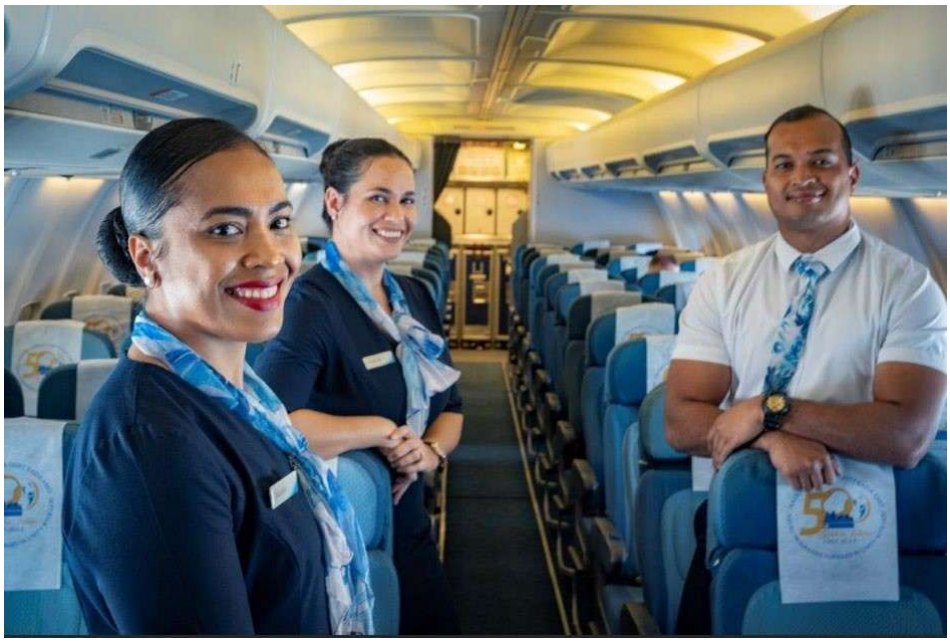
NAURU AIR CORPORATION

STATEMENT OF CORPORATE INTENT 2026-2028



April 2025

Commercial in Confidence

Contents

Introduction 4

Structure 4

Management Team 5

Shareholder Expectations 6

Nauru Air Corporation 7

Vision Statement 7

Mission Statement 7

Business Goals 7

Primary Objective 1 7

Business Goal 1 (BG1) 7

Business Goal 2 (BG2) 7

Primary Objective 2 7

Business Goal 3 (BG3) 7

Business Goal 4 (BG4) 8

Business Goal 5 (BG5) 8

Business Goal 6 (BG6) 8

Business Goal 7 (BG7) 8

Scope Of Activities Undertaken 8

BG3 Develop and Operate ACMI Services 8

BG4 Grow and Operate charter services 8

BG 5 Business Goal 5 - Develop and operate profitable scheduled services 8

BG 6 Business Goal 6 - Develop and grow 3rd party maintenance work 8

BG 7 Business Goal 7 - Develop and grow Our Travel 8

Strategy 9

BG1 - Provide a safe and affordable passenger and cargo service to Nauru 9

BG2 – Facilitating Trade and Travel within the Oceania Region 9

BG3 – Develop and Operate ACMI Services 9

BG4 – Grow and Operate Charter Services 9

BG6 - Grow and Develop 3rd Party Maintenance Work 9

BG7 - Develop and grow Our Travel 9

Benchmarks to Measure Performance 10

Climate Risk 13

CO2 Emissions 16

Borrowing / Loans 18

Summary of Accounting Policies to be Adopted 18

Financial Budget FY 2026 18

Passenger aircraft: 19

Freighter aircraft: 19

Income Statement *20*
Balance Sheet *24*
Cash Flow *26*
Planned Capital Investments **27**
Debt **28**
Dividend **28**
Legal Compliance **28**

Introduction

This Statement of Corporate Intent (SCI) for Nauru Air Corporation (NAC) is for the financial year 1 July 2024 to 30 June 2025 and the following two financial years to 30 June 2027. The SCI conforms with Sections 27 & 28 of the *Public Enterprises Act (2019)* (the "Act").

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

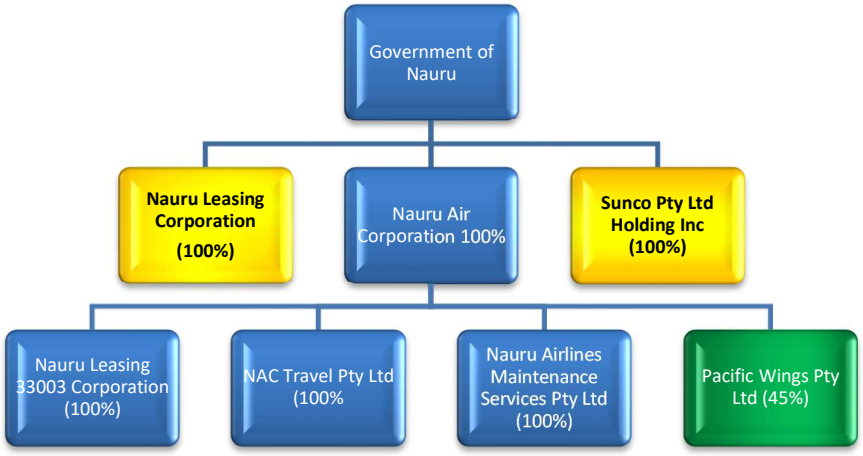
- the Nauru Air Corporation Act (1995),
- the Nauru Public Enterprises Act (2019) and,
- other Nauruan legislation.

NAC is registered as an Australian registered company and it operates under,

- an Australian Air Operator's Certificate and,
- Australian Corporations Act (1972)
- Australian company law and,
- Australian Civil Aviation Regulations.

Structure

The Nauru Aviation portfolio is made up of several companies all of which have been set up to ensure the efficient functioning of Nauru Airlines (NAC). Nauru Leasing Corporation owns several aircraft which are leased to NAC. Sunco (Pty) Ltd is a company set up to manage the maintenance reserves to ensure that NAC always has the cash available to carry out major maintenance and engine overhauls.

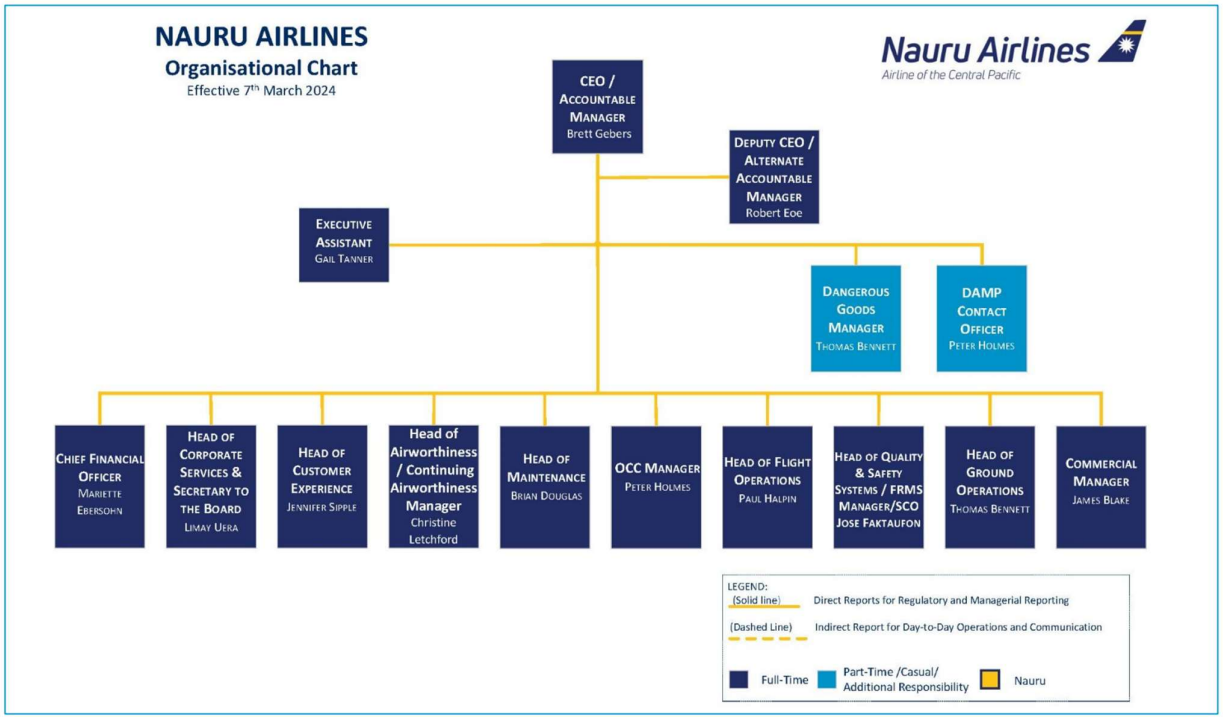


Nauru Airlines Corporation (NAC) 100% owns the following subsidiaries:

NAC Travel Pty Ltd (trading as Our Travel)
Nauru Airlines Hangar (Brisbane) Pty Ltd
Nauru 33003 Leasing Corporation
Nauru Airlines Maintenance Services Pty Ltd (Dormant) and
holds a minority share in Pacific Wings Pty Ltd (45%) (Dormant)

Management Team

The NAC management team is headed by the CEO who reports to a Board of Directors headed by the Chairman Mr Charleston Deiye.



Shareholder Expectations

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

Shareholder Expectations

The main goal of NAC, a government-owned business under the Public Enterprises Act, is to be successful. The Nauru Air Corporations Act 1995 says it must:

(a) Run air services to and from the Republic safely, efficiently, and profitably with the national airline.

(b) Set up and run activities that support air services to and from the Republic.

(c) Start and manage other activities approved by the Board and the Cabinet.

Nauru Air Corporation

Nauru Air Corporation (NAC) trades as Nauru Airlines is the national carrier of Nauru, with its primary objective as a SOE under the Public Enterprises Act of being a successful business.

The airline conducts the following activities:

a) Scheduled flights also known as RPT (Regular Public Transport) Passenger and Freighter operations
b) Charter Freighter and Passenger Operations in various forms for a variety of customers in Australia and the Pacific
c) Leasing of hangar space to 3rd parties and conducting engineering services for other airlines
d) Offering other ancillary services such as flight following and flight planning services
e) Selling travel agency services through its subsidiary, OurTravel

The ancillary services or activities are carried out to reduce the overall cost of NAC providing airservices between Nauru and other parts of the world. The airline industry is capital intensive and requires a large team of people and processes to support safe operations. The ancillary and other services, contribute towards reduing the costs of the airlines operations.

Vision Statement

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

Mission Statement

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

Business Goals

Primary Objective 1

Business Goal 1 (BG1)

Provide safe and affordable passenger and cargo services to Nauru and her people.

Business Goal 2 (BG2)

Nauru Airlines will facilitate trade, tourism and the functioning of Government whilst delivering a significant catalyst effect to the Nauruan economy through its ongoing contribution to GDP, employment, and tax revenues.

Primary Objective 2

Business Goal 3 (BG3)

Develop and operate Aircraft Crew Maintenance and Insurance (ACMI services.

Business Goal 4 (BG4)

Grow and operate profitable charter services.

Business Goal 5 (BG5)

Develop and operate profitable scheduled services.

Business Goal 6 (BG6)

Develop and grow 3rd party maintenance work

Business Goal 7 (BG7)

Develop and grow Our Travel

Scope Of Activities Undertaken

BG3 Develop and Operate ACMI Services

- NAC has one aircraft, 6 pilots and 9 cabin crew perpetually dedicated to a long-term contract with the Australian Department of Home Affairs (Australian Border Force)
- NAC currently operates air services from TRW to CXI and return on behalf of Air Kiribati.

BG4 Grow and Operate charter services

- NAC currently operates charter services for many different brokers providing both cargo and passenger services in the Oceania area.
- NAC also operates charter services for many Australian Government departments and is a member of the Australian Government Airline Panel.
- NAC operates a weekly passenger service for MTC between Brisbane and Nauru.

BG 5 Business Goal 5 - Develop and operate profitable scheduled services.

- NAC operates scheduled passenger and cargo services between Brisbane and Nauru and Nauru and Nadi to support the people of Nauru.
- NAC Operates a North Pacific Connector Service linking Brisbane, Nauru, Tarawa, Majuro, Pohnpei and Palau. This service is underwritten by the Australian DFAT.
- NAC operates a Brisbane – Palau – Brisbane service which is underwritten by DFAT.

BG 6 Business Goal 6 - Develop and grow 3rd party maintenance work

- NAC provides maintenance services for Texel Australasia as required
- NAC provides hangar space and maintenance services with available white space.

BG 7 Business Goal 7 - Develop and grow Our Travel

- NAC provides travel agency services for the Government of Nauru
- NAC provides travel agency services for NAC staff
- NAC provides travel agency services for NAC Operations departments.

Strategy

BG1 - Provide a safe and affordable passenger and cargo service to Nauru

Nauru Airlines is registered in, and operates to and from Australia. NAC is overseen by CASA Australia.

NAC must meet the Australian CASA requirements, therefore a complex support system has been put in place to manage the activities of the airline.

NAC continues to grow the airline and its services to spread the cost of compliance and other expenses over a larger operation thus keeping air travel to and from Nauru affordable.

NAC' strategy is to continue to grow the airline in response to market needs.

BG2 – Facilitating Trade and Travel within the Oceania Region

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

NAC's strategy is to seek mutually beneficial opportunities for NAC and the Government of Nauru in the Oceania region.

BG3 – Develop and Operate ACMI Services

NAC continues to operate services on behalf of other airlines in the form of ACMI operations.
NAC remains a backup for Solomon Airlines, provides ACMI services to Air Kiribati and continues to actively market its services.
NAC has completed its IOSA renewal and opportunities are now expected to energe as a result of this.

BG4 – Grow and Operate Charter Services

NAC has renewed its partnership with Aergo and this is expected to yield benefits in the coming financial year.
NAC's strength in this field is the variety of aircraft that it can offer and the speed at which it can respond.

BG5 – Develop and Operate Profitable Scheduled Services

NAC's strategy is to make it as easy as possible for people to do business with the Airline.

NAC is working on developing a stable schedule whilst seeking out opportunites to grow the network.

NAC continues to modernise its fleet, improve reliability and endeavours to meet or exceed customer expectations.

BG6 - Grow and Develop 3rd Party Maintenance Work

NAC has attended all the Maintenance Repair Organisation (MRO) conferences and continues to promote its services to airlines, lessors and other maintenance organisations. NAC's internal capacity to conduct complex maintenance and repairs continues to grow.

NAC's aim is to start its own in house heavy checks in the future.

BG7 - Develop and grow Our Travel

NAC has a team of people focussed on meeting the Nauru Government's travel needs. Training will be a part of every person's Annual Performance Appraisal.

NAC's strategy in respect of growing the Our Travel business is to educate and grow the knowledge of all staff and ensure that the client's needs are being met or exceeded.

Benchmarks to Measure Performance

Business Goal	KPI
BG1	• Maintain agreed two passenger services BNE-INU-BNE and two INU-NAN-INU every week. • Maintain weekly BNE-INU-BNE cargo flight. • Non-Revenue passengers flown • Subsidised passengers flown • Cargo flown • CSO received
BG1	• Maintain CASA AOC • Maintain BARS accreditation • Maintain IOSA accreditation
BG1	• Profitability – NAC returns to profitability • Return on equity is positive • Return on assets is positive • Growth in Assets
BG2	• Maintenance of Air Service Agreements • Addition of Air Service Agreements
BG3	• Growth in ACMI services • Growth in ACMI revenue • ACMI profits
BG4	• Growth in charter numbers • Growth in charter revenue • Charter profitability
BG5	• Growth in Scheduled Services • Revenue growth • Passenger growth • Cargo growth • Profitability

BG6	• Growth in 3rd party maintenance work • Profitability of 3rd party maintenance work
BG7	• Growth in Our Travel bookings • Growth in Our Travel revenue • Our Travel customer satisfaction

Climate Risk

Here at Nauru Airlines, we understand that climate change is a big challenge that can directly affect our operations. This is especially important because we are the crucial connection for Nauru and nearby islands. Events like cyclones, heavy rain, and flooding can damage airports and affect flight safety. Meanwhile, slowly rising temperatures can affect how well airports function and this will increase costs as time goes by. Additionally, moving to a low-carbon economy worldwide creates challenges like new regulations, changes in what customers want, and the need to invest in cleaner technologies.

To handle these issues, Nauru Airlines is focused on regularly checking climate risks, working with partners and others involved, and adding climate preparedness and adaptation strategies into their plans. They will report on how they're managing these climate-related challenges and opportunities according to

1. international standards,
2. Nauru's climate goals, and
3. Australia's new climate disclosure requirements.

This report looks at the immediate and long-term climate risks from climate change, how they might affect operations over time, and the strategies to reduce these impacts. Assessment is based on Nauru Airlines new business risk assessment matrix.

This method looks at likelihood of risk occurring (Rare to Likely) the overall impact of the event when occurs (Negligible to Catastrophic) based on below matrix, Nauru Airlines have rated the risk of climate to its operations as “Low” and the acceptability of the risk as acceptable and or tolerable. In addition to this, past events such as Cyclone Alfred was also taken into consideration which overall had a minor impact on NA operations as airline had information regarding this even way in advance was able move aircraft and adjust its schedule

Risk Matrix

	Rare (1)	Unlikely (2)	Possible (3)	Probable (4)	Likely (5)	Risk description
Negligible (E)	1E	2E	3E	4E	5E	Negligible
Minor (D)	1D	2D	3D	4D	5D	Low
Moderate (C)	1C	2C	3C	4C	5C	Moderate
Hazardous (B)	1B	2B	3B	4B	5B	High
Catastrophic (A)	1A	2A	3A	4A	5A	Extreme

Risk Index	Acceptability of Risk	Criteria for Management
3A, 4A, 4B, 5A, 5B, 5C	Intolerable	Further action must be taken to mitigate the risk. Any residual risks that remain in this region must be reported to the Executive Board. Accountable Manager & Executive Board* approval required *Executive Board is the Board of Directors
2A, 2B, 3B, 3C, 4C, 4D, 5D, 5E	Tolerable	Mitigation controls should be put in place to lower the risk to acceptable. Residual risk in this area is reported back to management for scrutiny at the Safety Review Board. Head of Department approval required. Accountable Manager awareness required. The Safety Manager may provide further guidance and recommendations to the AM.
1A, 1B, 1C, 1D, 1E, 2C, 2D, 2E, 3D, 3E, 4E	Acceptable	No further action required; the business accepts risks in this region. Reporting for trend identification. Risk manager approval

CONTROL EFFECTIVENESS DESCRIPTIONS	
Effective	Controls are well designed for the risk, address the root causes and Management believes that they are effective and reliable at all times
Partially Effective	Most controls are designed correctly and are in place and effective however some more work to be done to improve operating effectiveness or Management has doubts about the operational effectiveness and reliability
Not Effective	Significant control gaps / controls do not treat root causes / controls do not operate effectively

RISK ASSESSMENT FORM

Title: Nauru Airlines Climate Risk Assessment

Context of Risk Assessment: This assessment has been completed to analyse the risks posed to our business by climate change / environment events that are currently known to the business as at December 2025.

Risk Owner	Hazard	Risk Type	Risk Description	Consequences	Existing Controls	HoC Level	Control Effectiveness	Likelihood	Severity	Risk Rating	Accept Managed Risk?	Review Date
Nauru Board and Executive	Extreme weather events	Acute Event Driven risk	Extreme weather events such as Cyclones, Hazardous storm cells or similar weather events can cause operational disruption as well as damage to company assets/infrasture. This hazard exists for all ports in the Nauru Airlines scheduled network, as well as regular ACMI ports, due to the geographic locations in the Central Pacific region. Ports of particular risk include Port Vila, Honiara, Nadi, Suva, Brisbane, Darwin, Cairns, Palau	Flight Delays Flight cancellations Airport Closures Infrastructure damange Aircraft damage Asset damage (hangars, GSE) Staff injury	24/7 Operational Control Centre (OCC) coverage for monitoring weather and all operations Flight Planning function to assess all weather prior to departure Storm warning system at BNE airport Ground Operations SOP's for severe weather to tie down GSE. Post weather event inspections for aircraft in accordance with OEM guidelines.	Admin	Partially Effective	4	D	Low	Yes - Go to Review Date	31/12/2026
Nauru Board and Executive	Flooding	Acute Event Driven risk	Weather events such as flooding due to storms or exessive rain, or Storm surge and King tides, may result in water inundation to Runways, Taxiways, Terminal facilities, maintenance facilities, or may cause operational disruption due to diversions or delays. Airports of particular risk include Majuro and Tarawa.	Flight Delays Flight cancellations Airport Closures Infrastructure damange Aircraft damage Asset damage (hangars, GSE) Staff injury	24/7 Operational Control Centre (OCC) coverage for monitoring weather and all operations, and communicating with service providers in all ports. Ground Operations team liaision with all Service Providers to assess local conditions. Flight Planning process includes checking of NOTAMs for each airport prior to departure.	Admin	Partially Effective	4	D	Low	Yes - Go to Review Date	31/12/2026
Nauru Board and Executive	High Winds	Acute Event Driven risk	High winds may result from Storms, Cyclones or Low Pressure systems that are present within the operating environment that Nauru Airlines operates within. This could occur at any aerodrome Nauru Operates to. High winds may also be present at certain aerodromes due to the geographical location of the runway, and surrounding terrain. Such an example of this type of hazard would be Norfolk Island. High winds may cause operational disruption due to runway usability restrictions (cross winds or windshear), or may also cause aircraft damage if OEM limits are exceeded. High winds may cause damage on the ground to hangar or terminal facilities due to debrie damage or FOD, or GSE that has not been secured appropriately. GSE may be damaged if it is carried by the wind.	Flight Delays Flight cancellations Airport Closures Infrastructure damange Aircraft damage Asset damage (hangars, GSE) Staff injury Additional maintenance checks	24/7 Operational Control Centre (OCC) coverage for monitoring weather and all operations Flight Planning function to assess all weather prior to departure Storm warning system at BNE airport Ground Operations SOP's for severe weather to tie down GSE. Post weather event inspections for aircraft in accordance with OEM guidelines. Route Guideance for crew that would highlight known issues at aerodromes.	Admin	Partially Effective	4	D	Low	Yes - Go to Review Date	31/12/2026

Risk Owner	Hazard	Risk Type	Risk Description	Consequences	Existing Controls	HoC Level	Control Effectiveness	Likelihood	Severity	Risk Rating	Accept Managed Risk?	Review Date
Nauru Board and Executive	Rising sea levels	Chronic long term climatic risk	Aerodromes that are built close to the coast have an increased risk of being impacted by rising sea levels, which may result in airport infrastructure, such as runways, taxiways and aprons, being inundated with sea water. Long term this will have an impact on the viability of the aerodrome in that location, or the requirement to build levy walls or other infrastructure.	Flight cancellations Schedule changes Increased cost of landing fees Addition of obstacles to aerodrome	Monitoring of NOTAMs for any identified issues at aerodromes scheduled.	Admin	Partially Effective	3	D	Low	Yes - Go to Review Date	31/12/2026
Nauru Board and Executive	Rising temperatures	Chronic long term climatic risk	Rising temperatures may impact aircraft performance limitations, such as payload and fuel uplift. Rising temperatures may also impact runway and apron conditions depending on the surface quality. Rising temperatures may impact the working environment for ground and air crew, placing limitations on length of time they can be exposed to such tempertures.	Aircraft performance changes resulting in payload restrictions Reduced fuel uplift may result in fuel stops enroute Staff illness - heat issues Airport infrastructure upgrades	Flight planning includes weather analysis. Aircraft performance engineering is managed through Boeing OPT (onboard performance tool) and weight and balance systems to optimise uplift once local conditions known.	Admin	Partially Effective	3	D	Low	Yes - Go to Review Date	31/12/2026
Nauru Board and Executive	Water scarcity and Quality	Chronic long term climatic risk	water shortages due to drought or lack of suitable storage may result in rationing in certain locations. This may result in a diminished fire fighting capability at certain aerodromes, or inability to top up potable or non-potable water. This is a potential issue for Nauru and Tarawa, and may become an issue for other ports in the future.	Downgrade of aerodrome fire fighting category. Water restrictions on aircraft resulting in lavatory issues.	Monitoring of NOTAMs for any ARFF downgrades at aerodromes scheduled. Carriage of additional bottled water as required when shortages known.	Admin	Partially Effective	2	D	Low	Yes - Go to Review Date	31/12/2026

CO2 Emissions

For the 12-month period April 21st, 2024, to April 21st, 2025 Nauru Airlines operated 2,030 flights, for a total of 6,394 block hours. This resulted in the burning of 15,231Tons of Jet-A1 fuel which then equates to 48,131T of CO2 emissions for the period.

Borrowing / Loans

In May 2023, NAC took out a loan of US$13,545,000 to complete the purchase of the B737-800 freighter VH-8TG. All scheduled repayments have been made. The lender is HALO which is a JV between GA Telesis and Tokyo Century Bank. The term of the loan is 72 months, and the interest rate is SOFR + 5.5%.

The challenges with the loan are the fluctuating A$/US$ exchange rate and the fluctuating SOFR rate. The loan may be repaid after two years.

The upside of taking this loan is that NAC has demonstrated that it can acquire and repay a commercial loan.

Summary of Accounting Policies to be Adopted

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

The directors have determined that the accounting policies adopted are appropriate to meet the needs of the owners of Nauru Air Corporation. The financial statements are prepared in accordance with the recognition and measurement requirements specified by the Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the disclosure requirements of AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1031 *Materiality*, AASB 1048 *Interpretation of Standards* and AASB 1054 *Australian Additional Disclosures*, as appropriate for not for- profit oriented entities.

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

Financial Budget FY 2026

The budget for FY2026 has been prepared with the latest advice and information available. The Budget includes the following key inclusions.

1. Sale of VH-YNU, cash flowing onto FY2026 and Sale of VH-8TG in Dec 2025
2. A continuation of the RPC weekly contracted flight to Nauru
3. A continuation of the ABF standing aircraft contract
4. A continuation of DFAT Australia underwriting of the North Pacific Connector passenger service BNE-INU-TRW-MAJ-PNI-ROR and return.
5. A continuation of the AKL ACMI aircraft contract, INU-TRW-CXI and return
6. 10-15% cost cutting for all cost centres

The freighter CSO contributions have been reinstated in full for financial year 2026.

Aircraft fleet

The airline has paused its fleet replacement to phase out the older B737-300 aircraft, while now focusing on reducing the freighter fleet by selling off VH-YNU and VH-8TG. Aircraft fleet summary as per below:

KEY INDICATOR	FY2024 6 Mnths Jul-Dec 23	FY2024 6 Mnths Jan-Jun 24	FY2024 PY ACT	FY2025 6 Mnths Jul-Dec 24	FY2025 6 Mnths Jan-Jun 25	FY2025 CY ACT	FY2026 6 Mnths Jul-Dec 25	FY2026 6 Mnths Jan-Jun 26	FY2026 NY Budget	FY2027 NY +1 Plan	FY2028 NY +2 Plan
Passenger Aircraft	3.00	4.00	3.50	3.21	4.00	3.61	4.00	4.00	4.00	4.00	4.00
VH-INU	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
VH-PNI	1.00	1.00	1.00	0.80	1.00	0.90	1.00	1.00	1.00	1.00	1.00
VH-XNU	1.00	1.00	1.00	0.42	1.00	0.71	1.00	1.00	1.00	1.00	1.00
VH-AN2	-	1.00	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Freighter Aircraft	3.00	3.00	3.00	3.00	2.17	2.58	2.00	1.00	1.50	1.00	1.00
VH-ONU	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
VH-YNU	1.00	1.00	1.00	1.00	0.17	0.58	-	-	-	-	-
VH-8TG	1.00	1.00	1.00	1.00	1.00	1.00	1.00	-	0.50	-	-
Total aircraft	6.00	7.00	6.50	6.21	6.17	6.19	6.00	5.00	5.50	5.00	5.00

Passenger aircraft:

RPT: The RPT route network in the pacific operates with low passenger numbers and a different type of aircraft could be a better and cheaper solution. Managing and operating a mixed fleet has its own set of challenges. Various fleet options continue to be evaluated.

ACMI: It is expected that ACMI operations such as provided to Air Kiribati will require a B737-700/800 with 120-170 seats and will gain more charter work than for smaller aircraft with a limited range.

Charters: The B737-700/800 is in demand for charters due to its long range and passenger carrying capability.

Freighter aircraft:

RPT: NAC has predominately operated the B737-300 aircraft into Nauru with a 13t payload. NAC envisage to continue to operate the VH-ONU while selling off VH-YNU and VH-8TG.

Charter: Freighter charter business in Australia has became very competitive with Texel entering the market taking on TGE contract and ASL awarded FedEx contracts..

Income Statement

INCOME STATEMENT	FY2024 Jul-Dec 23	FY2024 6 Mnths Jan-Jun 24	FY2024 PY ACT	FY2025 Jul-Dec 24	FY2025 Jan-Jun 25	FY2025 CY ACT	FY2026 6 Mnths Jul-Dec 25	FY2026 6 Mnths Jan-Jun 26	FY2026 NY Budget	FY2027 NY +1 Plan	FY2028 NY +2 Plan
Passenger	36,640	43,955	80,595	46,045	43,024	89,069	47,441	46,729	94,170	101,116	108,470
Freighter	8,224	6,259	14,483	8,997	5,781	14,777	4,882	4,882	9,763	10,656	11,226
Community Service Obligations	1,170	1,170	2,340	1,170	3,510	4,680	2,340	2,340	4,680	2,340	2,340
Revenue Adjustments	-210	-1,589	-1,799	0	0	0	0	0	0	0	0
Grants	854	561	1,415	513	1,583	2,096	993	600	1,593	0	0
Other	1,066	1,152	2,217	1,307	1,457	2,764	1,214	1,214	2,429	2,574	2,739
Total Revenue	**47,744**	**51,507**	**99,251**	**58,032**	**55,354**	**113,387**	**56,869**	**55,765**	**112,635**	**116,685**	**124,776**
Distribution Costs	635	763	1,398	968	1,033	2,002	1,043	1,040	2,082	2,169	2,329
Variable Costs	14,222	15,726	29,948	18,056	17,224	35,280	18,315	18,141	36,457	38,414	40,368
ACMI : Variable Maintenance Reserves	5,924	8,082	14,006	5,536	7,133	12,669	3,943	7,157	11,100	14,955	15,703
Contribution to Fixed DOC's and Overheads	**26,963**	**26,936**	**53,899**	**33,471**	**29,964**	**63,436**	**33,568**	**29,428**	**62,996**	**61,147**	**66,376**
	56%	52%	54%	58%	54%	56%	59%	53%	56%	52%	53%
ACMI : Aircraft Lease, Crew, Maint Insurance	21,322	22,566	43,889	27,263	27,117	54,379	27,154	24,952	52,106	51,662	54,156
Contribution to Overheads	**5,640**	**4,370**	**10,010**	**6,209**	**2,848**	**9,056**	**6,414**	**4,476**	**10,890**	**9,485**	**12,220**
	12%	8%	10%	11%	5%	8%	11%	8%	10%	8%	10%
Overheads	4,002	3,872	7,874	4,240	4,112	8,353	3,963	3,822	7,785	8,162	8,658
Earnings Before Interest Tax & Dep'n	**1,638**	**498**	**2,136**	**1,969**	**-1,265**	**704**	**2,451**	**654**	**3,104**	**1,323**	**3,562**
Depreciation	3,278	3,595	6,873	3,644	3,641	7,286	3,831	1,857	5,687	3,750	3,788
Interest	840	938	1,779	863	722	1,585	817	14	831	46	46
Foreign exchange gains/(losses)	-275	327	52	1,159	-635	523	237	0	237	0	0
Tax Expense	13	49	62	23	15	37	0	0	0	0	0
Post Tax Profit/(Loss)	**-2,218**	**-4,411**	**-6,629**	**-3,720**	**-5,007**	**-8,727**	**-2,434**	**-1,217**	**-3,651**	**-2,473**	**-272**
	-5%	-9%	-7%	-6%	-9%	-8%	-4%	-2%	-3%	-2%	0%

This budget focuses on reducing costs and maintaining a low-cost base over the next three financial years and beyond, while gradually increasing revenue with a fleet of five aircraft. To enhance the bottom line, Nauru Airlines must significantly boost productivity by improving aircraft utilization, expanding the commercial pipeline, and increasing human resource efficiency, that will achieve higher output with current resources through streamlined processes and enhanced operational efficiency.

Community Service Obligations

Community Service Obligations	FY2024 6 Mnths Jul-Dec 23	FY2024 6 Mnths Jan-Jun 24	FY2024 PY ACT	FY2025 6 Mnths Jul-Dec 24	FY2025 6 Mnths Jan-Jun 25	FY2025 CY ACT	FY2026 6 Mnths Jul-Dec 25	FY2026 6 Mnths Jan-Jun 26	FY2026 NY Budget	FY2027 NY +1 Plan	FY2028 NY +2 Plan
GON Freighter Community Service Obligation	1,170	1,170	2,340	1,170	3,510	4,680	2,340	2,340	4,680	2,340	2,340
	1,170	**1,170**	**2,340**	**1,170**	**3,510**	**4,680**	**2,340**	**2,340**	**4,680**	**2,340**	**2,340**
	2%	2%	2%	2%	6%	4%	4%	4%	4%	2%	2%

Freighter Community Service Obligation

This budget assumes the reinstatement of the Community Service Obligation in full at FY2023 level of $4.68m per annum for the weekly Freighter services which covers the empty return leg for the RPT freighter service BNE-INU-BNE.

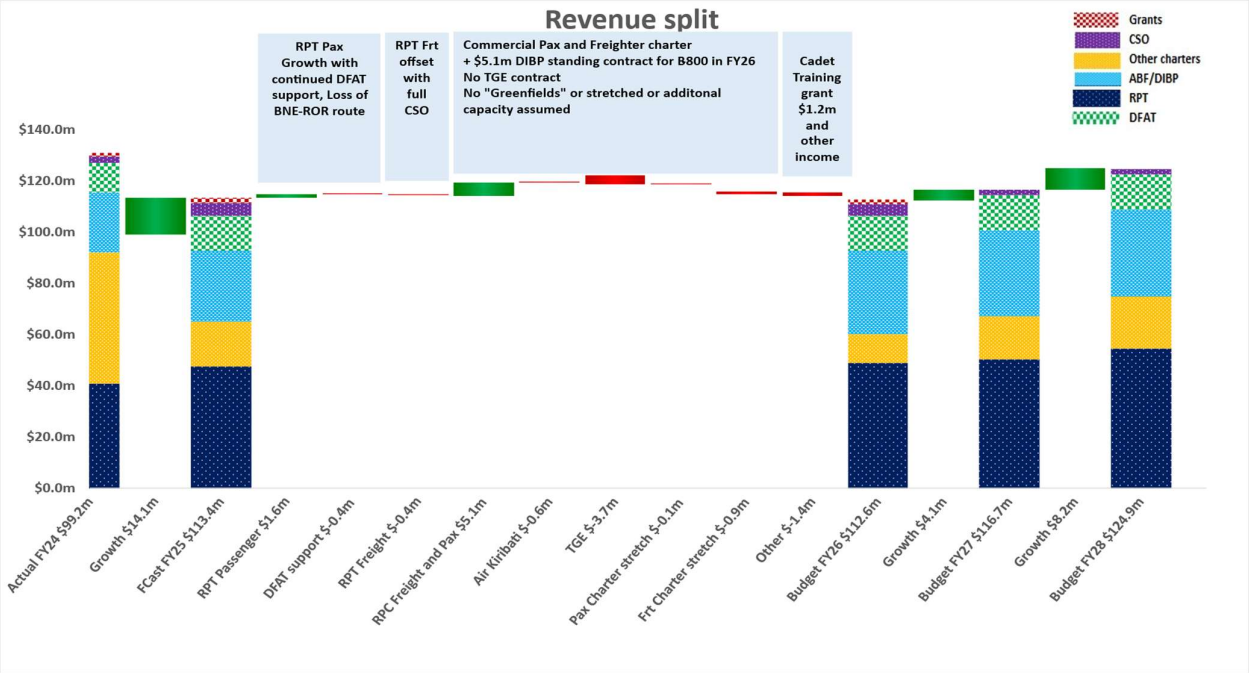
A CSO is required to keep the existing freight rates and services at current levels. Failure to do so may result in an increase to existing freight rates.

The freight rates have not been increased despite the large increase in staff costs, aircraft parts, fuel and maintenance. Inflation in the aviation industry exceeds the normal inflation rate.

Revenue impacts year on year in summary

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

Revenue Impacts YoY:



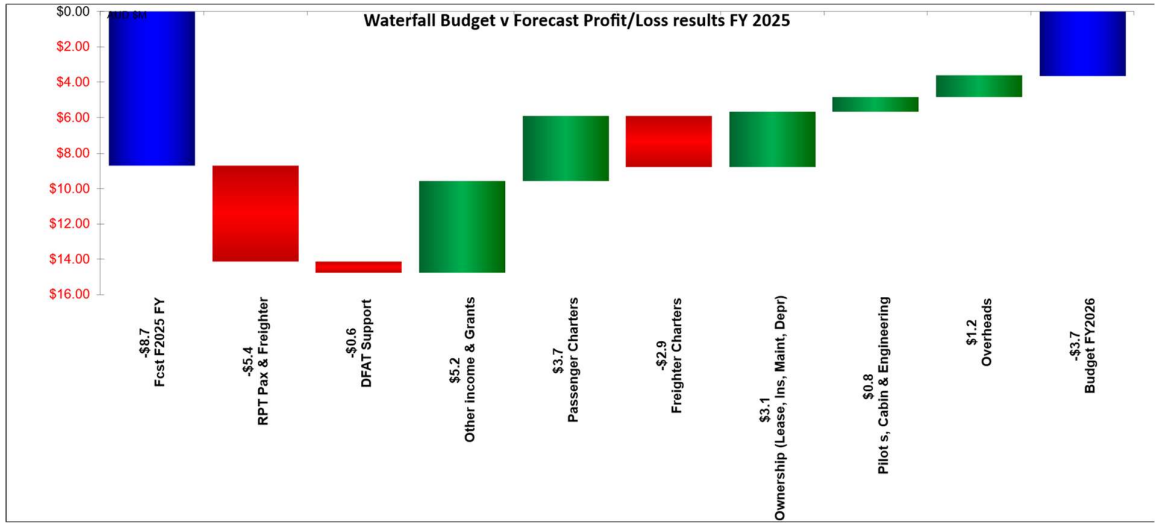
The FY2026 Budget revenue target of $112.6m is a realistic revenue budget with a net movements of a -$0.8m expected when compared to to FY2025. No 'Greenfield' revenue has been factored into the budget and FY2026 budget assumes Nauru Airlines will maintain and develop current RPT route network. To sustain current cost base, Nauru Airlines will have to agressively pursue charter work, both ACMI and full charter.

The airline is particularly vulnerable if the following revenue streams no longer continue – the RPC passenger and freighter activity, the reduction in the ABF standing charter contract, any underwriting support reduction or discontinuance by DFAT, or loss of only ACMI AKL contract. FY2026 Budget has assumed that these contracts will be successfully renewed for next 3 financial years on similar terms. Slow paying debtors and/or debtors that default is also a high risk. We assume that these will continue in the next 3 years business plan.

The commercial charter markets are also significantly more price sensitive than before and as competition has entered the market with higher capacity and newer fuel-efficient aircraft, we need to be cognizant that we need to offer rates where the market is placed to win business. This means that we need to actively manage our cost base to stay competitive.

Failure to maintain adequate RPT service underwriting support could swiftly drain the airline's cash reserves.

Bottom line impacts Y-o-Y in summary:



The re-introduction of the North Pacific Connector service added significant variable costs to the business, which in some sectors exceeds the value of sales due to low load factors. These services are also crew and aircraft intensive. The crew is positioned in the Pacific for days due to positioning which has caused a shortage of crew to be able to operate other 3rd party work. A significant improvement in the productivity of the aircraft is required to meet the price points at which NAC can compete in the rest of the market, which means a much higher utilisation of aircraft and crew is required.

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

- Fleet plan for the year – 2026 budget assumes sale of VH-8TG by December 2025. If there is a delay in the sale, costs related to the aircraft will deteriorate the FY 2026 budget position
- Continued aircraft out of service issues, which impacts on our ability to sell capacity and distrupt and dissappoint our customers

- The inability to secure longer term contracts or sufficient ad-hoc charter work to meet minimum cost obligations
- Lower than anticipated revenue yield, with price competition from competitors
- Increased exchange rate, fuel, CPI or other cost factors

Balance Sheet

BALANCE SHEET	FY2024 6 Mnths Jul-Dec 23	FY2024 6 Mnths Jan-Jun 24	FY2024 PY ACT	FY2025 6 Mnths Jul-Dec 24	FY2025 6 Mnths Jan-Jun 25	FY2025 CY ACT	FY2026 6 Mnths Jul-Dec 25	FY2026 6 Mnths Jan-Jun 26	FY2026 NY Budget	FY2027 NY +1 Plan	FY2028 NY +2 Plan
Assets											
Current Assets											
Cash And Equivalents	8,033	6,161	6,161	4,883	4,378	4,378	10,367	1,148	1,148	751	1,471
Trade Receivables	5,635	6,547	6,547	3,523	3,853	3,853	3,486	4,183	4,183	4,683	4,983
Trade Receivable - Interco Sunco	0	0	0	1,869	0	0	0	0	0	0	0
Trade Receivable - Interco NLC	236	236	236	679	679	679	679	679	679	679	679
Trade Receivable - Interco NLC33003	0	0	0	0	0	0	0	0	0	0	0
Other assets	4,323	3,158	3,158	2,643	3,154	3,154	3,154	3,154	3,154	3,154	3,154
Inventories	5,752	6,267	6,267	7,026	7,597	7,597	7,797	7,797	7,797	7,797	7,797
Income tax receivable	0	0	0	0	0	0	0	0	0	0	0
	23,978	**22,369**	**22,369**	**20,624**	**19,661**	**19,661**	**25,483**	**16,961**	**16,961**	**17,064**	**18,084**
Non-current Assets											
Investments	0	0	0	0	0	0	0	0	0	0	0
Long term Intercompany Loan NLC	9,695	9,386	9,386	7,768	6,732	6,732	6,066	5,400	5,400	5,289	5,178
Right of use assets	1,982	2,930	2,930	2,555	6,342	6,342	5,326	4,260	4,260	6,577	6,393
Property, plant & equipment	33,653	34,042	34,042	32,842	30,323	30,323	6,919	6,933	6,933	6,362	6,754
Total Non Current Assets	**45,330**	**46,358**	**46,358**	**43,165**	**43,397**	**43,397**	**18,311**	**16,593**	**16,593**	**18,228**	**18,326**
			0			0					
Total Assets	**69,309**	**68,727**	**68,727**	**63,789**	**63,058**	**63,058**	**43,794**	**33,554**	**33,554**	**35,293**	**36,410**
Liabilities											
Current Liabilities											
Trade & other payables	5,464	7,665	7,665	6,611	4,066	4,066	4,794	5,029	5,029	5,506	6,169
Trade Payable - Intercompany Sunco	767	1,220	1,220	0	2,262	2,262	1,515	1,322	1,322	1,500	1,500
Trade Payable - Intercompany NLC	0	0	0	0	0	0	0	0	0	0	0
Maintenance Reserves	0	0	0	0	0	0	0	0	0	0	0
Contract Liabilities	9,279	9,766	9,766	10,086	10,835	10,835	10,835	10,835	10,835	11,665	12,015
Lease liabilities	937	1,563	1,563	1,169	4,951	4,951	3,935	2,869	2,869	5,186	5,002
Income tax Payable	22	33	33	33	33	33	33	33	33	33	33
Employee benefits	3,109	3,346	3,346	3,849	3,219	3,219	3,219	3,219	3,219	3,279	3,339
Provisions Short Term	0	0	0	0	0	0	0	0	0	0	0
Short-term debt	2,530	2,956	2,956	3,190	3,181	3,181	0	0	0	0	0
Total Current Liabilities	**22,108**	**26,548**	**26,548**	**24,939**	**28,547**	**28,547**	**24,330**	**23,307**	**23,307**	**27,169**	**28,058**
Non Current Liabilities											
Lease liabilities Long Term	1,143	1,432	1,432	1,432	1,432	1,432	1,432	1,432	1,432	1,432	1,432
Employee benefits Long Term	907	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,150	1,500	2,000
Provisions Long Term	400	400	400	400	400	400	400	400	400	400	400
Long-term debt - Sunco	0	3,617	3,617	4,917	8,000	8,000	8,000	0	0	0	0
Long-term debt -Halo	16,071	14,648	14,648	14,255	12,219	12,219	0	-0	-0	0	0
Maintenance Reserves Long Term	3,581	804	804	801	804	804	804	804	804	804	804
	22,102	**22,051**	**22,051**	**22,955**	**24,006**	**24,006**	**11,786**	**3,786**	**3,786**	**4,136**	**4,636**
									0		
Total Liabilities	**44,210**	**48,599**	**48,599**	**47,894**	**52,553**	**52,553**	**36,117**	**27,094**	**27,094**	**31,305**	**32,694**
									0		
Net Assets	**25,099**	**20,128**	**20,128**	**15,895**	**10,504**	**10,504**	**7,678**	**6,461**	**6,461**	**3,988**	**3,716**
Equity											
Issued Capital	12,674	12,674	12,674	12,674	12,674	12,674	12,674	12,674	12,674	12,674	12,674
Reserves	4,544	3,983	3,983	3,470	3,087	3,087	2,694	2,694	2,694	2,694	2,694
Accumulated profit/(loss)	10,100	10,100	10,100	3,471	3,471	3,471	-5,257	-5,257	-5,257	-8,907	-11,380
Current Year profit/Loss	-2,218	-6,629	-6,629	-3,720	-8,727	-8,727	-2,434	-3,651	-3,651	-2,473	-272
								0			0
Total Equity	**25,099**	**20,128**	**20,128**	**15,895**	**10,504**	**10,504**	**7,678**	**6,461**	**6,461**	**3,988**	**3,716**

Cash Flow

NAC's Cashflow position in current financial year has not been in good form and cashflow management in FY2026 and next 2-3 years will be very critical for the company. The fleet replacement program commenced in FY2023, introducing higher cost aircraft into the fleet.

A large portion of the cash outflow was due to:

- funding two new NG aircrafts, repayment of HALO loan with no associated cash inflow (no TGE or alternative QF contracts),
- prolonged aircraft C-checks causing disrupted flight schedule hence lost revenue opportunity,
- AOG situations due to aircraft breakdowns, hence passenger disruption and huge recovery flight and replacement part costs.

NAC has not been able to generate enough new cash inflow through charter operation as was envisaged in last Budget with the "Greenfield" revenue.

The cash balance has reduced significantly after funding the high capital expenses. This fleet modernisation ushers in a new era for the airline, and the increased cost base, especially in aircraft ownership cost, is taking its toll on the bottom line. This investment in new aircraft, coupled with having several of the aircraft undergoing heavy maintenance checks this year, has been reflected in the lower profit and cashflow results.

FY2026 Budget cash flow key assumptions include:

- YNU and 8TG sale
- Full Freighter CSO grant receipt for FY2025 and FY2026
- NAC paid SUNCO Loan in full before end of June 2026

CASHFLOW STATEMENT	FY2024 Jul-Dec 23	FY2024 Jan-Jun 24	FY2024 PY ACT	FY2025 Jul-Dec 24	FY2025 Jan-Jun 25	FY2025 CY ACT	FY2026 Jul-Dec 25	FY2026 6 Mnths Jan-Jun 26	FY2026 NY Budget	FY2027 NY +1 Plan	FY2028 NY +2 Plan
Reconciliation of Cash Flow from Operations with Prof											
Profit /(loss) after income tax	-2,218	-4,411	-6,629	-3,720	-5,007	-8,727	-2,434	-1,217	-3,651	-2,473	-272
Non-Cashflows in profit:	0	0	0	0	0	0	0	0	0	0	0
Depreciation - PPE	3,278	3,595	6,873	3,644	3,641	7,286	3,831	1,857	5,687	3,750	3,788
Loss/(Profit) on disposal of assets	-16	21	5	-53	-28	-82	0	0	0	0	0
Utilisation - PPE	643	561	1,203	513	-4,407	-3,894	-3,333	-2,940	-6,273	-2,340	-2,340
Bad and doubtful debts	210	1,589	1,799	0	0	0	0	0	0	0	0
Changes in assets and liabilities, net of effects of purcl		**0**			**0**		**0**	**0**		**0**	**0**
(Inc) / Dec in trade and oth receivables	93	-2,502	-2,409	712	1,540	2,251	367	-697	-330	-500	-300
(Inc) / Dec in inventories	-1,832	-515	-2,347	-759	-571	-1,330	-200	0	-200	0	0
(Inc) / Dec in taxes	0	11	11	0	0	0	0	0	0	0	0
(Inc) / Dec in other assets	-1,426	1,165	-261	514	-511	3	0	0	0	0	0
Inc / (Dec) in trade and other payables	631	-124	507	-2,276	-280	-2,555	-20	43	23	655	663
Inc / (Dec) in contract liabilities	1,380	-74	1,306	-192	5,156	4,963	3,333	2,940	6,273	3,170	2,690
Inc / (Dec) in employee entitlements	374	481	855	503	-630	-127	0	0	0	410	560
Inc / (Dec) in provisions	0	0	0	0	0	0	0	0	0	0	0
Net cash provided by (used in) Operating activities	**1,117**	**-202**	**915**	**-1,114**	**-1,098**	**-2,212**	**1,544**	**-15**	**1,529**	**2,672**	**4,789**
Cash flows from operating activities											
Receipts from customers	50,486	195,070	245,556	58,463	61,980	120,443	60,509	57,948	118,457	119,234	127,043
Payments to suppliers and employees	-48,504	-191,592	-240,095	-58,692	-62,342	-121,034	-58,148	-57,949	-116,097	-116,516	-122,209
Interest received	253	856	1,110	89	69	158	60	60	120	121	123
Interest paid	-1,104	-4,414	-5,517	-951	-791	-1,743	-877	-74	-951	-167	-169
Income tax received / (Paid)	-15	-123	-139	-23	-15	-37	0	0	0	0	0
							0	0		0	0
Net cash provided by (used in) Operating activities	**1,117**	**-202**	**915**	**-1,114**	**-1,098**	**-2,212**	**1,544**	**-15**	**1,529**	**2,672**	**4,789**
Cash flows from investing activities											
Purchase of plant and equipment	-2,520	-4,983	-7,504	-2,070	-4,910	-6,979	-992	-804	-1,796	-5,496	-3,996
Proceeds from disposal of plant and equipment	16	31	47	53	28	82	15,381	0	15,381	0	0
Proceeds from disposal of investments	0	0	0	0	0	0	0	0	0	0	0
Proceeds from long term Investment Loan NLC	-9,695	309	-9,386	1,618	1,036	2,654	666	666	1,331	111	111
Proceeds from issuance of shares	0	0	0	0	0	0	0	0	0	0	0
Proceeds from reserves	-643	-561	-1,203	-513	-383	-896	-393	0	-393	0	0
Net cash provided by/(used in) investing activities	**-12,842**	**-5,204**	**-18,046**	**-911**	**-4,228**	**-5,140**	**14,662**	**-138**	**14,523**	**-5,386**	**-3,886**
Cash flows from financing activities											
Proceeds from long term debt	-1,631	2,620	988	1,141	1,039	2,180	-9,200	-8,000	-17,200	0	0
Repayment of lease liabilities	-914	915	0	-394	3,782	3,388	-1,016	-1,066	-2,082	2,316	-184
Net cash used in financing activities	**-2,546**	**3,534**	**989**	**747**	**4,821**	**5,568**	**-10,216**	**-9,066**	**-19,282**	**2,316**	**-184**
Net increase/(decrease) in cash and cash equivalents	-14,271	-1,872	-16,143	-1,279	-505	-1,784	5,989	-9,219	-3,230	-397	720
Cash at the beginning of the year	22,304	8,033	22,304	6,161	4,883	6,161	4,378	10,367	4,378	1,148	751
Cash at the end of the year	**8,033**	**6,161**	**6,161**	**4,883**	**4,378**	**4,378**	**10,367**	**1,148**	**1,148**	**751**	**1,471**

Planned Capital Investments

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

Aircraft Capital projects will include procurement of:

FY 2025

Sell VH-YNU - Estimated value $4m USD

FY 2026

Sell VH-8TG - Estimated value TBC – budget factored sale price achieved to be higher than book value as at 31st Dec 2025

FY 2027/8

No Aircraft Capital projects factored

Debt

NAC has a loan through its newly formed subsidiary Nauru Leasing 33003 for $13.5m USD for the partial acquisition of the freighter VH-8TG aircraft. Halo is a Joint venture between GA Telesis and Tokyo Century Bank. The loan is repayable over 72 months of which 48 will be remaining as at 30 Jun 2025, with estimated loan balance of USD $9.78m remain outstanding.

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.

Dividend

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

Legal Compliance

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

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

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