

NAURU AIR CORPORATION

STATEMENT OF CORPORATE INTENT 2023/2024



NAC CABINET APPROVAL SUBMISSION

August 2023

Commercial in Confidence

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INTRODUCTION

This Statement of Corporate Intent (SCI) for Nauru Air Corporation (NAC) is for the financial year 1 July 2023 to 30 June 2024 and the following two financial years to 30 June 2026. The SCI conforms with Sections 27 & 28 of the *Public Enterprises Act (2019)* (the “Act”).

NAC is a State-Owned Enterprise (SOE) and is subject to

- the Nauru Air Corporation Act (1995),
- the Corporations Act (1972) and,
- other Nauruan legislation.

Nauru Air Corporation is registered as an Australian registered company and it operates under,

- an Australian Air Operator’s Certificate and,
- it is also subject to Australian company law and,
- Australian Civil Aviation Regulations.

NAC has the following wholly-owned subsidiaries registered in Australia:

1. NAC Travel Pty Ltd (trading as Our Travel) and,
2. Nauru Airlines Hangar (Brisbane) Pty Ltd, which leases an aircraft hangar facility to the airline.
3. Nauru Airlines Maintenance Services Pty Ltd (not trading)
4. Nauru Leasing 33003 Corporation (newly registered in March 2023)

Note: Nauru Airlines holds a minority interest of 49% in Pacific Wings Pty Ltd (not trading)

The airline’s aircraft and engine assets are held in a related Government-owned company, Sunco Pty Ltd Holding Inc (“Sunco”) and Nauru Leasing Company (NLC), which leases these assets to NAC.

The Statement of Corporate Intent (SCI) is to communicate the directors’ intent for the business to the Shareholder. This includes detail on NAC’s business goals, strategy, financial position, a 3-year forecast, funding requirements, other matters such as Community Service Obligations (CSO) and how success will be measured.

SHAREHOLDER EXPECTATIONS

The primary objective of NAC, as a SOE under the Public Enterprises Act, is to be a successful business. The objectives of the Corporation are also governed by the Nauru Air Corporations Act 1995 which states it must:

- (a) maintain and operate air services to and from the Republic and other services in safe, efficient and profitable manner through the national airline
- (b) establish, maintain and operate such activities as are, or may be ancillary to the maintenance and operation of air services to and from the Republic and other services; and
- (c) establish, maintain and operate such other activities, including those recommended by the Board to the Cabinet and approved by the Cabinet.

These objectives and the role that NAC performs for the people of Nauru are reflected in the goals for the business outlined in the Business Overview section.

In accordance with the Public Enterprises Act, the intent of the Directors and Management is to operate the business and deliver air services in a manner that is at least as profitable and efficient as comparable businesses in the private sector and generates, in each financial year, a net operating profit after tax that is an acceptable return on equity.

NAC remains aware of the importance of the Government of Nauru's own regional and global strategies therefore, the Board closely monitors this relationship, through the Responsible Minister, to ensure the that the shareholders requirements are met.

NAC will continue to engage with the Shareholder via the Responsible Minister to formalise proposals under the CSO provisions of the Act and these are referred to further in this document.

AIRLINE BUSINESS OVERVIEW

As Nauru Airlines is operating in a highly regulated and complex industry, the following overview of the Global Aviation market highlights some of the market conditions under which the airline operates and gives some context to the challenges and opportunities for the industry and the airline.

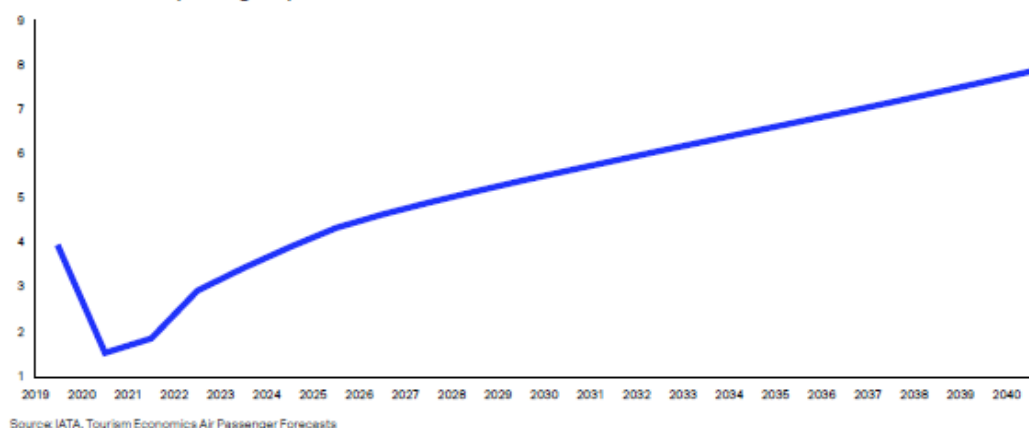
The Global Aviation Market

2022/2023 in Review

- Following the worst of the COVID-19 pandemic, the ongoing war between Russia and Ukraine drove energy and food prices significantly higher. These events and other reasons for spiralling inflation have prompted much policy tightening by central banks, in turn adding to the safe-haven status of the US dollar, all of which constitute important headwinds for the global economy and for aviation.
- Nevertheless, the events of 2022 testifies to the resilience of the air transport industry. After the largest shock in aviation's history, recovery is now well underway. Traffic grew at a record rate in 2022 in some areas of the world, and has continued to grow albeit at a slower pace in 2023.
- Traffic continues to be driven mostly by pandemic-related travel restrictions which are still dampening the recovery, notably in China. Even so, global passenger numbers are forecast to reach the 2019 level in 2024.
- Cargo continues to outperform domestic and international passenger markets. While CTKs have moderated, the related revenue will likely exceed 2019 results going forward, in spite of pressure on yields as belly capacity returns.
- The air transport industry will likely post a loss of nearly USD 7 billion in 2022 and deliver a profit of USD 4.7 billion in 2023. This is a remarkable performance given the USD 138 billion loss seen in 2020.

Global air passengers, past and forecast, billions

Chart 14: Global air passengers, past and forecast, billions

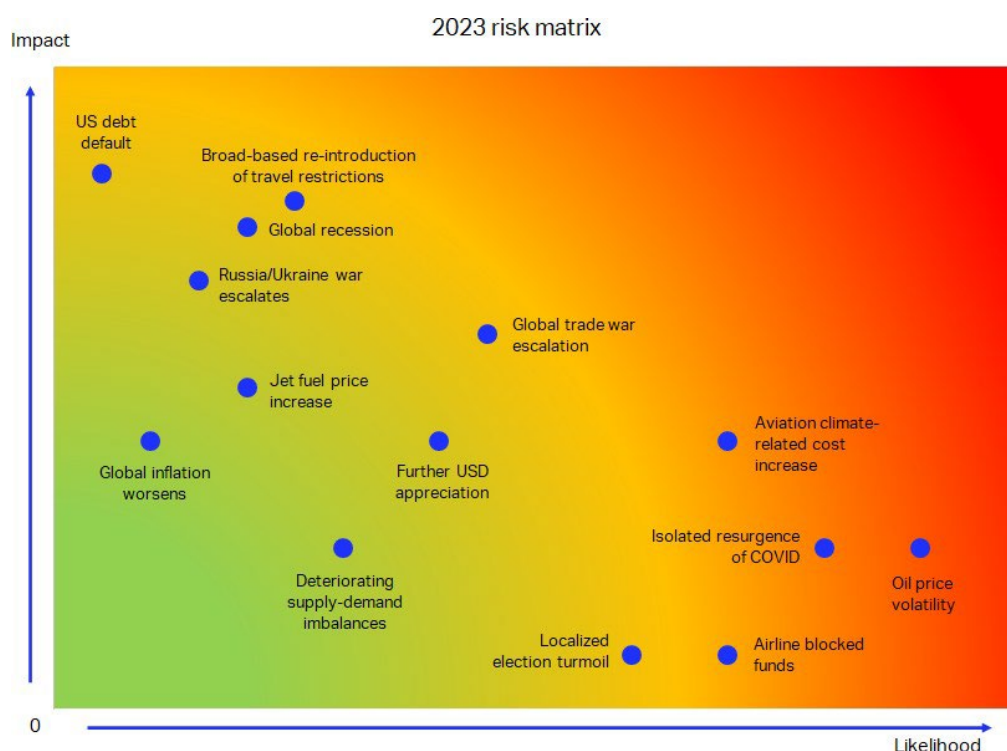


Global Airline Future outlooks:

IATA's latest outlook is more favorable for the passenger than cargo segment, with passenger demand expected to continue to recover strongly over the year ahead. In contrast, the outlook for cargo volumes have softened over the past year, with a much more moderate expectation for growth over the next twelve months.

- the reopening of borders across the world, especially amongst the major economies in the Asia Pacific is expected to boost both inbound and outbound travel for the world's air transport market.
- 2023 is not without its challenges. Macro- economic headwinds, particularly inflation, fuel prices, interest rates and wage pressures remain key concerns for the industry.
- There is a clear expectation that cargo yields are likely to decline over the course of the year.
- The industry will return to a modest net profit position in 2023.

Global Risk Matrix Outlook



- **War:** The war in Ukraine is a major reason behind the global economic slowdown from 6% GDP growth in 2021 to close to 3% in 2022. Predicting when this conflict will end is near impossible, but it will dominate the world economy.
- **Global recession:** The war in Ukraine and the risk factors detailed below heighten the risks of a global recession. The last two were the 2008 Global Financial Crisis and the 2020 COVID-related recession.
- **Inflation:** Most of the global surge in inflation in 2022 is related to the war in Ukraine and its effect on energy and food prices. At the global level, inflation likely reached around 9% in 2022, up from some 5% in 2021. Barring unexpected events, simply the base effect will bring inflation lower in 2023. This does nevertheless imply that the price level will remain high.
- **Oil:** Oil prices swung wildly in 2022, peaking at USD 133.2 on 8 March, but gaining only around 10% over the full year. As for the price of jet fuel, it averaged USD 139.1 per barrel in 2022 and ended the year up nearly 42% from January 2022. Further oil price volatility is to be expected in 2023.

- **Exchange rates:** In response to the surge in inflation, central banks have lifted policy rates around the globe. The US Federal Reserve's policy rate now stands at 4.5%, having started 2022 at 0.25%, and will likely peak in 2023 in the vicinity of 5%. The cost of any US dollar denominated transactions, such as energy purchases and debt service, have risen for all who do not earn revenue in dollars, over and above the price inflation.
- **COVID:** The virus has reemerged as a risk to the 2023 outlook as it spreads through China and will most probably dampen GDP growth in that country as a result. However, the lifting of lockdowns and travel restrictions will, on the other hand, support economic activity in the economy and in air transportation.
- **Travel restrictions:** The re-introduction of travel restrictions by a number of countries around the globe in response to the COVID outbreak in China is damaging to all forms of economic activity and bring no scientifically certified benefits in terms of limiting the spread of the virus. The EU and other countries such as Australia, Canada, India, Israel, Malaysia, Morocco, Qatar, South Korea, Taiwan and the USA have all introduced additional COVID measures for arrivals from China.
- **The US debt ceiling:** The US has a fiscal rule which limits the amount of debt that the country can issue. Once that limit has been reached, the government can still function for a period thanks to cash on hand and extraordinary measures. However, when the money runs out, the government risks defaulting on its debt unless Congress agrees to raising the debt ceiling.
- **Climate change:** Extreme weather events pose an ongoing risk to all infrastructure and will likely continue to disrupt air travel at some airports and flight routes. The costs associated with such events can be expected to increase, as can the costs relating to any policy response to climate change, ranging from carbon pricing to taxes and consumer protection.
- **Trade wars:** Today, US industrial policy, which focuses on subsidies, export controls, and trade barriers, is met with an urge in China, Europe, and other major economies to respond in kind. However, even in a worst-case scenario, the impact will be far less than in the past.
- **Demand and supply imbalances:** The sudden shutting down and opening up of the world economy in response to the pandemic has shown with utmost clarity that this cannot be done as easily as turning the lights off and back on again. Lingering market imbalances will likely continue to keep prices high, including that of labour. China's reopening will likely come with its set of challenges, but as the global economy slows bottlenecks will wane, and unemployment will begin to rise again.
- **Elections:** Many countries around the globe will hold elections in 2023. These will be important but the global impact if any local political turmoil ought to be limited.
- **Blocked funds:** Foreign entities including airlines face a growing inability to repatriate earnings in many such instances. The current total blocked funds amount to around USD 2 billion, a quarter of which pertain to Nigeria.

Summary:

Most of the headwinds from 2022 are likely to remain with us also in 2023, though overall they may be unlikely to intensify. This nevertheless implies that airlines will face elevated costs on virtually all fronts, arguably putting a floor under ticket prices. Passenger price sensitivity has been low so far since travel has again been possible, though this can be expected to rise as economies slow and unemployment rates climb again.¹

The air transport industry continues its recovery in the post covid world. Passenger markets are recovering strongly while cargo volumes have begun to ease in 2022 from their recent highs of the previous year, amid weaker global economic growth and geopolitical tensions. Total airline revenue is expected to reach around 87% of the 2019 level in 2022, up from 60% last year. In 2023, total airline revenue should increase to an estimated 93% of the pre-pandemic

¹ <https://www.iata.org/en/publications/economics/>

level, driven by the recovery in passenger traffic. Air cargo revenue looks set to moderate to around 20%. Although this rebalancing of airline revenue was to be expected, it is noteworthy that cargo revenue in 2023 will still be around 50% higher than the level seen in 2019. This highlights the ongoing importance of the role played by the cargo sector in the post- pandemic industry and economic recovery. Key concerns throughout the year are inflation, interest rates and fuel prices, especially the threat of recession in all the major economies, however and despite of this, the industry remains upbeat that 2023 will be a year of modest profits².

Particular challenges for Nauru Airlines

1. Increasing the charterbook or finding new ACMI work to replace current contracts.
2. The continued rebuilding of an RPT network that is sustainable.
3. Upgrade to New Generation aircraft and retiring the classic fleet.
4. Continuing compliance with changing regulatory requirements requiring human resource investments.
5. Dealing with COVID-19 related rules to maintain operations and to keep Nauru safe.
6. Maintaining an ability to remain agile and responding swiftly to client requirements.
7. Reviewing products and services offered to keep abreast of the ever changing landscape.
8. Effective management of strategic risks for the airlines amidst commercial pressures and conflicting priorities for the management team.
9. High turn-over of critical positions in the company, leaving the AOC vulnerable.
10. Cost pressures include:
 - Possible pro-longed high insurance premiums amidst the Russia Ukraine conflict
 - Impacts of increased fuel cost price volatility
 - Interest rates
 - Exchange rates
 - Increasing wage bills and CPI inflation
 - Supply chain challenges for sourcing aircraft parts and heavy maintenance check slots at MRO organisations within our region
11. Continued vigilance against cybersecurity risks.
12. Keeping the workforce motivated and engaged.

Business Goals

Nauru Airlines remains attuned the key role that it plays within its shareholders vision. The airline will continue to do its best to achieve its primary goal of safely connecting Nauru and its citizens to the region and the global community. The

² <https://www.iata.org/en/iata-repository/publications/economic-reports/industry-confidence-remains-upbeat-for-the-year-ahead/>

airline also intends to maintain air fares at an affordable level for the citizens of Nauru through profitable cross-subsidisation by continually endeavouring to seek new charter operations in replacement of those currently provided to the ABF and RPC.

Complying with the Statement of Corporate Intent also ensures that Nauru Airlines will continue to facilitate trade, tourism and the functioning of Government as well as deliver a significant catalyst demand effect to the Nauruan economy through its on-going contribution to GDP, employment, and tax revenues.

NAC will also continue to provide the Government of Nauru with a valuable component of its leverage in bilateral negotiations, around both aviation and non-aviation matters with its neighbours and the greater Pacific region.

Key Activities

In order to maintain all the functions of the airline, the following core business functional areas exist and are maintained within the organisation:

1. Flight Operations	<p>The Flight Operations area consists of the</p> <ul style="list-style-type: none"> • pilots, • cabin crew, • load master on-board the aircraft and, • Operations Control Centre. <p>They are responsible for the safety, comfort of passengers and integrity of all flight operations.</p>
2. Continuous Airworthiness Maintenance (CASA Part 42)	<p>The Continuous Airworthiness Maintenance area consists of the</p> <ul style="list-style-type: none"> • Continuous Airworthiness Manager (CAM) • Reliability engineers • Technical services engineers • Maintenance watch • Aircraft maintenance planning • Aircraft spares and stock control, purchasing and management • Administration <p>They are responsible for maintaining reliable and airworthy aircraft and aircraft operations.</p>
3. Engineering (CASA Part 145)	<p>The Engineering area consists of the</p> <ul style="list-style-type: none"> • Head of Maintenance Engineering (HOM) • Licensed Aircraft Engineers (LAME) • Aircraft Engineers (AME) • Scheduling and planning <p>They are responsible for the line maintenance of the aircraft as a registered Aircraft Maintenance Organisation up to A-Checks.</p>
4. Ground Operations	<p>Responsibilities.</p> <ul style="list-style-type: none"> • All flight-related ground services such as passenger check-in, aircraft loading and handling, freight handling, in- flight catering and all land arrangements such as hotel and land transport for crew and any flight

	<p>disruption service recovery for passengers.</p> <ul style="list-style-type: none"> • Manage General Sales Agents and service providers contracted at various airports to deliver these services on NAC's behalf. • Nauru port is "self-handled" via NAC's own approved ground handling operations in Nauru
5. Freight and Charter Operations	<ul style="list-style-type: none"> • Small freight and charter operations area that coordinates the freighter's activity, delivers freight services to customers, and manages all charters. • Charter operations include the passenger and freight operations to support the RPC, as well as ad-hoc charters on behalf of other airlines and NAC's own commercial charter activity. • Commercial quotes, planning
6. Sales, Distribution and Marketing	<ul style="list-style-type: none"> • Two dedicated sales offices in Brisbane and Nauru which sell passenger tickets directly to the public. • Tickets are also sold on the airline's website. • Indirect sales are with travel agents in NAC's in-house travel agency Our Travel, through directly accessing the airlines' reservation system. • The two offices are in NAC's Brisbane and Nauru Airport offices, and they also service the needs of the Government of Nauru and other corporate customers in Nauru for travel on NAC's network and other airlines outside the network, as well as hotels, car rental or other land arrangements; and support the airline's staff duty travel requirements.
7. Finance	<ul style="list-style-type: none"> • Maintaining all financial functions of the airline (Cash management, Receivables, Payables, Asset Management, Revenue accounting for Passenger and Cargo operations, HR and Payroll, Inventory and others). • Contracts • IT systems • Insurance • Reporting and budgeting
8. Nauru based administrative functions	<p>In Nauru, NAC maintain a small team that handles all the finance and human resources functions on Nauru. They also oversee the administration of the following areas operating on a very small scale out of Nauru, where each area has a Head of Department to oversee the effective delivery of services:</p> <ul style="list-style-type: none"> • Ground and airport operations, • Freight, • In-flight catering, • Engineering, • Sales and, • Finance and administration.
9. Head Office	<p>Head Office is responsible for the overall management, finance, human resources, and administration functions of the airline. It oversees the day-to-day management of the airline and coordinates the various functional areas wherever the airline operates.</p>

Initiatives undertaken to enhance capabilities and improve performance of the airline in 2023/2024

These initiatives are consistent with the organisation's primary objective under the Act and continuous Shareholder engagements:

1. Quick adaptation to the impacts of Covid and continued support to keep Nauru safe Planning
2. Re-employing all deployed staff to reflect the increased flying operations.
3. Responsiveness to Charter work and repatriation charter opportunities
4. Increasing freighter fleet to expand freight opportunities/revenue
5. Introduction of newer NG aircraft into the fleet
6. Continued implementation of systems
7. Building on our diversification of services and in particular the freighter business
8. Delivering on its CSO obligations to Government and people of Nauru
9. Reducing organisational costs to enhance competitiveness.

Key Business Risks & Mitigations

NAC's primary inherent risk is in relation to flight operational safety. Other risks include commercial, systems and human resources. A systematic risk analysis process utilising the ISO 31000 framework continues to be the standard that NAC follows.

The top strategic risks to the business are as follows.

Risk	Descriptor	Mitigation
1. Safety	Risk that a safety hazard is not identified or not managed leading to an incident causing loss of aircraft or fatalities or significant impact on people and operations.	This is mitigated through the on-going maintenance of the airline's Safety Management System, which will be further strengthened by improving the airline's safety culture.
2. Safety	Risk of losing or suspending AOC due to Lack of alternative key positions and gaps in departmental critical business processes and procedures.	Mitigation will be through robust external evaluation of Part 42/Part145/Safety Management systems areas to address gaps and facilitate restructuring and resourcing requirements to improve and recruitment of two key senior position holders in the Continuous Airworthiness Manager and the Head of Maintenance.
3. Fleet	Ageing aircraft with increasing risk of mechanical failure. Grounding of the old aircraft due to a shortage of parts and skilled engineers. This can lead to a loss of contracts because aircraft are not available to service them.	Mitigation will be through completion of the fleet upgrade program and relationships with key service providers. Additional training is being provided to engineers, additional parts are being purchased.
4. Commercial	Loss of or a significant reduction in ABF and RPC business.	Ongoing monitoring of Government contracts with DIBP and align Airline Strategy with shareholder input to fill contribution deficit
5. Commercial	Commercial opportunities at non-profitable or non-contributory margins	Continue to be alert and on the lookout for viable replacement long term charter flying. Ensure good

		understanding of incremental cost base and asset utilisation cost to avoid implementing loss making commercial opportunities.
6. Shareholder	Loss of support from the Government or a major change in policy or directives.	Mitigation in place is to closely align with GON strategic plan and to have robust SCI.
7. Human Resource	Loss of key staff and a high turnover and vulnerability for loss of key regulatory position holders.	CEO and HR actively manage succession plan. Robust second layer business processes and procedures to support change of key positions.
8. Systems	Weakness and or inefficiencies that impede or prevent required actions and operations.	Ongoing improvement program to optimise all systems implemented.
9. COVID-19	Induced disruptions to business for an extended period of time.	Covid monitoring actions and fast response to reduce risks
10. Fuel price & Exchange rate	Vulnerability to movements in Fuel price and Exchange rate	Contracts to cover escalation clauses to fuel price and exchange rate movements and reduction of risk through higher percentage ACMI contracts.

Strategy

NAC in accordance with the SCI has remained a going concern throughout the covid years. The post-covid landscape now presents its own unique challenges which can be summed up in one word. Competition!

The Board and senior leadership group has conducted its high level strategic planning activities and the new direction will be presented in the annual Business Plan. Chief amongst its strategy will be the Building of New Business in order to further mitigate against the risk of reduced revenue gained from its current operations.

The strategic context for 2023 and beyond.

- The post covid aviation environment for the short to medium term.
- Enhancing NAC's RPT route network
- Meeting the Shareholder's Expectations
- Extra freight capacity and completing the fleet renewal program
- Maintaining the culture of performance, valuing staff and customers whilst
 - (1) delivering NAC's dual role for the people of Nauru and,
 - (2) ensuring a sustainable, financially sound, and commercially viable operation

Vision Statement

To be the pride of Nauru, connecting our people to the global community, through dedicated and innovative employees who are determined to exceed customer expectations in service, standards and safety.
To be an airline that delivers above and beyond essential services, by creating opportunity, contributing to national development, and making a difference to people's lives.

Mission Statement

To operate air services to and from Nauru in a safe, efficient and profitable manner through the national airline.

Strategic Objectives

Stability and Groundwork	Build Potential	Capitalise on Opportunities
<ul style="list-style-type: none"> • Maintain Core Operations • Build New Business • Develop Our People • Meet Shareholder Expectations 	<ul style="list-style-type: none"> • Build Our Assets • Enhance Our Services • Meet Shareholder Expectations 	<ul style="list-style-type: none"> • Continual Improvement • Meet shareholder expectations

KEY PERFORMANCE INDICATORS

Currency = \$AUD Mil	FY2022	FY2022	FY2022	FY2023	FY2023	FY2023	FY2024	FY2024	FY2024	FY2025	FY2026
KEY INDICATOR	6 Mnths- Jul-Dec 21	6 Mnths- Jan-Jun 22	CY - 1 Act	6 Mnths- Jul-Dec 22	6 Mnths- Jan-Jun 23	CY Fest	6 Mnths- Jul-Dec 23	6 Mnths- Jan-Jun 24	NY Budget	NY +1 Plan	NY +2 Plan
Financial Metrics											
Earnings before interest and tax (EBIT)	5.4	3.1	8.5	4.3	-0.7	3.6	1.3	-1.4	-0.1	2.8	8.4
Return on assets	17%	7%	20%	10%	-1%	5%	2%	-2%	0%	5%	11%
Return on equity	34%	16%	45%	19%	-2%	17%	1%	-10%	-9%	5%	22%
Free cash flow yield	37%	60%	92%	23%	-141%	-150%	-1%	9%	7%	12%	20%
Net operating profit after tax	5.5	3.0	8.5	4.4	-0.5	3.8	0.2	-2.3	-2.1	1.4	7.4

Note : For Government to approve deviation from Public Enterprises Act requirement

The existing ROIC exceeding WACC metric, prescribed in Section 22 of PE Act proposed to be replaced by ROE (Return on Equity) and ROA (Return on Assets), which is a more relevant metric for our industry.

Currency = \$AUD Mil	FY2022	FY2022	FY2022	FY2023	FY2023	FY2023	FY2024	FY2024	FY2024	FY2025	FY2026
KEY INDICATOR	6 Mnths- Jul-Dec 21	6 Mnths- Jan-Jun 22	CY - 1 Act	6 Mnths- Jul-Dec 22	6 Mnths- Jan-Jun 23	CY Fest	6 Mnths- Jul-Dec 23	6 Mnths- Jan-Jun 24	NY Budget	NY +1 Plan	NY +2 Plan
Total Passenger sectors flown	3,310	4,977	8,287	10,971	32,316	43,287	29,140	28,685	57,825	54,130	53,250
Total Cargo Carried Tonne	7,426	4,441	11,867	5,342	2,849	8,191	9,408	9,685	19,093	15,903	15,604
Total Block Hours	3,023	2,283	5,306	2,995	3,262	6,256	5,179	5,382	10,562	14,177	13,731
Total Flights	1,102	776	1,878	1,028	1,089	2,117	2,185	2,215	4,400	4,606	4,588
Aircraft Utilisation (**)	41%	31%	36%	41%	45%	43%	59%	53%	56%	61%	52%

(**) Target 2,900 BH per AC per annum

Currency = \$AUD Mil	FY2022	FY2022	FY2022	FY2023	FY2023	FY2023	FY2024	FY2024	FY2024	FY2025	FY2026
KEY INDICATOR	6 Mnths- Jul-Dec 21	6 Mnths- Jan-Jun 22	CY - 1 Act	6 Mnths- Jul-Dec 22	6 Mnths- Jan-Jun 23	CY Fest	6 Mnths- Jul-Dec 23	6 Mnths- Jan-Jun 24	NY Budget	NY +1 Plan	NY +2 Plan
RPT Passenger Flights	44	62	106	138	363	501	416	415	831	936	920
RPT passengers sectors flown	849	1,918	2,767	7,586	18,028	25,614	22,880	22,815	45,695	45,760	44,880
RPT passengers per flight	19	31	26	55	50	51	55	55	55	49	49
Average Network fare per sector (*)	\$985	\$1,298	\$1,218	\$947	\$591	\$693	\$500	\$500	\$500	\$535	\$539

(*) Please note that Network fares include a mix of routes and gives a weighted average fare which include the mix of longer and shorter routes, which is

Currency = \$AUD Mil	FY2022	FY2022	FY2022	FY2023	FY2023	FY2023	FY2024	FY2024	FY2024	FY2025	FY2026
KEY INDICATOR	6 Mnths- Jul-Dec 21	6 Mnths- Jan-Jun 22	CY - 1 Act	6 Mnths- Jul-Dec 22	6 Mnths- Jan-Jun 23	CY Fest	6 Mnths- Jul-Dec 23	6 Mnths- Jan-Jun 24	NY Budget	NY +1 Plan	NY +2 Plan
CSO											
RPT Freighter Block Hours	484	440	924	394	320	714	328	316	643	731	487
RPT Freight Kg per Block Hour	2,848	2,557	5,406	3,017	2,268	5,285	2,316	2,331	4,647	1,041	1,508
BNE-INU											
RPT Freight Kg delivered BNE-INU	638	514	1,152	551	328	878	347	336	683	683	683
RPT Freighter flight arrivals BNE-INU	52	49	101	42	32	74	33	32	65	78	52
Average kg/arrival	12,273	10,485	11,405	13,117	10,235	11,871	10,500	10,500	10,500	8,750	13,125
Average rate/kg BNE-INU (*)	\$ 5.9	\$ 6.1	\$ 6.6	\$ 6.6	\$ 6.6	\$ 6.6	\$ 7.0	\$ 7.0	\$ 7.0	\$ 7.8	\$ 8.0
INU-BNE											
RPT Freight Kg delivered INU-BNE	3	4	7	1	31	33	6	6	12	12	12
RPT Freighter flight arrivals INU-BNE	52	49	101	42	32	74	33	32	65	78	52
Average kg/arrival	51	82	66	31	976	439	182	188	185	154	231
Average rate/kg INU-BNE (*)	\$ 9.9	\$ 7.0	\$ 8.0	\$ 8.0	\$ 8.0	\$ 8.0	\$ 7.5	\$ 7.5	\$ 7.5	\$ 7.5	\$ 7.5

Definitions:

Passengers sectors : Number of passenger sectors flown. Example : Passenger BNE-TRW will be two passenger sectors (BNE-INU-TRW)

Block Hours : Total amount of time of flight operation from pushing back from the departure gate

(“off-blocks”) to arriving at the destination gate (“on-blocks”).

FINANCIAL RESULTS : FY2023 (estimate)

The airline expects to post a profit of approximately \$3.6m.

The airline has survived the prolonged COVID-19 period that so significantly impacted in particular the passenger services. The Pacific and in particular Nauru, were one of the last countries in the world to remove COVID-19 testing requirements. These were only lifted in March 2023 and were in place from December 2019 to March 2023 (over 3 years).

Passenger RPT services between Brisbane to Nauru are now fully restored to 3 flights per week, a weekly flight between Nauru and Nadi is operational. The Island Hopper services operating once a week to Nauru, Tarawa, Majuro and Pohnpei have resumed with Australian DFAT support. With such support, it is possible to operate the services without incurring financial losses. The continued sustainability of the services is in question should support not continue, and no alternative solution found to increase the travellers or reduce the cost through using alternative aircraft.

For most of 2023, the airline operated services for the Regional Processing Centre (RPC) which contributed to the overhead costs. There is a high risk for the airline if such services do not continue as these additional services have assisted in covering the overhead infrastructure. Further support from DFAT for the island hopper and the continuation of the Australian Border Force standing charter contract are key sources of revenue for the company. The impact of the reduction of these sources puts a heavy burden on the company to seek alternative sources of revenue and operations.

Freighter RPT services included the minimum weekly freighter service, which is covered by the Community Services Obligation (CSO) program, and the airline has added a secondary weekly service over and above the CSO program where demand permitted, and in some weeks, increased capacity where demand permitted. The CSO program cross-subsidises freight to pay for the return empty leg, and also partially contributes to the low perishables rate. In the past year, fuel prices and inflation have soared however the airline has not increased the freight rates to cover these additional costs.

Passenger Charters included the ABF standing aircraft, DFAT repatriation charters, Air Vanuatu, Air Niugini and Solomon Airlines ACMI flights. There were limited Government of Nauru charters during this period.

Freighter Charters included a fixed term RPC freight service between Brisbane and Nauru for Canstruct but was terminated in September 2022. Further ad-hoc ACMI charter services were operated for Qantas and TGE Freight, DFAT Australia, Air Vanuatu, Toll logistics, Aergo, Solomon Airlines, World Food Program and Air Niugini.

Nauru airlines has a current short term contract with TGE for 20 Block hours a week for a 6 month period ending end July 2023.

Cost impacts

Fuel costs increased from an average of 0.78c to 1.36c in Brisbane, \$1.11c to \$1.54c in Nauru and other ports have followed with similar or higher increases.

CPI increases impacted most service providers such as catering, ground handling, catering, consumer goods and most of all aircraft parts, freight costs and maintenance service provider costs. The labour cost for the airline is linked to the Australian Labour Awards and also linked to Australian CPI indices which was 7.9% in the current financial year.

Australia labour shortage : The current labour market after COVID-19 has been severely impacted by a high demand for skilled resources. The airline industry has been especially hard hit and the shortage of skilled and licenced

workers is slowing the recovery of the industry. Engineering resources, ground handlers and other resources are hard to recruit and the average salaries have substantially increased. Engineer salaries had to be benchmarked against the market which has driven increases in overtime pay rates and salaries to keep the workforce from being snapped up by new entrants such as Bonza, Avro and others. Several pilots accepted lucrative financial offers and are flying for Atlas and other operators in the USA. Pilots are being recruited to replace those leaving but the limited training facilities make the task difficult.

Unscheduled maintenance costs were significantly higher this year. This affected reliability and increased operating cost.

Operational Disruption events

During the year there were several disruption and recovery events caused by component failures on the older aircraft. This often required engineers to be repositioned to attend to the aircraft, and in some cases ferry back to Brisbane to investigate and resolve the issues. Various delays were also encountered because of supply chain constraints making the timely sourcing and delivery of critical parts both slow and expensive.

The delays in resolving the SATCOM installation of VH-INU resulted in many days of trouble shooting and the extended time to get the SATCOM kit fitted to the aircraft took the aircraft out of service for several weeks. C-Checks were carried out on three aircraft during the year. This affected normal operations and drove up the maintenance costs.

Ground handling shortages

Due to the worldwide shortage of ground crew, there has been a significant shortage of ground handling resources in various ports in Australia. This impacted the RPT schedule and caused the cancellation of many charters due to no ground handling resources being available to handle passenger and freighter operations.

Aircraft replacement program

Converted Freighters - VH-YNU/VH-ONU were fully operational as freighters during the year, and contributed significantly to the bottom line with additional freighter revenue opportunities. It also allowed us to have a spare freighter to cover the C-Checks which ensures no disruption to freight services to the Island.

VH-INU Boeing 737-700 – had to operate non-EDTO (within 60 minutes flying time from a suitable alternate airport) since it joined the fleet. Impacts of operating without EDTO approval are longer flight routes (times) and higher fuel and operational costs. The SATCOM installation was completed but connectivity testing still not successful. Several weeks of testing and troubleshooting continues. The problem still not resolved.

Legal matters

On 2 September 2021 ASC (Aircraft Structural Contractors) filed proceedings in the Federal Court in which ASC alleged adverse consequences on its business as a result of the breaking down of a (so called) joint venture with NAC, which led to ‘lost opportunities’ in conducting third party work and higher valued other maintenance work. ASC are seeking reparation of substantial claims because of these claimed lost opportunities. NAC has appointed K&L Gates as our solicitors to defend the claim, and has contracted Geoff Bowmaker, former CEO in a contractual capacity to assist the company in the proceedings and preparation for defense. K&L Gates lawyers are confident that Nauru Airlines has a strong case to defend the claim.

Business improvement projects

Cargo Management System (CMS)

The airline implemented a Cargo Management System during the year. The system was recently rolled out to the Island Hopper ports and all freight movements are now captured in the freight management system at all ports of operation.

Ongoing improvement or extension projects that will continue in this next year includes:

- Nauru Customs integration through Asycuda
- E-commerce solutions
- Improved solution for Nauru Post

Purchase of a B737-800 Freighter

This aircraft has been purchased and should be operational by June 2023.

Source and Purchase a B737-800 Passenger Aircraft

An active search for a suitable aircraft is being conducted at present.

FINANCIAL BUDGET : FY 2024

The budget for FY2024 have been prepared with the latest advice and infomatin available. The Budget Instruction is to factor in no reliance on a fixed contract from the [Regional Processing Centre in June 2023](#). This places significant reliance on the airline to find alternative contracts to fill the gap. The airline has factored in the continued weekly service from Jul 23 – Sep 23 which is contracted, and a reduction to a fortnightly service for the remainder of the 2023/2024 financial year with no reliance on this contract for the future years.

The financial results include the assumption of the airline continue to service a CSO contribution for delivering a weekly freighter service at a 50% cost contribution only for FY 2024 and nil contribution for FY 2025 onward. This is detailed in the Community Service Obligations section.

Aircraft fleet

The airline is ambitiously planning its fleet replacement to phase out the older B737-300 aircraft and replace with newer aircraft. The phasing in of planned aircraft as per below:

KEY INDICATOR	6 Mnths- Jul-Dec 21	6 Mnths- Jan-Jun 22	CY - 1 Act	6 Mnths- Jul-Dec 22	6 Mnths- Jan-Jun 23	CY Fest	6 Mnths- Jul-Dec 23	6 Mnths- Jan-Jun 24	NY Budget	NY +1 Plan	NY +2 Plan
Passenger Aircraft	3.0	3.0	3.0	3.0	3.0	3.0	3.0	4.0	3.5	4.0	5.0
VH-INU	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
VH-PNI	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-
VH-XNU	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-
VH-Pax B737-800	-	-	-	-	-	-	-	1.00	0.50	1.00	1.00
VH-Pax B737-800 (2)	-	-	-	-	-	-	-	-	-	1.00	1.00
VH-ATR1	-	-	-	-	-	-	-	-	-	-	-
VH-ATR2	-	-	-	-	-	-	-	-	-	-	-
VH-ATR3	-	-	-	-	-	-	-	-	-	-	-
VH-E190-1	-	-	-	-	-	-	-	-	-	-	1.00
VH-E190-2	-	-	-	-	-	-	-	-	-	-	1.00
VH-E190-3	-	-	-	-	-	-	-	-	-	-	-
Freighter Aircraft	2.2	2.0	2.0	2.0	2.0	2.0	3.0	3.0	3.0	4.0	4.0
VH-ONU	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-
VH-YNV	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	-
VH-XNU	-	-	-	-	-	-	-	-	-	-	-
VH-VLI	0.24	-	-	-	-	-	-	-	-	-	-
VH-4TG B737-800	-	-	-	-	-	-	1.00	1.00	1.00	1.00	1.00
VH-Frt B737-800 (2 + 3)	-	-	-	-	-	-	-	-	-	2.00	3.00
Total aircraft	5.24	5.00	5.00	5.00	5.00	5.00	6.00	7.00	6.50	8.00	9.00

Passenger aircraft :

RPT : The RPT route network in the pacific has very low number of passengers but have remote destinations which require EDTO capability. The airline is evaluating potential change of fleet type to incorporate an Embraer E190 (92 seat) or ATR72-600 (72 seater aircraft) with lower operating costs, however the operation of a mixed fleet type will result in challenging hurdles to overcome.

ACMI charters : For the ACMI charter operations such as Air Vanuatu and others, it is believed that a B737-800 (162-168 seats) will be a better value proposition and will gain more charter work with a better suited aircraft and is complementary to the B737-700.

Freighter aircraft :

RPT : Currently the only RPT requirement is for a one to two flights per week. In the future, it might be more cost effective to operate a B737-800 aircraft with approx. 23t payload v the B737-300 with around 13t payload to operate only a single flight a week and not two. This will bring the operating cost down. This should also allow more time to operate the freighter during other times in the week on charter operations.

Charter : Qantas and TGE are currently operating higher capacity freighters and the B737-800 freighter will be used as a back-up to their operations and for other charter opportunities, the higher capacity freighter will not only be cheaper per kg for customers, but can also take larger bulky items which we previously unable to be carried.

Ownership costs

E190/ATR and B737-800 ownership lease costs are significantly higher than the B737-300 and B737-700 aircraft.

The ownership costs will require higher utilisation of the aircraft to fully recover them.

Operating costs

E190/ATR: The reliability of the aircraft and maintenance cost and event intervals should be lower and less disruptions should see a lower operating cost. Other direct operating costs such fuel, air navigation and airport costs for smaller E190/ATR will render a cheaper per trip cost.

B737-800: The operating cost of the B737-800 is higher than the current fleet, however due to the higher seat capacity, for higher loads, the per-seat costs will be cheaper than the B737-700 and typically will generate better commercial results if passenger loads of between 145-160 are carried. This aircraft is suited for ACMI operations and not necessarily the Island Hopper.

Funding

The fleet growth and funding strategies for FY2025/2026 have not been formalised as yet. At this point they have been treated it as short term operational ACMI leases in (E190 and B737-800 additions) and as such, the full on-balance sheet long term IFRS treatment of finance leases have not been quantified, and will be done closer to the conclusion on expanding aircraft funding during the applicable years.

Income Statement

INCOME STATEMENT	FY2022	FY2022	FY2022	FY2023	FY2023	FY2023	FY2024	FY2024	FY2024	FY2025	FY2026
	6 Mnths-Jul-Dec 21	6 Mnths-Jan-Jun 22	CY - 1 Act	6 Mnths-Jul-Dec 22	6 Mnths-Jan-Jun 23	CY Fcst	6 Mnths-Jul-Dec 23	6 Mnths-Jan-Jun 24	NY Budget	NY +1 Plan	NY +2 Plan
Passenger	12,219	11,990	24,209	18,529	29,794	48,323	33,522	32,275	65,797	73,139	78,581
Freighter	18,918	14,345	33,263	16,630	6,699	23,330	18,329	20,355	38,684	65,694	74,472
Community Service Obligations	2,340	2,500	4,840	2,340	2,340	4,680	1,170	1,170	2,340	0	0
Grants	0	1,248	1,248	86	579	664	912	841	1,754	1,205	856
Other	907	2,350	3,257	1,200	1,289	2,489	841	841	1,682	1,733	1,785
Total Revenue	34,385	32,433	66,818	38,785	40,702	79,486	54,775	55,482	110,257	141,771	155,694
Distribution Costs	364	324	688	391	542	934	751	745	1,496	1,510	1,499
Variable Costs	7,499	8,072	15,570	9,998	12,583	22,582	17,055	16,576	33,631	35,180	35,594
ACMI : Variable Maintenance Reserves	3,402	4,281	7,683	3,961	4,715	8,675	7,471	8,919	16,390	25,215	22,394
Contribution to Fixed DOC's and Overhead	23,121	19,756	42,877	24,434	22,862	47,296	29,498	29,242	58,741	79,866	96,207
	67%	61%	64%	63%	56%	60%	54%	53%	53%	56%	62%
ACMI : Aircraft Lease, Crew, Maint Insurance	14,377	13,204	27,580	15,604	18,937	34,541	22,114	24,603	46,717	64,265	74,359
Contribution to Overheads	8,744	6,553	15,296	8,830	3,925	12,755	7,384	4,639	12,023	15,601	21,848
	25%	20%	23%	23%	10%	16%	13%	8%	11%	11%	14%
Overheads	3,062	1,631	4,693	3,453	3,057	6,510	3,316	3,232	6,548	7,149	7,663
Earnings Before Interest Tax & Dep'n	5,682	4,921	10,603	5,377	868	6,244	4,068	1,408	5,475	8,452	14,185
Depreciation	273	1,800	2,073	1,077	1,615	2,693	2,793	2,788	5,581	5,657	5,735
Interest	-51	74	23	-62	-217	-280	1,032	946	1,978	1,427	1,076
Tax Expense	0	0	0	0	5	5	0	0	0	0	0
Post Tax Profit /(Loss)	5,459	3,048	8,507	4,362	-536	3,827	243	-2,326	-2,083	1,369	7,374
	16%	9%	13%	11%	-1%	5%	0%	-4%	-2%	1%	5%

The business growth is reflected in the increased revenue and cost base required with the expansion of fleet from five to nine aircraft in FY 2026.

Community Service Obligations

Community Service Obligations	FY2022	FY2022	FY2022	FY2023	FY2023	FY2023	FY2024	FY2024	FY2024	FY2025	FY2026
	6 Mnths-Jul-Dec 21	6 Mnths-Jan-Jun 22	CY - 1 Act	6 Mnths-Jul-Dec 22	6 Mnths-Jan-Jun 23	CY Fcst	6 Mnths-Jul-Dec 23	6 Mnths-Jan-Jun 24	NY Budget	NY +1 Plan	NY +2 Plan
GON Freighter Community Service Obligation	2,340	2,340	4,680	2,340	2,340	4,680	1,170	1,170	2,340	0	0
CSO	2,340	2,340	4,680	2,340	2,340	4,680	1,170	1,170	2,340	0	0
	7%	7%	7%	6%	6%	6%	2%	2%	2%	0%	0%

GON Freighter CSO

The budget assumes the continuation of the Corporate Social Obligation for the weekly Freighter services to cover the empty return leg for the RPT freighter service BNE-INU-BNE. This CSO is essential if the Government of Nauru wishes to continue to keep the existing freight rates at current levels. If this is not supported, the empty leg costs must be factored into the current commercial charges.

During the 2022 financial year, the airline added a second weekly freighter flight at its own cost where demand required the additional capacity, however this is currently a marginally loss making flight and may be removed from the service unless an increase in the CSO contributions can be achieved.

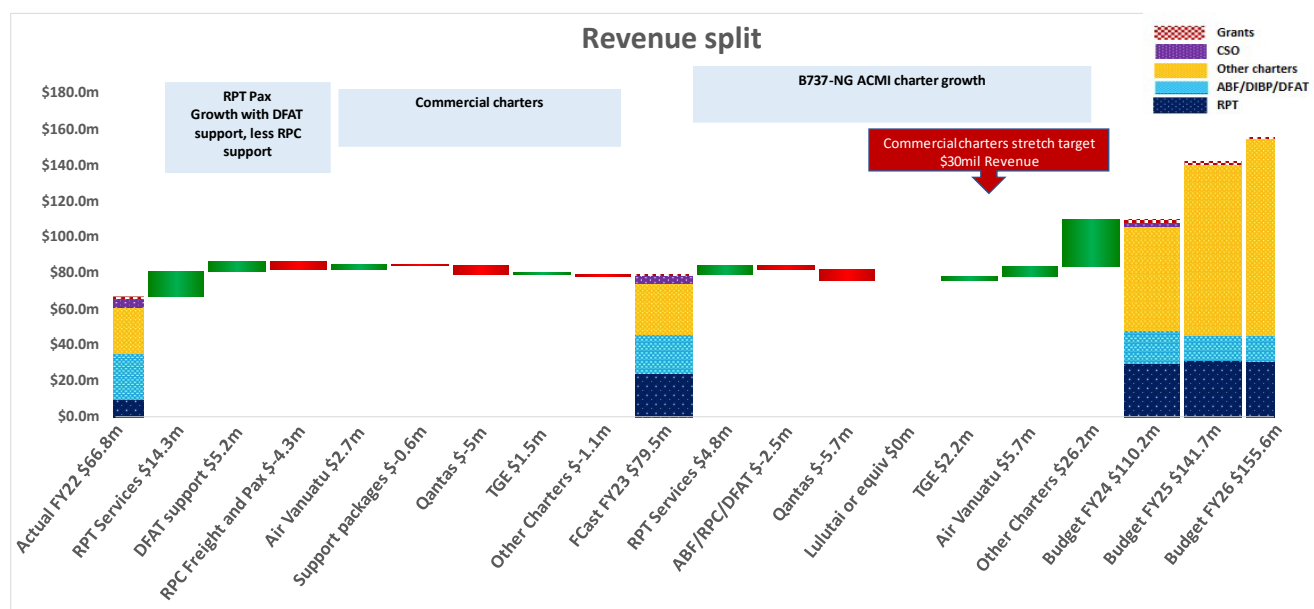
(*) Shareholder request:

The airline needs to bring to the attention of the Shareholder the impact of a reduced approved CSO contribution from \$4,680m to \$2,340m. With CPI and other increases in Direct Operating costs, and increased fuel cost from \$0.78c to \$1.36c (BNE) and \$1.22c to \$1.54c (INU) since the beginning of the F2022 year as well as the CPI increases of 2022 (6.8%) and 2023 (7.8%), it will recover substantial additional revenue streams to cover the gap.

Revenue impacts year on year in summary

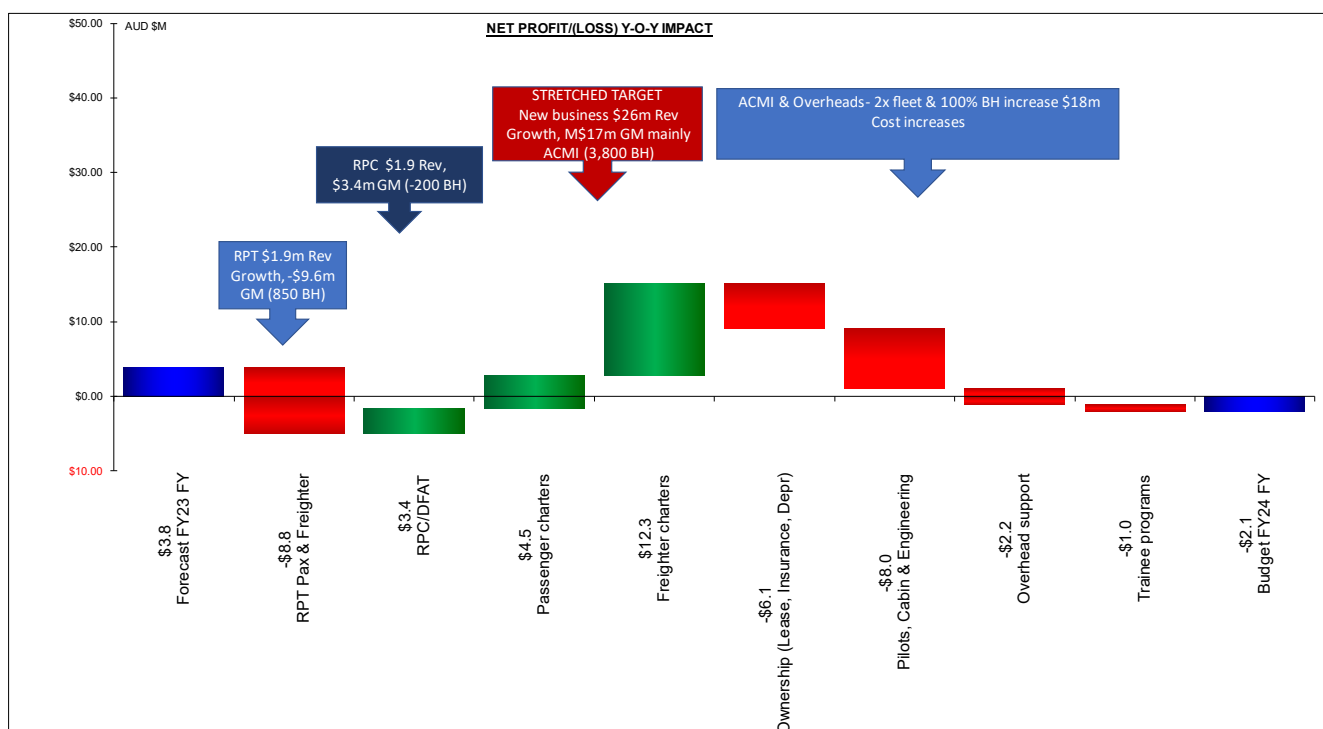
The below chart reflects the size and impact of the various revenue streams over the past year and the upcoming budget year and beyond.

Revenue impacts YoY:



The growth in fleet from 5 to 8 units, with more expensive newer generation aircraft, requires a substantial increase in the number of block hours to flown and revenue to be able to pay for the fleet upgrade. \$30m target growth in FY2024, in addition to the \$5m RPT growth. In FY2025, the revenue growth target another \$32m. This is also on the back of losing \$10.5m in RPC related revenue.

Bottom line impacts Y-o-Y in summary:



This articulates the significant impact the high yielding DIBP/ABF contracts have on our bottom line. These revenue streams are very difficult to replace with normal commercial opportunities in a non-monopolistic market place with excess capacity in Australia, and selling services to Governments in the Pacific that are cash constrained and whose economies suffered greatly during the Pandemic.

Some risks that may result in not meeting the bottom line is:

- (1) Pro-longed period for CASA to approve the B737-800 freighter aircraft on our AOC to induct in operations, where there is a need to service loan obligations without a revenue stream.
- (2) The inability to secure longer term contracts or sufficient ad-hoc charter work to meet minimum cost obligations.
- (3) Delays in employment of pilots, engineers and support personnel to support the expanded operation.
- (4) Lower than anticipated revenue yield, with price competition from competitors.
- (5) Increased exchange rate, fuel, CPI or other cost factors.
- (6) IOSA accreditation not acquired by July.

Some opportunities that may improve the bottom line:

- (1) MTC contract extending beyond June 2024
- (2) DFAT Island hopper support beyond June 2024

Commercial GAP of \$49m revenue estimated opportunities:

- (1) Air Vanuatu ACMI contract 1,500 BH per annum, \$9.6m revenue
- (2) Lulutai or equivalent ACMI contract 740 BH per annum, \$5.0m revenue
- (3) Pacific Islands expansion ACMI 1,900 BH, \$12.6m revenue
- (4) Team Global Express (TGE) ACMI 2,600 BH, \$19m revenue
- (5) Aergo freighter BNE-POM ACMI 300 BH \$2m revenue
- (6) United Cargo North Pacific GUM-PNI-KWA-KSA-MAJ-ROR variations (requires continuous services and penalties for non performance)
- (7) Kiribati INU-TRW-CXI 300 BH \$4.7m revenue (requires underwriting)
- (8) Island hopper extend PNI-ROR-TPE 400 BH \$6.4m revenue (requires underwriting)

Balance Sheet

Reduced cashflow as a result of aircraft expansion plans self-funding. New subsidiary company NLC 33003 consolidated in results, which includes a loan of \$19m to be repaid to a financier for purchase of the B737-800 in this year.

BALANCE SHEET	FY2022 6 Mnth- Jul-Dec 21	FY2022 6 Mnth- Jan-Jun 22	FY2022 CY - 1 Act	FY2023 6 Mnth- Jul-Dec 22	FY2023 6 Mnth- Jan-Jun 23	FY2023 CY Fest	FY2024 6 Mnth- Jul-Dec 23	FY2024 6 Mnth- Jan-Jun 24	FY2024 NY Budget	FY2025 NY +1 Plan	FY2026 NY +2 Plan
Assets											
Current Assets											
Cash And Equivalents	16,706	25,032	25,032	28,193	20,962	20,962	6,247	3,166	3,166	3,101	12,721
Trade Receivables	4,767	4,776	4,776	6,061	6,107	6,107	7,172	6,739	6,739	9,365	23,287
Trade Receivable - Interco Sunco	0	0	0	0	0	0	0	0	0	0	0
Trade Receivable - Interco NLC	1,282	3,015	3,015	0	0	0	0	0	0	0	0
Trade Receivable - Interco NLC33003	0	0	0	0	0	0	0	0	0	0	0
Other assets	2,180	1,891	1,891	2,053	2,405	2,405	2,405	2,405	2,405	2,646	2,911
Inventories	2,362	2,890	2,890	2,886	3,405	3,405	4,405	5,105	5,105	5,605	5,605
Income tax receivable	0	0	0	0	0	0	0	0	0	0	0
	27,297	37,604	37,604	39,193	32,880	32,880	20,229	17,415	17,415	20,716	44,523
Non-current Assets											
Investments	0	0	0	0	0	0	0	0	0	0	0
Long term Intercompany Loan NLC	0	0	0	0	0	0	15,025	14,359	14,359	13,029	11,698
Right of use assets	1,892	1,954	1,954	1,231	2,984	2,984	3,554	3,807	3,807	3,807	3,807
Property, plant & equipment	3,050	3,647	3,647	3,692	35,694	35,694	32,901	30,113	30,113	24,456	18,721
Total Non Current Assets	4,943	5,601	5,601	4,922	38,677	38,677	51,480	48,279	48,279	41,291	34,226
			0			0					
Total Assets	32,240	43,204	43,204	44,116	71,557	71,557	71,709	65,694	65,694	62,008	78,749
Liabilities											
Current Liabilities											
Trade & other payables	4,542	4,113	4,113	3,848	4,504	4,504	7,079	6,801	6,801	8,427	22,350
Trade Payable - Intercompany Sunco	328	5,536	5,536	939	1,037	1,037	1,545	1,551	1,551	2,112	1,800
Trade Payable - Intercompany NLC	0	0	0	0	0	0	0	0	0	0	0
Maintenance Reserves	3,581	3,581	3,581	3,585	3,581	3,581	3,581	3,581	3,581	2,000	2,000
Contract Liabilities	2,706	5,379	5,379	7,392	7,815	7,815	7,815	7,815	7,815	6,610	5,755
Lease liabilities	1,123	1,393	1,393	633	2,390	2,390	1,953	1,071	1,071	0	0
Income tax Payable	0	0	0	0	0	0	0	0	0	0	0
Employee benefits	2,269	2,510	2,510	2,665	2,841	2,841	2,841	2,841	2,841	2,841	2,841
Provisions Short Term											
Provisions Short-Term Debt	0	0	0	0	0	0	0	0	0	0	0
Total Current Liabilities	14,549	22,513	22,513	19,062	22,168	22,168	24,814	23,660	23,660	21,991	34,745
Non Current Liabilities											
Lease liabilities Long Term	909	658	658	658	658	658	658	658	658	658	658
Employee benefits Long Term	472	676	676	676	676	676	676	676	676	676	676
Provisions Long Term	400	400	400	400	400	400	400	400	400	400	400
Long-term debt	0	0	0	0	19,471	19,471	17,778	16,085	16,085	12,698	9,312
	1,781	1,734	1,734	1,734	21,205	21,205	19,512	17,819	17,819	14,433	11,046
									0		
Total Liabilities	16,330	24,247	24,247	20,796	43,373	43,373	44,326	41,479	41,479	36,423	45,791
									0		
Net Assets	15,910	18,958	18,958	23,320	28,185	28,185	27,383	24,216	24,216	25,584	32,958
Equity											
Issued Capital	12,674	12,674	12,674	12,674	12,674	12,674	12,674	12,674	12,674	12,674	12,674
Reserves	0	0		0	5,401		4,308	3,467	3,467	3,467	3,467
Accumulated profit/(loss)	-2,223	-2,223	-2,223	6,284	6,284	6,284	10,110	10,110	10,110	10,110	10,110
Current Year profit/Loss	5,459	8,507	8,507	4,362	3,827	3,827	291	-2,035	-2,035	-667	6,707
								0			
Total Equity	15,910	18,958	18,958	23,320	28,185	22,784	27,383	24,216	24,216	25,584	32,958

Cash Flow

Cashflow is strong in FY 2022 and FY 2023, on the back of good commercial charter work, and low ownership cost of aircraft assets fully funded and owned. The cash reserves have been earmarked to partially self-fund expansion and aircraft replacement program. The main cash outflows in FY 2023 and FY 2024 are for the purchase of aircraft.

Acquiring of loan funding from Halo for the purchase of B737-800 MSN 33003 is a first for the airline and consists of a loan repayable within 72 months.

This, together with the B737-800 passenger aircraft in the process of acquisition will make a marked difference in the airlines ability to secure services with reliable aircraft.

The specifics of how future aircraft expansion in FY 2025/2026 will happen has not been finalised, and this will be a hybrid of self funding, selling of older aircraft (of which the “then” market value, will determine) and the ability to either enter longer term leases v purchase on the back of a fixed term contract(s). Timing for capital projects in FY 2025/2026 is best estimates and will be influenced by available aircraft and financing, as well as the commercial landscape.

	FY2022	FY2022	FY2022	FY2023	FY2023	FY2023	FY2024	FY2024	FY2024	FY2025	FY2026
CASHFLOW STATEMENT	6 Mnths- Jul-Dec 21	6 Mnths- Jan-Jun 22	CY - 1 Act	6 Mnths- Jul-Dec 22	6 Mnths- Jan-Jun 23	CY Fest	6 Mnths- Jul-Dec 23	6 Mnths- Jan-Jun 24	NY Budget	NY +1 Plan	NY +2 Plan
Reconciliation of Cash Flow from Operations v Profit/(loss) after income tax	5,459	3,048	8,507	4,362	-536	3,827	291	-2,326	-2,035	1,369	7,374
Non-Cashflows in profit:	0	0	0	0	0	0	0	0	0	0	0
Depreciation - PPE	273	1,800	2,073	1,077	1,615	2,693	2,793	2,788	5,581	5,657	5,735
Loss/(Profit) on disposal of assets	-117	117	-1	-128	-86	-214	0	0	0	0	0
Utilisation - PPE	0	0	0	0	0	0	0	0	0	0	0
Bad and doubtful debts	-382	-176	-558	495	0	495	0	0	0	0	0
Changes in assets and liabilities, net of effects							0	0			
(Inc) / Dec in trade and oth receivables	-3,434	-1,566	-5,001	1,235	-46	1,189	-1,064	433	-631	-2,626	-13,922
(Inc) / Dec in inventories	148	-528	-380	4	-519	-515	-1,000	-700	-1,700	-500	0
(Inc) / Dec in taxes	0	0	0	0	-0	-0	0	0	0	0	0
(Inc) / Dec in other assets	-217	290	73	-162	-352	-515	0	0	0	-241	-265
Inc / (Dec) in trade and other payables	-453	4,780	4,327	-4,858	750	-4,108	3,082	-272	2,811	607	13,610
Inc / (Dec) in contract liabilities	137	2,674	2,810	2,013	423	2,436	0	0	0	-1,205	-856
Inc / (Dec) in employee entitlements	307	445	752	154	176	330	0	0	0	0	0
Inc / (Dec) in provisions	0	0	0	0	0	0	0	0	0	0	0
Net cash provided by (used in) Operating activities	1,721	10,882	12,602	4,191	1,426	5,617	4,101	-76	4,025	3,061	11,676
Cash flows from operating activities											
Receipts from customers	29,763	96,439	126,201	41,935	40,641	82,576	53,640	55,845	109,486	137,796	140,767
Payments to suppliers and employees	-27,988	-85,660	-113,647	-37,807	-39,427	-77,233	-48,507	-54,976	-103,483	-133,308	-128,016
Interest received	-55	-84	-139	97	438	535	70	70	140	144	149
Interest paid	0	187	187	-35	-221	-255	-1,102	-1,016	-2,118	-1,571	-1,224
Income tax received / (Paid)	0	0	0	0	-5	-5	0	0	0	0	0
Net cash provided by (used in) Operating activities	1,721	10,882	12,602	4,191	1,426	5,617	4,101	-76	4,025	3,061	11,676
Cash flows from investing activities											
Purchase of plant and equipment	-484	-1,008	-1,491	-399	-35,370	-35,769	-570	-253	-823	0	0
Proceeds from disposal of plant and equipment	117	0	117	128	86	214	0	0	0	0	0
Proceeds from disposal of investments	0	0	0	0	0	0	0	0	0	0	0
Proceeds from long term investment Loan NLC	0	0	0	0	0	0	-15,025	665	-14,359	1,331	1,331
Proceeds from issuance of shares	0	0	0	0	0	0	0	0	0	0	0
Proceeds from reserves	0	0	0	0	5,401	5,401	-1,092	-841	-1,934	0	0
Proceeds from long term debt	0	0	0	0	19,471	19,471	-1,693	-1,693	-3,386	-3,386	-3,386
Net cash provided by/(used in) investing activities	-366	-1,008	-1,374	-271	-10,413	-10,684	-18,381	-2,122	-20,502	-2,055	-2,055
Cash flows from financing activities											
Repayment of lease liabilities	0	-1,548	-1,548	-759	1,756	997	-436	-882	-1,319	-1,071	0
Net cash used in financing activities	0	-1,548	-1,548	-759	1,756	997	-436	-882	-1,319	-1,071	0
Net increase/(decrease) in cash and cash equivalents	1,354	8,326	9,680	3,161	-7,230	-4,069	-14,716	-3,080	-17,796	-66	9,620
Cash at the beginning of the year	15,352	16,706	15,352	25,032	28,193	25,032	20,962	6,247	20,962	3,166	3,101
Cash at the end of the year	16,706	25,032	25,032	28,193	20,962	20,962	6,247	3,166	3,166	3,101	12,721

Proposed Capital Investments

The capital required is mainly for the continued maintenance of existing hangar, office and IT infrastructure, and business improvements such as software developments and capability improvements.

Aircraft Capital projects will include procurement of:

FY 2023/4

\$21-\$23m USD : B737-800 Freighter (VH-4TG) – to be finalised

\$22-\$25m USD : B737-800 Passenger (VH- xxx) – aircraft to be sourced

\$18-\$20m USD : E190 or ATR – on fixed term lease

\$22-\$25m USD : B737-800 Passenger (VH- xxx) – replacement of VH-PNI commence

FY 2024/5/6

\$21-\$23m USD : B737-800 Freighter (x 2) – replace of VH-ONU and VH-YNU

\$18-\$20m USD : E190 or ATR – on fixed term lease – replace of VH-XNU

\$10-\$15m AUD : Hangar expansion to be able to handle bigger size aircraft and higher units of aircraft

Debt

NAC does not have any debt finance at present but is in the process of organising a loan through its newly formed subsidiary Nauru Leasing 33003 for \$13m USD for the acquisition of the freighter aircraft.

The main liabilities consist of trade and other payables, deferred revenue (passenger forward sales liabilities), short-term (including employee) liabilities and some long-term provisions.

SUMMARY OF ACCOUNTING POLICIES TO BE ADOPTED

NAC is incorporated under the Nauru Air Corporation Act (1995), Public Finance (Control and Management) (Amendment) Act 2020 and is deemed a SOE under Nauru's Public Enterprises Act (2019) and is wholly owned by the Government of Nauru. As the airline operates under an Australian Air Operator's Certificate, NAC is registered in Australia and prepares and lodges annual financial statements with the Australian Securities and Investments Commission.

The directors have determined that the accounting policies adopted are appropriate to meet the needs of the owners of Nauru Air Corporation. The financial statements are prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the disclosure requirements of AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1031 *Materiality*, AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures*, as appropriate for for-profit oriented entities.

The financial statements, except for cash flow information, are prepared on an accrual basis and are based on historical cost unless otherwise stated in notes to these statements.

DIVIDEND

No dividends were paid or declared in the last five financial years. All surplus funds generated from operations are used to fund NAC's on-going capital requirements and growth.

LEGAL COMPLIANCE

As per Section 28 (1) (k) of the Act, this statement is provided in relation to NAC's compliance with the requirements of the Constitution and the Treasury Fund Protection Act (2004), as well as laws applicable to NAC such as the Public Enterprises Act (2019 and Corporations Act (1972).

The Directors, appointed by the Shareholder to provide the appropriate level of stewardship and oversight of the business, have a broad skill set and knowledge of these laws and will continue to work with Management to ensure compliance with their spirit, intent.

In addition, in August 2018 the NAC Directors established an Audit & Risk Committee of the Board with a Charter to provide the Board with a degree of independent oversight and guidance to ensure stronger governance over the business. This Committee is chaired by Mr Barry Parsons, an independent airline specialist with a wealth of experience in the airline industry, including assisting and consulting with many state-owned airlines and their shareholders. The other members of the Committee are Ms Novena Itsimaera and Mrs Annie Malupo, both Directors of NAC. The Committee meets at least 3 times per annum.

SUNCO, NAURU LEASING CORPORATION & SUBSIDIARIES

The *Introduction* section outlined that the airline's aircraft and engine assets are held in a related SOE, Sunco, also wholly- owned by the Government of Nauru. Sunco leases these assets to the airline and its financial statements are not consolidated into NAC. A new company, Nauru Leasing Company has been created in this year to hold the B737-700 aircraft assets.

NAC also has four wholly-owned subsidiaries registered in Australia, with all results consolidated into NAC's financial statement. Two are currently operating:

- a) NAC Travel Pty Ltd (trading as Our Travel), providing travel agency services to Nauru Airlines, the Government of Nauru and other Corporate customers in Nauru; and
- b) Nauru Airlines Hangar (Brisbane) Pty Ltd, which jointly holds the lease agreement for a hangar at Brisbane Airport with Five Star Aviation, which is leased to NAC at a full recovery rate.
- c) Nauru Leasing 33003 corporation, that is earmarked to hold a B737-800 Freighter aircraft

NAC also has a dormant subsidiary: Nauru Airlines Maintenance Services Pty Ltd; and a 49% interest in Pacific Wings Pty Ltd, established at the time NAC was considering operating routes from Australia to third-party markets using its Australian AOC.

GROUP STRUCTURE

