraft Loaders and Packers, however, the rest of Australian GSA is with GSA Cargo Services Australia Ltd.

In 2013, the Airline purchased cargo x-ray equipment in order to comply with IOSA requirements. Introduction of cargo x-raying under Part 108/109 has, however, been further delayed. A dedicated section within our cargo complex was refurbished to provide a secure facility and it is hoped AVSEC will now be operating the process by mid-2015.

COMMERCIAL

COM-01   ON TIME PERFORMANCE

Weekly targets for on time performance (OTP) were set at 80% for both
domestic and international operations. The average weekly results for 2014 came in at 71.5% and 76% respectively. (See also COM-16, below)

COM-02   ELECTRONIC CHECK-IN SYSTEM

Electronic board passes are in use both at the domestic and international terminals
in Honiara. The local domestic check-in system was damaged by April flooding and off line for several days. At most provincial airports, check-in is carried out manually and the process of slowly upgrading will continue throughout 2015.

A computerised ticketing system trialled at Lata in late 2012 is now fully operational
with a full-time Solomon Airlines staff manning the office, adding to our services at Munda and Gizo.

COM-03   RESERVATIONS (PROVINCIAL)

Apart from Gizo and Munda, only Lata is serviced with the Amadeus reservations
system after the closure of the Auki operation again early this year. Kirakira is now on the line as there is already ADSL connection capability there. Fera and Choiseul may still be some time away before they can be rolled out.

COM-04   IT (COMMERCIAL OPERATIONS)

Refer to INFORMATION SYSTEMS MANAGEMENT & IT SERVICES

COM-05   AGENTS – PROVINCIAL

Quarterly audits undertaken by the commercial audit team have resulted in some
improvements in the on time reporting and provision of ticket sales and remittances. The Airline still experiences issues relating to uncollected sales, late tickets sales from some provincial sales agents, which will be addressed through more frequent, stringent audits.

Safety compliance training was conducted in May of this year with the view to help
the provincial agents better understand the scope of their duties relative to safety and security issues and financial reporting and accountability.

The Company is now maintaining comparative audit reports against 2013 results in order to monitor improvements in agent performance.

The Company Plan provides for the appointment of general sales agent in Japan and Taiwan which will now be sourced in 2015.

Rep World was appointed GSA (Cargo) in Auckland (NZ) together with the appointment of Airline Marketing as passenger GSA for NZ.

COM-06   YIELD MANAGEMENT

Yield management has been introduced through "Aviator" software to ensure ticket
class numbers afford maximum returns. This price marketing tool will assist during the off peak periods and in meeting competition. The initial installation was followed up by the Aviator Specialist in August in order to review the system and identify areas for improvement. Issues identified were further staff training was necessary with a recommendation for the appointment of a dedicated yield analysis two staff then attended an Aviator Yield Management System Training Course in Sydney, Australia in September as part of his findings.

The system's major strength is its ability to forecast load by class, produce yield management reports and advance analysis revenue reports. In combination with historical data from earlier accounting systems the Airline is in a far better position by using this decision-making tool.

IN-FARE

A further enhancement to yield management capabilities is "infare" another online
tool used purposely for analysing the fare structures of competitors in line with other marketing trends. This unique technology-based software provides the ability to source data at a more detailed level not previously achievable in addition to making comparisons with other airlines' fares.

COM-07   DOMESTIC ROUTES

As indicated earlier, some nine (9) provincial airports remain closed. This is having a significant impact on domestic revenue.

Only one airport in Malaita is open – Atoifi. Auki, Parasi, Afutara all have been closed for some time due to land owner issues, and Manaoba, the 2013 built northern Malaita Dash 8 airport is yet to be formally commissioned. This does not fare well for the most populous province in the country.

Choiseul remains to be developed to DH8/all-weather standards and Seghe is still awaiting repairs necessary to return the airstrip to cater for Dash 8 services.

Lomlom airport in the far east is another 2013 built airstrip awaiting commissioning

Other domestic runways require regular attention. The awarding of the maintenance contracts is a matter for CAASI.

COM-08   SALES/TRAVEL

- Excellence in customer service remains our prime focus. In 2015 we will further review options for Customer Service Training and revision of training for up-skilling in airfares and tickets skills

- There is an ongoing need to raise professionalism and expertise of International and Domestic booking staff

- Ongoing upgrade of the Airline's web page and on line booking engine has been maintained (see also MKT-03). Some significant improvements have been made but this issue remains work in progress

- With achieving IATA/IOSA accreditation in April 2015, Solomon Airlines is now in a far better position to access more interline association with other world carriers.

COM-09   **SALES/TRAVEL**

Refer (Yield Management/Infare) – COM-6

COM-10   **GROUP TRAVEL/PACKAGES**

There is a need to benchmark ourselves against other providers giving rise to our need to review and upgrade our guidelines to raise the standard of our group travel services. Currently our group offer is limited to a minimum size of fifteen (15) in order to attract a competitive price.

COM-11   **SURCHARGES, ADD-ON COSTS AND REFUNDS**

Review to be carried out as planned for in Quarter 3 – 2014 has been deferred until
Quarter 2 – 2015.

COM-12   **RAPID RESPONSE POLICY**

Further training and department consultation is required.

COM-13   **PROVINCIAL AIRLINE AIRPORT SUPPORT**

Gizo was planned to be the first provincial office to be upgraded but the project has been deferred until late 2015 due to availability of funds.

COM-15 OTP – DOMESTIC & INTERNATIONAL OPERATIONS

Minimum OTP (On-Time Performance) is targeted at 80%. The average OTP for 2014 domestic was 71.5% and international – 76%.

Main foreseeable issues for domestic OTP relate to pilot lateness due to transport (old and unreliable buses) together with road traffic congestion, aircraft maintenance issues and irregularity of fuel delivery. April floods also had a large bearing on domestic OTP.

International OTP performance mostly relates to air traffic control slots.

COM-16 AIRCRAFT TRIM (WEIGHT & BALANCE)

Training on weight and balance application for ground staff and aircraft crew of the A320 Airbus was conducted in 2013 with re-currency planned for every two years.

Regular training is conducted for our domestic ramp staff.

COM-17 COURTESY COACH

To cater for anticipated international travel arrivals as well as to reduce the current passenger movement time from international to domestic it was planned to introduce international to domestic terminal bus transfers. This will be considered for introduction in 2015 utilising one of the Company's older buses. Provision of a quick transfer desk at international arrival is also on the drawing board to fast track passenger transfers and assist in improving on time performance.

COM-18 GROUND HANDLING

Solomon Airlines continues to be recognised as the designated ground handler for the majority of flights operating into and out of Honiara, including Virgin, Air Niugini, Nauru Airlines and Fiji Airways.

MARKETING

Plans are currently in place to introduce a new service to Sydney, in June, 2015, to coincide with the peak winter holiday season in Australia.

Also on the Marketing Agenda is our push to re-enter the PNG market preferably through code sharing with Air Niugini.

IOSA accreditation as indicated in earlier parts of this Report hasmarked an unprecedented level of achievement in the 52-year history of Solomon Airlines opening up immense potential for partnerships with reputable and larger operators with established market reach.

This window of opportunity has given rise to the need for more aggressive and innovative marketing to rival or better our competitors in order to capture the attention of the ever changing dynamics of the modern day traveller by providing the highest possible standard of customer and service delivery.

MKT-01   MARKETING ACTIVITES PLAN

With the signing of the MOU with SIVB in March 2014, it is envisaged that overseas media, travel writers, travel agents and wholesalers will play a vital part in our marketing and advertising strategies not only to help raise the profile of the country but that of the Company's image.

Moving forward, the development of the following products will further push and strengthen our market reach to various market segments such as USA, Europe and Asia/Pacific region:

- Discover Solomons Pass
- Discover Pacific pass
- Visit Solomon Pass (Special Domestic 20% discount fare for overseas visitors to Solomon Islands)
- Inflight Duty Free

All are work in progress in preparation for introduction by first quarter of 2015.

MKT-02   WEB PAGE/BOOKING ENGINE

Our new web page and online booking services was re-launched on 1st of August 2014. This new website has been designed for simplicity and easy access to information while offering an enhanced booking process allowing for international and domestic flights to be booked in one smooth transaction.

One of the new site's key attributes is in its ability to be fully accessed from any desktop PC, laptop, iPad or smart phone. In addition, "FlexiPricer" was also introduced to the online booking service giving more flexibility and choice to the customer. This now allows a customer to review options over a 7-day period on both available flights and prices.

Our next planned phase is to introduce the online check-in service by mid-2015. Tomahawk of New Zealand has been engaged for website development.

MKT-03   SKAELAEN NEWSLETTER

This is an internal staff newsletter that was designed to ensure communication is maintained at all levels of the Company and also to encourage participation by all staff members.

MKT-04   ADVERTISING

The Airline has not maintained a program of advertising in its home marketplace, however, it is anticipated that an advertising plan for 2015 will be in place by year's end to ensure the Airline is in the public eye both for corporate advertising and product advertising.

MKT-05   MARKET SURVEYS

Our second Customer Satisfaction Survey was held in the month of April (1st – 30th),
2014. The on-board survey was undertaken on the Airbus A320 during flights between Honiara and Brisbane. Passengers were asked to participate in a survey to help the Company evaluate its products and services as well as service standards. From a total of 1,818 survey forms handed out some 1,001 responses were received.
- The survey was carried out on both flights IE700 and IE701
- Respondents: 680 Male (68%) and 320 Females (32%)
- 817 of respondents did not complete their survey (45%)
- Total number of flights surveyed: 23
- Key observation: Whilst the Airline achieved a good rating in most areas of the survey, it is obvious there is much room for improvement and action is in hand to raise levels of customer satisfaction and other service areas.

Further surveys are planned for 2015 and beyond.

MKT-06   BELAMA CLUB

The Belama Club is our prime flagship product offering members special benefits including:

- Priority check-in and seating
- Express clearance (Brisbane) and significant baggage allowances
- Access to our exclusive air conditioned Belama Club Lounge at the Honiara International Airport and Air Pacific Tabua Lounge Nadi (all categories), the Executive Club of Air Niugini and the Air New Zealand Koru Club Lounge in Brisbane for our Belama Plus Members.
- We are continuing to review our services on offer at the lounge and are planning to implement changes from membership cards design, free wifi internet access and; auto updates, etc. by January, 2015.

MKT-07   A320

Lease for the Airbus A320 (H4-BUS) expires in December, 2015 and all options are
being looked at. Even at this early date to ensure the Airline continues to provide a safe reliable operation in the most cost effective manner.

Review expected June/July, 2015.

COMPETITION

The only competitor on the primary Brisbane/Honiara/Brisbane route is Virgin operating on Tuesdays and Thursdays. Initially providing a "no frills" service model, Virgin has since introduced "premium economy" in an effort to capture some of the corporate market. Market share remains steady at Solomon Airlines and Virgin due primarily to twice the number of services provided by Solomon Airlines.

Effectively, the route is serviced six times a week by the two operators, however, only 65% of all available seating is filled on average throughout the year.

With no major tourism investment forthcoming in the foreseeable future, there is always the opportunity for Virgin to enter into a code sharing arrangement under the Solomon Airlines flag particularly now the Airline has IOSA accreditation.

CODE SHARING

Prior to the impasse with Fiji from June 2014, the Airline enjoyed code sharing rights with Fiji Airways on the Honiara/Vila/Nadi route, and Air Niugini on the sector Honiara to Nadi. Air Niugini had earlier terminated code sharing between Port Moresby and Honiara in 2006. Negotiations have been conducted since then to have the arrangement reinstated, but remains unresolved at the time of this report.

It is anticipated code sharing with QANTAS will become a reality now that IOSA accreditation has been approved and our membership with IATA reinstated.

TOURISM

Solomon Airlines is committed to assisting in the growth of tourism in the Solomon Islands.

Whilst we have projected some growth in passenger numbers limited infrastructure continues to stymie the tourism industry reaching anywhere near its true potential. A significant development was announced at Mamara, west of Honiara, in 2013 but little progress made to date.

It should also be noted:

- There has been no major resort development outside the capital in the last 9 years

- There has been some growth in small "eco" tourism operations

- Air travel advice from Australian Travel Advisory has not changed with Solomon Islands still regarded as unreliable/unsafe"

- At least 2,000 more rooms required throughout all provinces to sustain viable tourist industry. NB: There are only 300 better class rooms now available most of which are based in Honiara

- More rooms leads to greater competition and competitive fares

- The number of Dash 8/all weather strips across domestic destinations need to be significantly increased

- Ideally, prime resort sites should be identified and land acquired by Government for open tender to potential investors

- Infrastructure opens opportunity for more effective marketing and route expansion

- Marketing of brand and attributes somewhat meaningless at this time due to infrastructure constraints

STAKE HOLDERS

1   **CIVIL AVIATION AUTHORITY SOLOMON ISLANDS (CAASI)**

Solomon Airlines enjoys a reasonable working relationship with CAASI. With their approval and support the Airline has maintained all operational and regulatory requirements.

More open dialogue on provincial airport upgrades is essential. We believe the Airline, as the National Carrier, can contribute to the process both technically and operationally.

X-raying of passenger luggage falls under the responsibility of AVSEC. It is important they come on board as soon as possible to have this expensive equipment used for the purpose it was purchased, but more importantly, to comply with ICAO, IOSA and Customs regulations.

2   **OTHER STAKEHOLDERS**

Other stakeholders include Departments of Aviation & Communications, Customs, Immigration, Quarantine, Foreign Affairs and Infrastructure.

We will be looking to open decisive dialogue with the Government, through Department of Aviation and Communications and the Department of Infrastructure, to develop plans and seek funding for upgrading of nominated airstrips to all weather standards and Dash 8 capability.

Most important is the necessity for the Government to lobby for a level playing field with Solomon Airlines Limited being sorely disadvantaged in our operations compared to that afforded Air Niugini and Fiji Airways.