NAURU SHIPPING LINE

NAURU SHIPPING LINE

2022

ANNUAL REPORT

NSL

NAURU SHIPPING LINE

Introduction

Nauru Shipping Line (herein referred to as “NSL” or “the Company”) was incorporated on the 29th of June, in the year 2020. NSL was setup to provide Nauru and its people, a secure and sustainable cargo shipping service.

In its two years of service anniversary, the company has progressed significantly from its humble beginnings. To date, NSL have made service adjustments that have contributed to the successful establishment of a regular supply of sea-freight cargoes to Nauru. This has provided the people of Nauru with timely delivery of essential commodities, such as food and medical supplies, as well as access to a wider variety of products. Not only has NSL made significant progress in its two years of service, but it has also been able to win the confidence of the people of Nauru. With reliable services and a commitment to bettering the lives of Nauruan citizens, NSL has been able to build a strong relationship with the people of Nauru.

To an extent, NSL has an increasing following from other parts of the world being one of the Pacific Island territories’ first shipping line operating its own cargo vessel. In July 2021, the Company purchased a vessel and named it Micronesian Pride, which is being used to provide full-time service to transfer containers in and out of Nauru. The purchase of the Micronesian Pride was made possible through a grant received by the Government of the Republic of Indonesia. This generous donation is a testament to the strong relationship between Indonesia and Nauru, and is a great example of how governments can work together to provide help to those in need. The direct service between Suva, Fiji and Nauru is a starter to several other sea-freight trade lanes NSL aims to expand cargo shipping services in the near future with its neighboring islands.

NSL has been able to achieve so much in its two years of service and this is a testament to the company's commitment to service excellence. NSL is more than just a freight service provider. It is a company that is genuinely dedicated to the improvement of the people of Nauru and their quality of life.

We at NSL are proud of our progress and determined to continue to strive for better service as we continue to benefit the people of Nauru. Here's to two more years and beyond of providing reliable freight services to the people of Nauru. With the ongoing support of our key stake holders, valued customers and excellent team, NSL will, KEEP SAILING INTO THE FUTURE.

Under the section 70 of the Public Enterprises Act 2019, the Board has the pleasure in presenting this 2021/22 Annual Report to the Government of Nauru.

Income statement

The financial performance of the Nauru Shipping Line for 2022 has been encouraging. After its first year of operation, the company has continued to experience some degree of challenge in the face of the Covid-19 pandemic and increased fuel costs, as well as growing charter vessel hire rates. Despite these factors, the company has managed to remain financially stable and performed well.

Nauru Shipping Line has been able to face the challenges of the pandemic and other external factors with resilience and innovation. The company has been able to leverage the expertise of its employees and adapt to the changing market conditions. This has enabled the Company to remain competitive and maintain financial stability.

The Company recorded a net profit of $1.28 million for the period ending 30 June 2022. Operating revenue totaled $17.16 million while total expenses were $15.88 million, thus resulting in a healthy profit margin. This is a significant improvement over its previous performance, and shows that the Company is moving in the right direction.

Financial position

The Company's total assets amount to $8.01 million as at 30 June 2022. The current assets amount to $4.82 million while noncurrent assets in the balance sheet was $3.19 million.

As at 30 June 2022, there were no interest-bearing debts in the company's balance sheet. The current liabilities of the company amounted to $2.44 million, while the noncurrent liabilities in the balance sheet stood at $2.38 million.

Overall, the total equity stood at $3.18 million as at June 30, 2022, a significant increase from the prior year primarily due to the net profit of $1.28 million. This represents a significant increase from the previous financial year and is a positive indication of the company's financial strength. The Company was able to meet its obligations and had no interest-bearing debt. The company's assets were worth more than its liabilities, further signifying its financial stability and indicating the company's financial health is in a very good position.

Cash flow

During the financial year, the company generated a positive cash flow from operating activities of $2.83 million. The cash flow from investing activities was negative $3.48 million, primarily related acquisition of property, plant and equipment. The company had a positive cash flow from financing activities of $2.93 million.

The financial year of NSL was a successful one, as evidenced by the strong cash flow from operating activities of $2.83 million. This was a major accomplishment and an indicator that the company was able to effectively manage its finances and generate positive results.

The cash flow from investing activities was negative $3.48 million, which was primarily related to acquisition of the company’s vessel Micronesian Pride. Such acquisitions are necessary for the growth and development of the company, and as such, the negative cash flow should be seen as an investment in the company's future. The company was also able to generate a positive cash flow from financing activities of $2.93 million during the financial year.

Overall, the Company was able to generate a positive net cash flow of $3.09 million, which is an impressive performance given the difficult economic environment. This performance is indicative of the company's strong management capabilities and financial discipline.

Corporate Governance

Nauru Maritime & Port Authority and Nauru Shipping Line share the same CEO and Board of Directors, demonstrating the close cooperation between the two entities. This ensures that both organizations are held to the same standards and objectives, thus creating a unified and efficient functioning. Moreover, the integration of their operations allows them to bring greater efficiency, cost savings, and improved customer service. As a result, both entities are able to benefit from the synergy created by the relationship.

Board

The Board of Directors play a critical role in setting corporate strategies and strategic direction to ensure the interests of shareholders are protected and value is enhanced. Board members have the duty of overseeing corporate governance and providing guidelines to ensure fairness, transparency and accountability.

The Board currently consists of five directors. The Chairmanship of the Board is held by an independent director. All board members of the Company bring extensive experience in business, investment and management.

By relying on the expertise of its members, the Board of Directors is able to provide valuable guidance and advice to management, as well as provide oversight on the financial performance of the company. This includes regular assessment of the management’s performance and the financial results of the Company’s affairs

Board meeting discussions revolve around capital projects, financial performance and comparisons to budgets, editorial and operational matters, compliance with corporate governance requirements, management reports and the financial results of the Company.

Responsibilities of the Board

The Board of Directors is responsible for the general governance of the company and is responsible for setting the strategic direction of the company, monitoring performance and ensuring that the company is compliant with all relevant laws and regulations.

The Board is responsible for ensuring that the shareholders are given the opportunity to exercise their rights of ownership and that all decisions taken by the Board are in the best interests of the company and its shareholders.

The Board is responsible for setting the company's strategic objectives, setting performance targets and monitoring the company's performance against the agreed plan. The Board is also responsible for the appointment and oversight of the senior management team, setting the corporate culture and ensuring that the company is compliant with all legal and regulatory requirements.

The Board is supported by the company's management team which is responsible for agency management, container control, customer service, producing financial information and other reports, monitoring external audits, reviewing monthly & annual financial reports, and ensuring compliance with all relevant laws and regulations. The Board is informed of the activities of the all the department at the monthly Board meetings and approval is sought from the Board at those meetings or by way of flying minutes if the matter is urgent.

The company's Board Secretary is responsible for providing administrative and secretarial support to the Board and for ensuring that all relevant documentation is provided to the Board in a timely and accurate manner. The Board Secretary is also responsible for ensuring that the company complies with all legal and regulatory requirements. The Board is supported by the Board Secretary in all matters pertaining to corporate governance.

Overall, the Board of directors play a critical role in setting corporate strategies and strategic direction to ensure the interests of shareholders are protected and value is enhanced. Through their expertise, the Board is able to provide valuable insights, advice, and oversight to ensure the company is managed in the best interests of its shareholders. The Board works closely with the Board Secretary and the other department to ensure that all legal and regulatory requirements are met and that the company's financial performance is regularly monitored.

NSL Operation Data

The table below summarizes the vessel charter and containers brought into Nauru and back-loaded between July 2021 and June 2022 of the operation. During this period, a total of 11 vessels were operated, accounting for 4,674 containers. Out of these, 2,364 containers were loaded into Nauru and 2,310 containers were back-loaded. Furthermore, the average number of incoming containers per vessel was 215, and the average back-load containers per vessel was 210. Overall, the operation was successful in ensuring an efficient and timely transportation of goods.

Voyage details

NAURU SHIPPING LINE VOYAGE CARGO DISCHARGE REPORT									
No.	VESSEL NAME	GRT (t)	VOY. #	DATE / TIME		DAYS AT PORT	ROTATION DAYS	TOTAL UNIT DISCHARGED	TOTAL UNIT BACKLOAD
				ARR	DEP				
1	Papa Mau	5024	011N	24/08/21	28/08/21	4	57	189	0
2	Micronesian Pride	3838	012N	30/09/21	09/10/21	9	37	230	247
3	Micronesian Pride	3838	012BN	25/10/21	05/11/21	11	25	221	328
4	Micronesian Pride	3838	013N	26/11/21	01/12/21	5	32	235	312
5	Micronesian Pride	3838	014N	20/12/21	31/12/21	11	24	192	137
6	Micronesian Pride	3838	015N	28/01/22	01/02/22	4	39	266	100
7	Micronesian Pride	3838	016N	10/02/22	04/03/22	22	13	137	313
8	Micronesian Pride	3838	017N	23/03/22	01/04/22	9	41	251	251
9	Micronesian Pride	3838	018N	20/04/22	30/04/22	10	28	226	179
10	Micronesian Pride	3838	019N	20/05/22	28/05/22	8	30	233	253
11	Micronesian Pride	3838	020N	26/06/22	30/06/22	4	37	184	190
					GRAND TOTAL	**97**	**363**	**2364**	**2310**
					AVERAGE	**9**	**33**	**215**	**210**

NSL Human Resources - Our people

Nauru Shipping Line is committed to finding, keeping, and cultivating the best people with the right skills, and is proud of its reliable, professional, and highly-qualified workforce who abide by the company's objectives. As of 30 June 2022, there are eight permanent staff members employed by Nauru Shipping Line, comprising a NSL's Deputy CEO, Agency Manager, Financial Controller, Finance Manager, Customer Service, Admin Support, Container Controller and Container Controller Assistant, as well as regular support from NMPA/NSL CEO, offshore contracted Marine Superintendent and Micronesian Pride vessel crews. Moreover, NSL values the importance of its employees and is continually striving to ensure that they remain motivated and engaged.

NSL staffs by gender and contract category

Category	Male	%	Female	%	Total Staff	Total %
NSL Local Staff	2	50%	3	75%	5	63%
NSL Expatriate Staff	2	50%	1	25%	3	38%
Total	**4**	**50%**	**4**	**50%**	**8**	**100%**

Covid-19 Impacts

Despite the ongoing COVID-19 safety protocols and the immense challenge of the global pandemic, the shipping sector has admirably kept essential supply lines open and provided reliable transport links between markets in 2020, 2021 and 2022. Consequently, the Nauru Shipping Line has had to endure an extremely challenging year, yet still managed to respond effectively to the pandemic's extraordinary demands.

By the end of 2022, the global Covid-19 pandemic was finally beginning to come under control, and the Nauru economy and the community was slowly starting to return to normal. Nauru Shipping Line had weathered the storm and emerged stronger than ever, with a renewed commitment to providing reliable transport links between markets and keeping essential supply lines open. Despite the exceptional times, the shipping sector as a whole had proven its resilience and value.

Conclusion

The Management of NSL would like to take this opportunity to thank the Board directors for their invaluable advice and guidance throughout the past year. The Board’s unwavering support and commitment have been instrumental in NSL's success, and we remain grateful to have such a dedicated and experienced Board.

Indeed, there was many challenges faced this year, yet NSL has made significant progress throughout in expanding its portfolio, pursuing its investments and customer service. Despite the challenges faced and increasing costs, NSL has remained steadfast in its commitment to deliver prime shipping services to the people of Nauru. As we move forward into the coming years, the Management and NSL board will continue to collaborate closely with its stakeholders, while also continuing to seek for attractive investment opportunities.

Furthermore, NSL is extremely grateful for the continued support of the people of Nauru and the Nauru Government. We are confident that with continued hard work, dedication, and collaboration, NSL will continue to make progress in the years ahead and bring even greater success to the Company. We look forward to continuing to serve the people of Nauru and providing them with the best possible service and we are excited for what is to come and are assured that we can continue to provide the people of Nauru with reliable and quality services now and into the future.

NAURU SHIPPING LINE

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

Contents

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Nauru Shipping Line (the Company) as at 30 June 2022, the related statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended and report as follows:

Cabinet

At the time of this report, His Excellency Hon. Russ J Kun, MP is the Responsible Minister for Nauru Shipping Line.

Directors

The names of the Directors in office at the date of this report are:

Chairman - Mr. Link Uera
Deputy Chairman - Mr. Calistus Cain
Director - Mr. Bure Ika
Director (Experience in Shipping) - Mr. Monte Depaune
Director Ex-Officio (Government) - Mr. Nodel Neneiya (Secretariat Transport)
Director Ex-Officio (Government) - Mrs. Melca Rykers (Finance)

Principal Activities

The principal activities of the Company during the year was liner shipping service providing sea freight services to the Central Pacific with a focus on servicing the Republic of Nauru. There were no significant changes in the nature of these activities during the financial year.

Results

The operating net profit for the year was $1,284,682 (2021: net loss of $1,530,159) after providing for income tax expense of $12,389 (2021: $Nil).

Bad Debts and Impairment

Prior to the completion of the Company's financial statements, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the allowance for expected credit losses. In the opinion of the Directors, an adequate allowance has been made for expected credit loss.

As at the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad debts, or the allowance for expected credit losses in the Company, inadequate to any substantial extent.

Non-current Assets

Prior to the completion of the financial statements of the Company, the Directors took reasonable steps to ascertain whether any non-current assets were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Company. Where necessary, these assets have been written down or adequate allowance has been made to bring the values of such assets to an amount that they might be expected to realise.

Non-current Assets *continued*

As at the date of this report, the Directors are not aware of any circumstances, which would render the values attributed to non-current assets in the Company's financial statements misleading.

Significant Events

Significant events that occurred during the year are as follows:

i) *COVID-19 Pandemic*

Despite the severe impact of the pandemic the Company has remained operational and continues to engage in its principal activities. The Directors and management are carefully considering the impact of the COVID-19 situation on the Company and assessing future operational options. The future financial impacts, however, cannot be reasonably estimated at this time, as they will be largely the product of matters the Company cannot control.

The Directors and management believe the Company has sufficient financial resources together with arrangements with their customers and suppliers at this time to be able to successfully manage their business risks despite the current uncertain economic outlook due to the COVID-19 outbreak.

ii) In July 2021, the Company purchased a Vessel through grant provided by the Government of the Republic of Indonesia. The Vessel named Micronesian Pride will be used to provide full time service to transfer containers in and out of Nauru.

iii) On 2nd September 2021, the Company received an email from The China Navigation Ltd, Australia regarding the Long Stay Containers in Nauru summarised in an excel the amount payable as detention charges for not retuning containers within the allocated free period of 40 days. The above amount payable at the close of financial year as at 30 June 2022 would have been USD 500,000 / AUD 725,058. No official invoice has been issued by The China Navigation Ltd, Australia to Nauru Shipping Line on the above detention charges yet.

Unusual Transactions

In the opinion of the Directors, the results of the operations of the Company during the financial year was not substantially affected by any item, transaction or event of a material and unusual nature, nor has there arisen between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company in the current financial year, other than those reflected in the financial statements.

Events Subsequent To Balance Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Other Circumstances

As at the date of this report:

(i) no charge on the assets of the Company has been given since the end of the financial year to secure the liabilities of any other person;

(ii) no contingent liabilities have arisen since the end of the financial year for which the Company could become liable; and

(iii) no contingent liabilities or other liabilities of the Company have become or are likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Company, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

As at the date of this report, the Directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report or the Company's financial statements, which would make adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

For and on behalf of Nauru Shipping Line.

Dated this 16th day of December 2022.

....
Director

NAURU SHIPPING LINE
STATEMENT BY THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2022

In the opinion of the Directors:

(i) the accompanying statement of comprehensive income of the Company is drawn up so as to give a true and fair view of the results of the Company for the year ended 30 June 2022;

(ii) the accompanying statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity and share capital of the Company for the year ended 30 June 2022;

(iii) the accompanying statement of financial position of the Company is drawn up so as to give a true and fair view of the state of affairs of the Company as at 30 June 2022;

(iv) at the date of this statement there are reasonable grounds to believe the Company will be able to pay its debts as and when they fall due; and

(v) all related party transactions have been adequately recorded in the books of the Company.

Dated this 16th day of December 2022.

....
Director

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INDEPENDENT AUDITOR'S REPORT

To the Minister for Nauru Shipping Line

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nauru Shipping Line (the Company), which comprise the statement of financial position as at 30 June 2022, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 30 June 2022, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Nauru and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Directors and management are responsible for the other information. The other information comprises the *Directors' Report* but does not include the financial statements and the auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT *continued*

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Directors and management are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the Directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors and management are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors and management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud and error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors and management.

INDEPENDENT AUDITOR'S REPORT *continued*

Auditor's Responsibilities for the Audit of the Financial Statements *continued*

- Conclude on the appropriateness of the Directors and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures, are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements have been prepared in accordance with the requirements of the Corporation Act 1972 in all material respects, and;

(a) we have been given all information, explanations and assistance necessary for the conduct of the audit; and

(b) the Company has kept financial records sufficient to enable the financial statements to be prepared and audited.

Ernst & Young
Chartered Accountants

Steven Pickering
Partner
Suva, Fiji

16 December 2022

NAURU SHIPPING LINE
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 $	2021 $
Revenue	2	16,162,068	6,783,952
Cost of sales		(14,780,633)	(8,321,731)
Gross profit/(loss)		1,381,435	(1,537,779)
Other operating income	3	999,547	145,173
Depreciation expense	9	(330,882)	(411)
Administration expense	4	(753,029)	(137,142)
Operating profit/(loss) before tax		1,297,071	(1,530,159)
Income tax expense	5	(12,389)	-
Profit/(loss) after tax		1,284,682	(1,530,159)
Add: Other comprehensive income		-	-
Total comprehensive income/(loss) for the year, net of tax		1,284,682	(1,530,159)

The accompanying notes form an integral part of this Statement of Comprehensive Income.

NAURU SHIPPING LINE
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022	2021
		$	$
Accumulated losses			
As at 1 July		(1,530,159)	-
Net profit/(loss) for the year		1,284,682	(1,530,159)
Balance at 30 June		(245,477)	(1,530,159)
Contributed capital			
As at 1 July		3,429,397	-
Contributions received during the year		-	3,429,397
Balance at 30 June	13	3,429,397	3,429,397
Total equity		3,183,920	1,899,238

The accompanying notes form an integral part of this Statement of Changes in Equity.

NAURU SHIPPING LINE
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Notes	2022 $	2021 $
Current assets			
Cash and cash equivalents	6(b)	3,090,391	811,517
Trade receivables	7	1,544,098	550,571
Prepayments and other receivables	8	187,382	1,368,640
		4,821,871	2,730,728
Non-current assets			
Property, plant and equipment	9	3,185,589	37,089
		3,185,589	37,089
Total assets		8,007,460	2,767,817
Current liabilities			
Trade and other payables	10	2,145,200	868,579
Provision for employee benefits	11	10,407	-
Deferred revenue	12	288,733	-
		2,444,340	868,579
Non-current liabilities			
Deferred revenue	12	2,366,811	-
Deferred tax liability	5	12,389	-
		2,379,200	-
Total liabilities		4,823,540	868,579
Net assets		3,183,920	1,899,238
Equity			
Accumulated losses		(245,477)	(1,530,159)
Contributed capital	13	3,429,397	3,429,397
Total equity		3,183,920	1,899,238

For and on behalf of Nauru Shipping Line

....
Director

The accompanying notes form an integral part of this Statement of Financial Position.

NAURU SHIPPING LINE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 Inflows/ (Outflows) $	2021 Inflows/ (Outflows) $
Operating activities			
Receipts from customers		17,077,456	5,009,914
Payments to suppliers and employees		(14,246,633)	(7,590,294)
Net cash flows from/(used in) operating activities	6(a)	2,830,823	(2,580,380)
Investing activities			
Acquisition of property, plant and equipment		(3,479,383)	(37,500)
Net cash used in investing activities		(3,479,383)	(37,500)
Financing activities			
Capital contribution received		-	3,429,397
Receipt of grants		2,927,434	-
Net cash from financing activities		2,927,434	3,429,397
Net increase in cash and cash equivalents		2,278,874	811,517
Cash and cash equivalents at the beginning of the year		811,517	-
Cash and cash equivalents at 30 June	6(b)	3,090,391	811,517

The accompanying notes form an integral part of this Statement of Cash Flows.

1.1 General information

Nauru Shipping Line (the Company) is a state-owned entity incorporated and domiciled in the Republic of Nauru. Its principal place of operation is at Blue Building (near Orro Congregational Church), Aiwo District, Nauru. The financial statements of the Company were authorised for issue by the Directors on 16 December, 2022.

The principal activities of the Company during the year was liner shipping service providing sea freight services to the Central Pacific with a focus on servicing the Republic of Nauru. There were no significant changes in the nature of these activities during the financial year.

1.2 Basis of preparation

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis of accounting

The financial statements have been prepared on a historical cost basis and on the assumption of going concern. The financial statements are presented in Australian dollars and all values are rounded to the nearest dollar, except when otherwise indicated.

1.3 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustments to the carrying amount of the asset or liability affected in future periods.

Other disclosures relating to the Company’s exposure to risks and uncertainties includes:

- Financial instruments risk management and policies — Note 17
- Capital management — Note 18

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

1.3 Significant accounting judgements, estimates and assumptions *continued*

Estimates and assumptions *continued*

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset.

The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Provision for expected credit losses of trade receivables and contract assets

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 7.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

1.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Authority has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Authority. The Authority intends to use the practical expedients in future periods if they become applicable.

1.5 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards when they become effective.

New pronouncement	Effective date*	Impact
Reference to the Conceptual Framework – Amendments to IFRS 3	1 Jan 2022	No impact
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	1 Jan 2022	No impact
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	1 Jan 2022	No impact
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	1 Jan 2022	No impact
AIP IFRS 9 Financial Instruments – Fees in the ’10 per cent’ test for derecognition of financial liabilities	1 Jan 2022	No impact
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	1 Jan 2023	No impact
Definition of Accounting Estimates - Amendments to IAS 8	1 Jan 2023	No impact
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 Jan 2023	No impact
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	1 Jan 2023	No impact

*Effective for annual periods beginning on or after this date.

1.6 Summary of significant accounting policies

(a) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/ non-current classification. An asset is current when it is:

- expected to be realised or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within twelve months after the reporting period; or
- cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in the normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(b) Revenue

The Company is in the business of providing sea freight services. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements, except for the procurement services below, because it typically controls the goods or services before transferring them to the customer.

Revenue from contracts with customers comprise the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Company's activities. Sales are presented, net of value-added tax, rebates and discounts.

The Company recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Company's activities are met as follows:

1.6 Summary of significant accounting policies *continued*

(b) Revenue *continued*

Rendering of services

Freight logistics management services

The Company renders freight management services for customers. Such services include logistic handling and storage services.

Revenue from these freight services are recognised when services are performed (i.e. at a point in time), where customers have accepted the services and the collectability of the related receivables are reasonably assured. There is no unfulfilled obligation that could affect the customer's acceptance of the services.

Revenue generated from storage services include rental of space at container depot, warehouses and open yards and are recognised over the agreed storage period (i.e. over time), where customers have an obligation to payment as part of the agreement to the services and the collectability of the related receivables is reasonably assured. There is no unfulfilled obligation that could affect the customer's acceptance of the services.

The Company practices monthly billing and payment for the transaction price is due 30 – 60 days after billing.

Interest income

Interest income is recognised using the effective interest method.

(c) Taxes

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the country where the Company operates and generates taxable income.

Current tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

1.6 Summary of significant accounting policies *continued*

(c) Taxes *continued*

Deferred tax continued

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1.6 Summary of significant accounting policies *continued*

(d) Foreign currencies

Transactions in foreign currencies are initially recorded by the Company at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

(e) Property, plant and equipment

All property, plant and equipment are shown at cost less accumulated depreciation. Costs include expenditure that is directly attributable to acquisition of the items.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives using the following rates:

	Rate
Motor vehicles	20%
Office equipment	33%
Marine vessels, barge and tug boats	10%

Gains and losses on disposal of property, plant and equipment are taken into account in determining the results for the period. Capital work in progress is not depreciated. If there is an indication that there has been a significant change in the depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

(f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short term deposits with a maturity of three months or less.

(g) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

1.6 Summary of significant accounting policies *continued*

(g) Financial instruments – initial recognition and subsequent measurement *continued*

i) Financial assets *continued*

Initial recognition and measurement continued

Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price as disclosed in section (b) Revenue.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade receivables.

Financial assets at fair value through OCI (debt instruments)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Company does not have any financial asset classified to this category.

1.6 Summary of significant accounting policies *continued*

(g) Financial instruments – initial recognition and subsequent measurement *continued*

i) Financial assets *continued*

Subsequent measurement continued

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under *IAS 32 Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company does not have any financial asset classified to this category.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes listed equity investments that are not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

The Company does not have any financial asset classified to this category.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

1.6 Summary of significant accounting policies *continued*

(g) Financial instruments – initial recognition and subsequent measurement *continued*

i) Financial assets *continued*

Derecognition continued

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions Note 1.3
- Trade receivables Note 7

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

1.6 Summary of significant accounting policies *continued*

(g) Financial instruments – initial recognition and subsequent measurement *continued*

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost (loans and borrowings)

<u>Financial liabilities at fair value through profit or loss</u>

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

<u>Financial liabilities at amortised cost (loans and borrowings)</u>

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

1.6 Summary of significant accounting policies *continued*

(g) Financial instruments – initial recognition and subsequent measurement *continued*

ii) Financial liabilities *continued*

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(h) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount cannot exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

(i) Trade and other payables

Liabilities for trade payables and other amounts are carried at cost (inclusive of indirect taxes where applicable) which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the Company.

1.6 Summary of significant accounting policies *continued*

(j) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events. It is probable that a transfer of economic benefits will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

(k) Contributed capital

The Company receives subsidies from the Government of Nauru and Nauru Maritime & Port Authority. These subsidies received are recognised as contributed capital.

(l) Deferred income

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

(m) Comparatives

Where necessary comparative figures have been adjusted to conform with changes in presentation in the current year.

2. Revenue

	2022 $	2021 $
Administrative management fees	3,110	1,960
Back load fee	75,882	600
Bunker reimbursement	(125,885)	125,885
Dangerous goods	73,144	23,848
Dry slot	2,445,370	1,247,395
Export documentation and handling fees	4,400	5,275
Freight charge - dry containers	10,974,527	4,385,400
- dry/flat rack container	231,499	48,700
- reefer containers	1,542,738	615,800
- high cube containers	338,022	60,170
- tank containers	141,910	31,000
- flat racks	199,259	63,600

		2022	2021
2.	Revenue *continued*	$	$
	Interest income	762	451
	Out of gauge surcharge	87,477	-
	Penalties and fines	103,825	50,526
	Reefer slot	66,028	121,064
	Sea freight	-	2,278
		16,162,068	6,783,952

3.	Other operating income	$	$
	Release of deferred revenue - grant income	332,940	-
	Miscellaneous	666,607	145,173
		999,547	145,173

4.	Administration expense	$	$
	Bank charges	3,443	2,004
	Bond refunds - containers	30,880	10,313
	Business travel	125,960	-
	Chairman/Director fees	7,450	5,050
	Consultants fees	66,783	-
	Employee costs - others	148,466	19,812
	Employee costs - bonus	14,466	-
	Employee costs - expatriates	144,763	-
	Employee costs - superannuation	3,110	-
	Employee costs - withholding tax	19,577	-
	Entertainment	17,775	29,847
	Freight charge	1,107	9,910
	Legal expenses	8,842	33,130
	Management fee	1,360	100
	Other expenses	155,702	24,100
	Penalty refund fees	630	420
	Subscriptions	2,715	2,456
		753,029	137,142

5. Income tax — $ $

The prima facie tax benefit on the operating profit/(loss) differs from the income tax provided in the accounts and is reconciled as follows:

Operating profit/(loss) before income tax	1,297,071	(1,530,159)
Prima facie tax benefit thereon at 20%	259,414	(306,032)
Tax losses (utilised)/not recognised	(247,025)	306,032
Income tax expense attributable to operating profit	12,389	-

		2022	2021
5.	Income tax *continued*	$	$

Deferred tax liability as at 30 June relates to the following:

	2022 $	2021 $
Accelerated depreciation	(14,470)	-
Provision for annual leave	2,081	-
	(12,389)	-

Future income tax benefit

In accordance with the policy stated in Note 1.6 (c) an unconfirmed unrecouped future income tax benefit of $59,027 (2021: $306,052) relating to tax losses has not been brought to account as an asset as the recovery is not virtually certain. This would be realised when the following conditions are met:

i) The Company derives future assessable income of a nature and of an amount sufficient to enable the benefit of the deductions to be realised; and
ii) The Company continues to comply with conditions of deductibility imposed by law.

6. Notes to the Statement of Cash Flow

(a) Reconciliation of net cash provided by operating activities to net loss for the year:

	$	$
Net profit/(loss) for the year	1,284,682	(1,530,159)
Depreciation	330,882	411
Release of deferred revenue	(271,890)	-
Changes in assets and liabilities:		
Decrease/(increase) in trade and other receivables	187,731	(1,919,211)
Increase in trade and other payables	1,276,622	868,579
Increase in provision for employee benefits	10,407	-
Increase in deferred tax liability	12,389	-
Net cash flows from/(used in) operating activities	2,830,823	(2,580,380)

(b) Cash and cash equivalents in the Statement of Financial Position comprise of:

	$	$
Cash at bank	3,090,321	810,982
Cash on hand	70	535
	3,090,391	811,517

7. Trade receivables

	$	$
Trade receivables	1,544,098	550,571

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

There was no movement in the allowance for expected credit losses of trade receivables for the year ended 30 June 2022 and 2021.

	2022	2021
8. Prepayments and other receivables	$	$
Vessel charter bond	-	546,769
Prepayments	187,382	821,871
	187,382	1,368,640

9. Property, plant and equipment

	Vessel, barge and tug boats $	Motor vehicles $	Office equipment $	Total $
Cost				
At 1 July 2020	-	-	-	-
Additions	-	37,500	-	37,500
At 30 June 2021	-	37,500	-	37,500
Additions	3,474,203	-	5,180	3,479,383
At 30 June 2022	3,474,203	37,500	5,180	3,516,883
Accumulated depreciation				
At 1 July 2020	-	-	-	-
Depreciation for the year	-	411	-	411
At 30 June 2021	-	411	-	411
Depreciation for the year	322,664	7,500	719	330,883
At 30 June 2022	322,664	7,911	719	331,294
Net book value				
At 30 June 2021	-	37,089	-	37,089
At 30 June 2022	3,151,539	29,589	4,461	3,185,589

	2022	2021
10. Trade and other payables	$	$
Trade creditors	1,350,140	426,889
Accruals	725,060	299,210
Income received in advance	-	82,480
Refundable deposits	70,000	60,000
	2,145,200	868,579

Trade payables are non-interest bearing and are normally settled on 60-day terms

	2022	2021
11. Provision for employee benefits	$	$
<u>Annual leave</u>		
Opening balance	-	-
Movement for the year	10,407	-
As at 30 June	10,407	-

		2022	2021
12.	Deferred revenue	$	$
	Opening balance	-	-
	Add: grant payments received during the year	2,927,434	-
	Less: release of deferred income	(271,890)	-
		2,655,544	-
	Current	288,733	-
	Non-current	2,366,811	-
		2,655,544	-

Deferred revenue consists of grant provided by the Government of the Republic of Indonesia to purchase a marine vessel, Micronesian Pride.

13.	Contributed capital	$	$
	Government of Nauru		
	Opening balance	3,193,897	-
	Contributions received during the year	-	3,193,897
	Balance as at 30 June	3,193,897	3,193,897
	Nauru Maritime & Port Authority		
	Opening balance	235,500	-
	Contributions received during the year	-	235,500
	Balance as at 30 June	235,500	235,500
		3,429,397	3,429,397

14. Commitments

Capital expenditure commitments as at 30 June 2022 was $Nil (2021: $Nil).

15. Contingent liabilities

As at balance date, the Company does not have any contingent liabilities and the Directors are not aware of any pending or potential legal actions made against the Company (2021: $Nil).

16. Related party

(a) Directors

The Directors of the Company during the financial year were:

Directors during the year	Directors as at reporting date
Chairman - Mr. Link Uera	Chairman - Mr. Link Uera
Deputy Chairman - Wanganeen Emiu (Resigned 27th June 2022)	Deputy Chairman - Mr. Calistus Cain
Director - Mr. Bure Ika	Director - Mr. Bure Ika
Director (Experience in Shipping) - Mr. Ipia Gadabu	Director (Experience in Shipping) - Mr. Monte Depaune
Director Ex-Officio - Mr. Isaac Aremwa	Director Ex-Officio (Government) - Mr. Nodel Neneiya (Secretariat
	Director Ex-Officio (Government) - Mrs. Melca Rykers (Finance)

16. Related party *continued*

(b) Key management

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

Name	Position
Michael Nye	Chief Executive Officer
Nigel Kumar	Deputy Chief Executive Officer
Prashil Kumar	Financial Controller
Davina Prasad	Agency Manager

(c) Transactions with related parties

Key management remuneration

Key management remuneration is paid by Nauru Maritime & Port Authority.

	2022 $	2021 $
Transactions with Republic of Nauru (RON) Government		
Subsidies received from RON Government	-	3,193,897
Transactions with Nauru Maritime & Port Authority (NMPA)		
Subsidies received from NMPA	-	235,500
Port charges incurred from NMPA	1,317,143	568,330

17. Financial instruments risk management objectives and policies

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

Risk management is carried out by finance executives and management of the Company. Management and finance executives identify, and evaluate financial risks in close co-operation with the Company's operating units. The Board of Directors provide direction for overall risk management covering specific areas, such as mitigating credit risks, and investment of excess liquidity.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

17. Financial instruments risk management objectives and policies *continued*

(b) Political climate

The Company operates in Nauru and changes to government and the policies they implement affect economic situation and ultimately the revenues of the Company. To address this, the Company reviews its pricing and services range regularly and responds to change in policies appropriately.

(c) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities. The Company's exposure to foreign currency changes for all other currencies is not material.

Foreign currency sensitivity

As at year end, assets and liabilities denominated in foreign currencies are minimal and hence changes in the Australian dollars by 10% (increase or decrease) is expected to have minimal impact on the net profit and equity balances currently reflected in the Company's financial statements. Because of the minimal asset and liability balances in overseas currencies, there has been little sensitivity to movements in the Australian dollar in 2022.

(d) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance obtained from reputable banks and other financial institutions. At 30 June 2022, the Company had 1 customer (2021: 2 customers) that owed it more than $1,000,000 (2021: $100,000) and accounted for approximately 68% (2021: 91%) of all the receivables and outstanding.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 7. The Company does not hold collateral as security.

17. Financial instruments risk management objectives and policies *continued*

(d) Credit risk *continued*

The Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

30 June 2022	Trade receivables					
		Days past due				
	Current	<30 days	30–60 days	61–90 days	> 90 days	Total
Expected credit loss rate	0%	0%	0%	0%	0%	
Estimated total gross carrying amount at default	-	622,194	527,560	348,774	45,570	1,544,098
Expected credit loss	-	-	-	-	-	-

30 June 2021	Trade receivables					
		Days past due				
	Current	<30 days	30–60 days	61–90 days	> 90 days	Total
Expected credit loss rate	0%	0%	0%	0%	0%	
Estimated total gross carrying amount at default	-	416,955	126,777	24	6,815	550,571
Expected credit loss	-	-	-	-	-	-

The Company's credit risk exposure as at 30 June 2022 was $Nil (2021: $Nil).

17. Financial instruments risk management objectives and policies *continued*

(e) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

30 June 2022	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	> 5 years $	Total $
Trade and other payables	-	2,145,200	-	-	-	2,145,200

30 June 2021	On demand $	Less than 3 months $	3 to 12 months $	1 to 5 years $	> 5 years $	Total $
Total liabilities	-	868,579	-	-	-	868,579

18. Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company's objectives when obtaining and managing capital are to safeguard the Company's ability to continue as a going concern and provide shareholders with a consistent level of returns and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowing (including 'current and non- current borrowing' as shown in the Company's statement of financial position) less cash and cash equivalent. Total capital is calculated as 'equity' as shown in the Company's statement of financial position plus net debt.

	2022 $	2021 $
Trade and other payables (Note 10)	2,145,200	868,579
Less: cash and cash equivalents (Note 6(b))	(3,090,391)	(811,517)
Net debt	(945,191)	57,062
Equity	3,183,920	1,899,238
Capital and net debt	2,238,729	1,956,300
Gearing ratio	-42%	3%

19. Company details

Company Incorporation

Nauru Shipping Line (the Company) is a state-owned entity incorporated and domiciled in the Republic of Nauru. Its principal place of operation is at Blue Building (near Orro Congregational Church), Aiwo District, Nauru.

Registered office and principal place of business

The registered office of the Company is located at:

Nauru Maritime & Port Authority/Nauru Shipping Line Office
Blue Building (near Orro Congregational Church)
Aiwo District
Republic of Nauru.

Number of employees

As at balance date, the Company employed 7 staff (2021: 7 staff).

20. Significant events

Significant events that occurred during the year are as follows:

i) *COVID-19 Pandemic*

Despite the severe impact of the pandemic the Company has remained operational and continues to engage in its principal activities. The Directors and management are carefully considering the impact of the COVID-19 situation on the Company and assessing future operational options. The future financial impacts, however, cannot be reasonably estimated at this time, as they will be largely the product of matters the Company cannot control.

The Directors and management believe the Company has sufficient financial resources together with arrangements with their customers and suppliers at this time to be able to successfully manage their business risks despite the current uncertain economic outlook due to the COVID-19 outbreak.

ii) In July 2021, the Company purchased a Vessel through grant provided by the Government of the Republic of Indonesia. The Vessel named Micronesian Pride will be used to provide full time service to transfer containers in and out of Nauru.

iii) On 2nd September 2021, the Company received an email from The China Navigation Ltd, Australia regarding the Long Stay Containers in Nauru summarised in an excel the amount payable as detention charges for not retuning containers within the allocated free period of 40 days. The above amount payable at the close of financial year as at 30 June 2022 would have been USD 500,000 / AUD 725,058. No official invoice has been issued by The China Navigation Ltd, Australia to Nauru Shipping Line on the above detention charges yet.

21. Subsequent events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

NSL

NAURU SHIPPING LINE

NAURU SHIPPING LINE (NSL)

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