Our Vision:

energising our nation.

Our Mission:

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

Our Values:

- *Respect for our customers and our people*
- *Improvement through change and innovation*
- *Meeting our service quality commitments*
- *Care for the environment*
- *Individual responsibility for our actions*
- *Honesty and Trust*
- *Teamwork*

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Letter to the Ministers

28th March 2018

The Honourable Bradley Tovosia MP
Minister of Mines, Energy and Rural Electrification
P O Box G37,
Honiara,
Solomon Islands

&

The Honourable Manasseh Sogavare MP
Minister of Finance and Treasury
PO Box G26,
Honiara,
Solomon Islands

Dear Honourable Ministers,

SOLOMON ISLANDS ELECTRICITY AUTHORITY (Trading as Solomon Power) ANNUAL REPORT 2017

On behalf of the Board of Directors of Solomon Power, I have the honour to submit to you both the Authority's Annual Report, in accordance with section 25 (I) of the Electricity Act, Cap 128, and section 14 (1) (a) (b) of the State Owned Enterprises Act 2007.

The report incorporates audited Statement of Accounts and the major developments, activities and achievements of the Authority for the financial period.

On behalf of Solomon Power, I thank you both for your on-going understanding and cooperation and look forward to your continuing support.

Yours faithfully,

David K.C. Quan MBE
Chairman

2017 Highlights

- Electricity Tariff (Base Tariff and Tariff Adjustments) Regulations 2016 applied
- Livened up connection to 375 customers under the Output Based Aid programme
- Improved the reliability of electricity supply
- G-1 operation in Honiara sustained
- Achieved an output of 1.19 GWh from the 1 MW Solar Farm at Henderson
- Commissioned hybrid stations at Seghe and Taro
- Achieved an output of 0.45 GWh from the 150 kW Mini Hydro at Buala
- Increased our focus on the development of the Tina River Hydro Project by:
    - Completing the Due Diligence Studies
    - Completing the route survey and options analysis for the 66 kV transmission lines
    - Completing the assessment of a 50 metre easement and its proposed valuation for the above lines
    - Providing input into the drafting of the Power Purchase Agreement and associated schedules
    - Extending the exclusive development rights to K-water
- Commissioned 11 kV and 415 V network extensions at 10 locations in Honiara
- Constructed and commissioned the 11 kV and 415 V network extension at Kilusakwalo in Auki
- Noise mitigation at Honiara Power Station completed
- Commissioned the new generators at Auki, Munda and Noro
- Streetlights in Honiara repaired and replaced
- Extension of mezzanine floor in the Ranadi Head Office completed
- Progressed the works for the Feeder 12 relocation, Ranadi Substation upgrade and Kola'a Ridge Substation projects
- Tendered the works for the conversion of the existing diesel generation systems at Kirakira, Lata, Malu'u, Munda and Tulagi to hybrid generation systems
- Under the World Bank funded SISEP placed an order for the third 11/33 kV power transformer at Lungga Power Station
- Installed and commissioned 600 Smart Meters at Honiara
- Implemented an operations and maintenance plan for all our network and generation assets
- Continued our focus on safety, nurturing and mentoring
- Continued internal safety, lineman and operator training programmes
- Training of meter technicians, cable jointers, project managers completed

Plans for 2018

- Further improvement in the reliability of electricity supply in Honiara and at the Outstations
- Continue the implementation of the Output Based Aid (OBA) programme
- Complete 9 more network extensions in Honiara and at the Outstations
- Execute design and construct contracts for the hybrid generation systems at Kirakira, Lata, Malu'u, Munda and Tulagi
- Complete the Smart Meter project at Honiara

- Complete the Feeder 12 relocation, Ranadi Substation upgrade, Kola'a Ridge Substation and the Lungga Power Station third power transformer projects
- Execute design and construct contracts for the new hybrid generation systems at Hauhui, Namugha, Sasamunga and Vonunu
- Execute a design and construct contract for the hybrid generation system at Kwainamoro, Auki
- Continue implementation of the vegetation management plan
- Develop more new network extensions in Honiara and at the Outstations
- Sign a Power Purchase Agreement for Tina River Hydro Project
- Further develop the project for the installation of more Hybrid Generation Systems
- Progress the development and implementation of a Supervisory Control and Data Acquisition System (SCADA)
- Initiate and commence a project to upgrade the old Lungga Power Station
- Implement the 24/7 Customer Call Centre project
- Continue our focus on safety, training, nurturing and mentoring
- Commence the Apprenticeship programme

About Solomon Islands Electricity Authority (trading as Solomon Power)

Who we are

Solomon Islands Electricity Authority (SIEA) trading as Solomon Power (SP) is a State Owned Enterprise.

Our objectives

Under Section 4 of the State Owned Enterprises Act, the principal objective of the Company is 'operate as a successful business', and to this end, be:

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

To meet these objectives, SP strives to

Be as profitable and efficient as comparable businesses by:

- Within the Electricity and State Owned Enterprises Acts, installing, operating and maintaining electricity supply systems that meet the needs of connected customers.
- Developing and implementing capital investment plans, to improve electricity system performance and increase the network coverage of agreed areas.
- Seeking to recover efficient costs of the service provision.
- Improving the efficiency of services, whilst improving asset reliability and availability.

Be a good employer by

- Maintaining a well-qualified and motivated staff.
- Adopting HR policies that treat employees fairly and properly in all aspects of recruitment, retention and employment.
- Promoting a high level of safety throughout the organisation.

Act in a socially responsible manner by

- Building effective relationships with landowners, customer groups and interest groups that are affected by our activities.
- Improving environmental reporting and performance on issues that are caused by our electricity supply activities.
- Incorporating sustainability into our business activities, and working to improve sustainable outcomes in terms of resource management.

Nature and scope of our activities

SP's principal commercial activities, as defined under the Electricity Act, are the

- Generation and distribution of electrical supply to connected customers in approved areas,
- Operation, maintenance and development of assets that are necessary to achieve these outcomes on a long term, sustainable basis,
- Approved expansion of services to increased areas of operation.

Other regulatory functions

The Company is also mandated by the Electricity Act to perform the following regulatory functions:

- Be responsible for the registration of Electrical Contractors.
- Ensure that industries and contractors comply with the Electricity Act and the AS/NZS Wiring Standards, by inspecting all electrical installations before connecting to SP mains.
- Be responsible for the licensing of standby generators, Independent Power Producers (IPPs) and Cogeneration of power.

MEMBERS OF THE BOARD

(Pictures to be inserted)

SENIOR MANAGEMENT

(Pictures to be inserted)

CHAIRMAN'S LETTER

2017 has been a continuation of the strong performance that Solomon Power has demonstrated during the previous six years. It is seven years in a row that Solomon Power has made a profit. Furthermore, the last six year's statutory accounts have all been unqualified, and signed off by the Auditor General before the mandated date of 31st March each year.

During the year the new generators and associated transformers and switchgear in Gizo, Munda and Noro were brought on line. This has completed the Outstations' Generator project. The additional generation has placed Solomon Power in good stead with sufficient installed capacity enabling us to achieve G-1 capacity at all our installations in the Provinces.

The total generation increased by 3.5 GWh in comparison with 2016 and yet our consumption of fossil fuels was less by 250,000 litres in comparison with 2016 and this is attributed to the operation of the Buala 150 kW Hydro plant, the grid connected Solar Farms at Honiara, the new hybrid installations and by the running of the more efficient diesel generators.

In August we achieved two key milestones; the official inauguration of the hybrid installations at Seghe and Taro and the issuance of the tender to the market for the works to convert our existing

diesel based power stations at Kirakira, Lata, Malu'u, Munda and Tulagi to hybrid systems. Both Seghe and Taro hybrids have been generating clean green energy since mid-2017.

We have commenced work on the next lot of Hybrids stations at Hauhui, Namugha, Sasamunga and Vonunu and anticipate placing contracts for their design, installation and commissioning by August 2018.

It is pleasing to note the progress made during the year on the Output Based Aid programme with the support of the World Bank. By year end we had livened up connection to 375 customers. This programme envisages grid connection to 2500 new customers and augurs well for Solomon Power and is another enabler to meet our long term objective of doubling our customer numbers.

The new electricity tariff which was gazetted just before Christmas 2016 has been successfully applied since 1 January 2017. The tariff in 2017 has seen a drop of 12.0% in comparison with that during 2016.

Solomon Power is committed to renewable energy opportunities such as the 15 MW Tina River Hydro Project in Guadalcanal and this project of national significance has continued to get our serious and urgent attention.

The continued support of the World Bank, Asian Development Bank, Japan International Cooperation Agency, New Zealand Government and United Arab Emirates Government and other donors to explore opportunities in renewable energy and to drive commercialisation in our operations, is very much appreciated.

I would like to take this opportunity to thank the Shareholders and my colleagues on the Board and the Management Team for the continued support rendered throughout 2017.

David K.C. Quan MBE

Chairman

CHIEF EXECUTIVE OFFICER'S LETTER

The year in perspective has been another successful one for Solomon Power (SP) financially and operationally. We have achieved a reasonable growth in generation and energy sales. The non-technical losses have also seen a steady decline.

The power situation in Honiara has been the best it has ever been in the last three years. The reliability in Honiara improved substantially in comparison with 2015 and 2016. There was no rotational shedding in Honiara during the year.

During 2017 we have sustained our focus on infrastructure investments with an annual injection of $125 million.

The programme to extend the 11 kV and 415 V networks in Honiara and at the Outstations made very good progress during the year and also the implementation of the Output Based Aid

programme to subsidise the electricity connection to the grid for the low income customers gathered momentum. These projects are complementary and are in line with our long term objective to double our customer numbers and drive economic growth in Solomon Islands.

With a view to improve productivity and the reliability during 2017 SP has made substantial investments in new equipment and testing facilities. We purchased cable fault locating and pinpointing equipment. A Meter Test Bench which can simultaneously test the accuracy of ten revenue meters is on order and will be delivered and commissioned in early January 2018.

We have already installed and commissioned 600 Smart Revenue Meters in Honiara with remote connectivity to our head office at Ranadi. We are now able to remotely monitor, interrogate these meters and also able to disconnect and re-connect the associated customers. We anticipate to complete the installation and commissioning of Smart Meters for all Commercial and Industrial customers in Honiara by 30 June 2018.

The project to re-locate feeder 12 to East Honiara Substation, the upgrade of Ranadi Substation and the construction of the Kola'a Ridge Substation has progressed well with anticipated completion in September 2018.

SP is increasingly becoming an employer of choice, attracting new graduates and professional personnel alike and this has resulted in the recruitment of engineers and business managers to fill the vacant roles.

SP is also actively participating in the 'Waka Mere commitment for Action'; a programme for women's empowerment in Solomon Islands Business & Labour Market.

During 2017 we have continued our focus on safety and training. The safety record has been exemplary with no loss time injury during the year. We have experienced a reduction in motor vehicle accidents. The nurturing and mentoring of graduates and other staff is continuing and this will reap great benefits for SP's legacy into the future.

It is also pleasing to see the mobile top-ups reach 1000 daily transactions on an average. During 2018 we will extend the facility to customers of other banks and telecommunication providers.

I wish to thank the Board for the excellent support they have provided to me and the SP Team during 2017.

Congratulations to Team SP and all our stakeholders for everything we achieved together in 2017.

Pradip Verma

Chief Executive Officer

ENGINEERING HIGHLIGHTS FOR 2017

Overview

Honiara City has enjoyed more reliable power supply in 2017 as compared to that in 2016. There was no scheduled load shed, whilst the outages experienced were due to feeder / generator faults or planned outages.

There was an improvement in the reliability of power supply in Honiara as this can be noted from a reduction in the Customer Minutes Lost (CML) from 37.8 million in 2016 to 20.0 million recorded in 2017, which is an improvement by about 47%.

The network performance indicators for the year also indicated an improvement. In 2017 the System Average Interruptions Duration Index (SAIDI) and the System Average Interruptions Frequency Index (SAIFI) averaged at 155.9 and 1.77 respectively, compared to 397.3 and 3.85 in 2016.

Overhaul works on L10 Niigata generator was delayed due to the various maintenance and operational issues experienced by the new MAN Diesel generators during the year. The overhaul was eventually carried out in October 2017.

The major 8000 hours service on all the four 2.5 MW MAN Diesel generators was carried out during the months of March and April with the assistance of the MAN Diesel technicians. At Honiara Power Station the 6000 hours service of H1 and H2 Caterpillar generators was also carried out. H2 however experienced a major mechanical problem during the re-commissioning. As a result of this some of the liners and pistons had to be replaced.

Generation of power in Honiara was mainly from the four new MAN Diesel generators, which are more fuel efficient, whilst the balance of power requirement was from the old generators at Lungga and Honiara power stations. The Honiara grid was also supported by the Henderson 1.0 MW and the Ranadi 50 kW solar installations during daylight hours.

Power Generation at the Outstations was dramatically improved with the commissioning of the remaining Kohler generators at Auki, Gizo, Munda and Noro under the Outstations Generation Project.

Furthermore, after more than thirty years, SP saw the commissioning of two new Outstations one at Seghe (150 kW) in the Western Province and the other at Taro (200 kW), in Choiseul Province. These two new Outstations are of hybrid type (solar, battery storage and diesel generator back up) and are the first of its kind for SP and are currently operating with 85% renewable energy and the balance 15% on diesel operation.

On the Distribution network, particular efforts have been on improving the reliability of the network. Improved vegetation management saw the drastic reduction of line faults compared to previous years. Despite a high demand for distribution work by network extension projects and other urgent repairs and with limited resources, the Distribution team was able to provide both technical and implementation support on all the SP funded Network Extension Projects and the World Bank funded Output Based Aid (OBA) Project in Honiara and at Seghe and Taro Outstations.

Generation:

The new MAN Diesel generators continued to experience a number of major mechanical issues including the replacement of the main gear wheels on all four generators because of metal quality defects. Each generator had to be taken out of service for two weeks in turn to replace the gear wheels. This job had to be done twice because the first lot of replacement gear wheels fitted were later condemned by the manufacturer and had to be replaced.

As part of building their capacity, the generation mechanical and electrical staff worked in association with the MAN technicians when the above tasks were carried out.

Scheduled overhauls and major maintenances on the other generators at Lungga had to be delayed, in particular the 56,000 hours scheduled overhaul of L10 Niigata generator until October 2017.

Other activities carried out by the Generation team included monitoring of the power plants, attending to faults and breakdowns both on the mechanical and electrical systems; and the scheduled 1000 hours service on the generators. Hastings Deering was engaged to provide weekly monitoring, scheduled maintenance and attending to faults and issues experienced on H1 and H2 Caterpillar generators at the Honiara Power Station.

Distribution:

The Distribution Department undertook a number of major activities in Honiara and at the Outstations. In Honiara, 11 kV and 415 V line extensions were carried out at Henderson, Lungga and 7 Up. At the Outstations a major 11kV line extension was carried out to connect Kilusakwalo Village outside of Auki Town in Malaita Province. A number of Low Voltage (LV) line upgrades were also carried out in Honiara, Auki, Gizo and Noro during the year.

A number of new distribution transformers were installed in Honiara and at the Outstations for new customers whilst others were upgraded to cater for increase of load by customers.

Furthermore, the Department maintained its efforts in improving the reliability of the network by continuing on with the vegetation management programme in Honiara and at the Outstations.

With increased project activities that require new distribution systems or extension of the existing networks, the Distribution Department resources were stretched and suitable Contractors had to be engaged to assist in the major extensions and service line connections, in particular for the customers under the OBA project.

Other activities were the construction of minor LV extensions, new service connections, inspection and condition monitoring of the network, implementation of planned maintenance activities and attending to network faults.

Outstations

Reliability of power generation at Auki, Gizo, Munda, Noro and Tulagi dramatically improved with the completion of the Outstations Generation Project. The project included the installation of new Kohler generators complete with new LV Switchgear and control panels. At Auki, Gizo, Munda and Noro new transformers and Ring Main Units were also installed as part of the project.

Buala, Kirakira, Lata and Malu'u continued to generate power from generators that were installed prior to 2013, except for the hydro plant at Buala, which was re-commissioned in 2016.

Keeping the 11 kV underground cable link between Noro and Munda continued to be a challenge. The underground cable was out of service due to a fault for more than 6 weeks during the months of October and November 2017. During this period the Munda load was reliably maintained by the new Kohler generator at the Munda powerhouse.

With the commissioning of the two new hybrid mini-grids at Seghe and Taro, SP has increased the number of its Outstations from nine (9) to eleven (11). These two were the first Outstations to be funded and built by SP since the commissioning of the Malu'u Outstation in Malaita Province more than 30 years ago.

Regulatory:

The Regulatory Department continued to carry out its role as a Regulator in the Electricity industry by ensuring that the electrical installations are in compliance with the AS/NZ 3000 Wiring Standards. The Department also provided support to Licensed Electrical Contractors by providing regular updates on the rules and regulations and also by carrying out progressive and final inspections of wiring installations.

The Department commenced the process of acquiring a modern meter test bench, which will be capable of testing ten (10) energy meters at the same time. The equipment is being procured through Delstar New Zealand Limited, a company in New Zealand, and is manufactured by Itron in Spain. Three SP technicians visited Spain in October to witness the Factory Acceptance Test (FAT) and also were trained to operate and maintain the equipment. The test bench will be used to test all new energy meters before they are installed at the customer premises. Moreover, the existing meters will be tested to ensure that they are within the acceptable accuracy ranges. The test bench will be delivered and installed in early 2018.

The Regulatory Department also coordinated the Grade "A" Licencing Assessment for electricians with the assistance of Energy Skills Australia. A total of twenty-eight (28) candidates participated in the Assessment out of which seventeen (17) have qualified for the next stage, which is the practical assessment, to be conducted early 2018 in Honiara.

A total of 1,537 installations were inspected (1,171 normal customers and 366 were OBA customers) out of which a total of 1,382 installations were energised (1,032 normal customers and 350 were OBA customers) during the year. The total number of customers that were inspected and energised was 1,382 compared with 719 energised in 2016.

Electrical:

The Electrical team continued to provide technical support to the Outstations Generation Project, the Solar Hybrid systems at Seghe and Taro during their implementation and commission stages.

Major activities carried out by the Department included maintenance works on all electrical auxiliaries, main alternators and other electrical equipment as part of the 8000-hour service carried out on the MAN Diesel generators and the major overhaul of L10 Niigata generator.

Other activities were the planned preventative maintenances on all generators in Honiara and at the Outstations as well as attending to electrical faults.

The department also investigated and analysed all the system related outages and faults to determine the root causes and establish all remedial measures to prevent recurrence. In addition to this the Department also collated and reported on the Customers Minutes Lost (CML) during the outages.

Renewable Energy

The 15MW Tina River Hydro Project in Guadalcanal Province continued to be progressed through various stages during the year with the Power Purchase Agreement (PPA) to be negotiated and signed in 2018.

The 750 kW Fiu Hydro project in Malaita Province has not progressed during the year due to a pending land case in the court. The funds for this project have now being diverted to a proposed Hybrid project in Auki.

Land acquisitions for the ADB funded 2 MW project to convert the existing diesel operated outstations at Kirakira, Lata, Malu'u, Munda and Tulagi to hybrid generation systems continued during the year. In the meantime, tender for the development of these projects was put out in the market and the contract will be awarded in the second quarter of 2018.

The SP funded hybrid mini-grid projects at Seghe and Taro were successfully implemented and commissioned during the year. Both stations have been operating with no major issues. Taro Station is operating at approximately 85% solar and 15% diesel, whilst Seghe is operating at almost 100% solar.

Feasibility studies for the four hybrid sites partially funded by the New Zealand Government at Hauhui, Namugha, Sasamunga and Vonunu were completed during the year. In the meantime, land acquisition for the sites have continued with Hauhui and Namugha achieving good progress. Survey and valuation of the sites at Sasamunga and Vonunu will be carried out in the first quarter of 2018.

Power System Reliability

SP's System Reliability in Honiara is measured using the internationally accepted performance indicators as follows:

The System Average Interruption Duration Index (SAIDI)

SAIDI defines the average interruption duration per customer served per year.

SAIDI = (Sum of Customer Interruption Durations/Total number of customers served)
For Honiara, this was measured to be 155.9 minutes, compared to 381.9 minutes in 2016. This is a decrease by 226.0 minutes over the 2016 figure, a substantial improvement.

The System Average Interruption Frequency Index (SAIFI)

SAIFI defines the average number of times a customer's service is interrupted during a year for longer than 2 seconds. A customer interruption is defined as one interruption to a customer.

SAIFI= (Total number of customer interruptions/Total number of customers served)

For Honiara this was measured to be 1.8 times compared to 3.8 times in 2016, a decrease by 2.0 times which is also an improvement.

The Customer Average Interruption Duration Index (CAIDI)

This is a measure of the average time (minutes) that a customer is without power per interruption. For Honiara this was measured to be 90.6 minutes per interruption compared to 103.1 minutes in 2016, a decrease by 12.5 minutes which is an improvement to the network reliability.

Reliability and Efficiency

Bulk of power generation in Honiara was from the more fuel efficient MAN Diesel generators (4x2.5MW) commissioned in 2016. The balance of power generation was from the old generators at Lungga and Honiara Power stations. Improved cooling systems and timely maintenances on the old generators have also improved their outputs up to 90% of their rated capacities. This resulted in the increase of available generation capacity to 30.8 MW, against a peak demand of 14.9 MW.

In addition, the implementation of the G-1 operation criteria, the under frequency load shedding scheme on the 11 kV Honiara feeders and the revised delayed time setting on the existing under voltage system protection on the 33 kV feeders at Honiara has prevented wider network outage due to faults in the 11 kV feeders, which contributed to the improvement in the performance and reliability of the network in Honiara.

Energy Produced

Energy produced in 2017 is shown in the table below. Lungga and Honiara operations produced a total of 82.48 GWh (87.5%) whilst the Outstations, Solomon Tropical Products (IPP) and the Ranadi and the Henderson solar plants produced 11.80 GWh (12.5%).

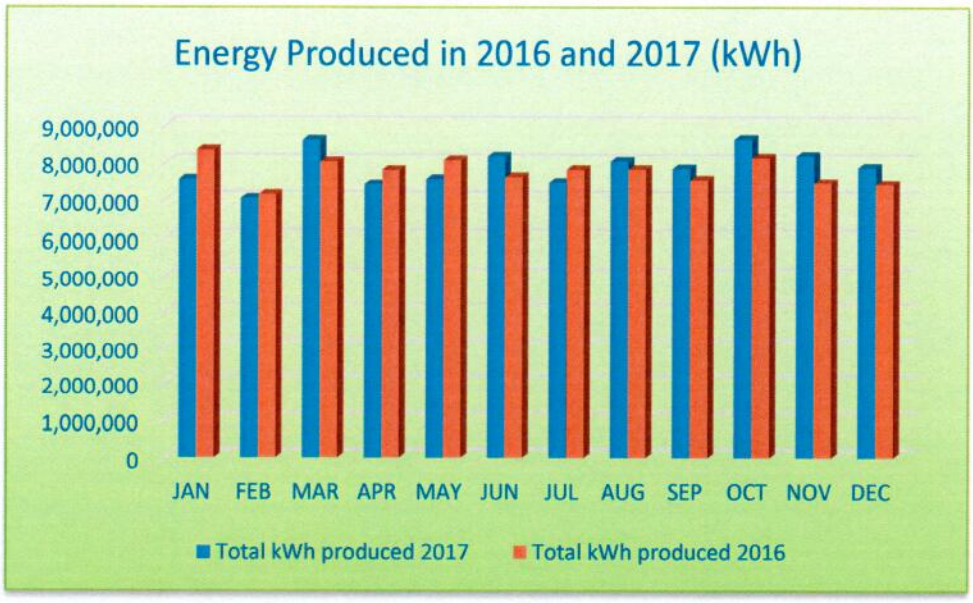
Station	GWh (2016)	GWh (2017)
Lungga	76.86	80.73
Honiara	5.30	1.65
Outstations	6.75	9.73
Henderson Solar (1MW)	0.63	1.19
Ranadi Solar (50kW)	0.005	0.042
Solomon Tropical Products (IPP)	1.10	0.94
Total	**90.64**	**94.28**

Maximum Demand

The demand for electricity in Honiara in 2017 peaked at 14,934 kilowatts compared with a figure of 15,470 kilowatts in 2016, a decrease by about 536 kilowatts.

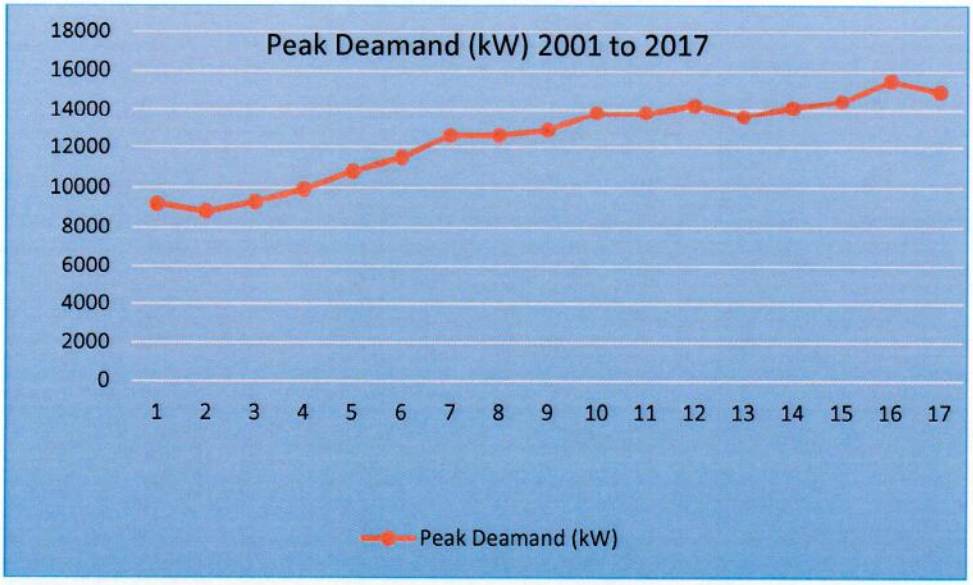
Generation Statistics

Energy Produced in 2016 and 2017 is in the histograms below



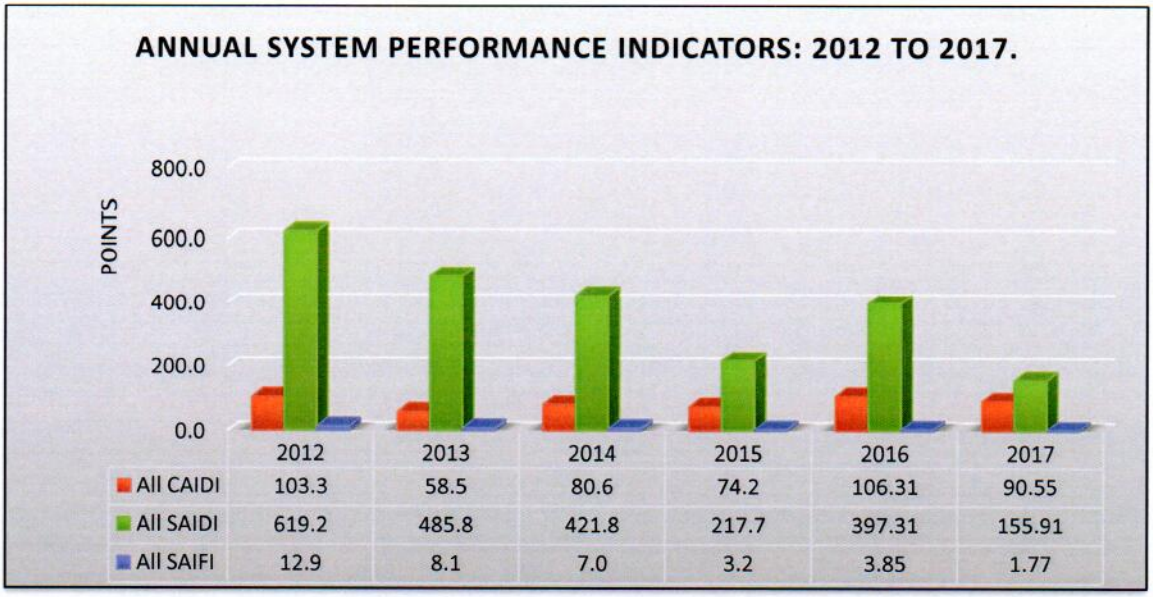
Energy Produced by all Stations in 2016 and 2017

Honiara Peak Demand from 2001 to 2017 is given below:



Honiara Demand Growth from year 2001 to 2017

System Performance Indicators for Honiara from 2012 to 2017 are in the histogram below



	2012	2013	2014	2015	2016	2017
All CAIDI	103.3	58.5	80.6	74.2	106.31	90.55
All SAIDI	619.2	485.8	421.8	217.7	397.31	155.91
All SAIFI	12.9	8.1	7.0	3.2	3.85	1.77

CAPITAL WORKS DIVISION

Planning:

Planning team has developed a robust process and has developed medium term planning reports for a 5-10-year outlook for capital and maintenance spend for SP. This included detail schedule of projects/activities to be completed over the next 5 to 10 years.

Concept design and cost estimate and schedules were completed for the proposed 66 kV line from Tina River to Lungga Power Station. The process of acquiring a 50m corridor for line easements for this proposed 66 kV transmission line was progressed. The Due Diligence Study associated with the proposed Tina River Hydro project in Guadalcanal was completed.

Concept design and tender documentation for a major electrical upgrade of the Old Lungga Power Station was completed.

Planning and concept designs were completed for potential additional solar sites in Honiara (Lungga, Henderson, and Tanagai) and we also completed the initial assessment and identification of a suitable site at Kwainamoro in Auki for a solar farm.

The Planning team also managed the pre-bid tender design and the tender evaluation for the project to convert the existing diesel operated Outstations at Kirakira, Lata, Malu'u, Munda and Tulagi to Hybrid Generation.

To increase the footprint of electricity and consequently add new customer, the Department carried out detailed survey works and reports on six (6) potential solar hybrid locations namely in Lambi, Namugha, Sasamunga, Santa Ana, Ulawa and Visale. A total of ten (10) potential network extension sites were also surveyed and reported. These ten sites include Abiradoa, Alligator Creek Henderson, Dunde, Henderson, Kakabona, Lio Creek, Luova, Mbaru, Ngalimera, and Papaho . A total of 3360 potential new customers were identified from the above solar hybrid and network extension surveys.

In 2017, our young engineers attended external training and on the job training on planning and modelling tools including Dig-Silent and Homer Software. These tools are now actively being used for hybrid, mini – grid distribution and generation system design.

In 2018, the focus will be on network expansions and the development of our young engineers in the application of modelling and planning tools/software.

Capital Works

During 2017 there were 19 capital infrastructure projects being progressed to the value of $556 million. Of these the following were completed and commissioned during the year.

- The extension of the mezzanine floor at the Ranadi HQ location.
- Construction and commissioning of two new outstations at Seghe in The Western Province and at Taro in Choiseul Province. These two projects involved construction of distribution networks and installation of Solar Hybrid Power Generation Plants.
- The replacement of diesel engines and switch gear at Gizo, Munda and Noro
- The construction of the new Power Station at Gizo;
- The replacement of diesel engines and switch gear at Auki and Tulagi
- The construction and energisation of 11 kV and 415 V network extensions at 11 locations (10 in Honiara and one in Auki)
- Relocation of SP assets around Mataniko Bridge and the Honiara City Council Roundabout to facilitate the Kukum Highway upgrade project

Key projects which started during 2015 and were progressed during 2017 include:

- The development of the smart meter project; The meter deployment phase has seen 600 smart meters being installed as at December 2017
- The development of the Tina River Hydro Project including the associated Transmission Line;

Projects that commenced during 2015 and will continue during 2018 include:

- Relocation of feeder 12 at Henderson;

- The redevelopment of the Ranadi Substation;
- The development of the Kola'a Ridge Substation

Projects that commenced during 2016 and will continue in 2018 include:

- The development of the East Honiara Substation site as an industrial park;
- The installation of a second transformer at Lungga;
- The Honiara Power Station Redevelopment;
- The development of 5 Hybrid replacement generation systems for the existing Outstations at Kirakira, Lata, Malu'u, Munda and Tulagi;
- The development of 11 kV and 415 V network extensions

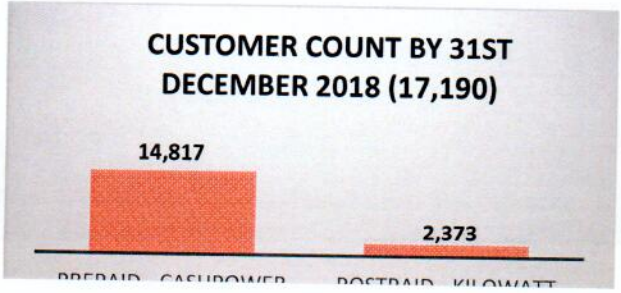
SP has continued to develop its Project Management Office during 2017. The development of staff is particularly important with the young project engineers undertaking projects. SP Construction supervisor training and Diploma of Project Management training were also completed. New team structure has also been implemented to ensure we have resources to deliver several projects over $550 million within the next two years.

In 2018, we will focus our efforts on the Job training with the assistance of contractors and expats and further developing the project engineers in the various aspects of Project Management. This will ensure SP has the resources at its disposal to undertake the projects required to build the capital electricity infrastructure for the Solomon Islands.

CUSTOMER SERVICES DIVISION

With a total number of 51 permanent staff, the Customer Services Division is responsible for all customer issues, from community awareness through its Public Relations Section, to receiving, processing and registration of customer applications for new customer connections, customer enquiries, cashiering, administering billing and customer accounts, protection of revenue meters and revenue collection; all contributing to SP's path to reform which is to make electricity affordable and accessible to Solomon Islanders which is in line with the national objective to energise our nation by year 2050.

By the end of 2017, SP had registered a total of 17,190 customers as connected to its Honiara and Outstation's network. 14,817 (87%) customers are on prepay who use Cashpower meter and 2,373 (14%) are on post-pay which are on the normal kilowatt meter. This is compared to 15,966 registered in January 2017.



With Honiara as the capital city situated on the island of Guadalcanal, 9

Outstations existed on the other island provinces outside of Guadalcanal, namely Gizo, Noro and Auki being the bigger outstations, with the smaller stations being Munda, Buala, Malu'u, Tulagi, Kirakira and Lata. Two new Outstations one each at Seghe and Taro were commissioned and added on to the network in mid-2017 thereby increasing the total number of locations to 12. The table below shows the total Kilowatt and Cashpower customers by their locations.

TOTAL KWH /CASHPOWER COUNT BY LOCATION DECEMBER 2017			
	KILOWATT	CASHPOWER	TOTAL
Honiara	1,686	11,356	13,042
Auki	212	782	994
Gizo	135	684	819
Noro	92	434	526
Munda	49	330	379
Tulagi	41	224	265
Kirakira	39	231	270
Buala	42	204	246
Lata	37	200	237
Taro	12	162	174
Malu'u	26	129	155
Seghe	2	81	83
TOTAL	2,373	14,817	17,190

Kilowatt customers are registered on the post-pay billing system called USP or Utility Star Platinum, a system put in place in June 2014. Cashpower customers however are registered on the prepay system called Suprima Version 3, a system in place since year 2000 and which was at the end of its life. Due to the increasing number of Cashpower customers, the Suprima system underwent a major upgrade in November 2017 and it is now successfully operating on Version 5.

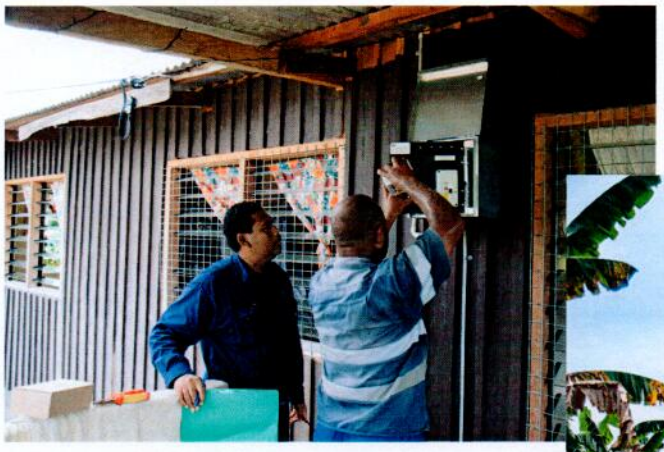
Chairman of the SP Board Mr David Quan, Honourable Minister of Mines, Energy and Rural Electrification Mr Bradley Tovosia, and Choiseul Provincial Premier Jackson Kiloe cutting the ribbon to open the new Solar Hybrid Station in Taro, Choiseul Province.

Effective the 1st January 2017, SP implemented the gazetted Electricity Tariff (Base Tariff and Tariff Adjustments) Regulation 2016 which repealed The Electricity (Tariff) (Automatic Base Tariff and Fuel Price Adjustment) Regulation 2005.

Under The Regulation 2016, customers are categorised into two types; Regular and Non-Regular, which further divides customers as Domestic, Commercial and Industrial customers. In addition, the tariff has 12 tiers for Regular Customers (4 for domestic, 5 for Commercial and 3 for Industrial) based on monthly consumption range. Under this new Regulation, customers are charged Network Access Charge (fixed monthly fee based on customer category and monthly consumption), Non-Fuel

Variable Charge, Demand Charge (fixed monthly charge which only applies to Non-Regular Customers) and Fuel Charge. The implementation of this new tariff regulation has resulted in the reduction of the electricity tariff in comparison with 2016 and for the first time for certain categories, it was below $5.00 per kWh. SP is pleased with this reduced tariff which will mean increased economic growth and help all to build our Nation. The Electricity Tariff (Base Tariff and Tariff Adjustments) Regulations 2016 is available on our website www.solomonpower.com.sb. It is also pleasing to note that both the billing systems have successfully integrated this major change.

During 2017 SP has continued with its programme to extend the electricity network in Honiara and at the Outstations. Network extension plans go hand in hand with community awareness, customer applications and customer connectivity. Apart from the normal SP connections and the 19 approved sites for network extensions, the World Bank assistance through the Output Based Aid (OBA) Programme had further progressed new connection undertakings in 2017, resulting in the increase in customer numbers. The increase from 5 amperes to 10 amperes consumption in 2017 had also resulted in an increase in monthly sales on Cashpower. The OBA program connects electricity to lower income households up to 10 amperes per household, with two lights, one powerpoint, house wiring, one power pole, 80 metres of service line and one



SP Technicians installing meters for a OBA recipient at Foxwood

One of the houses at Foxwood for OBA connection

Cashpower meter fully subsidised. Installation cost is $200.00.

By the end of 2017, 375 households were connected under the OBA programme. This program is scheduled to end on 30 June 2018. However, we have initiated discussions with the World Bank to extend this programme to March 2020.

In terms of internal training, the division is pleased to have all relevant staff trained on the calculation and application of the new Electricity Tariff (Base Tariff and Tariff Adjustments) Regulation before implementation. Relevant staff also underwent internal training on the upgraded version of the Cashpower Suprima system and have all mastered the new version well. New officers in our new two Outstations in Seghe and Taro also underwent thorough on the job training on the customer processes and procedures.

In October, five technicians from the Metering Section attended a Metering Training Course held at the Energex Training complex in Brisbane, Australia.

The division is also pleased to note that it deputed one Meter Technician to attend the Factory Acceptance Test for the Meter Test Bench in Spain in November. This was part of SP's investment in state of the art technology to improve its services to its esteemed customers. Installation of the test bench together with more training is scheduled by Itron, the supplier in January 2018.

One staff is on full time degree studies at the University of the South Pacific in Fiji while another is completing diploma studies at the Solomon Islands National University. Apart from training, the division's policies and processes are continually developed and updated, to ensure that our quality commitments to our valued customers are met.

2017 saw improved reliability and billing connectivity in terms of system access by the remote Outstations team. This is as a result of ongoing efforts of the V-SAT project, with SATSOL and government support. Staff at the Outstations can now input daily payments for post-paid accounts to enable daily postings to be done at the Head Office.

To ensure the accuracy of meters and a reduction of non-technical losses, all commercial and industrial installations with current transformer (CT) meters were upgraded in 2017. Deployment of smart Meters (EDMI meters) continued over 2017 in Honiara with 600 such meters already installed and commissioned at year end. This project is currently confined to Honiara and will continue in 2018.
The weekly Saturday morning one-hour radio programme featured the OBA programme and the connection process and requirements with talk-back shows in 2017. This has resulted in increased applications for new connections.

The Cashpower Drive-Through and Walk-Through windows, extended Cashier opening hours to 8.30pm Mondays to Fridays and the 24 hours Cashpower mobile top-up service are still going very well and have been very helpful in reducing customer queues at the counters, especially with the growing number of Cashpower customers. With all these, we look forward to another Customer Survey in 2018 where we hope to see a marked improvement in our customer service.

FINANCE DIVISION

Finance Division

The fiscal position of Solomon Power continues to be strong despite the decrease in Revenue as a result of the 12% reduction in customer tariff. The strong position is due to good financial management and good governance. During the year:

- SP declared and paid a dividend of $4.0m
- Net Profits has dropped to $79.8m
- Return on equity and return on assets has been 7.7% and 7.1% respectively
- Generation costs per kWh is less than $2 (less than US $0.25 per kWh)
- Fuel costs, being 38.5% of our costs, has dropped in comparison with 2016
- Monthly kWh sales reached its highest ever, and
- Capital Infrastructure being funded using retained earnings (Seghe & Taro Outstations, Outstations Generations Upgrade, Network Extensions etc.)
- SP has now commenced its World Bank IDA Loan Repayments to SIG.

Embracing new business applications to streamline our manual processes or upgrading our software are ongoing. During the year, we:

- Have commenced with automating our timesheets
- Have started using our newly developed Analytics Software for the analysis of our Data
- Upgraded Cashpower Software to Suprima 5

Information, Communications and Technology

The Information, Communications and Technology (ICT) department of Finance took substantial strides to protect our information, connect our key sites and modernise our existing hardware and software.

To protect our information we have replaced our firewalls with Cisco Meraki 64 Firewall. We have also installed stacked Cisco Layer 3 switches to route and switch data traffic between the segmented networks we currently have via Fibre and VSAT thereby permitting firewall to serve its primary function as the gateway to other networks over the internet. We have achieved a more manageable network that is reliable and visible to counter possible threats and to meet growing internetworks. We also replaced our traditional Antivirus Symantec software with Webroot, which has a history of robustness and has proven to be effective in real time.

Communications to our installations at the Outstations remains a challenge due to the available technology at each location, however Our Telekom through SIG-ICTSU have signed an agreement with SP to connect all SIG-ICTSU and SP network onto a single hop link from each site directly into Honiara. We have successfully connected Buala, Gizo and Noro to Telekom's one hop satellite link as the primary link and VSATs as a redundant link. This connectivity has shown tremendous improvement and hence better connectivity for the three Outstations. This will enable real time data in IBMS and Cashpower applications from each of our Outstations.

Seghe and Taro Solar Hybrid SCADA systems were connected onto the network thereby providing remote accessibility from Ranadi.

An IT Strategy for the next three to five years has been established and is currently being implemented.

CORPORATE SERVICES DIVISION

The Corporate Services Division provides enabling services to other divisions in SP through its human resources & administration; training & development; health, safety, security and compliance; business performance, fleet management; and land & buildings teams.

Human Resources

At the end of 2017 SP had 237 permanent employees, compared to 239 at the end of 2016, a slight reduction by 1% in permanent employee numbers but this was complimented by 12 graduate trainees with engineering, finance, economics, management and IT backgrounds.

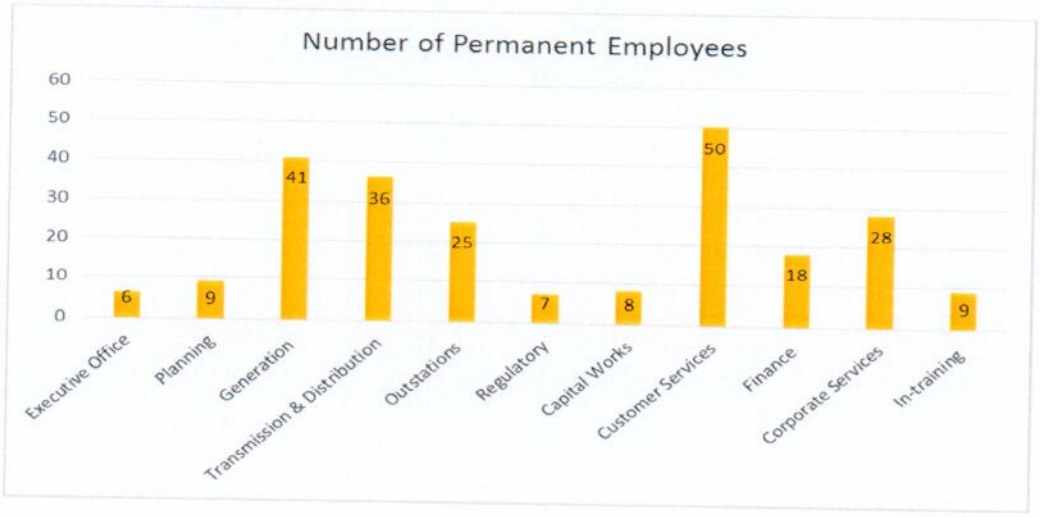


Figure 1: Employee numbers

Employees by location

144 employees, the majority of the workforce, were based at the SP Head Office in Ranadi where the Executive Office, Finance, Corporate Services, Customer Services, Planning, Capital Works; and Distribution & Transmission teams are located. The Lungga site had the second highest number of employees at 38.

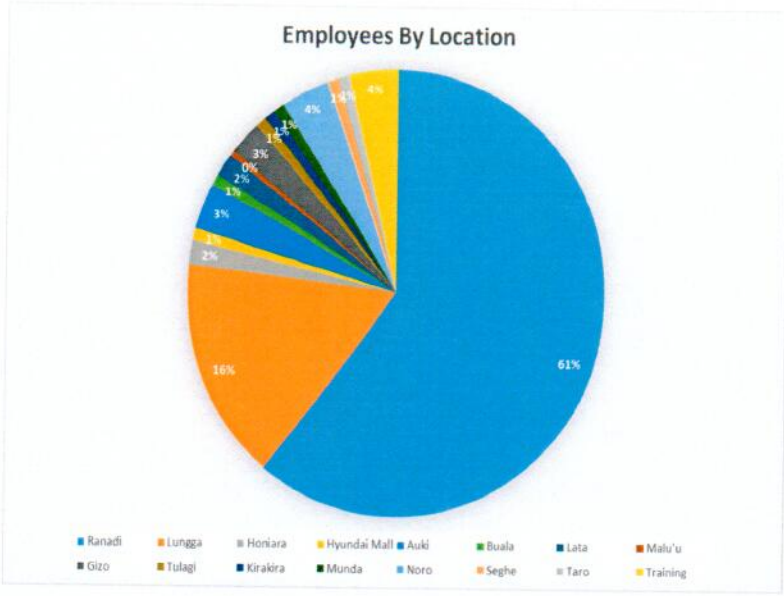


Figure 2: Number of employees by location

Highlights in 2017 included:

- Review of key policies including that for performance management and training and development; and the introduction of the new SP Apprenticeship Program framework
- Recruitment for several key roles including that for a Mechanical Engineer, 1 Senior HR Business Partner and 1 Business Performance Manager
- Internal promotions including that for the Internal Audit and Finance managerial roles
- Broadening of the Graduate Trainee Programme with the engagement of 3 Graduate Engineers and 1 for ICT

Training and Development

Considered a strategic organisational objective relevant activities, initiatives, planning and resourcing were geared towards workforce development. Programmes included a blend of full time studies, class room and practical training, attendance at workshops, seminars and conferences.

In 2017, 3 employees were on Solomon Islands Government scholarships; 1 employee was on a full SP scholarship to complete her studies at SINU; 4 employees attended full time studies in APTC Papua New Guinea and Fiji respectively, also fully funded by SP, with 2 graduating with Certificate III in electro-technology and 2 in Certificate III in engineering in diesel fitting. In 2017, 1 employee graduated from USP with a Bachelors of Arts degree in accounting.

SP provided a fully funded TAFE diploma in civil construction supervision in-house program for 6 employees; 1 employee graduated with a Certificate IV in leadership and management also with TAFE and 10 employees completed another internally run program also with TAFE towards a diploma in project management.

Lineman training continued in 2017 and 12 Linemen graduated with a Certificate in Electric Power Lineman.

4 employees attended a 3-week cable jointing programme with Energex in Brisbane Australia, with another 8 undergoing a 1-week metering program also at Energex in November 2017.

Various development programmes held abroad for finance for non-finance managers, auditing for project management, renewable energy and power systems were attended by managers and engineers respectively.

To further enhance our drive for workforce development, SP continued with its Graduate Development Programme with 12 Graduates attached to various units and with SP providing workplace attachment opportunities for 27 students from Don Bosco, SINU and USP.

Occupational Health & Safety

SP commits to the safe supply of electricity to the Nation with its effective and robust OHS management framework, aimed at providing a safe environment for employees and customers and the community at large. Highlights in 2017 included:

- Nil (0) Lost Time due to Injury (LTI) was recorded in 2017 where the Lost Time Injury Frequency (LTIF) rate for 2017 closed at 0
- Safety awareness programs for employees and electrical safety awareness programs in communities
- Continuation of First Aid Training and provision of First Aid Kits and Basic Fire Fighting training and equipment including those supplied to staff houses
- Continuation of Electric Power Lineman Training
- Implementation of site safety inspection process for Contractors
- Monthly fire protection inspection of Power Houses and SP vehicles with the Safety Officer accredited to carry out fire protection inspection at Outstations' Power Houses

Solomon Power Fleet of Vehicles

SP with 91 vehicles continued with relevant policy implementation, monitoring and training like "Hands on Wheel" a defensive driving programme which was held again in 2017 with continued focus on safety, behaviour and professionalism.

Land & Buildings

Land

SP continued with its program of land acquisitions and proper registration of its properties.

Buildings

Apart from our commercial properties in Honiara, Ranadi, Lungga and the Outstations, SP provided housing for employees. 107 staff houses were managed in 2017 with continued efforts in repairs and maintenance. The Staff Housing Policy was reviewed and rolled out to residents.

Business Performance

SP's Business Performance unit is responsible for ensuring that SP complies with legislation relating to the operation of the organisation. These pieces of legislation included the Electricity Act (Cap 128), the State Owned Enterprises Act 2007, the Labour Act, the Employment Act, the Safety At Work Act and other relevant pieces of legislation.

Bypass Customers

SP continued with its concerted effort to recover monies owed to SP by "bypass" and defaulting customers, the efforts were challenging yet resulted in progress of prosecuting of "Bypass" customers and recovery from defaulting customers with a number of good outcomes in 2017.

Workmen Compensation

One case of Workmen Compensation was reported to the Department of Labour.

Trade Dispute Panel

There were no new cases in 2017.

Outstanding claims

Several legal cases over parcels of land were still pending with 9 new sites being progressed through to registration.

Corporate Governance Practices

Role of the Board

As required by Section 6 (4) of the State Owned Enterprises Act 2007, the Board is responsible for charting the Company's strategic direction, for the setting of objectives, policy guidelines, goals management, and for monitoring the achievement of these matters.

The Board is also responsible for reviewing the Business Plan, Corporate Plan and Statement of Corporate Objectives, and approves the Operating and Capital Budgets each year. The Board also reviews matters of a major or unusual nature, which are not in the ordinary course of business.

Composition of the Board as at 31 December 2017

The Board Directors, appointed under the State Owned Enterprises Regulation 2010, (Part 2, Prescribed Process of Appointment of Directors) are as follows:

Name	Position	Appointment	Term
Mr David K.C. Quan	Chairman	February 2016	3 years
Mr Henry Kapu	Director	June 2012	3 years
Mr Harry Zoleveke	Director	June 2012	3 years
Mr Sebastian Ilala	Director	June 2012	3 years
Ms Yolande Yates	Director	September 2014	2 years

Mr Rovaly Sike	Director	September 2014	2 years
Mr John Bosco Houanihau	Director	September 2014	3 years

Directors' Duties

The role and duties of the Directors are defined in regulations 17 to 27 of the SOE Regulations, 2010. A key responsibility of the Directors is to achieve the principal objective of the Authority, as stated in Section 5 of the SOE Act:

The principal objective of every State Owned Enterprise shall be 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 or established as statutory bodies by an Act of Parliament,
(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.

Statutory Duties of the Board

In addition to the above duties, the Board of Directors of SP collectively and individually have agreed on the fulfilment of the following duties toward the company:

- When exercise powers or performing duties, Directors must act in good faith and in what the Director believes to the best interests of the State Owned Enterprise.
- A Director of a State Owned Enterprise, when exercising a power as Director, must exercise that power for a proper purpose.
- A Director of a SOE must not:
  - (a) Agree to the business of the SOE being carried out on or in a manner likely to create a substantial risk of serious loss to the SOE creditors or,
  - (b) Cause or allow the business of a SOE to be carried out on or in a manner likely to create substantial risk of loss to the SOE creditors.
- A Director must not agree to the SOE incurring an obligation unless the Director believes at the time, on reasonable grounds, that the SOE will be able to perform the obligation when it is required to do so.
- A Director of a SOE, when exercising powers or performing duties, must exercise the care, diligence, and skills that a reasonable Director would exercise in the same circumstances.
- Another controlling measure imposed on Directors is the requirement to enter any conflict of interest in an interests register.

Fiduciary Duties of Directors

The Directors of SP also owe the following duties to the company. These fiduciary duties form the code of ethics of SP. A fiduciary relation imposes an obligation of utmost good faith on Directors by putting the interests of the Company first, and the SP Directors have pledged to uphold this principle at all times. The Fiduciary Duties of the Directors include the following:

- To act in good faith in the best interest of the company,
- To exercise powers for a proper purpose,
- To retain discretion
- To avoid conflicts of interest.

Board Meetings

The Board held 12 meetings during the financial year, which ended 31st December 2016. Of these 6 were scheduled meetings and the rest extra-ordinary meetings. The regular business of the Board covers corporate governance, financial performance and risk management, business investment and strategic matters.

Board Committees

There are three Board Sub-Committees; Audit and Finance, Technical, and Human Resources, that are responsible for deliberating detailed issues and making suitable recommendations to the Board. The Sub- Committees meet as and when required.

Board Secretary

Mrs Natalie Kairi

Audit & Finance Sub-Committee

Membership:

1. Henry Kapu- Chairman
2. David K.C. Quan- Member
3. Sebastian Ilala – Member
4. Yolande Yates – Member

Number of meetings: *4*

HR Sub-Committee

Membership:

1. John Bosco Houanihau (Chairman)
2. David K.C. Quan- Member
3. Yolande Yates- Member

Number of meetings: 4

Technical Sub-Committee

Membership:

1. Rovaly Sike- Chairman
2. David K.C. Quan- Member
3. Henry Kapu- Member
4. Harry Zoleveke- Member

Number of meetings: 4

Glossary

kV	Kilovolt
HV	High Voltage
kW	Kilowatts
MW	Megawatt (= 1000 kW)
Gwh	Gigawatt-hour (= 1 million kWh)