NAURU AIR CORPORATION

STATEMENT OF CORPORATE INTENT
2020/2021

Final

29 APRIL 2020

Shareholder submission

Prepared by the Directors and Management of Nauru Air Corporation
for

<u>Accountable Minister</u>

The Hon. H.E. Lionel Rouwen Aingimea MP

President & Minister for Nauru Air Corporation

<u>Responsible Minister</u>

The Hon. Asterio Appi

Minister Foreign Affairs & Trade, Public Service, Multicultural Affairs & Nauru Air Corporation

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INTRODUCTION

This Statement of Corporate Intent (SCI) for Nauru Air Corporation (NAC) is in respect to the financial year 1 July 2020 to 30 June 2021 and the following two financial years to 30 June 2023 and is prepared in accordance with Sections 27 & 28 of the *Public Enterprise Act (2019)* (the "Act").

In terms of the Act, NAC is a wholly-owned State-Owned Enterprise (SOE) also subject to the prescripts of its foundation act, the Nauru Air Corporation Act (1995), the Corporations Act (1972) and a range of other Nauruan legislation. As its primary aviation operating entity is an Australian registered company and it operates under an Australian Air Operator's Certificate, it is also subject to Australian company law and Australian civil aviation regulations.

The airline's aircraft and engine assets are held in a related wholly-owned SOE, Sunco Pty Ltd Holding Inc ("Sunco"), which leases these assets to NAC. NAC has four wholly-owned subsidiaries registered in Australia, with two currently operating: NAC Travel Pty Ltd (trading as Our Travel); and Nauru Airlines Hangar (Brisbane) Pty Ltd, which leases an aircraft hangar facility to the airline. More detail on Sunco and NAC subsidiaries are in Annexure 1[1].

The purpose of the document is to communicate the directors' intent for the business to the Shareholder, which includes detail on NAC's business (including its goals), strategy, financial position and 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 Act, is to be a successful business and it performs a dual role for the people of Nauru:

- Connecting Nauru to Australia and neighbouring Pacific Island nations and providing safe and sustainable passenger and freight air services to facilitate trade, tourism and the functioning of Government; and
- Delivering a significant catalytic demand effect to the Nauruan economy, in relation to direct, indirect and catalytic impacts through its on-going significant contribution to GDP, employment and tax revenues[2].

This objective and the dual roles 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 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[3]. In regard to the appropriate financial performance and efficiency benchmarks in the aviation industry, this is an important piece of work that is yet to be completed and is discussed in the following *Business Overview* section.

NAC are highly-attuned to the importance of the Government of Nauru's strategies to support and connect with Pacific neighbours and this is factored into business planning, although often support to neighbouring countries via operating "strategic" air services cannot be undertaken profitably due to the following demand and supply factors.

Operating an airline is capital intensive, requires a very high level of specialised skill and the industry is highly regulated. The needs and requirements of the Government of Nauru will remain a major factor in NAC's route network planning, capacity and aircraft asset deployment across the network (specifically frequency) and aircraft asset procurement and maintenance, as well as ensuring the appropriate level of medium to long-term resourcing and maintenance of necessary specialist skills (e.g. pilots). Delivering air services to remote island destinations, typically on seasonal routes, requires both careful planning and strong operational and commercial skills and discipline. Aviation also has a high fixed capital cost base (primarily the aircraft assets) and high activity-based variable costs such as fuel and aircraft maintenance. These factors and changing market conditions can have an adverse impact on the performance of the airline, as it cannot quickly increase or reduce capacity based on fluctuating demand.

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[1] Sunco's accounts are not consolidated into the accounts of NAC, whereas the accounts of the two operating subsidiaries are consolidated.
[2] Catalytic demand models, such as those used by the US Department of Transport and Oxford Economics, measure the economic impact of a specific airline or the aviation industry in general on an economy.
[3] That is not less than the weighted average cost of capital prescribed as a percentage.

Some routes, which have low passenger load factors may not recover sufficient passenger fares and/or freight revenue to recover operating costs, so generating a net operating profit after tax (each year) represents a considerable challenge in normal market conditions let alone the current Covid-19 impacted conditions which are likely to last into 2022[4].

In order to continue to operate "strategic" routes, NAC has and 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.

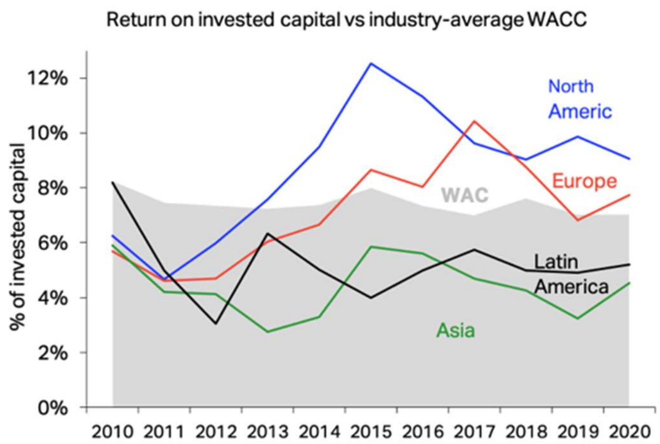
BUSINESS OVERVIEW

NAC's core business is to connect Nauru to Australia and neighbouring Pacific Island nations and provide safe and sustainable air passenger and freight services to facilitate trade, tourism and the functioning of Government. The airline operates in a highly regulated and competitive global aviation market that is undergoing constant change and is subject to periodic external shocks.

The Global Aviation Market

Airlines are highly regulated (e.g. safety and airline ownership and control restrictions) and capital intensive and operate on an aeropolitical foundation of bilateral and open market agreements enhanced by commercial arrangements such as the three global airline alliances (e.g. oneworld) and joint-ventures[5] in various geographies.

Studies by the International Air Transport Association (IATA) show airline Return on Invested Capital (ROIC) ranks at the bottom of the aviation value chain - well below airports, aircraft maintenance businesses, in-flight catering businesses, freight forwarders and ticketing distribution system operators - although in the five years to 2018 (the last available 5-year data set available) there was a significant improvement in the ROIC performance of the industry[6]. This improvement had peaked in 2015 and was driven by a relatively small group of ≈30 high-performing airlines, such as the major US airlines, European airlines and market outliers such as Qantas and Air New Zealand.



The latest study also showed that most airlines generate just enough ROIC to meet their cost of capital and there is a larger group of airlines still making significant losses, even though this 5-year period included the two best years for airlines in the last three decades.

IATA's semi-annual report on industry economic performance, in December 2019, showed a longer-term (10-year) view of ROIC performance, relative to the industry's Weighted Average Cost of Capital (WACC) (on the adjacent chart)[7]. This will have materially deteriorated since the onset of the Covid-19 crisis, which is discussed in detail below.

This financial outcomes for airlines are influenced by many factors, including:

- The long-term (30-year) average operating margin of airlines is less than 3%;
- The complexity of aviation, with long lead times to materially scale capacity up or down and correct mistakes such as poor fleet acquisition decisions;
- The industry is subject to a wide-range of external shocks, such as pandemics, terrorism, war, extreme movements in and sustained high oil prices and volcanic ash clouds; and

[4] See analysis on the global aviation market in the Business Overview section below.
[5] Often with ant-trust immunity, where alliance members can co-operate on matters such network, fleet and schedules and often can share revenue. Examples include Atlantic++ a multi-airline joint-venture on the North Atlantic made up of European and US Star Alliance members and joint ventures on the US-Japan routes between US and Japanese airlines.
[6] 7 February 2020. For the five years to 2018, the industry-wide ROIC was 6.7% an increase of 2.5% from the 2009-13 period. IATA have conducted air transport industry value chain analysis with McKinsey & Co since 2005.
[7] IATA Economic Performance of the Airline Industry December 2019.

- Relative to other verticals such as automotive, pharmaceuticals and telecoms, the world has far too many airlines[8], with consolidation moving slowly due to a combination of the still largely bilateral nature of the aeropolitical framework and ownership and control restrictions - where an airline typically needs to be majority owned by a state be designated to operate the rights negotiated by that state.

The Covid-19 crisis again highlights the vulnerability of aviation to external shocks, where the latest IATA data[9] showed the year on year number of world-wide flights is down by 80% with the industry virtually grounded outside the US and some Asian domestic markets. Their earlier assessment in March showed a 65% decline, so there continued to be a significant deterioration in traffic. They forecast a much deeper and longer industry decline, with 2020 global passenger revenues falling 55% from 2019 and a slow recovery led by domestic traffic from Q3 2020 but with international traffic slower to open.

The airlines doing relatively well are those with substantial cash reserves and/or receiving investor and/or government support. However, airlines are experiencing an unprecedented liquidity crunch globally seeing a USD 61 billion drain on cash reserves in Q2 2020[10]. This is beyond the control of even the best team of aviation Management and most capable airline Directors, who are essentially fighting for the survival of their airlines. The broad industry solution is to preserve cash by grounding fleets to reduce variable costs as much as possible and seek all assistance possible from governments and investors.

Given the recovery timeframe is unknown, most leading industry analysts such as CAPA Centre for Aviation[11] and McKinsey are scenario modelling on what the future could be for aviation.

McKinsey range from optimistic to pessimistic scenarios. In the former, there are strong government interventions, travel bans are lifted as Covid-19 cases drop, the global economy begins recovering, airlines re-introduce capacity and stimulate demand by lowering ticket prices, people resume their normal behaviour, airlines scale up operations and global travel returns to pre-crisis levels by 2021 and exceeds them in the following years. In the more pessimistic scenario, a Covid-19 resurgence requires long-term mobility restrictions, and governments interventions are insufficient and they maintain travel bans for longer. Like the optimistic scenario, airlines lower ticket prices to stimulate demand but this has little impact on revenue. The leisure market sees on-going low demand due to the combination of economic uncertainty and fear of infection and business travel is heavily displaced by videoconferencing, which became the norm during the pandemic lockdown - resulting in an annualised fall in demand for air travel of 60-70% in 2020 and no return to pre-crisis levels until 2023 or even later[12].

<u>Particular challenges for remote island state airlines</u>

These airlines face issues with low passenger load factors/average fares and low freight revenues combining to limit unit revenues. Without a substantial tourism industry to compensate for the inherent revenue weakness, their unit cost cannot be compressed sufficiently to overcome constant pressure on operating cashflows. Geographically spread multi-island states, with some domestic traffic to feed/de-feed an international network, can compensate to some degree for this disadvantage.

NAC has a particular challenge with commercial viability. There is little tourism in Nauru and, as an international airline with no domestic network, NAC also places heavy reliance on point to point traffic, maximising Nauru's potential as a hub for business and leisure traffic for Pacific Island neighbours (usually with under-served destinations, such as Tarawa). NAC's scheduled passenger and freight services are effectively cross-subsidised from charter operations and services NAC provides to the Australian Border Force (ABF) and Regional Processing Centre (RPC).

Whilst other remote island state airlines have been identified, none of these states is a single island with a small tourism sector and Nauru appears unique in this regard. Island state airlines considered in this assessment were:

- Air Vanuatu - multi-island, with 29 domestic routes and a significant tourism sector;
- Fiji Airways - multi-island, with 12 domestic destinations and a significant tourism sector;
- Solomon airlines - multi-island, with 21 domestic routes and a small tourism sector;
- Air Niugini - multi-island, with 17 domestic routes and a small tourism sector;

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[8] IATA had 299 members at 25 April 2020, however several thousand low cost carriers and smaller regional airlines are not IATA members.
[9] IATA Covid-19 Updated Impact Assessment 14 April 2020.
[10] IATA Economics' Chart of the Week 3 April 2020.
[11] Formerly the Centre for Asia Pacific Aviation, CAPA Centre for Aviation are a Sydney-based aviation analysis and thought leadership firm.
[12] McKinsey & Company, Coronavirus: Airlines brace for severe turbulence, April 2020.

- Samoa Airlines - single island, with a single "domestic" route to American Samoa and a small tourism sector;
- Air Kiribati - multi-island, 16 domestic routes and small tourism sector;
- Maldivian - multi-island, with 14 domestic destinations and a significant tourism sector;
- Air Seychelles - multi-island, with a single domestic route and a significant tourism sector; and
- Cabo Verde - multi-island, with two domestic routes and a significant tourism sector.

Remote island based airlines in the Azores (Portuguese autonomous region) and Réunion (French overseas department and region) were excluded from the assessment on the basis that they may receive indirect subsidisation from Portugal and France respectively.

<u>Objectives for state-owned airlines</u>

The objectives governments have for their (either wholly or part-owned) airlines differ widely and these will be tested greatly by the current Covid-19 crisis which has triggered a near shutdown of most of the global aviation industry. The opportunity to complete this SCI comes at an opportune time for both NAC and the Government of Nauru, as the global aviation industry has suffered a major shock and will undergo a significant recalibration in the next three years. This period of "hibernation" provides an excellent opportunity for the Shareholder and NAC to confirm the objectives and goals for the airline and that the expected outcomes are clearly understood.

Large state-owned mid-hemisphere network carriers, such as Singapore Airlines, Etihad Airways, Qatar Airways and Ethiopian Airlines, as well as smaller niche players such as Air New Zealand can be characterised by objectives including: building both a high traffic volume hub and creating or substantially enhancing their countries as destinations; generating significant catalytic demand for their economy; maintaining links with trade and tourism partners; ensuring there is "airlift" for national security purposes in times of crisis; and being an instrument of national pride. **Their airlines are seen as strategic state assets and typically part of a larger macroeconomic framework that generates significant (on a relative scale country to country) catalytic demand, improves economic efficiency and delivers a range of other developmental objectives. Their "mission" for the state is well understood and, in most cases, they achieve the expected financial and developmental outcomes expected by their shareholder(s).**

A second tier of state-owned airlines often operates in a confused or shifting landscape where their "mission" from their shareholder(s) is not clearly articulated or perhaps never cohesively articulated and can change emphasis from time to time particularly as political changes occur. They share some of the objectives of the first group of airlines, such as being expected to enhance their countries as destinations and at a minimum are usually considered strategic state assets. These airlines include Kenya Airways, Garuda Indonesia, Air India, Royal Brunei Airlines and Aerolineas Argentinas. **Profitability is cyclical or perhaps seldom achieved, they contribute a (often unmeasured) catalytic demand contribution and normally are acknowledges as contributing (but again often unquantified) to a state's developmental objectives.**

A third tier of state-owned airlines have more basic or no real objective(s) and sometimes simply "exist", sometimes for a single reason (primarily national pride and carrying the flag) or under the patronage of a single political figure or faction. These are normally smaller state-owned airlines and include a large number of African airlines (e.g. Air Zimbabwe), Pakistan International Airlines and Myanmar National Airlines. **They are typically loss-making in the long-term and it is questionable whether their catalytic demand contribution is greater than the adverse economic impact their inefficiency causes.**

Business Goals

NAC is in the second tier of state-owned airlines and the Directors and Management are determined to ensure it is seen as having the attributes of a first tier state-owned airline in three years.

The people of Nauru having great national pride in the airline remains a key goal and NAC will strive to achieve its primary objective and continue to perform its dual-role for the people of Nauru by providing safe and sustainable passenger and freight air services. The airline also intends to keep air fares affordable for the citizens of Nauru through profitable cross-subsidisation by charter operations provided to the ABF and RPC.

These services to the people of Nauru facilitate trade, tourism and the functioning of Government and deliver a significant catalytic demand effect to the Nauruan economy through its on-going significant 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 Pacific Island and other states.

Key Activities

The airline has six main functional areas of operation.

Flight Operations

The Flight Operations area consists of the pilots who fly aircraft safely between destinations, cabin crew who both serve the airline's passengers on-board the aircraft and further ensure their comfort and safety and the Operations Control Centre (OCC) responsible for flight and crew planning, flight following and monitoring services and arranging air navigation services for flights.

Ground Operations

Ground Operations is responsible for 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 disruption service recovery for passengers. They also manage our General Sales Agents and service providers contracted at various airports to deliver these services on NAC's behalf. Only in Nauru are flights "self-handled" via NAC's own approved ground handling operations.

Freighter & Charter Operations

NAC has a small freighter 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 freighter operations to support the RPC, as well as ad-hoc charters on behalf of other airlines and NAC's own commercial charter activity. Commercial charters are mainly sourced and coordinated through a Brisbane-based charter broker, AERgO.

Sales, Distribution & Marketing

There are two dedicated sales offices, in Brisbane and Nauru, which sell passenger tickets directly to the public and tickets are also sold via NAC's website www.nauruair.com.

Indirect sales are with travel agents in NAC's in-house travel agency Our Travel[13], through direct access to the airline's 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.

Further indirect distribution channels are: Hahn Air Systems, a German company which provides airlines without their own access to a Global Distribution System (GDS) distribution for their tickets via these systems[14]; and directly through the Amadeus GDS.

Although NAC has a small marketing footprint, it constantly seeks ways to increase this footprint to promote the airline through its website, facebook, LinkedIn, Instagram and other social media platforms.

Nauru-based administrative functions

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 manager or supervisor to oversee the effective delivery of services:

- Ground and airport operations;
- Freight;
- In-flight catering;
- Engineering;
- Sales; and

[13] NAC Travel Pty Ltd, registered in Australia and trading as Or Travel.
[14] NAC does not have its own GDS access, due to the high capital and operating cost of accessing these systems including systems requirements, management overhead and cost of sale per ticket. Using Hahn Air Systems is a lower cost solution and allows access to all major GDS platforms including Galileo, Sabre and Travelsky.

- Finance and administration.

<u>Head Office</u>

Head Office are 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.

Opportunities for Improvements to Performance & Value for Money

NAC will focus on the following 10 areas of improvement, which are consistent with both its primary objective under the Act and recent Shareholder engagements.

- Restructure the company, to materially reduce cost and conserve cash, due to the impact of the Covid-19 pandemic and the consequential reduction in flight operations.
- Complete the aircraft upgrade program, through sourcing Boeing 737NG[15] aircraft as a staged upgrade for the ageing Boeing 737-300 aircraft and a sourcing a suitable replacement freighter or commencing on the freighter conversion program.
- Source a replacement system(s) to replace the deficient Zapways system used for flight and crew management, aircraft departure control and a passenger services system.
- Embed new business processes, associated with enhanced technology, with the system(s) replacements to further reduce cost and optimise operations and to design processes to improve the monitoring and management of remote location service levels and service providers.
- Implement a loyalty program and utilise it for effective marketing and customer profiling and to achieve a step-change improvement in customer service and revenue management.
- With the criticality of freight to the airline's success, improve freight management processes and pricing models to optimise the scheduled freighter opportunities with a cross-subsidisation model to continue freight operations to Nauru with full coverage of cost. This includes the introduction of a Cargo Management System (CMS), which would be new systems functionality for NAC.
- Maximise charter opportunities and continually improve operational efficiencies to attract increased freighter and passenger charter opportunities by building relationships, more effective marketing and reducing costs in order to have competitive pricing through a lower cost base.
- Post-Covid-19 organic route expansion, continuing to engage with other Pacific Islands to increase NAC's network reach and scale route expansion and achieve higher aircraft utilisation with commercially viable asset deployment. Opportunities under consideration are with REALtonga and the Government of Taiwan.
- Optimise overhead recovery, seeking opportunities to potentially cross-sell NAC's skills and services to other airlines, e.g. technical services, OCC services and safety management services.
- Improving working capital performance, including optimising cashflow management, improving the commercial terms for debtor payments and reducing aircraft spares inventory through improved maintenance planning.

Key Business Risks & Mitigations

As an airline operating in a highly regulated safety framework, NAC's primary inherent risk is in relation to flight operational safety. Otherwise, it faces a range of strategic, commercial and operational risks that it intends to holistically analyse in an ISO 31000[16] compliant risk management framework by the end of 2020.

The key risks to the business, with the actual mitigations in place or planned, relate to:

1. **Aircraft flight safety** - 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. **Loss of or a significant reduction in ABF and RPC business** - apart from the airline continuing to provide good service, the only mitigation is the Government of Nauru's relationship with Australian Government;
3. **The ageing aircraft fleet** - mitigation will be through effective completion of the fleet upgrade program;
4. **Systems weaknesses leave NAC unable to implement improvements to the business**, such as airline interlining, loyalty program development, accurately tracking pilot duty hours exceedances and advising passengers on disruption - replacement is the only mitigation and is an immediate priority in 2020;

[15] New generation, in production since 1997 and the model that preceded the troubled 737 MAX model.
[16] ISO31000 is the international standard for risk management.

5. **The Covid-19 disruption to the business longer and/or more serious than currently understood** – the mitigation is to complete the restructure of the business and build greater resilience into the business model; and
6. **Loss of key staff** - the mitigation is completing a succession planning process in 2020.

STRATEGY

The recent challenges faced by NAC and the unprecedented aviation industry downturn triggered by the Covid-19 pandemic has caused the Board and Management to revisit every aspect of the airline's strategy and its implementation.

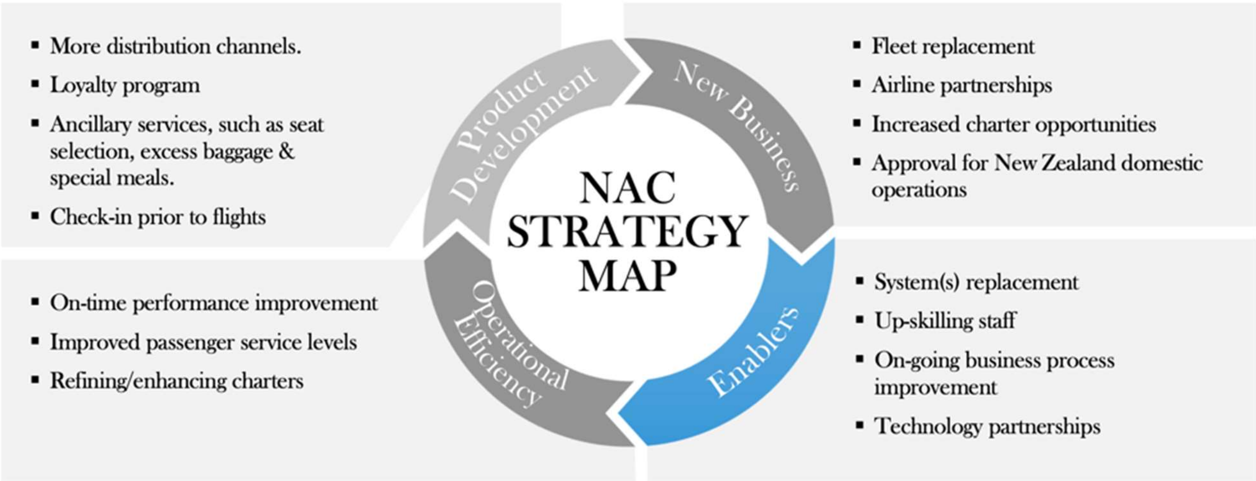
This has resulted in and has been strongly supported by significant engagement with the Responsible Minister, Accountable Minister and others in the Government of Nauru, which has effectively recalibrated and revalidated the airline's strategy.

Restructuring the business is the immediate short-term focus, which is primarily a series of critical and immediate tactical interventions such as reducing flying and staff levels to minimise variable cost and operating cash outflows with the objective of conserving cash. The strategy's foundation references the restructured NAC and is fully aligned with NAC's primary objective and goals.

The strategic context is:

- The realities of the global aviation market both now and in the medium to long-term;
- The particular challenges of remote island state airlines;
- The Shareholder's objective in owning NAC;
- Ensuring the continued integrity of passenger and freighter air services, in view of airline's ageing fleet, whilst working towards completing a fleet upgrade program;
- Building an airline culture of performance, valuing staff and customers and delivering NAC's dual-role for the people of Nauru; and
- Ensuring a sustainable, financially sound and commercially viable operation, comparable with peers in the Pacific Islands and beyond.

Excluding the restructuring of the business, the top-level summary of NAC's 4-pillar strategy is in the following graphic with further detail following.



<u>Product Development</u>

Affordable customer-facing innovation to the business, through product development, is the driver of this pillar.

NAC's product offering and therefore its value proposition to the market is modest, even by standards in the region which have strengthened in the last five years[17]. The focus will be on developing products that significantly improve customer service, the ease of doing business with the airline and revenue. Initiatives include:

[17] Fiji Airways and Air Vanuatu as examples.

- A new Distribution Strategy, focusing on improvement to the website and travel agent offerings;
- Implementing a loyalty program; and
- Developing web-based passenger products and services that can be pre-sold to/selected by customers, such as pre check-in, seat selection, excess baggage and special meals.

Operational Efficiency

NAC will strive to steadily improve its operational efficiency, as this provides greater competitive advantage and reduces cost. The key initiatives are:

- Improving on-time performance, which for an airline operating in non-congested airports should not be an enormous challenge to achieve (but usually difficult to maintain) and embed this into the airline's DNA – which customers typically rate highly;
- Improvements to passenger handling processes and delivery times, particularly check-in and baggage handling. Outside of Nauru these services are delivered by service providers, so the major task is to manage supplier relationships more effectively often in countries with one monopoly provider of these services; and
- Continue to refine and enhance charter sourcing, including pricing and delivery and execution of the services.

New Business

Post-restructuring and as the industry emerges from the Covid-19 crisis, it will be more important than ever to develop new opportunities to grow and diversify the business. The major initiatives are:

- Completing the aircraft upgrade program, through sourcing a more efficient fleet with a longer operating range. The intent is to source Boeing 737NG aircraft as a staged upgrade for the aging Boeing 737-300 aircraft and a suitable replacement freighter or commencing on the freighter conversion program. Very careful consideration is being given to the higher capital cost of newer aircraft and the ability to recover sufficient passenger and freight revenue to compensate for this. Operating cost efficiencies will come from lower fuel burn and maintenance;
- Exploring the potential for airline partnerships, initially continuing to explore a "greenfields" partnership opportunity with REALtonga;
- Continued charter operations in Australia, with targets including freight, mining, corporate events and supporting other airlines in their service disruption recovery and maintenance event coverage; and
- Obtain Australia New Zealand Aviation (ANZA) Mutual Recognition Principle[18] approval to operate limited and targeted domestic passenger and freight operations in New Zealand.
- Northern Pacific expansion.

Enablers

Management see the restructuring process as an opportunity to improve the enablers in the business to help deliver the other three pillars of the strategy. Major initiatives include:

- The replacement of systems, with the replacement of the deficient Zapways system (used for flight and crew management, aircraft departure control and a passenger services system) the immediate focus;
- CMS implementation;
- Up-skilling of staff;
- Overall business process improvement e.g. greater use of mobile technology; and
- Technology partnerships (three potential partners - appointment subject to tender).

[18] As NAC hold and Australian Air Operator's Certificate it may be eligible to obtain these rights.

TARGETS & KEY PERFORMANCE INDICATORS

The targets and key performance indicators intended to be used by the Directors and Management to assess the performance of NAC in achievement of its goals and primary objective are a combination of financial and operational quantitative metrics. These are derived from the forecast statements of financial performance and position in the *Financial Statements* section.

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	Currency = $AUD Mil KEY INDICATOR	FY2019 CY - 1 Actual	FY2020 CY Forecas	FY2021 CY +1 Budget	FY2022 CY +2 Plan	FY2023 CY +3 Plan
				Financial Metrics					
-0.6	-1.2	-0.4	-0.0	Earnings before interest and tax (EBIT)	-2.2	-2.2	0.3	0.2	0.4
-3%	-6%	-2%	0%	Return on assets	-9%	-15%	2%	1%	2%
-12%	-34%	-13%	-1%	Return on equity	-44%	-72%	9%	7%	10%
-10%	-4%	52%	-63%	Free cash flow yield	-18%	-32%	-1%	1%	3%
-0.6	-1.2	-0.4	-0.0	Net operating profit after tax	-2.3	-2.2	0.3	0.3	0.4
5.1%	4.9%	4.8%	5.1%	Weighted average cost of capital	5.1%	5.1%	5.1%	5.1%	5.1%

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	Currency = $AUD Mil KEY INDICATOR	FY2019 CY - 1 Actual	FY2020 CY Forecas	FY2021 CY +1 Budget	FY2022 CY +2 Plan	FY2023 CY +3 Plan
				Operational Metrics					
48,292	40,780	30,512	2,122	Total Passengers Carried	106,870	121,706	3,815	37,294	59,651
644	1,109	1,247	1,190	Total Cargo Carried Tonne	5,075	4,190	2,737	3,240	3,766
2,214	2,117	1,898	598	Total Block Hours	6,463	6,828	2,696	3,880	5,416
751	747	619	190	Total Flights	2,392	2,307	834	1,176	1,484
59%	56%	51%	16%	Aircraft Utilisation (**)	43%	46%	22%	32%	45%

In calculating WACC, NAC last engaged with the Department of Finance on 28 April 2020 to seek guidance on the calculation method to be used by SOEs. The advice received was that regulations on the cost of capital are yet to be promulgated and the calculation method NAC proposed (and have used in this SCI) was acceptable in the interim.

FINANCIAL STATEMENTS

The Covid-19 pandemic has seen the collapse of the airline's revenue and the FY2020 forecast results materially impacted. A conservative approach has been taken on the likely speed of global and regional economic recovery and return to normal demand levels for air services, the impact of Covid-19 is expected to continue throughout FY2021.

The financial statements for FY2021 include the assumption of the airline being able to obtain significant CSO contributions and this is detailed in the *Community Service Obligations* section. These contributions have been factored into the financial statements as an increase in Revenue and will be specifically disclosed as such to ensure the contributions are properly disclosed to highlight the level of CSO contributions required to continue to deliver essential air services to the people of Nauru. Tax advise obtained indicated that such contributions, if originating from Nauru and contractually agreed in Nauru will not be taxable in Australia.

Income Statement

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	INCOME STATEMENT	FY2019 CY - 1 Actual	FY2020 CY Forecast	FY2021 CY +1 Budget	FY2022 CY +2 Plan	FY2023 CY +3 Plan
15,267	13,700	12,442	4,060	Passenger	47,129	45,470	19,022	26,395	35,167
2,758	3,179	3,842	3,345	Freighter	12,805	13,124	15,454	14,946	16,740
0	0	0	3,000	Grants / Community Service Obligations	0	3,000	7,596	5,280	4,680
319	269	287	10	Other	2,829	884	30	20	28
18,344	**17,148**	**16,571**	**10,414**	**Total Revenue**	**62,763**	**62,478**	**42,102**	**46,641**	**56,615**
349	410	528	57	Distribution Costs	1,363	1,345	426	725	1,352
6,832	6,529	4,992	2,546	Variable Costs	25,880	20,900	9,243	10,803	16,548
11,164	**10,209**	**11,050**	**7,811**	**Contribution to Fixed DOC's and Overheads**	**35,520**	**40,233**	**32,433**	**35,114**	**38,715**
61%	**60%**	**67%**	**75%**		**57%**	**64%**	**77%**	**75%**	**68%**
9,482	9,478	9,572	6,285	ACMI : Aircraft Lease, Crew, Maint Insurance	30,751	34,816	27,374	29,998	33,276
1,682	**731**	**1,478**	**1,526**	**Contribution to Overheads**	**4,769**	**5,417**	**5,059**	**5,116**	**5,439**
9%	**4%**	**9%**	**15%**		**8%**	**9%**	**12%**	**11%**	**10%**
2,112	1,746	1,731	1,392	Overheads	6,867	6,980	4,007	4,028	4,122
-429	**-1,015**	**-252**	**134**	**Earnings Before Interest Tax & Dep'n**	**-2,099**	**-1,563**	**1,051**	**1,088**	**1,317**
132	154	166	180	Depreciation	370	632	738	812	893
-4	2	5	-0	Interest	-132	-3	-0	0	0
0	25	0	0	Tax Expense	11	25	25	25	25
-558	**-1,196**	**-424**	**-46**	**Post Tax Profit /(Loss)**	**-2,348**	**-2,218**	**289**	**251**	**399**
-3%	**-7%**	**-3%**	**0%**		**-4%**	**-4%**	**1%**	**1%**	**1%**

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	Grants / Corporate Social Obligation	FY2019 CY - 1 Actual	FY2020 CY Forecast	FY2021 CY +1 Budget	FY2022 CY +2 Plan	FY2023 CY +3 Plan
				Proposed GON Freighter Subsidy			4,680	4,680	4,680
			3,000	COVID19 Subsidy		3,000	2,000	0	0
				Retain All Nauru Based Staff			916	0	0
				Introduction of B737-700				600	0
0	**0**	**0**	**3,000**		**0**	**3,000**	**7,596**	**5,280**	**4,680**
			29%	As % of Turnover	**0%**	**5%**	**18%**	**11%**	**8%**

The freighter subsidy is calculated to cover the return dead leg for the RPT freighter service BNE-INU-BNE.
The Covid-19 subsidy is earmarked to cover fixed business cost amidst low utilisation due to international border closures
The Nauru Staff retention is to keep all the Airline staff employed during the Covid-19 period and redeploy them to other Government departments for work coverage during the low activity period
The introduction of the B737-700 will require a type rating upgrade for all pilots and the additional work required for readiness for the Part 42 and Part 45 maintenance organisation to introduce fully the new aircraft type.

RPC and ABF Revenue included in the budget

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	INCOME STATEMENT	FY2019 Actual	FY2020 Forecast	FY2021 Budget	FY2022 Plan	FY2023 Plan
1,926	2,013	1,926	1,964	Standing charter	7,614	7,829	7,878	7,878	7,878
0	0	706	1,392	Blockspace on RPC	948	2,098	3,516	3,516	3,516
1,271	1,383	397	159	Passenger Charter for RPC	5,495	3,210	0	0	0
2,324	1,825	1,776	1,928	Freighter Charter for RPC	5,579	7,853	6,497	5,198	5,198
5,522	**5,220**	**4,805**	**5,442**		**19,636**	**20,990**	**17,891**	**16,592**	**16,592**
30%	**30%**	**29%**	**52%**	% of Revenue	**31%**	**34%**	**42%**	**36%**	**29%**

The regional processing centre in Nauru (RPC) and the Australian Border Force (ABF) contributes significant sales to the airline at healthy profit margins to contribute towards the overall operations, overhead and infrastructure of the airline. With no indication of the longevity of the existing contracts, the planned and budget year assumes a continuation of these services. Should any of these services discontinue or reduces during this period, it will have a significant adverse impact on the bottom line. Current indications are that the contracts are secured until Dec 2020.

FY2020 has seen significant Covid-19 impact from, March 2020, with the cancellation of the Air Vanuatu contract and the closure of international borders which required the airline to reduce scheduled services to one flight a fortnight from Nauru to Brisbane - an overall reduction in aircraft block hour activity of 66%[19]. Actions to reduce cost and conserve cash included the stand-down of staff (effective 1 Apr 2020 onward) in accordance with the operational roster, with staff taking excess leave or unpaid leave whilst the airline assessed the future requirements to start the retrenchment or re-contracting of staff with reduced hours or reduced pay to accommodate the significant scale down of commercial revenue opportunities.

To assist the airline, the Government of Nauru sponsored ad-hoc freighter charter activity to cover operating cost of empty positioning legs for the month of April and the Government has also assisted the airline with a cash contribution of $3.0m to fund the cashflow impact of Covid-19 to ensure the airline has the cash to meet its obligations to staff and suppliers. opportunities[20]. The Government has also announced in May an assistance program amounting to $1.6m to use towards payments towards the redundancy program and providing the airline the ability to return full time employees to full time pay and to ensure that fully stood down employees are paid at least 50% of their remuneration until 30 June 2020 to ease the financial difficulty for staff impacted.

Many suppliers have been engaged to reduce rates, reduce services or assist NAC by deferring payments. These savings have already been factored into the FY2020 forecast.

FY 2021 assumes the continued low levels of demand for air services and operational activity to continue for the full financial year. The assumptions include a continued low level of scheduled services of one flight between Brisbane and Nauru per fortnight and a weekly freighter service to Nauru. In addition, full RPC activity is budgeted for the full year which includes a block-space allocation for passenger movement on the scheduled service and a weekly freighter charter. The ABF standing charter has also been included for the full year. Freighter charter work has been budgeted on current run-rate activity, given that charter opportunities continue to exist in the Australian domestic market. Cost savings include a restructure of the airline, which is planned to be completed within Q1 of this financial year. The introduction of a B737-700 to replace one of our B737-300 fleet is assumed from September 2020. The aircraft upgrade program will bring about additional implementation costs. Whilst some variable cost savings such as fuel have been factored in, additional costs such as in aircraft spare parts inventories and training for staff to introduce the new aircraft will be incurred. Full impact of increased spare engineering pool has been factored into the next financial year.

Other impacts include higher aircraft maintenance costs as a result of low aircraft utilisation and an increased cost per activity output as a result of unavoidable fixed cost in resources and assets which is necessary to maintain NAC's (Australian) AOC.

FY2022 is expected to see an increase in scheduled services and charter activity, improving revenue. To reduce the operational losses, FY2022 includes an assumption of yield increases on both scheduled services and the freighter to cover cost. The focus in this year will be the re-establishment and growth of the RPT network, the ongoing business efficiency improvements and a number of customer service opportunities which includes the full-scale implementation of a Loyalty program.

FY2023 assumes that market conditions return to normal and that healthy charter opportunities will present themselves at rates which will cover the converted freighter cost as well as the cost of the Boeing 737NG introduction. These aircraft will be available for charter to destinations which require a longer range and these charters are expected to be profitable. Apart from an increase of the core schedule: Nauru-Brisbane; and Nauru-Nadi there is no assumption of a return to operating "island hopper" routes or any other scheduled operations. Any such scheduled operations, e.g. to Kiribati or the Marshall Islands, will be evaluated for commercial viability and NAC will engage with the Shareholder to also consider the merits in the context of specific bilateral relationships and whether a CSO would be required to make a new route commercially viable for the airline.

[19] Aircraft block hours, a common metric for measuring aircraft utilisation in the industry, is the time from the moment an aircraft door closes at departure until the moment the door opens at the arrival gate after landing.
[20] NAC will engage with the Shareholder to recommend this is formalised as a CSO.

Balance Sheet

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	BALANCE SHEET	FY2019 CY - 1 Actual	FY2020 CY Forecast	FY2021 CY +1 Budget	FY2022 CY +2 Plan	FY2023 CY +3 Plan
				Assets					
				Current Assets					
6,557	6,007	11,151	5,016	Cash And Equivalents	8,408	5,016	5,040	5,106	6,102
1,095	1,304	2,150	1,363	Trade Receivable	2,549	1,363	1,556	2,024	2,457
3,266	3,172	-872	0	Trade Receivable - Intercompany Sunco	5,495	0	0	0	0
2,896	2,737	2,377	2,377	Other assets	2,421	2,377	2,424	2,424	2,424
3,133	3,023	3,104	2,804	Inventories	3,035	2,804	2,860	3,718	4,833
				Income tax receivable					
16,946	**16,243**	**17,910**	**11,559**		**21,906**	**11,559**	**11,880**	**13,272**	**15,816**
				Non-current Assets					
				Investments					
5,080	3,006	3,141	3,161	Property, plant & equipment	3,098	3,161	3,540	3,028	2,435
5,080	**3,006**	**3,141**	**3,161**	Total Non Current Assets	**3,098**	**3,161**	**3,540**	**3,028**	**2,435**
22,027	**19,249**	**21,051**	**14,720**	**Total Assets**	**25,005**	**14,720**	**15,420**	**16,300**	**18,251**
				Liabilities					
				Current Liabilities					
11,968	9,468	8,250	6,656	Trade & other payables	14,362	6,656	6,509	7,109	8,629
				Trade & other payables Intercompany NAC					
-28	-29	-30	-30	Income tax Payable	-28	-30	0	0	0
1,776	2,263	2,688	1,088	Provisions Short Term	1,391	1,088	1,110	1,132	1,155
3,242	3,631	6,607	3,516	Deferred revenue	3,632	3,516	4,015	4,015	4,015
16,958	**15,332**	**17,514**	**11,230**	Total Current Liabilities	**19,357**	**11,230**	**11,634**	**12,256**	**13,799**
				Non Current Liabilities					
313	354	388	388	Provisions Long Term	328	388	396	403	411
0	0	0	0	Long-term debt	0	0	0	0	0
313	**354**	**388**	**388**		**328**	**388**	**396**	**403**	**411**
17,272	**15,686**	**17,902**	**11,618**	**Total Liabilities**	**19,685**	**11,618**	**12,029**	**12,660**	**14,211**
4,755	**3,562**	**3,149**	**3,102**	**Net Assets**	**5,320**	**3,102**	**3,390**	**3,641**	**4,040**
				Equity					
12,674	12,674	12,674	12,674	Issued Capital	12,674	12,674	12,674	12,674	12,674
0	0	0	0	Reserves	0	0	0	0	0
-7,354	-7,354	-7,354	-7,354	Accumulated profit/(loss)	-5,006	-7,354	-9,572	-9,284	-9,033
-565	-1,757	-2,171	-2,218	Current Year profit/Loss	-2,348	-2,218	288	251	399
4,755	**3,562**	**3,149**	**3,102**	**Total Equity**	**5,320**	**3,102**	**3,390**	**3,641**	**4,040**

Cashflow

Cashflow has been maintained in FY2020 and will continue to be maintained in FY2021 through CSO contributions. Otherwise, FY2020 trade receivables include a potential bad debt provision for Air Vanuatu of $0.4m as a result of non-payment - after a 24-hour notice of termination of the airline's contract in March 2020. A contract breakage fees of $2.8m has been communicated to Air Vanuatu, for termination without cause of the 12-month fixed-term contract. It is unlikely that this debt will be settled, given the impact of the Covid-19 and Hurricane Harold's severe impact on their economy.

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	CASHFLOW STATEMENT	FY2019 CY - 1 Actual	FY2020 CY Forecast	FY2021 CY +1 Budget	FY2022 CY +2 Plan	FY2023 CY +3 Plan
				Reconciliation of Cash Flow from Operations with Profit after Tax					
-565	-1,192	-414	-47	**Profit /(loss) after income tax**	-2,348	-2,218	288	251	399
0	0	0	0	**Non-Cashflows in profit:**	0	0	0	0	0
132	154	166	180	Depreciation - PPE	370	632	738	812	893
-233	0	0	0	Loss/(Profit) on disposal of assets	0	-233	0	0	0
0	0	0	0	Utilisation - PPE	0	0	0	0	0
0	0	0	0	Bad and doubtful debts	0	0	0	0	0
				Changes in assets and liabilities, net of effects of purchase and disposal of assets:					
3,683	-115	3,197	-85	(Inc) / Dec in trade and term debtors	-840	6,680	-193	-468	-433
-475	159	361	0	(Inc) / Dec in other assets	-886	44	-48	0	0
-98	110	-80	300	(Inc) / Dec in consumables	-532	231	-56	-858	-1,115
-2,394	-2,500	-1,218	-1,594	Inc / (Dec) in trade and other payables	563	-7,706	-147	600	1,520
-390	387	2,975	-3,090	Inc / (Dec) in other liabilities	1,686	-118	529	0	0
371	528	459	-1,600	Inc / (Dec) in provisions	129	-243	30	30	31
30	**-2,471**	**5,446**	**-5,936**	**Net cash provided by (used in) Operating activities**	**-1,858**	**-2,931**	**1,141**	**367**	**1,295**
				Cash flows from operating activities					
22,027	17,033	19,768	10,329	Receipts from customers	61,923	69,158	41,909	46,173	56,182
-22,001	-19,502	-14,317	-16,265	Payments to suppliers and employees	-63,650	-72,086	-40,768	-45,806	-54,887
4	-2	-5	0	Interest received	-132	-3	0	0	0
30	**-2,471**	**5,446**	**-5,936**	**Net cash provided by (used in) Operating activities**	**-1,858**	**-2,931**	**1,141**	**367**	**1,295**
				Cash flows from investing activities					
-1,881	1,920	-301	-200	Purchase of plant and equipment	-1,098	-462	-1,117	-300	-300
0	0	0	0	Proceeds from disposal of plant and equipment	0	0	0	0	0
0	0	0	0	Proceeds from disposal of investments	0	0	0	0	0
0	0	0	0	Proceeds from issuance of shares	4,900	0	0	0	0
0	0	0	0	Proceeds from increase in reserves	0	0	0	0	0
0	0	0	0						
-1,881	**1,920**	**-301**	**-200**	**Net cash provided by/(used in) investing activities**	**3,802**	**-462**	**-1,117**	**-300**	**-300**
-1,851	-551	5,145	-6,136	**Net increase/(decrease) in cash and cash equivaler**	1,943	-3,392	24	67	995
8,408	6,557	6,007	11,151	**Cash at the beginning of the year**	6,465	8,408	5,016	5,040	5,106
6,557	**6,007**	**11,151**	**5,016**	**Cash at the end of the year**	**8,408**	**5,016**	**5,040**	**5,106**	**6,102**

Proposed Capital Investments

Over the 3-year SCI period, NAC will incur capital expenditure on a range of specialist aviation equipment and other items such as IT infrastructure. The intention is also to upgrade and renovate the offices and store areas for the Catering, administration, Cargo and other areas once structure upgrades completed on the Structural Maintenance and upgrade projects on the overall Airport building.

Specific high value Capex Items	FY 2021	FY 2022	FY 2023
Catering hi-lift truck	400		
Building renovations in Nauru	500		
Shed for equipment in Nauru	60		
IT Infrastructure upgrade	207		
Flight, departure control and passenger services software replacement	160		
Freighter pallets and equipment	68		
Other various			
Computer equipment	6		
Furniture and fixtures	35		
Ground equipment	22		
Office equipment	6		
Tooling	26		
Replacement of assets		300	300
	1,490	300	300

Commercial in Confidence

Nauru Airlines
Airline of the Central Pacific

Debt Statement

NAC does not have any debt finance or credit lines, with no intent to raise any debt finance.

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) 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 accruals basis and are based on historical costs unless otherwise stated in notes to these statements.

The detailed accounting policies are included in Annexure 2.

DIVIDEND STATEMENT

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

COMMUNITY SERVICE OBLIGATIONS and/or GRANTS

The following CSOs have been identified to be delivered by Nauru Airlines, with funding by its Shareholder to allow it to fulfil these obligations in FY2021 and are included in the Income Statement for FY2021 in the *Financial Services* section.

Community Service Obligation	CSO Contribution
Freighter on the empty Nauru-Brisbane sector Providing a weekly regular freighter operation between Brisbane and Nauru, with an empty positioning leg between Nauru and Brisbane. The CSO to fund the empty positioning leg is required to maintain affordable freight rates for the people of Nauru. The contribution required is $90,000 per flight for 52 weeks.	$4.6m
Nauru staff retention Retention of Nauru citizens on the payroll through the Covid-19 pandemic for a 12-month period, to be reviewed in 12 months.	$0.9m
Covid-19 Subsidy Due to low aircraft utilisation, contribution to overheads from both scheduled and charter opportunities is not available during international border closures and travel restrictions[21].	$2.0m

[21] The original contribution required $4m less restructuring savings of $1.8m on the phase 2 restructuring effort.

STATEMENT OF 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 Captain Robert Eoe, both Directors of NAC. The Committee meets bi-annually and normally with the other Directors present.

ANNEXURE 1 - SUNCO & SUBSIDIARIES

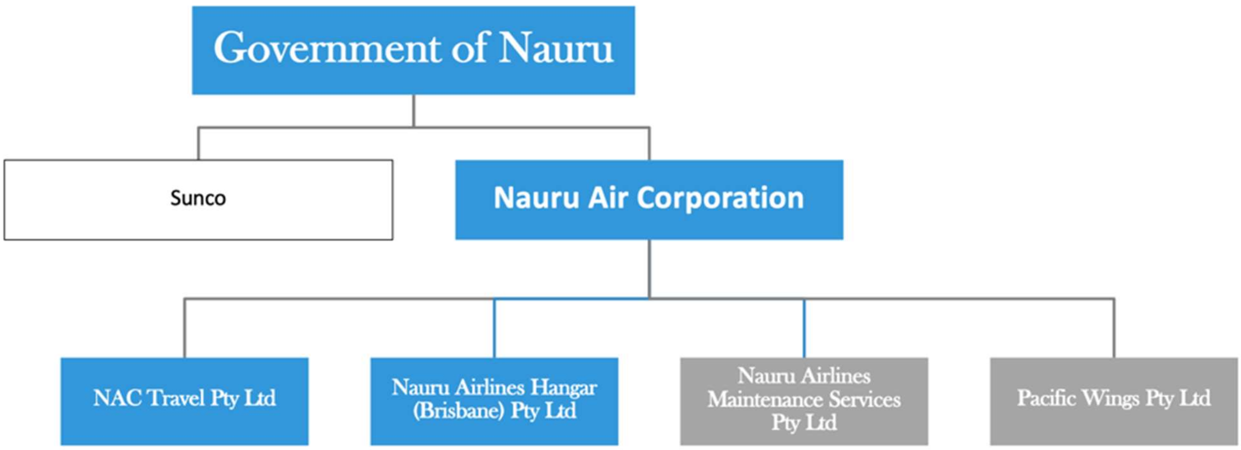
The *Introduction* section outlined that the airline's aircraft and engine assets are held in a related SOE, Sunco, also wholly-owned by the Government of Nauru. Sunco leases these assets to the airline and its financial statements are not consolidated into NAC's

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

- 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
- 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.

NAC also has two dormant subsidiaries: Nauru Airlines Maintenance Services Pty Ltd; and 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



Sunco financial statements

Sunco revenues are earned through the use of the aircraft by NAC. The aircraft utilisation agreement will be updated with any changes in fleet composition and cost associated with maintenance. This has been factored into both the results for Sunco and NAC.

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	Currency = $AUD Mil KEY INDICATOR	FY2019 CY - 1 Actual	FY2020 CY Forecast	FY2021 CY +1 Budget	FY2022 CY +2 Plan	FY2023 CY +3 Plan
406	445	364	184	Asset Utilisation Revenue	547	1,399	900	1,715	2,218
0	233	-60	0	Profit/(Loss) on Sale of Assets	0	174	0	0	0
406	**679**	**304**	**184**	**Total Revenue**	**547**	**1,573**	**900**	**1,715**	**2,218**
0	0	25	0	Overheads	10	25	1	0	0
406	**679**	**279**	**184**	Earnings Before Interest Tax & Dep'n	**536**	**1,548**	**899**	**1,715**	**2,218**
464	504	422	243	Depreciation	628	1,633	900	1,715	2,218
0	0	-5	0	Interest	-17	-5	2	0	0
0	0	0	0	Tax Expense	0	0	0	0	0
-59	**175**	**-139**	**-59**	**Post Tax Profit /(Loss)**	**-75**	**-81**	**-3**	**0**	**0**
-14%	**26%**	**-46%**	**-32%**		**-14%**	**-5%**	**0%**	**0%**	**0%**

Corporate social investment (Cash injections to offset non-pass through of expenses to NAC)

Q1	Q2	Q3	Q4	Currency = $AUD Mil	FY2019	FY2020	FY2021	FY2022	FY2023
Sep-19	Dec-19	Mar-20	Jun-20	CASHFLOW ASSISTANCE	CY - 1 Actual	CY Forecast	CY +1 Budget	CY +2 Plan	CY +3 Plan
4,100				Engine replacement program		4,100			
		2,100		Convert ONU to freighter		2,100	4,455		
				VLI Replace Pemco Door & C-Check				1,812	
4,100	**0**	**2,100**	**0**		**0**	**6,200**	**4,455**	**1,812**	**0**

As NAC has in the past funded all the engine replacements, Sunco owed a substantial amount of debt to NAC. This was funded through a contribution to Sunco of $4.1m. All engines have been sourced and are in process of replacement.

The ONU freighter conversion is in progress and ONU is expected to be delivered to Miami where AEI will commence with the conversion project into a freighter aircraft. The aircraft is expected to be introduced as a freighter in January 2021.

The VLI freighter door requires significant modification to the extend that a door replacement program is required in order to have the continued use of VLI. Such engineering estimates and work is underway, and the expectations are that we will be able to commence with the door replacement project in May 2021. This will allow NAC to operate two freighters to see how it can expand on its freight charter commercial capabilities.

The above projects has been financed through Government funding assistance in the form of grants or CSO contributions in order to keep the cost low for freighter services to the Island and to ensure NAC can competitively sell its freighter commercial services in the market.

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	Currency = $AUD Mil BALANCE SHEET	FY2019 CY - 1 Actual	FY2020 CY Forecast	FY2021 CY +1 Budget	FY2022 CY +2 Plan	FY2023 CY +3 Plan
				Assets					
				Current Assets					
1,820	1,820	5,408	4,928	Cash And Equivalents	1,820	4,928	1,784	532	753
86	86	86	86	Trade Receivable	86	86	86	86	86
0	0	-324	0	Trade Receivable - Intercompany Sunco	0	0	0	0	0
0	0	0	0	Other assets	0	0	0	0	0
0	0	0	0	Inventories	0	0	0	0	0
				Income tax receivable					
1,906	**1,906**	**5,170**	**5,014**		**1,906**	**5,014**	**1,870**	**618**	**839**
				Non-current Assets					
0	0	0	0	Investments	0	0	0	0	0
10,702	12,411	14,521	14,278	Property, plant & equipment	11,166	14,278	18,872	18,957	18,389
10,702	**12,411**	**14,521**	**14,278**	Total Non Current Assets	**11,166**	**14,278**	**18,872**	**18,957**	**18,389**
12,608	**14,317**	**19,690**	**19,292**	**Total Assets**	**13,073**	**19,292**	**20,742**	**19,575**	**19,228**
				Liabilities					
				Current Liabilities					
4,673	6,301	9,626	8,414	Trade & other payables	2,850	8,414	10,257	9,868	10,300
3,266	3,172	-872	0	Trade & other payables Intercompany NAC	5,495	0	0	0	0
0	0	0	0	Income tax Payable	0	0	0	0	0
0	0	0	0	Provisions Short Term	0	0	0	0	0
0	0	6,230	6,230	Deferred revenue	0	6,230	5,841	5,062	4,283
7,939	**9,473**	**14,984**	**14,644**	Total Current Liabilities	**8,344**	**14,644**	**16,098**	**14,930**	**14,583**
				Non Current Liabilities					
0	0	0	0	Provisions Long Term	0	0	0	0	0
0	0	0	0	Long-term debt	0	0	0	0	0
0	**0**	**0**	**0**		**0**	**0**	**0**	**0**	**0**
7,939	**9,473**	**14,984**	**14,644**	**Total Liabilities**	**8,344**	**14,644**	**16,098**	**14,930**	**14,583**
4,670	**4,844**	**4,706**	**4,647**	**Net Assets**	**4,728**	**4,647**	**4,644**	**4,644**	**4,644**
				Equity					
4,000	4,000	4,000	4,000	Issued Capital	4,000	4,000	4,000	4,000	4,000
0	0	0	0	Reserves	0	0	0	0	0
728	728	728	728	Accumulated profit/(loss)	804	728	647	647	647
-59	116	-22	-81	Current Year profit/Loss	-75	-81	-3	-3	-3
					0	0	0	0	0
4,670	**4,844**	**4,706**	**4,647**	**Total Equity**	**4,728**	**4,647**	**4,644**	**4,644**	**4,644**

Q1 Sep-19	Q2 Dec-19	Q3 Mar-20	Q4 Jun-20	CASHFLOW STATEMENT	FY2019 CY - 1 Actual	FY2020 CY Forecast	FY2021 CY +1 Budget	FY2021 CY +1 Budget	FY2021 CY +1 Budget
Reconciliation of Cash Flow from Operations with Profit after Tax									
-59	175	-139	-59	**Profit /(loss) after income tax**	-75	-81	-3	0	0
				Non-Cashflows in profit:					
464	504	422	243	Depreciation - PPE	628	1,633	900	1,715	2,218
0	233	-60	0	Loss/(Profit) on disposal of assets	0	174	0	0	0
0	0	0	0	Utilisation - PPE	0	0	0	0	0
0	0	0	0	Bad and doubtful debts	0	0	0	0	0
Changes in	**Changes in**	**Changes in**	**Changes in**	**assets and liabilities, net of effects of purchase and disp**		0			
-0	0	0	0	(Inc) / Dec in trade and term debtors	-90	-0	0	0	0
0	0	324	-324	(Inc) / Dec in other assets	1	0	0	0	0
0	0	0	0	(Inc) / Dec in consumables	0	0	0	0	0
1,823	1,628	3,325	-1,212	Inc / (Dec) in trade and other payables	1,425	5,564	1,843	-389	432
-2,229	-94	-4,044	872	Inc / (Dec) in other liabilities	1,296	-5,495	0	0	0
0	0	6,230	0	Inc / (Dec) in provisions	0	6,230	-389	-779	-779
-0	**2,446**	**6,060**	**-480**	**Net cash provided by (used in) Operating act**	**3,185**	**8,026**	**2,351**	**547**	**1,871**
Cash flows from operating activities									
406	679	304	184	Receipts from customers	457	1,573	900	1,715	2,218
-406	1,767	5,760	-664	Payments to suppliers and employees	2,744	6,458	1,448	-1,168	-347
0	0	-5	0	Interest received	-17	-5	2	0	0
-0	**2,446**	**6,060**	**-480**	**Net cash provided by (used in) Operating act**	**3,185**	**8,026**	**2,351**	**547**	**1,871**
Cash flows from investing activities									
0	-2,446	-2,472	0	Purchase of plant and equipment	-6,301	-4,918	-5,495	-1,800	-1,650
0	0	0	0	Proceeds from disposal of plant and equipmen	0	0	0	0	0
0	0	0	0	Proceeds from issuance of shares	4,000	0	0	0	0
0	0	0	0	Proceeds from reserves	0	0	0	0	0
0	0	0	0	Proceeds from long term debt	0	0	0	0	0
			0						
0	**-2,446**	**-2,472**	**0**	**Net cash provided by/(used in) investing acti**	**-2,301**	**-4,918**	**-5,495**	**-1,800**	**-1,650**
-0	-0	3,588	-480	**Net increase/(decrease) in cash and cash equ**	884	3,108	-3,144	-1,253	221
1,820	1,820	1,820	5,408	**Cash at the beginning of the year**	936	1,820	4,928	1,784	532
1,820	**1,820**	**5,408**	**4,928**	**Cash at the end of the year**	**1,820**	**4,928**	**1,784**	**532**	**753**

Sunco financial statements

SUNCO CASH Opening Balance		**4.9**
Inflows		6.7
NAC Payment of Engine usage	0.9	
NAC Payment of Hull + C-Check	5.8	
Outflows		-9.8
Engine repayment - 2020/ 860195 (ICAR 8338)	-1.4	
Freighter conversion Work + Kit	-5.5	
ONU C-Check (June 2020)	-1.4	
XNU Wingcord (not known if needed = Boeing)	-0.8	
YNU 6 Year CPCP, must be done before PNI Out of service	-0.4	
PNI C-Check, will assess and perform on Sale	0.0	
Other	-0.4	
SUNCO CASH Closing Balance		**1.8**

ANNEXURE 2 - ACCOUNTING POLICIES TO BE ADOPTED

These policies were adopted for FY2019 and have continued to be adopted in subsequent financial years.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Nauru Air Corporation (the Corporation) as at 30 June 2019 and the results of all subsidiaries for the year then ended. Nauru Air Corporation and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Interests in subsidiaries are accounted for at cost, less any impairment, in the parent entity. Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

(b) Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate in Australia, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. The costs of engineering expendables, consumable stores, and work in progress are assigned to the individual items of inventories on the basis of weighted average cost.

(e) Plant and Equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than its estimated recoverable amount, the carrying amount is written down immediately to its estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(h) for details of impairment).

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Aircraft Spares

The Group has elected to revalue Aircraft Spares from historical cost basis to fair value basis applying the requirements of AASB 116 'Plant, Property, and Equipment'.

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made by the Group with sufficient regularity to ensure that the carrying amount of the asset does not differ materially from that which would be determined using fair value at the end of the reporting period.

Depreciation

The depreciable amount of all fixed assets is depreciated using the straight line or diminishing value basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Asset	
Aircraft	12.5 – 20%
Aircraft engines	12.5%
Aircraft engine spares	12.5%
Leasehold building improvements	12.5 - 20% Prime Cost
Motor Vehicle	20 - 25%
Plant and Equipment	8 - 40%
Furniture and Fittings	7.5 – 66.67%

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Corporation. Gains or losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of profit or loss and other comprehensive income. When revalued assets are sold, amount included in the revaluation reserve relating to that asset are transferred to retained earnings.

(f) Employee Benefits

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(g) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(h) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the Group commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method or cost. *Fair value* represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method.*

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant accounting involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or have expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit and loss.

(i) Impairment of Assets

At the end of each reporting period, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and other comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(j) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset (but not the legal ownership) are transferred to the Group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on straight line basis over the life of the lease term.

(k) Repairs and Maintenance – Aircrafts Under Operating Lease

Routine maintenance costs including annual airframe checks are written off to the statement of profit or loss and other comprehensive income as incurred.

An accrual is made for the estimated future costs of major cyclical maintenance of leased airframes, engines, landing gear and auxiliary power units by making charges to the statement of profit or loss, calculated by reference to the current rectification cost and the number of hours or cycles operated during the period. The Group is presently obligated to meet these aircraft rectification requirements pursuant to the operating lease agreements with a related party. The costs of major cyclical maintenance are written off against the accrual when incurred.

(l) Revenue

Passenger revenue comprises revenue from passenger tickets sales. Revenue is recognised when carriage (uplift) is performed. Passenger revenue received in advance, together with any commission thereon, is carried forward in the Statement of financial position as unearned passenger revenue.

Revenue from sales of goods is recognised upon the uplift of goods to customers.

Revenue from the sale of travel services is recorded when travel documents are issued.

Interest revenue is recognised on an effective interest rate basis.

Revenue from the rendering of services including cargo revenue is recognised upon the delivery of the service to the customers.

The gross proceeds of non-current asset sales are included as revenue at the date that control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

All revenue is stated net of the amount of goods and services tax (GST).

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(n) Foreign Currency Transaction and Balances

(i) Functional and presentation currency

The functional currency of the Group is measured using the currency of the primary economic environment in which the Group operates. These financial statements are presented in Australian dollars which is the Corporation's functional and presentation currency.

(ii) Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continued to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair value determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of profit or loss and other comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of profit or loss and other comprehensive income.

(o) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(p) Fair Value Measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principle market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

(q) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and the best available current information. Estimates assume a reasonable expectation of future events, based on current trends and economic data, obtained both externally and within the Corporation.

(i) Provision for Impairment of receivables

The directors have reviewed the carrying amount of the trade receivables during the financial year and estimated $181,418 of trade receivables will not be recoverable (2018: $197,036). Refer to Note 7.

(ii) Payment to related party for aircraft maintenance

As described in Note 1(k), the Group has a contractual obligation to pay a related party for estimated future costs of major cyclical maintenance of leased airframes, engines, landing gear and auxiliary power units, calculated by reference to the rectification costs and the number of hours or cycles operated during the period. These calculations require the use of assumptions regarding the timing of maintenance and the cost of repairs. The timing of the future payments is estimated with reference to historical data, industry standards and manufacturing specifications.

(iii) Deferred tax assets

The directors have determined that currently the entity does not meet the recognition criteria to offset its tax losses and temporary tax differences against future taxable income, and on this basis has not recognised a net deferred tax asset in the financial statements.

(iv) Operating lease payments

Lease commitments have expired under the lease agreements with PALCO for VH – VLI and YALCO for VH - YNU. The directors believe that the entity does not have any obligations to make lease payments to these companies.

(v) Unearned Revenue

During the year a review was undertaken of the key judgements and estimates impacting the timing of revenue recognition and the measurement of revenue received in advance for tickets. In accordance with ticket terms and conditions and historic experience, the directors estimated that the unearned revenue for the year ended 30 June 2019 amounted to $3,632,317 (2018: $1,919,778).

(r) New Accounting Standards for Application in Future Periods

The Group has adopted all of the new and revised standards and interpretations issued by the Australia Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

There are no new and revised standards and amendments thereof and interpretations effective for the current reporting period that are relevant to the Group.

The adoption of all the new and revised standards and interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods. The new and revised accounting standards and Interpretations have not had a material impact and not resulted in changes to the Group's presentation of, or disclosure in its financial statements.