



Statement of Corporate Objectives

2022 - 2024

Solomon Airlines Statement of Corporate Objectives

This Statement of Corporate Objectives is submitted by the Board of Directors for Solomon Airlines in accordance with Section 13 of the State Owned Enterprise Act 2007 (SOE Act). The Statement of Corporate Objectives reflects the Board's objectives, proposed performance targets and forecast financial information for the year commencing 1 January 2022 and the following two financial years.

The forecast financial statements and underlying assumptions in this document have been authorized by the Board in accordance with its role under the SOE Act.

Major changes to key assumptions that underpin the performance outcomes detailed in this Statement of Corporate Objectives, and which may come to the Board's attention during the year, will be brought to the attention of the Minister of Finance and Treasury (the Minister).

Any amendments or modifications to this Statement of Corporate Objectives will be dealt with in accordance with the SOE Act.

This Statement of Corporate Objectives is signed by the Chairman on behalf of the Board. In signing this document, the Board undertakes to achieve the targets proposed in the Statement of Corporate Objectives for 2022.

Chairman

Frank Wickham

15 November 2021



OUR VISION IS TO CONNECT

Solomon Islands to the World

Compiled 2 November 2021

Our Mission

We are committed to the optimization of air transportation and are passionate on delivering quality services to the satisfaction of our passengers.

We are committed to providing seamless connections with our partner airlines around the world linking Solomon Islanders to major hubs of education, commerce and industry.

Safety underpins our service delivery criteria; we will set benchmarks for on-time performance and reliability through professionalism and enhanced productivity but not at the cost of safety.

To realise our vision and be a financially sustainable business, providing a network of air services spanning all provinces and connecting our country to the world, we will work together with the Minister of Finance and Treasury, Ministry of Communication and Aviation as well as the Minister of Tourism and Culture.

COVID-19 has placed an enormous strain on our profitability and will continue to do what needs to be done to optimize viability and survival of Solomon Airlines whilst ensuring that the Airlines remains sustainable and delivers value for all our stakeholders.

We are determined to survive and serve our government's principal objective to provide the best possible service for the people of Solomon Islands and contribute to the long term economic and social development of Solomon Islands.

Whilst COVID-19 restrictions remain, Solomon Airlines will seek to generate as much cash as possible, minimise expenses, take care of our staff and ensure full compliance with all regulations.

¹ Our vision articulates Section 4 and 5 requirements as prescribed in the State Owned Enterprises Act 2007

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Overview

2024 and how we will measure our success.

Solomon Airlines is a commercially focused State Owned Enterprise company that provides domestic and international air services.

Solomon Airlines normally provides scheduled airtservices to 24 domestic destinations as well as an international network which include Australia, Fiji, Vanuatu, Papua New Guinea and Kiribati along with major airline connections throughout the world. As a result of the current COVID-19 travel restrictions, Solomon Airlines has provided charter services to many destinations, including China, Indonesia, New Zealand, Malaysia, Tonga, Samoa, and the Philippines.

Under the current COVID-19 restrictions, that resulted in the temporary suspension of our international operations and a reduction in domestic flights Solomon Airlines will continue to perform and position itself to be low cost and financially sustainable.

The Board is committed to work with the Minister to maximise shareholder value by improving business performance.

In this Statement of Corporate Objectives presented to the Minister pursuant to Section 13 of the State Owned Enterprise Act 20027, we set out what we will do in 2022 –

COVID-19 Impact and Traffic Forecast

COVID-19 continues to have a significant impact on passenger demand. The International Air Transport Association predicts global passenger traffic will not return to pre-COVID-19 levels until 2024. We have scaled back our capacity to match demand and we expect to operate well under 25% of 2019 passenger capacity in the first half of 2022.

With reduced demand for international traffic resulting in a lower demand for domestic connectivity between Honiara and other provincial airports, we have had to scale back on our domestic operations. There has been a significant drop in our revenue, and our pricing may need to increase.

We would like to reassure the Honourable Minister that we have the adequate manpower to operate our planned flights safely throughout 2022. Management will continue refining the approach to the ongoing travel restrictions specifically seeking alternative sources of revenue to create a competitive business in response to the unprecedented paralysis of the global aviation market caused by the COVID-19 pandemic.

Throughout the COVID-19 pandemic, Solomon Airlines has clearly demonstrated that it is an essential service to the Nation and in several cases to other Pacific Countries. The past business model whilst being the basis for most airlines, is continuously being adapted to ensure the Airline's

survival and secure its future, whilst protecting as many jobs as possible and meeting our responsibilities to government and our customers. To achieve this aim and considering the grounding of our international flights on 27 March 2020, we introduced urgent measures that included, the reduction of staff coupled with an initial 50% salary cut which was eventually reset to 80% of the original salary. These measures enabled Solomon Airlines to continue to operate in the extremely challenging post-COVID-19 travel reality. This was not a course of action that was chosen lightly. We also renegotiated many contracts and worked with our creditors whilst we acquired money to pay them.

Salaries will have to be adjusted to cope with inflation and to retain key employees. There is a significant shortage of skilled and competent staff in many areas of the economy. These include accountants, safety and quality personnel as well as engineers. The travel restrictions have forced other businesses to target the well qualified Solomon Airlines staff. Several important staff have taken up the seasonal worker options in Australia and New Zealand.

With traffic forecasted to remain low, at least until 2023, subject to other government border control policies, our aim right now is simply survival. As the national airline that helps connect Solomon Islands to the world, and aids tourism contribution of 10 per cent in GDP, it is critical that we adopt and exercise a "survival at all costs" mentality

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with strict control over costs across all functions.

Against the management of costs, the following should be noted. Airport charges have increased at least 25% over the pre-COVID-19 prices. The current international price of Jet A1 fuel has increased as follows.

Over Dec 2017 Up by 26%

Over Dec 2018 Up by 9%

Over Dec 2019 Up by 13%

Over Dec 2020 Up by 86%

There are significant supply chain issues which are filtering through to the aviation industry. These are driving prices up and there are long delays on getting aircraft parts to Honiara.

Although we face substantial challenges, we are quietly confident in the long-term future and our competitive position, in our role connecting Solomon Islands to the world, and in the critical role that we play in providing essential air services to keep our provinces and people connected.

Community Service Obligations

Solomon Airlines fills a vital role by providing quick air transport for business, Government Travel, carrying parts, food, mail, medical supplies etc. as well as providing in many instances the only way a person in a village can get essential medical treatment. Very few of these routes can sustain airtservices with the limited number of passengers flown on them.

To ensure that the airline is able to provide these essential services, the Minister for Finance and Treasury provides a Community Service Obligation (CSO) payment. This CSO funding to partially support Solomon Airlines community service obligations (CSO) commitment, as prescribed by the SOE Act and regulations, for domestic air services is inadequate. CSO funding makes up 2 per cent of our current air fares for all domestic routes.

We remain committed to providing air services to our provinces ensuring inter-island connectivity however the Airline cannot use other sources of income such as the international routes and ground handling to subsidise these loss-making routes. The reason being that there is no income from these sources. This is a direct result of the COVID-19 travel restrictions.

Currently there is no government policy that identifies provincial towns to be provided with CSO air services, nor is there a clear methodology that informs the calculation of CSO funding for air services. Government policy to inform priority domestic destinations requiring essential air services

and a methodology to quantify funding support is needed to ensure our business financial sustainability.

The challenge with insufficient CSO funding is that there is no profit margin and as a consequence the airline does not have money to invest in replacing old and worn-out equipment with new, more reliable and efficient equipment. For example, one of the Twin Otters has less than 2 years life remaining and under the current circumstances the Airlines is unable to fund the replacement.

Solomon Airlines regularly reviews the routes and the pricing however, many routes simply cannot absorb the direct operating costs never mind a portion of the overheads.

Solomon Airlines undertakes to provide the Honourable Minster with a list of routes which it can operate with the very limited CSO provided.

Accounting policies under IFRS

Solomon Airlines has adopted the International Financial Reporting Standards (IFRS) as the basis of its accounting policies in the measurement and reporting of profit, cash flow, movements in equity and financial position.

Accounting Period

The financial statements cover the performance and position in respect of the financial year ending 31 December.

Forecast financial and non-financial performance

Key Performance Indicators	Jan - Dec 2022	Jan - Dec 2023	Jan - Dec 2024
FINANCIAL			
Revenue, SI\$	\$213m	\$264m	\$315m
Profit / Loss Before Tax	\$-13.9m	\$14.4m	\$23.5m
EBITDA margin, %	10%	17%	17%
Debt to Capitalization Ratio	-3.44	-4.4	-6
Quick Ratio	15.36%	18.34%	23.8%
Cost per Available Seat Kilometre	\$1.80	\$1.95	\$2.10
NON-FINANCIAL			
Number of Passengers, thousands	90,000	120,000	135,000
Number of Employees	240	245	260
of whom women, %	25%	30%	35%
Total number of occupational injuries	<2	<2	<2
No of Sick Days	<21 per person p.a.	<21 per person p.a.	<21 per person p.a.

Performance Measures

Various performance measures other than those presented on the prior page can be provided. Given the current situation with COVID-19 travel restrictions, the main objective is for the Airline to survive so most other performance measures are not relevant at present.

Solomon Airlines Estimated Commercial Value

The boards estimate of the current commercial value of Solomon Islands Government investment in Solomon Airlines as of 31 December 2021 / 2022 to 2024 is as follows:

2021	2022	2023	2024
-\$63.2m	-\$62.2m	-\$57.2m	-\$40.4m

This shareholders value was calculated by adding the retained loss for each year to the share capital plus reserves. From 2024 onwards the Airline is forecast to make a profit of \$23.5m which reduces the carried forward loss. Alternatively Total Assets – Total Liabilities = Net Assets which is the same as the shareholder's value.

Clearly the Airline has strategic value as it is a registered IATA carrier, the flag carrier for Solomon Islands as well as being well known in the South Pacific. Starting a new airline would cost a significant amount of money so whilst the shareholder's equity is negative, the sale value may be slightly positive assuming a willing buyer was found. No attempt has been made to value these intangible assets.

STATE HERE THE MANNER IN WHICH THE ABOVE COMMERCIAL VALUE WAS ASSESSED. NOTE - The current

commercial valuation and statement of assessment is required pursuant to Section 13 (3) of the SOE Act.

Annual Dividend and Estimated Tax Obligations

State Owned Enterprises Financing

State Owned Enterprises (SOEs) will be financially sustainable and able to fund recurrent spending as well as growing capital investment. SOEs will manage growing, efficient infrastructure and services in key areas, maintaining a balance between providing essential services without crowding out services that could be provided more effectively by commercial actors. There will be a balance between profitability (including dividend payments to government) and the provision of accessible services.²

Annual Dividends

Due to the COVID-19 pandemic and resulting economic uncertainties which have resulted in a significant contraction of our business model the Airline is forecast to make an annual loss through to 2023 and with limited capital to invest in replacing old equipment no dividends will be issued for the 2021-2023 period.

Solomon Airlines immediate priority is survival, with a view to restoring the Airline to financial sustainability so that we are able to generate a cash reserve to support our aircraft fleet renewal program in 2024/2025.

Taxation

Taking the adverse impact COVID-19 on our business operations, for years ending 31 December 2021 and 2022, Solomon Airlines forecasts an operating loss and is therefore not expected to incur any corporate tax obligations for this period.

² Solomon Islands Integrated Financing Framework, 2018

Reporting

COVID-19 has resulted in a very difficult and fluid business environment, in particular for our business operations. The half year report for 2021 was provided on time. Additional reports will be provided as required to keep the honourable Minister up to date with the Airline's financial status and performance. The objective of this approach is to ensure that the Minister is informed timeously of our performance, the companies financial wellbeing and is able to provide direction and assistance if needed.

Quarterly Reports

Solomon Airlines generates quarterly financial reports which are available to the Minister should he request them. These quarterly reports will detail the actual quarterly performance of the business, provide comparisons to Statement of Corporate Objectives targets and highlight any significant issues.

Half Yearly Report

Solomon Airlines will continue to provide the Minister a Half Yearly Report within two months following end of the first half of this financial year by end of August 2022.

The half yearly report will provide a summary of progress made against the objectives and performance targets stated in this document.

Annual Report

Solomon Airlines will prepare and deliver an annual report on its performance for the full year to the Minister.

The report will follow the end of the financial year and will be provided to the Minister in accordance with the requirements of the SOE Act. The report will include:

- consolidated statutory financial statements and other statutory information required under the SOE Act and the Companies Act;
- an overview of major achievements and an appraisal of future prospects;
- a comparison of performance with the Statement of Corporate Objectives;
- any significant risks; and
- other information required law to be included, such as the particulars of any directions given by the Minister.