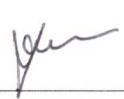
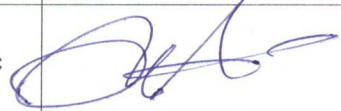


Kiribati National Shipping Line



AUTHORISATION

NAME & DESIGNATION	SIGNATURE	DATE
Chairman of the Board – Teieka Kaoma		21/11/25
Portfolio Minister – Hon. Alexander Teabo, Minister of Information, Communication & Transport		24/11/25
Joint Minister – Hon. Dr Teuea Toatu, Vice President & Minister of Finance & Economic Development		20/04/26

Statement of Intent (SOI)

2026 - 2028

1. EXECUTIVE SUMMARY

Conforming to the requirements of the State-Owned Enterprise Act (as amended), Section 19, and the Kiribati National Shipping Line (KNSL) hereby submits its Statement of Intent (SOI), for the period FY 2026 to FY 2028.

Established on July 9, 1990, under the Company Ordinance 1979 and the Articles of Association, Kiribati Shipping Services Limited (KSSL) to succeeded the Kiribati Shipping Corporation (KSC), which had relied entirely on government subsidies since its formation in 1979. For nearly three decades (1990–2017), KSSL served as the principal provider of maritime transport within Kiribati, supporting national connectivity and economic development. In line with the government's restructuring objectives, KSSL was reorganized and renamed on July 5, 2018, as the Kiribati National Shipping Line Limited (KNSL), assuming equivalent mandates and operational responsibilities. Since its establishment, KNSL has remained a national key strategic entity in advancing efficient, reliable, and sustainable domestic shipping services throughout the Kiribati.

KNSL Statement of Intent (SOI) 2026-2028 has been developed through an inclusive and consultative process involving all levels of the Company. The Senior Management Team, consisting of the Chief Executive Officer and Departmental Managers, led the formulation of this SOI with active participation from middle managers and staff across all departments. This participatory approach ensured that the SOI's objectives reflect the collective insights, experiences, and aspirations of the entire KNSL workforce. The KNSL Board of Directors reviewed and approved the final document, providing the strategic direction for the Company over the next planning period.

This SOI indicates how KNSL has reviewed its operating environment and key challenges and derived the following planning period objectives, activities, performance measures and financial forecasts towards achieving its principal objectives.

1. THE OBJECTIVES OF KNSL

As the national shipping line of Kiribati, KNSL's strategic focus is to provide safe, reliable, affordable, and sustainable maritime transport services that connect all islands, support national development, and contribute to economic resilience. The Corporation is committed to enhancing service delivery, investing in maritime infrastructure, and strengthening governance and operational capacity through effective planning, capable leadership, and efficient systems.

To achieve these goals, KNSL will pursue the following four objectives and their corresponding strategic actions:

Provide safe, reliable, and affordable shipping service to all of the Kiribati islands:

- Maintain regular and timely voyages to all islands to ensure consistent, affordable, and dependable shipping services.
- Strengthen service reliability and scheduling to maintain regular connections to all serviced islands.
- Uphold strict safety, compliance, and vessel maintenance standards in accordance with national and international maritime regulations.
- Conduct regular safety audits, crew training, and vessel inspections to minimize operational risks.
- Promote shipping service regularly.
- Purchase six new workboats to improve service efficiency and operational capability.
- Secure funding for the acquisition of new vessels to replace aging assets and expand the shipping fleet.
- Maintain valid seaworthiness certification for all vessels & readiness.
- Enhance customer retention and satisfaction.

Objective 2: Build appropriate supporting maritime Infrastructure to meet current and future Needs

Strategic Actions:

- Construct a passenger terminal and shelter for Kiritimati branch.
- Secure funding for Headquarter Office complex
- Upgrade the HQ warehouse.
- Establish a life raft servicing centre at Betio warehouse.
- Improve port and cargo handling facilities to support trade growth.
- Collaborate with government and KPA to develop a new ramp in London, Kiritimati for safer and calmer vessel operation.

Objective 3: Enhance Corporate Services efficiency by fostering employee engagement, collaborative leadership, innovation, and customer satisfaction

Strategic Actions:

- Implement an integrated HRM program covering recruitment, performance, training, payroll, and staff wellbeing to build a skilled, motivated, and high-performing workforce.
- Streamline and strengthen all administrative functions, including IT systems, workflow efficiency and payroll system, executive coordination, recording, reporting, meetings, and security, cleaning, and transport services, to ensure effective, timely, and safe organizational operations.

- Conduct regular internal audits of assets and resources
- Review and update employment policies regularly to ensure compliance and best practices.
- Ensure delivery of timely and safe cleaning, security and transport services.

Objective 4: Increase profit margin by 20% annually through optimizing revenue from existing resources, explore investment opportunities, and proactive risk management

Strategic Actions:

- Explore new market segments and customers through the expansion of shipping services to the region.
- Identify and develop new income streams through charters, partnerships and freight services.
- Maximize returns from shipping operations.
- Review and update freight and fare regularly.
- Ensure timely forecasting and reporting.
- Conduct stock take regularly.
- Ensure external auditing of accounts and report findings to the Board.
- Control and monitor budget performance.
- Implement proactive
- Compliance with statutory obligations.

2. THE NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN

To provide the people of Kiribati with a responsive, reliable, safe and appropriate shipping service, the KNSL will continue to focus on its core business activities, which include the provision of regular inter-island shipping and related maritime services. These activities will be undertaken in alignment with and in support of national socio-economic policies and programs, ensuring that KNSL contributes meaningfully to the Government's development objectives. Through this approach, KNSL aims to enhance its operational performance, improve financial sustainability, and fulfil its obligations under Section 5 of the State-Owned Enterprises Act 2013, which sets out the overarching goal of achieving both commercial viability and communities' service delivery.

3. THE PERFORMANCE TARGETS/MEASURES

The KNSL will measure its performance over the 2026–2028 periods using a set of quantitative and qualitative performance targets that reflect the Company's strategic objectives, service delivery commitments, and financial sustainability goals. These performance indicators will enable the Government, shareholders, and other stakeholders to objectively assess KNSL's progress toward achieving its mandate and expected outcomes.

The table below outlines the key strategic actions, performance measures, and the timeframes within which the KNSL aims to achieve its objectives for the 2026–2028 planning period.

Strategic Action	Measures	Targets	Timeline
Objective 1: Provide Safe, Reliable, and Affordable Shipping Services			

Strategic Action	Measures	Targets	Timeline
Maintain regular and timely voyages to all islands	Number of scheduled voyages completed on time	≥ 95% of voyages on schedule	Ongoing 2026–2028, reviewed quarterly
Strengthen service reliability and scheduling	Service punctuality & missed trips	≥ 95% punctuality	2026–2028, quarterly
Uphold strict safety, compliance, and vessel maintenance standards	Safety incidents & audit compliance rate	Zero major safety incidents; 100% compliance	Annual audits 2026–2028
Conduct regular safety audits, crew training, and vessel inspections	Number of audits, training sessions, and inspections completed	100% crew trained annually; all vessels inspected quarterly	2026–2028
Purchase six new workboats	Acquisition completed and operational	6 vessels purchased and operational	By Dec 2026
Secure funding for new vessels	Funding secured (amount)	100% of required funds secured	By Jun 2026
Maintain valid seaworthiness certification	% of vessels certified	100% of vessels certified at all times	Ongoing 2026–2028
Enhance customer retention and satisfaction	Customer satisfaction survey scores	≥ 85% satisfaction rate	Annual survey 2026–2028
Promote shipping services regularly	Marketing campaigns & customer inquiries	Minimum 4 campaigns/year; 10% increase in inquiries	Annual 2026–2028
Objective 2: Build Appropriate Supporting Maritime Infrastructure			
terminal and shelter for Kiritimati branch	Completion and operational status	Terminal completed and operational	By Dec 2027
Secure funding for Headquarters Office complex	Funding amount secured	100% of required funds secured	By Jun 2026
Upgrade HQ warehouse	Completion of upgrade works	Warehouse upgraded and fully operational	By Dec 2026
Establish a life raft servicing centre at Betio warehouse	Centre operational	Centre fully operational	By Dec 2026
Improve port and cargo handling facilities	Reduction in cargo turnaround time	20% reduction in handling time	By Dec 2027
Collaborate with government/KPA for new ramp at London, Kiritimati	Ramp constructed and operational	Ramp completed and operational	By Dec 2028
Objective 3: Enhance Corporate Services Efficiency			

Strategic Action	Measures	Targets	Timeline
Implement integrated HRM program	% of staff on HRM system; training completion	100% staff on system; $\geq$ 90% training completion	By Jun 2026
Streamline administrative functions (IT, workflow, payroll, support services)	Time taken for tasks; error rates, improved communication and processes	25% reduction in processing time; $\leq$ 2% errors	By Dec 2027
Conduct regular internal audits of assets and resources	Number of audits conducted	Minimum 4 audits/year	2026–2028, quarterly
Review and update employment policies	Policies updated	All policies reviewed annually	2026–2028
Ensure timely and safe cleaning, security, and transport services	Service delivery performance	$\geq$ 95% services delivered on time	2026–2028, monthly review
Objective 4: Increase Profit Margin by 20% Annually			
Explore new market segments	Number of new routes/customers	2–3 new market segments per year	2026–2028
Identify and develop new income streams	Revenue from new streams	$\geq$ 10% of total revenue from new streams	2026–2028
Maximise returns from shipping operations	Operating margin	Increase by 20% per year	2026–2028, annual
Review and update freight and fare structures	% of fares updated	100% fares reviewed annually	2026–2028
Timely forecasting and reporting	Reports submitted on time	100% reports submitted by deadlines	Quarterly 2026–2028
Conduct stock take regularly	Stock accuracy %	$\geq$ 98% accuracy	Quarterly 2026–2028
External auditing of accounts	Audit completion & compliance	100% of accounts audited with no major issues	Annual 2026–2028
Control and monitor budget performance	Budget variance %	$\leq$ 5% variance from approved budget	Quarterly 2026–2028
Ensure compliance with statutory obligations	Number of compliance breaches	Zero breaches	2026–2028, ongoing

Notes

- Some strategies, such as the acquisition of additional vessels, will be implemented over multiple years. Grant funding from the People's Republic of China has supported progress on these initiatives.
- Construction of offices and infrastructure projects will be subject to the availability of company funds at the time of execution.

4. A STATEMENT OF FINANCIAL PERFORMANCE

Revenue	2023	2024	2025	2026
Income (\$'000)	4,947	5,729	6,715	6,815
Expenses				
Staff & other related expenses	1,620	2,262	2,329	2,399
Selling & Distribution expenses	354	542	562	579
Fuel & Oil	929	1,109	1,142	1,176
Vessel Tools, Repair & Maintenance	128	130	134	138
Ration & Water	192	253	260	268
Office Maintenance	28	12	13	13
Vehicle Maintenance	5	6	6	7
Depreciation	1,090	1,598	1,600	1,600
Office & Admin Exp	424	382	396	408
Expenditure	4,771	6,293	6,442	6,588
Operating Profit /(Loss)	176	- 564	273	227
Deferred Income	554	929	929	929
Net Profit/(Loss) for the Year	731	365	1,202	1,157

5. A STATEMENT OF FINANCIAL POSITION

(AUD'000)		FY23	FY24	FY25	FY26
December Year End					
	Cash, deposit, liquid securities	- 28	94	761	1,611
	Trade Debtors	722	944	1,501	1,868
	Current Assets	694	1,038	2,262	3,479
	Property, Plant & Equipment	11,882	10,628	9,528	8,428
	Non- Current Assets	11,882	10,628	9,528	8,428
Total Assets		12,576	11,666	11,790	11,907
	Current Liabilities	360	371	222	111
Total Liabilities		360	371	222	111
Net Assets		12,216	11,295	11,568	11,796
	Shareholder Capital & Contributions	1	1	1	1
	Asset Grant	8,910	7,772	6,843	5,914
	Retained Earnings	2,574	3,157	3,522	4,724
	Current Year Earnings	731	365	1,202	1,157
Total Equity		12,216	11,295	11,568	11,796

6. A STATEMENT OF ANTICIPATED BORROWING

The Company does not currently anticipate any long-term or short-term borrowings. Any future loans will be considered only as necessary and will be subject to Government or Cabinet approval.

7. THE ACCOUNTING POLICIES

In line with Government practice, KNSL has adopted the following core accounting policies to guide its financial management and reporting:

- Revenue Policy
- Payment Policy
- Debt Collection Policy
- Fixed Assets Policy
- Depreciation Policy

In addition to these, the Board has approved other accounting policies that are implemented as relevant to the Company's operations. When circumstances arise that necessitate the revision of existing policies or the adoption of new ones, such changes will be made in accordance with established guidelines and approved procedures.

8. WHETHER KNSL ANTICIPATES THAT IT WILL GENERATE A RETURN THAT COVERS THE COST OF CAPITAL, AND IF NOT, WHY NOT

KNSL has demonstrated the capacity to generate returns over time sufficient to cover the cost of capital, including vessels. However, since its reorganization in July 2018, the Company has operated with minimal financial injection aside from the provision of three landing crafts and one tug and barge. The Company continues to operate on a less commercially-oriented basis due to its ongoing social obligations, providing safe, reliable, and affordable shipping services to all islands in Kiribati.

In addition, a number of challenges constrain KNSL from generating sufficient returns to fully cover the cost of capital and support timely and sufficient savings for urgent and future operational needs. These challenges are listed and presented in the table below:

Challenge	Impact on Cost of Capital	Proposed Mitigation Measures	Timeline (2026-2028)
1. Remedial repairs to Head Office building	Increased capital expenditure reduces funds available for returns	Prioritize critical repairs; seek Government funding support.	2026–2027
2. Inconsistent Government CSO payments	Cash flow constraints; insufficient funding to cover operational costs for serving the unprofitable islands.	Continue working with MFED and mother ministry MICT to get approval of the pending CSO application.	Ongoing 2026–2028
3. Outdated freight tariff rates for cargo handling	Revenue shortfall; returns do not cover rising operational costs	Review and update tariff structure; align with fuel, supply, and labor cost increases	
4. Unsettled Ministries' debts	Reduced liquidity; higher financial risk	Implement debt recovery plans; strengthen Ministry engagement and agreements.	2026–2028
5. Aging vessels (L.C. Aratobwa & L.C. Linnix)	High repair costs; limited vessel availability; reduced revenue	Plan for vessel replacement or major refurbishment; secure capital funding for fleet renewal.	2026–2028
6. Aging workboats and machinery	Increased maintenance costs; operational inefficiency and risks	Implement preventive maintenance schedules; budget for phased machinery upgrades	2026–2028
7. Lack of proper machinery, mainly forklift, crane truck, and other operational machinery)	In efficient operation and increase	Purchase proper machinery – crane truck, forklift or big trucks for cargo movements from ships to the warehouse.	Q3. 2026
8. Cash flow challenges	Limit ability to invest; increases financial risk	Enhance financial planning; improve revenue collection; explore short-term financing options	

9. A STATEMENT OF THE PRINCIPLES TO BE ADOPTED IN DETERMINING ANY ANNUAL DIVIDEND (INSERT SUMMARY STATEMENT FRP, SECTION 7.5)

KNSL remains committed to achieving long-term financial sustainability while progressively reducing reliance on shareholder and government support. In determining any future dividend payments, the Company will adopt a prudent approach that prioritizes reinvestment in essential assets, fleet renewal, infrastructure upgrades, and operational efficiency improvements.

Given the current financial position of the Company and the need for continued capital investment to maintain safe, reliable, affordable and sustainable shipping services across all islands in Kiribati, KNSL does not anticipate declaring or paying any dividend during the period covered by this *Statement of Intent (2026–2028)*.

Any consideration for dividend distribution in the future will be based on:

- Achievement of a sustainable level of profitability after meeting operational and capital expenditure commitments.
- Maintenance of sufficient working capital and reserves to support ongoing operations.
- Compliance with Government policies and shareholder directives on SOE dividend distribution.

10. ANY ACTIVITY WHICH KNSL REQUESTS OR HAS AGREED TO BE TREATED AS A CSO (INSERT SUMMARY OF STATEMENT FROM SECTION 7.2)

KNSL actively seeks Community Service Obligation (CSO) funding to fulfill its dual mandate: providing regular, reliable, affordable, and sustainable shipping services to all Kiribati islands while sustaining commercially viable operations.

The CSO is formally agreed with Government, and is linked with KNSL's Articles of Association, ensuring the Company meets its mandate of unlimited shipping service to serve communities nationwide and respond to Government priorities for safe and dependable maritime transport. Specifically, the CSO addresses financial shortfalls arising from KNSL's commitment to maintain monthly or near-monthly shipping services to all islands, including remote and commercially unviable locations such as:

- Line & Phoenix islands
- Banaba
- Northern and Southern Gilbert Islands
- Central Islands (Nonouti, Tabiteuea North and South)
- Southern Islands, and the Line and Phoenix Islands.

This includes the stationing of L.C Linnix in the Line and Phoenix Islands since 2021, despite operating at a loss.

These routes are generally unserved by private operators or are only available at higher charter rates, making KNSL's service essential for national connectivity and social equity. Without consistent CSO support, KNSL must cross-subsidize these services from commercially viable operations, leaving the Company with limited reserves to address urgent operational needs. CSO funding in 2022 and 2023 enabled KNSL to:

- Undertake dry docking and maintenance for L.C Aratobwa and L.C Linnix

- Complete major renovations and structural repairs at the Head Office in Betio
- Settle outstanding financial obligations.

Consistent annual CSO support is essential to:

- Ensure continuity of services to remote and non-commercial islands
- Support national socio-economic development and regional inclusiveness
- Maintain financial stability, enhance reliability, and progress toward long-term self-sufficiency

Through CSO funding, KNSL can balance its social responsibility with commercial objectives, ensuring Kiribati's maritime network remains reliable, inclusive, and sustainable.

11. ANY OTHER MATTER AS AGREED BY THE RESPONSIBLE MINISTER AND THE BOARD (INSERT SUMMARY OF STATEMENT FOR SECTION 7.6)

The Board of KNSL has agreed to comply with all provisions of the State-Owned Enterprises (SOE) Act and the Company's Articles of Association. In addition, the Board has agreed to adhere to any directions or instructions issued by the Responsible Minister in accordance with Section 7.6.

2 MANDATE AND POLICIES GOVERNING THE DEVELOPMENT OF THE SOI

2.1 Ownership Guidelines

The Board of Directors is responsible for ensuring effective communication and accountability to the shareholding Ministers. In particular, the Board will:

- Invite the shareholding Ministers to attend key Board meetings.
- Provide the shareholding Ministers with signed copies of the Minutes of all Board meetings.
- KNSL undertakes to report to the shareholding Ministers **quarterly and annually** on the Company's progress toward achieving both financial and non-financial performance targets for the financial year.

Any major changes to key assumptions or outcomes outlined in this SOI that arise during the year and come to the Board's attention will be promptly communicated to the shareholding Ministers. Modifications to this SOI will be managed in accordance with the provisions of the State-Owned Enterprises Act.

This SOI is signed by the Chair on behalf of all Directors, in accordance with a unanimous decision of the Board of Directors.

2.2 Obligations under the Kiribati Development Plan / KDV or similar

KNSL's operations are aligned with Government priorities to ensure safe, reliable, and affordable maritime transport services that support national development and connectivity across all Kiribati islands.

Key obligations and alignment with KNSL activities are presented in the table below:

Key Policy Area	KNSL Activities
Kiribati Development Plan (KDP) – Key Policy Area 6: Infrastructure	- Strengthen inter-island sea transport system. - Improve connectivity and accessibility to all islands, including remote and commercially unviable islands.

	- Support equitable socio-economic development.
Kiribati Vision 20 - Pillar 3: Infrastructure for Development – Improving connectivity & accessibility	- Contribute to long-term national economic development. - Ensure sustainable transport infrastructure. - Facilitate inclusive growth by providing essential maritime services nationwide.
Government Priorities for Maritime Transport	- Maintain safe, reliable, and affordable shipping services. - Ensure continuity of service to remote and unviable routes. - Support national resilience and socio-economic equity.
Community Service Obligation (CSO) Agreements	- Operate uneconomic routes critical for national connectivity. - Maintain vessels and infrastructure to ensure safe inter-island transport. - Align operations with Government-mandated service standards.
State-Owned Enterprises (SOE) Governance Requirements	- Provide financial and non-financial reports to shareholding Ministers. - Ensure operational decisions support Government development objectives. - Comply with approved SOI performance targets.

2.3 Mandate

KNSL's mandate, as established in its Articles of Association, is **unrestricted**, enabling the Company to:

- Provide and promote shipping services.
- Undertake other shipping ventures, whether on charter terms or otherwise.
- Engage in activities incidental or conducive to bullet points (1) and (2) above.

This mandate is guided by Government policy directions and strategic priorities, ensuring KNSL's operations support national development objectives. Key alignments include:

Government Policy / Strategic Direction	KNSL Mandate Alignment
Motinnano 1 & 2	Strengthen KNSL as a key maritime operator.
Kiribati Vision 20 (KV20)	Improve connectivity and accessibility of sea transport across all islands.
Kiribati Development Plan (KDP)	Enhance the inter-island transport system.
Economic Growth & Poverty Reduction	Provide shipping services that support inclusive economic development.
MICTTD Strategic Plans (MSPs)	Improve air, sea, and land transportation infrastructure, including maritime services.
MICTTD Ministerial Assignment	Includes oversight and strategic direction for KNSL.

KNSL Articles of Association	Formal agreement between the Line Ministers and the Board, establishing operational and governance authority.
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KNSL's operations are therefore strategically aligned to deliver safe, reliable, affordable, and sustainable maritime transport services, while supporting national connectivity, economic growth, and Government development priorities.

2.4 Purpose of KNSL

The purpose of KNSL is to enhance connectivity and accessibility of sea transport by linking all Kiribati islands through regular, scheduled shipping services.

The goal of KNSL is to provide scheduled shipping services that are safe, effective, and affordable, connecting the three main island groups – Gilbert Islands, Banaba and Line and Phoenix group.

This approach is based on the recognition that maritime transport in an island nation is a **critical enabler of socio-economic and infrastructural development**, a principle reinforced in Motinnano and other key Government policy documents.

2.4.1 Vision

To be a leading national shipping Company providing safe, reliable, and affordable maritime connectivity, driving sustainable economic growth, social equity, and resilience across all islands of Kiribati.

2.4.2 Mission

To provide reliable, safe, affordable, and sustainable shipping services that connects people, communities, and opportunities across all islands of Kiribati, ensuring inclusive and sustainable development for all.

2.4.3 Values

KNSL's strategic direction, decision-making, operations, and relationships with stakeholders are guided by a set of core values that reflect its commitment to safety, service excellence, financial sustainability, and national development. These values include:

- **Safety.**
Ensures safe voyages, reduces accidents, and builds public confidence in our shipping operations.
- **Reliability**
Strengthens trust with customers and guarantees uninterrupted island connectivity.
- **Accountability**
Promotes responsible management, efficient use of resources, and public trust in our services.
- **Excellence**
Enhances operational efficiency, vessel maintenance, and the overall customer experience.
- **Entrepreneurship:** Encouraging initiative and innovation, systematically managing risks, encouraging team work and un-bureaucratic business processes.
- **Customer Focus**
Increases customer satisfaction, loyalty, and service responsiveness across all routes.

- **Sustainability**
Ensures long-term viability of our operations and contributes to the sustainable development of Kiribati's islands.
- **Integrity**
Builds credibility, fosters trust, and maintains a positive reputation for the Company.

2.5 CORE BUSINESS

KNSL's core business activities are directly aligned with its mission to provide safe, reliable, affordable, and sustainable shipping services and its strategic priorities of fleet renewal, service excellence, and financial sustainability. These functions represent the foundation of KNSL's national mandate to ensure maritime connectivity across all islands of Kiribati, supporting social inclusion, economic growth, and national resilience. These core services include:

- **Inter-Island Shipping Services** – Providing regular, reliable, safe, affordable, and sustainable shipping services to all islands of Kiribati, including remote and commercially unviable routes.
- **Freight and Cargo Transport** – Transporting essential goods, building materials, and commercial cargo between islands and regional ports.
- **Passenger Transport Services** – Facilitating safe and affordable travel for passengers across all island groups through scheduled voyages and charter services.
- **Charter Services** – Offering vessels for private, government, or donor-chartered operations within Kiribati and to regional destinations.
- **Tug and Barge Operations** – Supporting port operations, cargo handling, and transport of bulk materials/cargoes.
- **Ship Maintenance and Support Services** – Conducting vessel maintenance, repair, and dry-docking to ensure safety, compliance, and operational readiness.
- **Community Service Obligation (CSO) Shipping** – Maintaining uneconomic routes to remote islands as part of KNSL's national connectivity responsibility under Government agreement and its Article of Association.
- **Maritime Infrastructure Support** – Assisting in the transport of materials and equipment for national infrastructure projects, including ports, schools, and health facilities.
- **Logistics and Supply Chain Support** – Coordinating storage, handling, and delivery of goods through KNSL warehouses and logistics operations.

Collectively, these core services form the backbone of Kiribati's maritime transport system, advancing national development goals while supporting KNSL's commercial sustainability and long-term viability.

3 PLANNING INPUTS

3.1 Profile / Overview of the Business & Assessment of Recent Results

The Kiribati National Shipping Line Limited (KNSL) is a State-Owned Enterprise (SOE) mandated to provide safe, reliable, affordable, and sustainable shipping services to all islands of Kiribati. Established under the Companies Act and governed by its Articles of Association, KNSL plays a central role in connecting communities, enabling trade, and supporting the social and economic development of the nation.

KNSL's operations are guided by Government policy directions under the Kiribati Development Plan (KDP), the Kiribati Vision 20 (KV20), and the Ministry of Information, Communication, Transport, and Tourism Development (MICTTD) Strategic Plans. These frameworks collectively emphasize improved inter-island connectivity, equitable access to essential services, and inclusive economic growth through efficient maritime transport.

Over the past years, KNSL has made significant contributions to national development through consistent shipping services, despite operating under challenging financial and operational conditions. The Company continues to serve both commercially viable and uneconomic routes, including those to remote islands, as part of its Community Service Obligation (CSO) commitments.

In preparing this SOI, KNSL has undertaken an internal review of factors that influence its business environment. These include overall expenses, historical income and expenditure trends, current inventory levels, and the performance and capacity of departmental managers. The review aims to ensure that these internal factors align with and support the Company's business objectives and mission.

Recent market research indicates a gradual increase in both cargo and passenger volumes to outer islands. This trend reflects growing economic activity and local confidence arising from the reliability of regular shipping services.

Feedback from store owners in the outer islands suggests they no longer need to stockpile goods, allowing them to diversify their products and reinvest in business expansion. Historically, such developments have contributed to broader socio-economic improvements, including increased population resettlement, enhanced communications, and greater demand for education, medical, postal, and transport services.

Organizational Structure

KNSL comprises four departments, each led by a Departmental Manager:

Department / Manager	Role & Responsibilities	Staff
Corporate Services	General Administration; Human Resources & Support Services; IT, Media, Security, Transport; Quality Management System	15
Finance	Payments; Receivables; Stores & Inventory; Audits (Tarawa & Kiritimati)	12
Operations & Marketing	Deck Staff; Ship Operations; Safe Ship Management; Marine Radio Communication; Lifesaving & Firefighting Equipment	47 (39 aboard five ships, 8 shore-based)

Engineering & Maintenance	Engineering Staff; Marine & Electrical Workshop; Docking & Surveys; Safe Ship Management	25 (20 aboard five ships, 5 shore-based)
Kiritimati Branch	Manage the operation of one vessel stationed in Kiritimati – L.C Linnix that keeps swoping with L.C Mainiku	9
KNSL Agent Outer Islands	Coordinate and manage stevedores' work, and handle ticketing / sales and cargoes and passengers.	8
TOTAL STAFF		115

Operational Performance

KNSL currently owns and operates five vessels, including three landing crafts—L.C. *Aratobwa*, L.C. *Linnix*, and L.C. *Marin Mainiku*—a Tug and Barge combination (*I-Tungaru & Motinnano*), and the newly commissioned fast ferry *Tobwaiko*. While these vessels enable broad service coverage across the islands, two major landing crafts, *Aratobwa* and *Linnix*, have exceeded their seaworthiness period and urgently require dry docking. Additionally, L.C. *Marin Mainiku* and the Tug & Barge require significant maintenance to ensure compliance with safety standards.

Beyond the fleet, KNSL's operational infrastructure faces serious limitations. The Company maintains an old double-storey building used for offices, cargo storage, and a workshop for machinery and tools, alongside two office buildings constructed from shipping containers. Branch offices in Kiritimati, the Line Islands, and the Phoenix Islands support the management and coordination of shipping activities. However, KNSL lacks proper cargo-handling vehicles, such as crane trucks, forklifts, and other essential equipment, which constrains operational efficiency.

These fleet and infrastructure challenges underscore the urgent need for CSO support and a freight rate adjustment to sustain safe, reliable, and efficient shipping services across Kiribati.

Financial and Business Performance

KNSL has maintained a breakeven financial position, largely due to the cross-subsidization of unprofitable routes by revenues from charter and cargo services. The CSO funding received in recent years (2022 and 2023) has been vital in offsetting operational deficits, enabling vessel maintenance, and settling outstanding liabilities. However, inconsistent Community Service Obligation (CSO) allocations, combined with **rising operational costs**—particularly fuel, vessel maintenance, and port charges—continue to constrain the Company's profitability and hinder investment in fleet renewal and digital modernization. **As a result, the Company is** currently facing significant operational and financial challenges, highlighting the need for the CSO to be formally integrated into KNSL's overall strategic and financial planning framework.

The sale of the Honolulu-based vessel "KWAI", which previously serviced the Line Islands every three to four months, has reduced shipping frequency to the Line and Phoenix islands.

This has reduced cargo supplies to the Line & Phoenix islands, and also reduced the Company cargo volumes in this region. To address this gap, KNSL plans to take over the route using the *L.C. Marin Mainiku*. Initial consultations with relevant authorities—facilitated through the U.S. Embassy in Fiji—are underway, and the Operations Manager’s training on the sector’s requirements and operational formalities has already commenced.

Governance and Corporate Management

KNSL operates under the oversight of its Board of Directors in accordance with the State-Owned Enterprises Act, the Companies Act, and its Articles of Association. The Company maintains compliance with approved financial and operational policies, including revenue, payment, debt collection, and asset management policies. Regular reporting to shareholding Ministers ensures transparency and accountability.

The Company has also strengthened internal management systems through monthly work plan and budget reviews, regular staff and management meetings, and improvements to human resource policies. Efforts are ongoing to enhance digital systems for finance, operations, and fleet management to improve efficiency and decision-making.

Overall Assessment

Despite financial and operational challenges, KNSL has demonstrated resilience and commitment to its dual mandate:

- **Providing regular and affordable shipping services** to all islands of Kiribati, including remote and commercially unviable routes; and
- **Pursuing commercial sustainability** through prudent financial management and operational efficiency.

Moving forward, KNSL’s focus will be on fleet renewal, digital upgrading, financial sustainability, and human capital development, ensuring the Company continues to fulfill its communities and commercial shipping service responsibilities effectively.

3.2 Current Situation Analysis

KNSL operates within a complex maritime and commercial environment influenced by national legislation, government policy, market conditions, and operational capacity. Its performance and sustainability depend on effective compliance, asset management, and service efficiency across all areas of operation.

Legal and Policy Framework

KNSL is governed by the State-Owned Enterprises (SOE) Act 2013, the Companies Act 2013, and its Articles of Association, which define its mandate, governance, and accountability requirements. Operations are guided by key Government policies, including the Kiribati Development Plan (KDP), Kiribati Vision 20 (KV20), and the MICTTD Strategic Plans, emphasizing improved inter-island connectivity and equitable service delivery. While these frameworks provide strong policy direction and support, compliance and reporting obligations add administrative and resource pressures to the Company operation.

Market and Competitive Environment

KNSL remains the primary national carrier providing scheduled inter-island shipping services, particularly to remote and commercially unviable routes. Competition from private operators is limited to profitable or charter-based services, often at higher rates. This reinforces KNSL's national role but limits market flexibility. Rising fuel prices, low cargo volumes, and seasonal demand fluctuations continue to constrain financial performance and profitability.

Physical Assets and Equipment

KNSL currently owns and operates five vessels, including three landing crafts (*L.C. Aratobwa*, *L.C. Linnix*, and *L.C. Marin Mainiku*), a Tug and Barge (*I-Tungaru* and *Motinnano*), and its newest vessel, a small fast ferry, *Tobwaiko*. The two main landing crafts, *Aratobwa* and *Linnix*, have expired seaworthiness certificates as of 2024 and urgently require dry docking to regain certification. Meanwhile, *L.C. Marin Mainiku* and the Tug and Barge require major maintenance and repairs to ensure operational safety, reliability, and compliance with maritime regulations.

This situation presents significant operational and financial challenges, limiting service reliability and increasing maintenance risks. Investment in fleet renewal, spare parts inventory, and asset management systems is therefore a top strategic priority. To sustain essential national shipping services, Government intervention through consistent CSO funding is critically needed to address maintenance and fleet renewal requirements.

Shipping Services and Supply Chain

KNSL provides monthly and near-monthly shipping services to all islands, including the Line and Phoenix groups. However, irregular CSO funding, limited cargo availability, and logistical delays affect service reliability. Supply chain issues, especially in fuel, materials, and spare parts further impact operations and ships' voyage scheduling consistency.

Business Systems and Resources

The Company is upgrading its digital systems to strengthen operations, finance, and human resource management. However, limited ICT capacity, skills shortages, and using manual processes reduce operation's efficiency. Strengthening the Company organizational structure, HR capacity, and implementing modern enterprise systems or adoption of digital processing systems are essential to improving performance and sustainability.

3.3 Summary, Business Risks and SWOT Analysis

Business Risks and SWOT Analysis

The overall assessment highlights that KNSL continues to play a critical national role in ensuring safe, reliable, affordable and sustainable maritime connectivity across all islands of Kiribati. The Company operates under a strong legal and policy framework that supports its public service mandate but faces considerable financial, operational, and infrastructure challenges.

Aging vessels, irregular CSO funding, and limited digital and maintenance capacity continue to constrain performance. Despite these challenges, KNSL's strategic importance, experienced workforce, and Government backing provide a solid foundation for improvement. The priority moving forward is to stabilize operations, renew the fleet, improve digital

recording and processing systems, and enhance financial sustainability through cost control, service diversification, and stronger partnerships with Government and stakeholders.

Business Risks

KNSL's business environment is influenced by several risks that affect its operational performance and long-term viability. The key risks include:

a) Financial Risks

- Irregular and insufficient CSO allocations affecting cash flow and service continuity.
- Rising fuel prices, port fees, and maintenance costs reducing profitability.
- Delayed payments by Government ministries and other customers.

b) Operational Risks

- Aging fleet resulting in increased downtime, higher maintenance costs, and potential service disruptions.
- Limited spare parts availability and inadequate maintenance infrastructure.
- Dependence on a small fleet, increasing vulnerability to mechanical failures or accidents.
- Depleted workboats, and lack of proper machinery (crane truck, forklift etc) to handle cargoes efficiently.

c) Human Resource and Capacity Risks

- Shortage of skilled technical personnel, particularly in marine engineering and ship operations.
- Need for continuous training to maintain safety, compliance, and service standards.

d) External and Environmental Risks

- Adverse weather and sea conditions affecting schedules and vessel safety.
- Rising compliance obligations under international maritime conventions.
- Global fuel price fluctuations and geopolitical uncertainties impacting supply chains.

e) Strategic and Governance Risks

- Limited investment in digital systems and data-driven decision-making tools.
- Challenges in balancing commercial viability with public service obligations.

SWOT Analysis

Strengths	Weaknesses
- Strong Government ownership and support. - Experienced and dedicated workforce. - Strategic role in national transport and connectivity. - Compliance with SOE Act and good governance framework.	- Aging fleet and inadequate maintenance capacity. - Irregular CSO funding and limited capital for reinvestment. - Limited digitalization and manual systems. - Small fleet size, leading to operational vulnerability.
Opportunities	Threats

- Fleet renewal and expansion supported by Government and donor funding.	- Rising fuel and port costs affecting profitability.
- Improved service efficiency through digital transformation.	- Climate change impacts and severe weather events.
- Strengthened partnerships with regional and international agencies.	- Global supply chain disruptions and cost escalations.
- Development of new inter-island and international routes (e.g., Line Islands service via L.C. <i>Marin Mainiku</i>).	- Competition from private sector or foreign operators in future.

3.4 Leading to Specific Challenges and Focus of Planning Period

The assessment of KNSL's operational, financial, and regulatory environment highlights a number of persistent and emerging challenges that will shape the Company's strategic direction over the next planning period. While KNSL remains committed to fulfilling its dual mandate of providing safe, reliable, affordable, and sustainable shipping services alongside maintaining commercial viability, the following key challenges require targeted and coordinated responses:

3.4.1 Key Challenges

Aging Fleet and Asset Condition

Two of the existing fleet is beyond their optimal operational life, with urgent needs for dry docking, heavy maintenance, and eventual vessel replacement. The lack of modern, fuel-efficient vessels affects service reliability, safety compliance, and cost-efficiency.

Financial Sustainability and Funding Gaps

Irregular and insufficient CSO funding, coupled with rising operational costs, continues to constrain cash flow and limit KNSL's ability to reinvest in asset renewal, staff development, and service expansion. The current pricing structure also requires regular review to reflect the true cost of service delivery while maintaining affordability.

Operational Efficiency and System Modernization

Outdated administrative, financial, and fleet management systems reduce productivity and hinder real-time monitoring. Digital upgrading is essential to improve operational control, reporting accuracy, and decision-making and operational efficiency.

Human Capital and Institutional Capacity

A shortage of specialized technical personnel, coupled with limited career development pathways, affects service quality and continuity. Strengthening workforce capability, welfare, and performance culture will be vital to achieving operational excellence.

Infrastructure and Support Facilities

Inadequate port infrastructure, limited warehouse space, and the absence of local dry docking facilities increase costs and reduce service turnaround efficiency. Investment in supporting maritime infrastructure remains critical for safe and timely service delivery.

Governance and Policy Alignment

Maintaining a balance between KNSL's commercial goals and its communities service

obligations requires improved coordination with Government ministries and alignment with national development priorities under the KDP, KV20, and Motinnano.

3.4.2 Focus of the Planning Period

In response to these challenges, KNSL's focus for the planning period will be on achieving operational sustainability, financial resilience, and service reliability through the following strategic priorities:

- **Fleet Renewal and Maintenance Modernization** – Investing in vessel replacement, dry docking, and asset management systems to improve safety and operational efficiency.
- **Financial Sustainability and Revenue Growth** – Enhancing cost control, reviewing freight and passenger rates, securing consistent CSO funding, and exploring new income-generating services and partnerships.
- **Digital Upgrading and Systems Improvement** – Upgrading administrative, financial, and operational systems to support efficient, transparent, and data-driven management.
- **Human Resource Development and Institutional Strengthening** – Implementing structured training, clear workforce planning, and welfare programs to build capability and retention.
- **Governance, Infrastructure, and Stakeholder Engagement** – Strengthening policy alignment, upgrading support facilities, and deepening collaboration with Government and development partners for long-term growth.

In summary, the planning period will therefore prioritize stability, modernization, and growth, ensuring that KNSL maintains its essential national role while progressively strengthening its financial and operational foundation. These priorities form the basis of the strategic objectives, actions, and performance targets presented in the next section.

4. PLANNING PERIOD OBJECTIVES

4.1 Reconciliation of Key Challenges to Identify Planning Period Objectives

The analysis of KNSL's current operating environment and the key challenges outlined in Section 3.4 has provided a clear foundation for determining the strategic objectives of the upcoming planning period. These challenges—spanning operational, financial, regulatory, and institutional dimensions—have been systematically assessed and translated into targeted priorities that align with the Company's mission and vision.

KNSL's planning framework translates the identified constraints—such as the aging fleet, financial pressures, limited digital systems, and human resource challenges—into four broad and integrated objectives. Each objective provides a focused pathway for improving operational efficiency, financial performance, and service reliability across the Kiribati islands.

The reconciliation of challenges to objectives is as follows:

Challenge: Aging fleet, high maintenance costs, and declining seaworthiness of key vessels.

Objective 1: *Ensure Safe, Reliable, Affordable, and Sustainable Shipping Services to All Kiribati Islands.*

This objective responds to the urgent need for fleet renewal, vessel maintenance, and

improved scheduling to enhance service reliability, safety compliance, and affordability for all island communities.

Challenge: Limited port and support infrastructure, affecting cargo handling and service efficiency. In addition, cash flow problem has caused delays in upgrading ships seaworthiness.

Objective 2: *Develop and Maintain Supporting Maritime Infrastructure to Satisfy Current and Anticipated Demands.*

This objective emphasizes investment in passenger terminals, warehouse upgrades, maintenance facilities, and other maritime infrastructure essential for efficient operations and national connectivity.

Challenge: Outdated business systems, insufficient policy compliance, and limited workforce capability.

Objective 3: *Enhance Corporate Service Effectiveness through Employee Engagement, Capacity Building, Digital Upgrading, Policy Update, and Compliance.*

This objective focuses on modernizing administrative and financial systems, strengthening human capital, ensuring compliance with corporate and statutory requirements, and improving communication and governance across all levels.

- **Challenge:** Financial instability, irregular CSO support, and limited revenue diversification.

Objective 4: *Enhance 20% Growth of Profit Margin Within 12 Months Through Maximising Revenue from Shipping Services, Cost Control, Exploring Investment Opportunities, and Implementing Proactive Risk Mitigation Measures.*

- **Summary**

Through this reconciliation, KNSL ensures that its four strategic objectives are firmly grounded in the realities of its operational environment and directly address the core challenges identified. These objectives will guide planning, resource allocation, and performance monitoring over the planning period, ensuring that KNSL continues to deliver on its dual mandate—serving the nation’s maritime needs while achieving commercial sustainability.

4.2 Statement of Objectives to Accomplish by the End of the Planning Period

The following table summarizes the key risks and challenges faced by KNSL in relation to its four strategic objectives, along with comments on their implications for operations, financial performance, and long-term sustainability.

Key Risks/Challenges (Linked to Strategic Objectives)	Comments/Implications
Objective 1: Ensuring Safe, Reliable, Affordable, and Sustainable Shipping Services	Aging vessels (<i>L.C. Aratobwa</i> and <i>L.C. Linnix</i>) have exceeded seaworthiness certification; <i>L.C. Marin Mainiku</i> and Tug & Barge require heavy maintenance. These conditions pose safety, operational, and financial risks if not addressed promptly through fleet renewal and dry docking.

Operational Disruptions and Limited Service Reliability	Weather conditions, port infrastructure limitations, and mechanical failures cause voyage delays and increased costs, impacting service reliability and customer confidence.
Compliance and Safety Management	Maintaining full compliance with national and international maritime safety standards requires continuous training, audits, and investment in vessel certification.
Objective 2: Developing and Maintaining Supporting Maritime Infrastructure	Inadequate port facilities, storage capacity, and maintenance infrastructure increase turnaround times and limit operational efficiency. Requires sustained Government and donor investment support.
Infrastructure Upgrade Delays	Funding and procurement delays affect progress on critical projects such as passenger terminals, warehouses, and life raft servicing centers.
Objective 3: Enhancing Corporate Service Effectiveness	Limited digital systems hinder efficiency, data accuracy, and decision-making. Upgrading business systems and digitizing records are essential for effective management.
Workforce and HRM Limitations	Shortage of qualified marine engineers and crew, along with limited training opportunities, constrains service quality. Staff welfare and performance management systems require strengthening.
Governance and Policy Alignment	Need for consistent application of governance frameworks and alignment with SOE Act and Ministry oversight to enhance accountability and transparency.
Objective 4: Increase Profit Margin by 20% Annually	Rising operational costs (fuel, port charges, and overseas maintenance) threaten profitability. Effective cost control, freight rate reviews, and diversification of revenue sources are critical.
Inconsistent CSO Funding	Irregular and insufficient CSO support undermines service continuity on non-commercial routes, leading to operational deficits and liquidity strain.
Market Competition and Economic Factors	Private operators compete on profitable routes, while global price fluctuations and supply chain constraints affect KNSL's operating costs and margins.

5. STRATEGIC ACTIONS TO SATISFY OBJECTIVES

5.1 Strategic Actions Matrix

Objectives & Strategic Actions	Responsible Dept / Who	Resources Required
Objective 1: Provide Safe, Reliable, Affordable, and Sustainable Shipping Services to all of the Kiribati islands	Operations Manager, Fleet Manager, Safety & Compliance Officer	Fleet maintenance budget, safety equipment, fuel, training programs, scheduling software

Maintain regular scheduled services to all islands, including remote and commercially unviable routes	Operations Manager	Voyage scheduling systems, vessel capacity planning, fuel, operational staff
Conduct fleet safety inspections, maintenance, and certification	Fleet Manager, Safety Officer	Maintenance facilities, spare parts, dry docking funds, technical staff
Strengthen customer feedback mechanisms and service quality	Customer Service Manager	Feedback systems, communication tools, staff training
Implement operational planning and emergency response protocols	Operations Manager	Contingency plans, communication tools, staff training
Apply sustainable practices in fuel use and waste management	Operations Manager	Training programs, eco-friendly equipment, environmental monitoring
Maintain regular scheduled services to all islands, including remote and commercially unviable routes	Operations Manager	Voyage scheduling systems, vessel capacity planning, fuel, operational staff
Conduct fleet safety inspections, maintenance, and certification	Fleet Manager, Safety Officer	Maintenance facilities, spare parts, dry docking funds, technical staff
Strengthen customer feedback mechanisms and service quality	Customer Service Manager	Feedback systems, communication tools, staff training
Implement operational planning and emergency response protocols	Operations Manager	Contingency plans, communication tools, staff training
Objective 2: Build Supporting Maritime Infrastructure to Satisfy the Current and Anticipated Demands	Infrastructure & Logistics Manager, Finance Manager, Head Office	Capital investment, CSO funding, donor support, construction contracts, asset management systems
Work with KPA and MLPID to build ramp in London, Kiritimati for safer and calm area	Infrastructure Manager	Construction funds, equipment, technical contractors
Construct and maintain supporting facilities (warehouses, terminals, servicing centers)	Infrastructure & Logistics Manager	Capital funding, design & construction teams, project management
Establish fleet support and maintenance infrastructure	CEO/Operations Manager & Ship Senior Officers	Dry docking facilities, workshops, technical staff, spare parts

Implement asset management and stock control systems	CEO/Internal Auditor/FM/CSM	Inventory software, staff training, storage facilities
Mobilize investment and funding for infrastructure development	CEO, Finance Manager	Government/Donor support, grant applications, budget allocations
Objective 3: Enhance Corporate Services Efficiency	CEO, CSM, Finance Manager, IT Officer	Workforce and HRD plans, training budgets, digital systems, policy manuals, board oversight, meeting schedules
Enhance digital administrative, operations & fleet, finance and HR systems	IT Officer/CEO, Managers	Software, licenses, IT staff, training programs
Strengthen workforce capability through training and HRD programs	HR Manager	Training budgets, trainers, HR policies, performance evaluation tools
Ensure governance and policy compliance	CEO, Board, Compliance Officer	Governance manuals, audits, reporting systems
Improve planning and coordination (work plans, monthly budget review, meetings)	CEO, Managers	Planning templates, budget tools, meeting schedules
Maintain updated organizational structure, staffing and HRD plans	HR Manager, CEO	Workforce plans, recruitment systems, HR policies
Objective 4: Enhance 20% Growth of Profit Margin Within 12 Months	CEO, Finance Manager, Corporate Service Manager, Operations Manager	Cost control tools, revenue tracking systems, market research, CSO funding, partnership agreements
Implement cost control and operational efficiency measures	Operations Manager, Finance Manager	Cost monitoring tools, fuel & maintenance optimization, staff training
Review and adjust freight and passenger fare rates regularly	Commercial Manager, Finance Manager	Market analysis, pricing models, customer engagement data
Explore new revenue streams and partnerships	CEO, Commercial Manager	Business development staff, partnership agreements, investment resources
Identify and mitigate financial, operational, and market risks	CEO, Finance Manager, Risk Officer	Risk management framework, monitoring systems, contingency funds

Track performance through profit margin, revenue, and operational KPIs	Finance Manager, Operations Manager	KPI dashboards, reporting software, data collection systems
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- Each key action under an objective is linked to a specific responsible group and the resources required.
- This matrix provides a practical operational guide to implementing KNSL's strategic objectives.
- It can be used for planning, monitoring, and reporting progress across all strategic priorities.

5.2 Progress KPIs for Multi-Year Strategies

Certain strategic initiatives, such as fleet renewal, infrastructure development, corporate IT upgrading, and financial sustainability, require multi-year implementation. To track incremental progress, KNSL will use a combination of financial and non-financial KPIs, aligned with the Company's mission to provide safe, reliable, affordable, and sustainable shipping services, while achieving commercial sustainability.

Annual Progress KPIs (2026–2028)

Strategic Initiative	Progress KPI (Financial & Non-Financial)	Target / Milestone by Year
Fleet Renewal and Maintenance Modernization	- Number of vessels meeting seaworthiness certification (non-financial) - Expenditure on fleet maintenance and dry-docking vs. budget (Financial)	2026: 50% of vessels certified, 100% maintenance budget allocated 2027: 80% certified, budget utilization $\geq 95\%$ 2028: 100% certified, budget fully utilized and approved
Infrastructure Development (terminals, warehouses, servicing centres)	- Percentage of infrastructure projects completed (Non-Financial) - Capital expenditure vs. approved budget (Financial)	2026: 50% completed, $\geq 90\%$ budget utilization 2027: 75% completed, $\geq 95\%$ budget utilization 2028: 100% completed, final budget review completed
Corporate Services Effectiveness: Digital Systems and Corporate Modernization	- Percentage of administrative, HR, and financial records digitized (Non-Financial) - Reduction in administrative processing time / efficiency gains (Non-Financial) - Implementation cost vs. budget (financial)	2026: 70% records digitized, 20% reduction in processing time 2027: 90% digitized, 30% efficiency gain 2028: 100% digitized, full operational efficiency achieved

Corporate Services Effectiveness: Human Resource and Capacity Building	- Number/percentage of staff trained (non-financial) - Staff performance rating vs. targets (non-financial) - Training expenditure vs. budget (Financial)	2026: ≥80% staff trained, ≥75% meeting targets 2027: ≥80% staff trained, ≥80% meeting targets 2028: ≥80% staff trained, ≥85% meeting targets
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6. SUPPORT FOR GOVERNMENT POLICIES

6.1 Statement of Compliance with relevant Government Policies

KNSL confirms that its operations, planning, and decision-making comply with all relevant Government policies and regulations, including the Kiribati Development Plan (KDP), Kiribati Vision 20 (KV20), SOE governance standards, and Community Service Obligation (CSO) agreements. Where phased projects are in progress, KNSL is implementing structured plans to achieve full compliance, ensuring its services remain safe, reliable, affordable, and sustainable, while advancing national development objectives and commercial viability.

Policies and Frameworks Fully Complied With:

- **Kiribati Development Plan (KDP) – Key Policy Area 6:** KNSL contributes to improved inter-island transport systems and equitable access to all islands, including remote and commercially unviable locations.
- **Kiribati Vision 20 (KV20):** Supports long-term national economic development through inclusive maritime transport and improved connectivity.
- **State-Owned Enterprise (SOE) Governance Requirements:** KNSL submits quarterly and annual financial and non-financial reports to shareholding Ministers and complies with SOI/SCI performance targets.
- **Community Service Obligation (CSO) Agreements:** Operations on uneconomic routes, vessel maintenance, and adherence to Government-mandated service standards.
- **Maritime Safety and Environmental Regulations:** All vessels undergo regular inspections, maintenance, and crew training to comply with national and international maritime safety standards.
- **Financial and Administrative Policies:** Revenue, payment, debt collection, fixed assets, and depreciation policies are implemented in line with Government guidelines.
- **Employment and HR Policies:** HR management, staff welfare, training, and performance management comply with relevant labour laws and Government directives.

Policies/Requirements Currently Partially Complied With or Under Review:

- **Fleet Modernization and Dry-Docking Requirements:** Two key vessels (*L.C. Aratobwa* and *L.C. Linnix*) exceeded seaworthiness certification in 2024. Full compliance is pending dry docking and fleet renewal, contingent on CSO funding and capital investment.
- **Digital Systems Modernization:** While progress is underway, full digitization of administrative, HR, and financial systems has not yet been achieved due to resource constraints.
- **Infrastructure Development Standards:** Some port and terminal upgrade projects are delayed due to funding and procurement challenges; full compliance will be achieved progressively by 2028.

Rationale for Partial Compliance:

- Limited financial resources and reliance on CSO funding restrict immediate implementation of fleet renewal, infrastructure upgrades, and digital system modernization.
- Complex multi-year projects require phased implementation and continuous Government support for full alignment with strategic and regulatory requirements.

6.2 Community Services, Nature of Community Service & Claims for CSO Support for the Planning Period (2026-2028)**6.2.1 Community Service Obligations**

KNSL is mandated to provide safe, reliable, affordable, and sustainable shipping services to all islands of Kiribati, including those that are remote and commercially unviable. In fulfilling this national obligation, KNSL undertakes Community Service Obligations (CSO) as agreed with the Government to ensure equitable access, national connectivity, and inclusive socio-economic development.

The CSO arrangement is essential for balancing KNSL's dual mandate — serving as a commercially viable enterprise while fulfilling its public service role by maintaining regular inter-island services across the nation.

6.2.2 Nature of Community Services

KNSL's CSO responsibilities encompass the following non-commercial but nationally significant services:

Regular Inter-Island Shipping Services:

Maintain monthly and near-monthly shipping services to all Kiribati islands, including remote and uneconomic routes such as:

- Banaba Island
- Northern and Southern Gilbert Islands
- Central Islands (Nonouti, Tabiteuea North, Tabiteuea South)
- Southern Islands (Onotoa, Beru, Nikunau, Tamana, Arorae)
- Line and Phoenix Islands - primarily serviced by *L.C. Linnix* since 2021, despite operating losses.

Passenger and Cargo Transport Services:

Transport passengers, essential goods, food supplies, educational materials, construction equipment, and government cargo to ensure access to essential services.

Support for National Programs:

Provide logistical support for Government ministries, NGOs, and development programs in health, education, environment, and disaster relief.

Fleet Maintenance and Safety Compliance:

Maintain and operate vessels in compliance with maritime safety and environmental standards, including dry-docking, repair, and crew certification.

Infrastructure Support:

Maintain terminals, warehouses, and loading facilities to ensure efficient and safe handling of passengers and cargo.

These activities, while essential to national development and social welfare, generate limited or no commercial returns, necessitating Government CSO funding to sustain operations.

6.2.3 Financial Claims for CSO Support (2026–2028)

The following table outlines the projected CSO funding requirements for the next three years, reflecting operational shortfalls and essential maintenance for sustaining services to remote islands:

Year	CSO Activities Covered	Estimated CSO Funding (AUD / Equivalent)	Key Notes
2026	Maintain full inter-island shipping schedule, including remote routes; dry-docking of <i>L.C. Aratobwa</i> and <i>L.C. Linnix</i> ; operational subsidy for uneconomic routes.	\$1.5 m	Addresses immediate vessel maintenance and operational cost recovery.
2027	Continued CSO services; heavy maintenance of <i>Tug & Barge</i> and <i>L.C. Marin Mainiku</i> ; operational support for Line and Phoenix Islands.	\$1.2 m	Sustains essential service continuity and vessel safety compliance.
2028	Maintain monthly services to all islands; renewal of fleet components; support for digital operations and customer service systems.	\$0.800 m	Supports full-service reliability and modernization toward self-sufficiency.

6.2.4 Rationale for Continued CSO Funding

Consistent annual CSO funding remains **vital to KNSL's operations** for the following reasons:

- **Ensures uninterrupted services** to remote and low-demand islands, which are essential for social inclusion and national unity.
- **Offsets operational losses** on non-commercial routes, preserving financial stability for the Company.
- **Supports vessel maintenance** and compliance with safety regulations.
- **Promotes equitable development** by enabling all islands to participate in trade, access essential supplies, and benefit from government services.
- **Aligns with national policy goals** under the Kiribati Development Plan (KDP), Kiribati Vision 20 (KV20), and Government maritime transport priorities.

KNSL respectfully requests the Government's continued commitment to **annual CSO support** throughout the 2026–2028 planning period to ensure that the Company can effectively fulfil its national mandate while progressing toward long-term financial and operational sustainability.

6.3 Statement of Support from Government and / or Development Partners

KNSL acknowledges that consistent support from the Government and development partners is critical for sustaining essential shipping services and achieving its strategic objectives. This support primarily comes through Community Service Obligation (CSO) funding, capital investment for fleet and infrastructure, and technical assistance from development partners.

During the 2026–2028 planning period, KNSL anticipates ongoing and new support initiatives focused on fleet renewal, safety compliance, capacity building, and infrastructure improvement. The table below provides a summary of current and proposed partnerships, including placeholders for pending or anticipated projects.

Table: Government and Development Partner Support (2026–2028)

Partner / Agency	Nature of Support	Purpose / Project	Type of Assistance	Estimated Financial Value (AUD)	Status / Remarks
Government of Kiribati (GoK)	Community Service Obligation (CSO) Funding	Subsidy for non-commercial inter-island routes	Annual operational grant	1,200,000 per year	Supports essential services to remote islands; review annually.
Government of Kiribati (GoK) / China	Capital Investment Support	Fleet renewal, vessel dry-docking, and maintenance	Capital grant	4,500,000 (2026–2027)]	Required to replace ageing vessels (L.C. Aratobwa, L.C. Linnix).
Ministry of Information, Communication, Transport & Tourism Development (MICTTD)	Policy and Regulatory Support	Oversight, maritime standards enforcement, and compliance guidance	Technical / regulatory	N/A	Ongoing collaboration; supports regulatory compliance.
China/JICA	Infrastructure and Institutional Strengthening	Potential co-financing for new vessel or port facility upgrades	Loan / grant	5,000,000 (proposed 2027)	Under consideration; awaiting Government approval.

AusAID / NZAID	Technical Assistance & Training	Crew safety, maintenance training, and management systems	In-kind / grant	250,000 over 3 years	Supports safety compliance and operational efficiency.
Australia / New Zealand (DFAT / MFAT)	Capacity Building and Advisory Support	Business systems, digitalisation, and corporate governance enhancement	Grant / technical assistance	400,000 (2026–2028)	Strengthens financial and administrative management systems.
Pacific Community (SPC)	Maritime Safety & Environmental Support	Marine pollution prevention and safety audits	Technical assistance	GoK	Partnership to enhance sustainability and safety frameworks.

KNSL's strategic objectives for **2026–2028** will be achieved through sustained partnerships with the Government of Kiribati and development agencies. These collaborations provide the financial base and technical capacity necessary for the Company to maintain essential services, modernize its fleet, and progressively enhance performance and safety standards while moving toward long-term financial sustainability.

6.4 Statements of Financial Capacity and Details of Any External Borrowings

KNSL operates as a hybrid public–commercial enterprise, providing both essential national shipping services and commercial operations. Its financial capacity is primarily dependent on the Government of Kiribati, with revenue derived mainly from operational income and Community Service Obligation (CSO) funding that supports uneconomic but socially essential routes.

At present, the Company has no external borrowings or long-term debt, demonstrating prudent financial management and a conservative approach to financing. However, any borrowing or external financing undertaken by the Company is subject to the approval of the Government of Kiribati, ensuring that all financial commitments remain consistent with national fiscal policies and priorities.

This financial structure reflects both the Company's discipline in managing its limited financial resources and its reliance on Government oversight for major capital or financing decisions. Nevertheless, it also highlights the Company's limited financial independence, as internally generated revenues are insufficient to fund vessel renewal, infrastructure maintenance, and other strategic investments required to sustain reliable and affordable services.

The Company's future financial capacity will depend on the following key factors:

- Continued Government support through annual CSO allocations and capital investment grants;
- Improved operational efficiency through cost control, digital systems, and optimized scheduling;

- Strengthened financial management systems, budgeting, and reporting to enhance transparency and accountability;
- Collaboration with development partners to mobilize co-financing and technical assistance for fleet modernization and infrastructure upgrades.

Overall, the Company remains financially stable but reliant on Government approval and support to sustain operations, achieve its strategic objectives, and maintain its dual role of delivering reliable, affordable, and sustainable shipping services while pursuing commercial viability.

6.5 Statements of Financial Capacity – Dividends and Dividend Policy

KNSL currently does not have a formal dividend policy and has not declared or paid any dividends to date. This position reflects the Company's ongoing financial constraints and its continued dependence on Government funding to maintain essential shipping services and meet operational obligations.

During the 2026–2028 planning period, no dividend payments are proposed, as all available resources will be directed toward operational sustainability, vessel maintenance, fleet renewal, and service improvement.

Once the Company achieves a stable financial footing and consistent profitability, KNSL will develop a Dividend Policy in consultation with the Board and the shareholding Ministers to guide future profit distribution, ensuring that dividends are paid only when financially prudent and aligned with the Company's strategic and public service objectives.

6.6 Any Other Matters as Agreed with the Responsible Ministers

KNSL acknowledges its ongoing commitment to maintain open communication and collaboration with the Responsible and Shareholding Ministers in accordance with the State-Owned Enterprises Act and related governance frameworks.

During the 2026–2028 planning period, the Company will continue to engage with the Ministers on matters of mutual interest, including:

The continued provision of Community Service Obligation (CSO) funding to sustain uneconomic routes;

- The replacement and maintenance of aging vessels to ensure safety, compliance, and service continuity;
- Implementation of digital and administrative reforms to strengthen operational efficiency and transparency;
- Ongoing alignment of KNSL's strategic direction with national development priorities under the Kiribati Development Plan (KDP) and Kiribati Vision 20 (KV20); and
- Any other policy, financial, or governance matters that may arise during the planning period requiring Ministerial guidance or approval.

KNSL remains committed to full transparency and accountability in all engagements with the Government and will promptly address any additional matters as they are agreed with the Responsible Ministers in the spirit of partnership and national service.

6.7 Financial Risk Management Statement

KNSL operates within a complex and resource-constrained environment that exposes the Company to several financial and operational risks. These include fluctuations in fuel costs, aging fleet and asset depreciation, delayed CSO or grant funding, and limited cash reserves.

To mitigate these risks, the Company will strengthen its financial planning and control systems, improve cash flow management, and enhance budget monitoring through regular reporting and review. KNSL will also implement tighter cost management measures, pursue timely Government funding approvals, and adopt an asset management strategy that ensures maintenance and fleet renewal are adequately prioritized.

The Board and Management will maintain ongoing oversight of financial risks through structured reviews, internal controls, and compliance with SOE governance standards, ensuring the Company remains financially stable while fulfilling its national service obligations.

7. FINANCIAL FORECASTS

7.1 Statement of Financial Performance

Kiribati National Shipping Line Ltd Forecasted Profit & Loss Account For Fiscal Years 2025 - 2028						
	ACUTALS		FORECASTED			
	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
REVENUE						
Core Operations Revenue	4,192,831	5,420,415	5,691,436	5,976,007	6,274,808	6,588,548
Non-Core Revenue	278,203	308,088	323,492	339,667	356,650	374,482
Government Grant	476,006	-	700,000	500,000	500,000	500,000
REVENUE	4,947,040	5,728,503	6,714,928	6,815,674	7,131,458	7,463,031
EXPENSES						
Core Personnel Costs	1,619,911	2,261,609	2,329,457	2,399,341	2,471,321	2,545,460
Core Operating Expenses	1,631,187	2,042,746	2,107,728	2,170,960	2,236,089	2,303,172
Non Core Operating Expenses	397,907	326,604	338,697	348,820	359,248	369,987
EXPENSES	3,649,005	4,630,959	4,775,882	4,919,121	5,066,657	5,218,619
PROFIT BEFORE DEPRECIATION	822,029	1,097,544	1,939,046	1,896,553	2,064,801	2,244,411
Depreciation	1,089,742	1,597,656	1,600,000	1,600,000	1,600,000	1,600,000
OPERATING PROFIT	(267,713)	(500,112)	339,046	296,553	464,801	644,411
Exceptional Items	(998,664)	(865,299)	863,382	861,408	859,374	857,279
NET PROFIT/(LOSS)	730,951	365,187	1,202,428	1,157,961	1,324,175	1,501,690

7.2 Statement of Financial Position

Kiribati National Shipping Line Ltd
Forecasted Balance Sheet
For FISCAL YEARS 2025 - 2028

	ACTUALS		FORECASTED			
	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Cash & Cash Equivalent						
Undeposited Funds	27,807	-	-	-	-	-
Petty Cash Imprest	2,148	2,148	1500	1500	1500	1500
Cash at Bank	(57,457)	91,426	759,477	1,610,277	3,239,480	4,732,420
Total Cash & Cash Equivalent	(27,502)	93,574	760,977	1,611,777	3,240,980	4,733,920
Receivables	721,530	943,715	1,501,286	1,868,056	1,689,351	1,842,216
Trade Debtors	655,453	764,996	1,508,984	1,950,321	1,816,356	1,996,065
Less Prov. for Doubtful Debts	(194,115)	(194,115)	(194,115)	(194,115)	(194,115)	(194,115)
Total Receivables	461,338	570,881	1,314,869	1,756,206	1,622,241	1,801,950
Other Current Assets	260,192	372,834	186,417	111,850	67,110	40,266
Total Current Assets	694,028	1,037,289	2,262,263	3,479,833	4,930,331	6,576,136
Current Liabilities	359,537	370,636	222,382	111,191	66,714	40,029
Working Capital	334,491	666,653	2,039,881	3,368,642	4,863,617	6,536,107
Fixed Assets (NBV)	11,882,010	10,628,094	9,528,094	8,428,094	7,328,094	6,228,094
Net Worth	12,216,501	11,294,747	11,567,975	11,796,736	12,191,711	12,764,201
Shareholders' Equity:						
Share Capital	500	500	500	500	500	500
Aid Reserve - Gov't of China	8,910,000	7,772,333	6,843,133	5,913,933	4,984,733	4,055,533
Retained Earnings	2,574,696	3,158,494	3,523,681	4,726,109	5,884,069	7,208,244
Current Year Earnings	731,305	365,187	1,202,428	1,157,961	1,324,175	1,501,690
Previous Years Retained earnings	-	(1,767)	(1,767)	(1,767)	(1,767)	(1,767)
Total Shareholders' Equity	12,216,501	11,294,747	11,567,975	11,796,736	12,191,711	12,764,201

7.3 Statement of Cash Flow

KIRIBATI NATIONAL SHIPPING LTD						
Forecasted Cash Flow						
For FISCAL YEARS 2025 - 2028						
	ACTUALS		FORECASTED			
	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Cash flow from operating activities						
Receipts from customers	4,129,297	5,436,673	5,029,035	5,971,143	6,865,423	7,023,509
Payments to employees	(1,379,395)	(2,153,655)	(2,551,838)	(2,532,770)	(2,538,035)	(2,668,487)
Payments to suppliers	(2,442,266)	(2,607,967)	(2,009,794)	(2,587,573)	(2,698,185)	(2,862,083)
Net Cash flow from Operating Activities	307,636	675,051	467,402	850,801	1,629,203	1,492,940
Cash flow from investing activities						
Purchase of fixed assets	(940,516)	(553,975)	(500,000)	(500,000)	(500,000)	(500,000)
Net Cash flow from Investing Activities	(940,516)	(553,975)	(500,000)	(500,000)	(500,000)	(500,000)
Cash flow from financing activities						
Government Subsidy	476,006	-	700,000	500,000	500,000	500,000
Government Injection - CEO Salary & Allowance	-	-	-	-	-	-
Net Cash flow from Financing Activities	476,006	-	700,000	500,000	500,000	500,000
Net Cash Flow	(156,874)	121,076	667,402	850,801	1,629,203	1,492,940
Cash and Bank Balances - Beginning	129,371	(27,502)	93,574	760,977	1,611,777	3,240,980
Cash and Bank Balances - Ending	(27,502)	93,574	760,977	1,611,777	3,240,980	4,733,920
Note A - Details of Cash and Bank Balances						
Undeposited Funds	27,807	-	-	-	-	-
Cash Float	2,148	2,148	1,500	1,500	1,500	1,500
Bank Account No.1 - Tarawa	(57,457)	91,426	759,477	1,610,277	3,239,480	4,732,420
Cash & Cash equivalent as at 31/12/24	(27,502)	93,574	760,977	1,611,777	3,240,980	4,733,920

7.4 Agreed Financial Ratio's showing for Each Year

RATIOS	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Return of Equity %	6%	3%	10%	10%	11%	12%
Return of Asset %	6%	3%	10%	10%	11%	12%
Current Ratio	1.9	2.8	10.2	31.3	73.9	164.3
Net Profit After Tax %	15%	6%	18%	17%	19%	20%

7.5 Details of Key Assumptions that Influence the above Forecasts

- All anticipated revenue forecast increases by 5% every year
- All anticipated expenditure forecasted increases by 3% every year

7.6 Breakdown of the Statement of Financial Performance Forecasts

Kiribati National Shipping Line Ltd Forecasted Profit & Loss Account For FISCAL YEARS 2025 - 2028						
	ACTUALS		FORECASTED			
	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
REVENUE						
Core Operations						
Pax Fare Out	176,792	263,028	276,180	289,989	304,488	319,712
Pax Fare In	43,527	94,311	99,027	103,978	109,177	114,636
Cargo Freight Out	1,149,041	1,429,647	1,501,129	1,576,186	1,654,995	1,737,745
Cargo Freight In	36,314	70,067	73,571	77,249	81,112	85,167
Freezer Freight Out	228	857	899	944	992	1,041
KNSL Xmas Branch Deposit	598,073	665,774	699,063	734,016	770,717	809,252
Cargo Handling Out	211,452	299,150	314,108	329,813	346,304	363,619
Cargo Handling In	2,592	25,738	27,025	28,376	29,795	31,285
Copra Freight In	187,017	250,776	263,315	276,481	290,305	304,820
Copra Handling In	40,501	55,735	58,521	61,447	64,520	67,746
Charter/Diversion	1,732,594	2,264,115	2,377,321	2,496,187	2,620,996	2,752,046
Additional Handling Cost	14,700	1,216	1,277	1,341	1,408	1,479
Total Core Revenue	4,192,831	5,420,415	5,691,436	5,976,007	6,274,808	6,588,548
Non Core Revenue						
Canteen Collection	88,520	59,076	62,030	65,131	68,388	71,807
Vehicle Hire	787	4,100	4,304	4,520	4,746	4,983
Welding Sales	1,824	40	42	44	46	49
Rental Container & Others	2,650	300	315	331	347	365
Rental Office	21,000	41,805	43,895	46,090	48,395	50,814
Rental Electricity Charges	8,710	-	-	-	-	-
Commission - Refund	-	3,438	3,610	3,790	3,980	4,179
Commission - Stevedoring	-	3,067	3,220	3,381	3,550	3,728
Warehouse Sales	710	3,588	3,767	3,956	4,153	4,361
Collection - Document Fee	4,204	6,520	6,846	7,188	7,548	7,925
Collection - Towing Vessel	17,670	-	-	-	-	-
Collection - Other Revenue	56,505	171,393	179,962	188,961	198,409	208,329
Collection - Pure water	668	936	982	1,031	1,083	1,137
Commision income	3,317	-	-	-	-	-
Sundry Income	71,638	13,826	14,518	15,244	16,006	16,806
Total Non-Core Revenue	278,203	308,088	323,492	339,667	356,650	374,482
TOTAL REVENUE	4,471,034	5,728,503	6,014,928	6,315,674	6,631,458	6,963,031
EXPENSES						
Core Personnel Costs						
Wages & Salaries	1,166,515	1,548,080	1,594,522	1,642,358	1,691,629	1,742,377
KPF Contributions	86,751	123,894	127,611	131,439	135,382	139,444
Leave Grant	208,096	380,759	392,182	403,947	416,065	428,547
Sea Going Allowance	55,569	81,663	84,113	86,637	89,236	91,913
Allowances	31,953	27,185	28,000	28,840	29,705	30,597
Housing Subsidy	7,367	6,593	6,790	6,994	7,204	7,420
Salary - CEO Expatriate	63,333	93,167	95,962	98,840	101,806	104,860
Recruitment costs	327	269	277	285	294	303
Total Core Personnel Costs	1,619,911	2,261,609	2,329,457	2,399,341	2,471,321	2,545,460

Core Operating Expenses						
Port Charges	20,033	48,392	49,843	51,339	52,879	54,465
Fuel & Oil - Vessels	912,980	1,094,623	1,127,461	1,161,285	1,196,124	1,232,007
Fuel & Oil - Vehicles	16,116	13,942	14,360	14,791	15,234	15,691
Fuel & Other - Motorbike	319	-	-	-	-	-
Victualling Ration	185,905	244,049	251,370	258,912	266,679	274,679
Repairs & Maint - Vessels	94,101	87,176	89,791	92,485	95,260	98,117
Repairs & Maint - Vehicles	5,331	6,166	6,351	6,541	6,738	6,940
Stevedoring	165,303	324,685	334,425	344,458	354,792	365,435
Spare Parts - Vessels	107,229	66,545	68,541	70,598	72,716	74,897
Spare Parts - Vehicles	1,813	837	862	887	914	941
Repair & Maintenance - Office	28,367	12,168	12,533	12,909	13,296	13,695
Hire of Vehicles & Equipment	33,459	34,356	35,387	36,449	37,542	38,668
Stores & Supplies - Ships	34,210	42,716	43,997	45,317	46,677	48,077
Sea Freight Refund	5,964	23,126	23,820	24,535	25,271	26,029
Sea fare Refund	13,832	26,164	26,949	27,758	28,591	29,448
Cargo Freight Out Refund	257	10,177	10,483	10,797	11,121	11,455
Cargo Freight In Refund	3,616	-	3,700	3,811	3,925	4,043
Cargo claim	2,352	7,625	7,854	8,089	8,332	8,582
Total Core Operating Expenses	1,631,187	2,042,746	2,107,728	2,170,960	2,236,089	2,303,172
Non Core-Operating Expenses	354	542	562	579		
Cleaning Supplies	1,668	1,215	1,251	1,289	1,328	1,367
Printing & Stationery	19,378	18,685	19,246	19,823	20,418	21,030
Canteen Supplies - Aratobwa	50,500	44,334	45,664	47,034	48,445	49,898
Radio License - Ship (CCK)	995	2,980	3,069	3,161	3,256	3,354
Radio License - Shore (CCK)	-	600	618	637	656	675
Board Refreshment	6,656	8,560	8,817	9,082	9,354	9,635
Board Allowances	17,730	37,875	39,011	40,182	41,387	42,629
Local Travel	28,602	48,196	49,642	51,131	52,665	54,245
Local Training	320	4,608	4,746	4,889	5,035	5,186
Overseas Travel	128,345	5,715	5,886	6,063	6,245	6,432
Advertisement & Notices	4,891	2,816	2,900	2,987	3,077	3,169
PUB Electricity	9,951	51,505	53,051	54,642	56,281	57,970
PUB Fresh Water	5,911	8,559	8,816	9,080	9,353	9,633
PUB Sewerage Fee	55	-	150	155	159	164
Computer Supplies & Repairs	5,040	1,359	1,399	1,441	1,484	1,529
Charges - Vodafone	8,895	15,636	16,106	16,589	17,086	17,599
Charges - Tootin Internet	1,700	4,330	4,460	4,594	4,732	4,874
Charges - Website Host fee	495	-	600	618	637	656
Charges - Website Domain	125	3,274	3,373	3,474	3,578	3,685
Charges - Microsoft Office	152	-	200	206	212	219
Charges - Server & Parts	-	2,634	2,713	2,795	2,879	2,965
Fees - Auditors	-	-	1,250	1,250	1,250	1,250
Toll Fare/Registration Fee	758	629	647	667	687	707
Entertainment	23,073	21,279	21,918	22,575	23,252	23,950
Bank & Cheques Charges	6,761	2,557	2,634	2,713	2,794	2,878
Duty Allowance	6,432	6,251	6,438	6,632	6,831	7,035
Vessel Annual Registration	1,971	5,956	6,135	6,319	6,509	6,704
Vehicle Annual Registration	163	263	271	279	288	296
Vessel Annual License fee	6,025	5,781	5,955	6,133	6,317	6,507
Staff Uniform	4,497	600	618	637	656	675
Business License	2,784	4,480	4,614	4,753	4,895	5,042
Accommodation - CEO	-	9,000	9,270	9,548	9,835	10,130
Donations	-	350	361	371	382	394
Other Expenses	30,415	6,569	6,766	6,969	7,178	7,393
Sundry Expenses	11,855	5	100	103	106	109
Total Non Core Operating Expenses	397,907	326,604	338,697	348,820	359,248	369,987
TOTAL EXPENSES	3,649,005	4,630,959	4,775,882	4,919,121	5,066,657	5,218,619
PROFIT BEFORE DEPRECIATION	822,029	1,097,544	1,239,046	1,396,553	1,564,801	1,744,411
DEPRECIATION	1,089,742	1,597,656	1,600,000	1,600,000	1,600,000	1,600,000
OPERATING PROFIT	(267,713)	(500,112)	(360,954)	(203,447)	(35,199)	144,411
EXCEPTIONAL ITEMS						
Income Tax Expense	31,742	63,901	65,818	67,792	69,826	71,921
OTHER INCOME	31,742	63,901	65,818	67,792	69,826	71,921
Govt Subsidy	476,006	-	700,000	500,000	500,000	500,000
CEO Salary and Allowances	-	-	-	-	-	-
Amortization - Aid Reserve	554,400	929,200	929,200	929,200	929,200	929,200
TOTAL OTHER INCOME & EXPEN	(998,664)	(865,299)	(1,563,382)	(1,361,408)	(1,359,374)	(1,357,279)
NET PROFIT/(LOSS)	730,951	365,187	1,202,428	1,157,961	1,324,175	1,501,690

7.7 Statement of Accounting Policies in Use

The financial statements of KNSL are prepared in accordance with applicable accounting standards and are based on the historical cost convention unless otherwise stated. The principal accounting policies adopted are set out below:

Basis of Preparation

- The financial statements are prepared on a going concern basis, assuming the Company will continue its operations in the foreseeable future.
- All amounts are presented in Australian Dollars (AUD), unless otherwise stated.
- The financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) / IFRS, and applicable local regulations.

Revenue Recognition

- Revenue from shipping services, freight, passenger fares, and charters is recognized when services are rendered.
- Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and VAT/GST.
- Interest income is recognized on a time proportion basis using the effective interest method.

Property, Plant, and Equipment (PPE)

- PPE, including ships, workboats, terminals, and infrastructure, is stated at cost less accumulated depreciation and impairment losses.
- Depreciation is provided on a straight-line basis over the estimated useful lives of assets as follows:
 - Ships and vessels: 20–30 years
 - Office buildings and terminals: 20–40 years
 - Equipment, vehicles, and furniture: 3–10 years
- The residual values and useful lives of assets are reviewed annually.
- Repairs and maintenance are expensed as incurred; major overhauls are capitalized.

Intangible Assets

- Intangible assets, such as software and licenses, are recognized if the cost can be reliably measured and it is probable that future economic benefits will flow to KNSL.
- Amortisation is on a straight-line basis over the estimated useful life (generally 3-5 years).

Inventories

- Inventories, including spare parts, fuel, and consumables, are measured at lower of cost and net realizable value.
- Cost is determined using weighed average or FIFO method.
- Obsolete or slow-moving inventories are written down to their realizable value.

Financial Instruments

- Cash and cash equivalent include cash on hand, deposits with banks, and short-term highly liquid investments.
- Trade receivables are stated at invoice value less provision for doubtful debts.
- Trade payables are stated at invoice amount.
- Financial assets and liabilities are recognized when KNSL becomes a party to the contractual provisions of the instrument.

Impairment of Assets

- Assets are reviewed at each reporting date for indicators of impairment.
- If the carrying amount exceeds the recoverable amount, an impairment loss is recognized in the statement of profit and loss.

Borrowing and Finance Costs

- Borrowings are recognized at the proceeds received.
- Finance costs, including interest on borrowings, are recognized in the period in which they are incurred.

Employee Benefits

- Short-term employee benefits, including salaries, wages, and leave, are recognized as an expense in the period the service is rendered.
- Long-term employee benefits, such as retirement obligations, are recognized in accordance with the accrual method.

Government Grants and Subsidies

- Government grants related to assets are recognized as deferred income and amortized over the useful life of the related asset.
- Operating grants are recognized as income in the period they are received.

Leases

- Lease agreements are accounted for in accordance with IFRS 16/IPSAS 13, recognizing right-of-use assets and lease liabilities for most leases, except for short-term and low-value leases.

Foreign Currency Transactions

- Transactions in foreign currencies are translated to AUD at the exchange rate prevailing at the date of the transaction.
- Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate at the reporting date.
- Exchange differences are recognized in profit or loss.

Taxation

KNSL is a government-owned entity and may be exempt from income tax. Where applicable, taxes are accounted for in accordance with relevant laws.

Financial Instruments

- Cash and cash equivalent include cash on hand, deposits with banks, and short-term highly liquid investments.
- Trade receivables are stated at invoice value less provision for doubtful debts.
- Trade payables are stated at invoice amount.
- Financial assets and liabilities are recognized when KNSL becomes a party to the contractual provisions of the instrument.

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- Long-term employee benefits, such as retirement obligations, are recognized in accordance with the accrual method.

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- Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate at the reporting date.
- Exchange differences are recognized in profit or loss.

Taxation

KNSL is a government-owned entity and may be exempt from income tax. Where applicable, taxes are accounted for in accordance with relevant laws.

Accounting Estimates and Judgments

- The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts.
- Significant estimates include useful lives of assets, provision for doubtful debts, and inventory valuation.

8. Performance Targets / Implementation Plan of the SOI 2026-2028

Refer to Annex A attached.

Annex A - Performance Matrix Targets (Detailed) / Implementation Plan for SOI (2026-2028

Objective#1: Provide safe, reliable, affordable shipping service to all of Kiribati islands.

Strategic Action	Baseline (%)	Financial Implications (AUD)	Key Performance Indicator	Q3 2025 Targets	2026 Targets	2027 Targets	2028 Targets	Notes
Maintain regular voyages to all islands	70%	\$200K annually	% of scheduled voyages completed on time	75%	80%	85%	90%	Gradual improvement through scheduling & monitoring
Strengthen service reliability & scheduling	60%	\$50K	% of on-time departures & arrivals	65%	75%	85%	90%	Integrate digital scheduling tools
Uphold safety, compliance, vessel maintenance	80%	\$150K	# of safety incidents, % compliance with standards	82%	85%	88%	90%	Regular audits, maintenance programs
Conduct safety audits, crew training & inspections	50%	\$100K	# of trainings & audits conducted	60%	70%	80%	90%	Continuous professional development for crew
Promote shipping services	40%	\$10K	% increase in bookings/customers	50%	60%	70%	80%	Media, community engagement campaigns
Purchase six new workboats	0%	\$6M	# of new vessels operational	nil	50%	50%	nil	Funds & procurement plan required
Secure funding for new vessels	0%	N/A	% of funding secured	30%	60%	100%	100%	Government & donor engagement needed
Maintain valid seaworthiness certification	90%	\$50K	% of vessels certified	92%	94%	95%	100%	Annual inspections mandatory
Enhance customer retention & satisfaction	60%	\$30K	Customer satisfaction score (%)	65%	70%	75%	80%	

Objective#2: Build Appropriate Supporting Maritime Infrastructure – Implementation Matrix (2025–2028)

Strategic Action	Baseline (%)	Financial Implications (AUD)	Key Performance Indicator	Q3.2025 Targets	2026 Targets	2027 Targets	2028 Targets	Notes
Construct passenger terminal and shelter for Kiriritimati branch	0%	\$2M	% of construction completed; terminal operational	10%	50%	90%	100%	Phased construction; dependent on funding approvals
Secure funding for Headquarters Office complex	0%	N/A	% funding secured	20%	60%	100%	100%	Government & donor engagement required
Upgrade HQ warehouse	50%	\$500K	% upgrade completed; storage capacity improved	60%	80%	100%	100%	Includes equipment and structural upgrades
Establish life raft servicing centre at Betio warehouse	0%	\$250K	% operational readiness; safety compliance	20%	50%	80%	100%	Ensures compliance with maritime safety regulations
Improve port and cargo handling facilities	40%	\$1M	% improvement in cargo handling efficiency	50%	70%	85%	100%	Requires coordination with KPA and operational planning
Collaborate with government & KPA to develop new ramp in London, Kiriritimati	0%	\$1.5M	Ramp operational and safe (%)	10%	40%	80%		

Objective #3: Enhance Corporate Services Efficiency – Implementation Matrix (2025–2028)

Strategic Action	Baseline (%)	Financial Implications (AUD)	Key Performance Indicator	Q3.2025 Targets	2026 Targets	2027 Targets	2028 Targets	Notes
Implement integrated HRM program (recruitment, training)	0%	\$100K	% of HR processes automated; staff satisfaction score	20%	50%	80%	100%	Phased implementation of HRIS system; training

Strategic Action	Baseline (%)	Financial Implications (AUD)	Key Performance Indicator	Q3.2025 Targets	2026 Targets	2027 Targets	2028 Targets	Notes
performance, training, payroll, staff wellbeing)								& onboarding required
Streamline administrative functions (IT, workflow, payroll, reporting, executive coordination, security, cleaning, transport)	40%	\$50K	% improvement in workflow efficiency; system uptime	50%	70%	85%	100%	Adoption of digital tools & process re-engineering
Conduct regular internal audits of assets and resources	30%	\$25K	# of audits completed annually; compliance rating	40%	60%	80%	100%	Annual audit schedule; integrate risk management
Review & update employment policies regularly	50%	\$10K	% of policies reviewed & updated	60%	80%	100%	100%	Align with national labor laws and best practices
Ensure delivery of timely and safe cleaning, security, and transport services	70%	\$75K	Service satisfaction score; incidents reported	75%	80%	85%	90%	Could be outsourced or internal; continuous monitoring
Foster employee engagement and collaborative leadership	40%	\$20K	Employee engagement index; staff retention rate	50%	65%	80%	90%	Regular workshops, feedback mechanisms, and team-building activities
Promote innovation in corporate processes	30%	\$15K	# of process improvements implemented; % cost savings	35%	50%	70%	90%	Encourage staff innovation projects; reward initiatives
Enhance customer satisfaction through improved corporate services	50%	\$20K	Customer satisfaction score (internal & external)	55%	70%	85%		

Objective#4: Increase Profit Margin by 20% annually through optimizing revenue from existing resources, explore investment opportunities, and proactive risk management

Strategic Action	Baseline (%)	Financial Implications (AUD)	Key Performance Indicator	Q3 2025 Targets	2026 Targets	2027 Targets	2028 Targets	Notes
Explore new market segments & customers through regional shipping expansion	30%	\$50K	% revenue growth from new market segments	35%	50%	65%	80%	Research, marketing, and targeted campaigns
Identify & develop new income streams (charters, partnerships, freight services)	20%	\$100K	Additional revenue generated (\$)	25%	50%	75%	100%	Requires market analysis and partnership development
Maximise returns from existing shipping operations	60%	\$0	% operational profit margin	65%	75%	85%	100%	Focus on cost control, fuel efficiency, and operational optimization
Review & update freight and fare structures	70%	\$10K	% of fares reviewed and implemented	75%	85%	100%	100%	Annual review; align with market trends
Ensure timely forecasting and reporting	50%	\$0	% reports delivered on time; accuracy of forecasts	60%	80%	90%	100%	Integration of financial & operational data systems
Conduct regular stock take	40%	\$0	% of stock accurately recorded; discrepancies resolved	50%	70%	90%	100%	Inventory management system & routine audits
Ensure external auditing of accounts & report findings to the Board	0%	\$20K	Completion of audit & timely board reporting	20%	50%	100%	100%	Compliance with statutory requirements

Strategic Action	Baseline (%)	Financial Implications (AUD)	Key Performance Indicator	Q3 2025 Targets	2026 Targets	2027 Targets	2028 Targets	Notes
Control & monitor budget performance	50%	\$0	% variance within approved budget limits	60%	75%	85%	100%	Quarterly budget review and monitoring
Implement proactive compliance with statutory obligations	60%	\$0	% compliance adherence	70%	80%	90%	100%	