

PNG DATACO LIMITED

**Financial Statements
For the year ended 31 December 2019**

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**REPORT OF THE DIRECTORS TO THE SHAREHOLDER
FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors take pleasure in presenting their report on the financial statements of PNG Dataco Limited (the "Company") for the year ended 31 December 2019. The Company was incorporated on 1 December 2010 in Papua New Guinea and started operations on 1 March 2015.

Principal Activity

The principal continuing activities in which the Company was engaged during the year were those of setting up of a wholesale broadband network in Papua New Guinea.

Results

The net loss after tax of the Company during the period ended 31 December 2019 was **K19,063,909** (2018: Loss **K10,799,954**).

Directors

The directors as at the date of this report are:

Johan Volkerink	Chairman – (Resigned in 2020)
Mahesh Patel	Chairman – (Resigned in 2019)
Reuben Ire Kautu	Vice Chairman/Non-Executive
Cedric Rondoke	Director
Kili Richard Tambua	Director
Avia Kolsen	Director
Andrew Johnson	Director
Paul Komboi	Managing Director /Executive Director

Company Secretary

The Company secretary is Madsmolley Ikosi.

Registered Office

Its registered office is located at Level 1 Wokples Building, Section 531, Lot 12, Savannah Heights, NCD, Papua New Guinea.

Remuneration of Directors

Director's remuneration including the value of benefits received during the year is as follows:

<u>Director's Name</u>	K
John Volkerink	78,200
Reuben Ire Kautu	67,700
Kili Richard Tambua	54,500
Avia Kolsen	54,500
Andrew Johnson	54,500
Paul Komboi	920,447

Remuneration of Employees

The number of employees or former employees, not being directors of the Company, whose total remuneration and the value of other benefits received, exceeded K100,000, falls within each relevant K10,000 band of income as follows:

	2019	2018		2019	2018
K100,000 – 110,000	10	-	K230,000 – 240,000	-	1
K110,000 – 120,000	-	-	K240,000 – 250,000	-	1
K120,000 – 130,000	-	1	K250,000 – 260,000	-	-
K130,000 – 140,000	-	1	K260,000 – 270,000	1	-
K140,000 – 150,000	-	1	K270,000 – 280,000	1	-
K150,000 – 160,000	2	-	K280,000 – 290,000	-	-
K160,000 – 170,000	4	-	K290,000 – 300,000	-	-
K170,000 – 180,000	3	-	K300,000 – 310,000	1	-
K180,000 – 190,000	-	1	K310,000 – 320,000	-	-
K190,000 – 200,000	1	-	K320,000 – 330,000	-	-
K200,000 – 210,000	-	1	K330,000 – 340,000	-	1
K210,000 – 220,000	-	-	K340,000 – 350,000	1	1
K220,000 – 230,000	1	1	K350,000 >	1	1

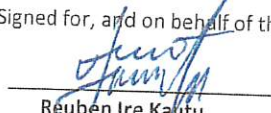
REPORT OF THE DIRECTORS TO THE SHAREHOLDER (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

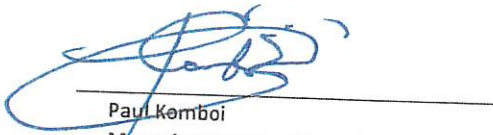
General

In accordance with the requirements of the Companies Act 1997, the Directors state that in their opinion:

- (a) the results of the Company's operations during the year were not materially affected by items of an abnormal character (other than as noted in the accounts);
- (b) no circumstances have arisen that render adherence to the existing method of valuation of assets or liabilities misleading or inappropriate;
- (c) no contingent liabilities have arisen in the period from 31 December 2019 to the date of this report, except as noted in the accounts;
- (d) no contingent liabilities have become enforceable or are likely to become enforceable within the period of 12 months from the date of this report, which would materially affect the Company in its ability to meet its obligations as and when they fall due;
- (e) the current assets will realise at least the value at which they are shown in the accounts and the value is an amount that these assets might reasonably be expected to realise in the ordinary course of business.

Signed for, and on behalf of the Board,


Reuben Ire Kautu
Vice Chairman
Port Moresby


Paul Komboi
Managing Director / Executive Director
Port Moresby

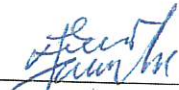
PNG DATACO LIMITED
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 31 DECEMBER 2019

The directors state that in their opinion:

- (a) The Statement of Comprehensive Income is drawn up so as to give a true and fair view of the results of the business of the Company for the year ended 31 December 2019.
- (b) The Statement of Financial Position is drawn up so as to give a true and fair view of the state of affairs of the Company for the year ended 31 December 2019.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Reuben Ire Kautu
Vice Chairman
Port Moresby



Paul Komboi
Managing Director /Executive Director
Port Moresby

PNG DATACO LIMITED
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 K	2018 K
Revenue	3	116,993,872	46,587,917
Cost of Sales		(62,172,665)	(17,915,386)
Gross profit		<u>54,821,207</u>	<u>28,672,531</u>
Interest income		4,554	7,179
Other Income – Government Grant		3,875,796	645,966
Interest expense – Leases		(8,100,996)	-
Interest expense – Others		-	(287,582)
Foreign exchange (loss)/gain		(940,367)	465,387
Operating expenses	4	(70,418,676)	(40,122,535)
Loss before income tax		<u>(20,758,481)</u>	<u>(10,619,054)</u>
Income tax credit/(expense)	5.1	1,694,572	(180,900)
Loss for the year		<u>(19,063,910)</u>	<u>(10,799,954)</u>
Other comprehensive income		-	-
Total comprehensive loss for the year		<u>(19,063,910)</u>	<u>(10,799,954)</u>

This statement of comprehensive income should be read in conjunction with the accompanying notes to the financial statements.



PNG DATACO LIMITED
 STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital K	Retained earnings K	Total K
Balance at 31 December 2017	206,284,126	(53,170,305)	153,113,821
Equity contribution	16,000,000	-	16,000,000
Total comprehensive loss for the year	-	(10,799,954)	(10,799,954)
Balance at 31 December 2018	222,284,126	(63,970,259)	158,313,867
Equity contribution	37,092,058	-	37,092,058
Day 1 IFRS 16 adjustment	-	(1,991,811)	(1,991,811)
Total comprehensive loss for the year	-	(19,063,909)	(19,063,909)
Balance at 31 December 2019	259,376,184	(85,025,979)	174,350,205

This statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements.



PNG DATACO LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 K	Restated 2018 K
Current Assets			
Cash			
Receivable and other current assets	6	5,260,383	3,860,255
Total current assets	7	<u>69,604,626</u>	<u>38,450,411</u>
		<u>74,865,009</u>	<u>42,310,666</u>
Non-Current Assets			
Property and equipment	8	930,595,901	427,401,846
Right of use asset	18	52,830,764	-
Deferred tax	5.2	20,828,652	18,280,447
Total non-current assets		<u>1,004,255,317</u>	<u>445,682,293</u>
Total assets		<u>1,079,120,326</u>	<u>487,992,959</u>
Current Liabilities			
Trade creditors			
Other creditors and accruals	9	58,939,709	22,772,802
Borrowings	10	30,306,528	19,110,788
Government grant	11	15,490,000	18,750,000
Lease liability		3,552,813	7,428,609
Revenue in advance	18	14,598,480	
Total current liabilities		<u>484,637</u>	<u>527,389</u>
		<u>123,372,167</u>	<u>68,589,588</u>
Non-current liabilities			
Borrowings	11	738,979,943	261,089,504
Lease liability	18	42,418,011	
Total non-current liabilities		<u>781,397,954</u>	<u>261,089,504</u>
Total liabilities		<u>904,770,121</u>	<u>329,679,092</u>
Net Assets		<u>174,350,205</u>	<u>158,313,867</u>
Equity			
Share capital			
Retained earnings	12	259,376,184	222,284,126
Total Equity		<u>(85,025,979)</u>	<u>(63,970,259)</u>
		<u>174,350,205</u>	<u>158,313,867</u>

This statement of financial position should be read in conjunction with the accompanying notes to the financial statements.



PNG DATACO LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 K	Restated 2018 K
Cash flows from operating activities			
Receipts from customers		85,796,905	11,897,395
Cash payments to suppliers and employees		(66,411,791)	(10,798,724)
Interest Received		4,554	7,179
Net cash from operating activities		<u>19,389,668</u>	<u>1,105,850</u>
Cash flows from investing activities			
Purchase of property and equipment		(19,229,540)	(13,557,852)
Purchase of Kumul submarine cable network		(468,017,824)	(258,442,445)
Net cash used in investing activities		<u>(487,247,364)</u>	<u>(272,000,297)</u>
Cash flows from financing activities			
Repayment of Borrowings		(3,260,000)	(2,000,000)
Proceeds from China Exim Bank borrowing		468,017,824	258,442,445
Capital Contribution		4,500,000	16,000,000
Net cash flows from financing activities		<u>469,257,824</u>	<u>272,442,445</u>
Net increase (decrease) in cash		<u>1,400,128</u>	<u>1,547,997</u>
Cash at the beginning of the year		3,860,255	2,312,258
Cash at the end of the year	6	<u>5,260,383</u>	<u>3,860,255</u>

This statement of cash flows should be read in conjunction with the accompanying notes to the financial statements.



1. General Information

PNG Dataco Limited ("the Company") is an unlisted Company, incorporated in Papua New Guinea on 1 December 2010. The Company is owned by Kumul Telikom Holdings (KTH) from 17 November 2018 when PNG DataCo was transferred to KTH from KCH. Prior to 17 November 2019, PNG DataCo was owned by Kumul Consolidated Holdings (KCH) formerly Independent Public Business Corporation ("IPBC"). KTH is a state-owned Corporation and is 100% owned by the Independent State of Papua New Guinea ("Ultimate Parent"), through KCH.

The registered office is located at Level 1 Wokples Building, Section 531, Lot 12, Savannah Heights, Waigani, NCD, Papua New Guinea. The financial statements were authorized for issue in accordance with a resolution of the directors.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in preparation of the Company's financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and Interpretations of the International Financial Reporting Interpretations Committee "IFRIC" as issued by the International Accounting Standard Board (IASB) and the requirements of Companies Act 1997. The financial statements have been prepared under the historical cost convention and on a going concern basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The financial statements are presented in Papua New Guinea Kina, and all values are rounded to the nearest Kina, except where otherwise indicated.

2.2 Going Concern

The Company recorded a net loss of **K19,063,910** (2018: K10,799,954) during the year. In addition, current liabilities exceed current assets by **K48,507,158** as at 31 December 2019 (2018: K26,278,922) largely as a result of the composition of trade receivables held by the Company. Included in Trade receivables are intercompany receivables from two related party companies that have been long overdue and the noted related parties are experiencing cashflow challenges. The two related parties comprise a significant portion of the Company's business. While the Company has continued to receive support from the parent, there has been no resolution of the long outstanding receivables from the related parties.

The continuing viability of the Company and its ability to continue as a going concern and meet its financial commitments as they fall due are dependent upon the Company being successful in:

- generating sufficient third-party revenue and cash flows to enable its obligations to be met;
- managing costs in line with revenues generated and funding facilities available;
- receiving the continuing support of its shareholders, suppliers and bankers; and
- collecting receivables due from related parties.

However, for the reasons stated above, if adequate third-party revenue and the collectability of related party revenue is not improved, there is a risk that the company may not be able to continue as going concern.

Despite the uncertainty which may cast doubt on the ability of the Company to continue as a going concern, the directors believe that with the completion of the company's core network infrastructure in the Domestic Submarine Cable and the Coral Sea Network, growth in revenue is anticipated outside the KTH Group. This will reduce dependency on the KTH Group Network and the related unfavorable business arrangements currently in place which has caused hinderance in doing business freely.

As a result of the matters described above there exists a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.



2 Summary of Significant Accounting Policies (continued)

2.3 Changes in accounting policies and disclosures

i. New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2019

- IFRS 16: 'Leases'
- IFRIC 23, 'Uncertainty over income tax treatments'
- Amendment to IFRS 9 on prepayment features with negative compensation
- Amendments to IAS 28 'Investments in associates' on long term interests in associates and joint ventures
- Amendments to IAS 19 'Employee benefits' on plan amendments, curtailment or settlement
- Annual improvements 2015-2017
- Covid-19-Related Rent Concessions (Amendment to IFRS 16)

ii. New standards, amendments and interpretations issued but not effective for the financial year ended 31 December 2019 and not early adopted

- Amendments to IFRS 3 – definition of a business
- Amendments to IAS 1 and IAS 8 on the definition of 'material'
- IFRS 17: 'Insurance contracts'
- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture.

The entity has conducted investigations and does not consider that there are any measurement or recognition issues arising from the release of these new pronouncements that will have a significant impact on the reported financial position or financial performance of the entity.

iii) IFRS 16 - Leases

Adoption of IFRS 16 has resulted in the company recognizing right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases previously classified as operating leases, under previous accounting requirements the company did not recognise related assets or liabilities, and instead spread the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

The directors have decided to apply the modified retrospective adoption method in IFRS 16, and, therefore, have recognised leases on balance sheet as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date.

Instead of recognising an operating expense for its operating lease payments, the company has instead recognised interest on its lease liabilities and amortisation on its right-of-use assets.

Definition of a lease

Previously, the company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the company assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessor

As a lessor, the company previously classified leases as operating lease or finance lease based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset. Under IFRS 16, the company recognises right of use assets and lease liabilities for all leases except for short term leases.

For leases of other assets, which were classified as operating under IAS 17, the company recognised right of use assets and lease liabilities with a date of initial application of 1 January 2019.



2. Summary of Significant Accounting Policies (continued)

2.3. Changes in accounting policies and disclosures (continued)

iii) IFRS 16 – Leases (continued)

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Excluded initial direct costs from measuring the right of use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As a lessor

The company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. Under IFRS 16, the company is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Company reassessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17. The company concluded that the sub-lease continues to be classified as operating lease under IFRS 16 and thus there has been no impact on transition to IFRS 16 in relation to sub-lease.

Impacts on financial statements

On transition to IFRS 16, the company recognised an additional K66,314,114 of right-of-use assets and K69,159,557 of lease liabilities respectively, refer note 18. When measuring lease liabilities, the company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 13.10%. A reconciliation of the total operating lease commitments as at 31 December 2018 (as disclosed in the 2018 financial report) to the opening lease liability, is as shown below: The application of IFRS 16 has an impact on the classified statement of cash flows of the Company.

Opening lease liability reconciliation

Opening lease commitments as at 31 December 2018 payable;	K
• Within 1 year	23,388,523
• Later than 1 year and no later than 5 years	64,943,157
• Later than 5 years	2,488,098
	<u>90,819,778</u>
Impact of discounting at the incremental borrowing rate	
Lease liabilities recognized as at 1 January 2019	<u>(21,660,221)</u>
	<u>69,159,557</u>

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current year ended 31 December 2019.

Financial impact for the year ended 31 December 2019

Impact on profit/(loss) for the year	K
Increase in depreciation of right of use asset	(18,584,537)
Increase in interest expense	(8,100,996)
Decrease in rental expense	23,988,471
Increase in income tax benefit	402,085
Decrease in profit for the year	<u>(2,294,977)</u>
Impact on assets, liabilities and equity	
Decrease in right of use assets	K
Decrease in lease liabilities	(18,584,537)
Tax effect of day 1 adjustment	15,887,475
Increase in deferred tax asset	(853,633)
Decrease in equity	1,255,718
	<u>(2,294,977)</u>



2 Summary of Significant Accounting Policies (continued)

2.4 Summary of accounting policies (continued)

(a) Cash and cash equivalents

Cash includes cash on hand and cash in banks. Cash in banks earns interest at the prevailing bank deposit rates.

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

(b) Financial instruments – initial recognition and subsequent measurement

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

Financial assets

Loans and receivables

This category is relevant to the Company. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss as finance costs for loans and in cost of sales or other operating expenses for receivables.

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include other creditors and accruals.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial recognition date and only if the conditions in IAS 39 are satisfied. The Company has not designated any financial liabilities as at fair value through profit or loss.

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

(c) Trade receivables

Trade receivables which are based on normal credit terms are recognized and carried at original invoice amount. At the end of each reporting period, the carrying amounts of receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognized immediately in the statement of comprehensive income.

If there is objective evidence that an impairment loss on receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statement of comprehensive income.



2 Summary of Significant Accounting Policies (continued)

2.4 Summary of accounting policies (continued)

(d) Property and equipment

Fixed assets are stated at cost less accumulated depreciation and any accumulated impairment in value. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the statement of comprehensive income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of fixed assets beyond its originally assessed standard of performance, the expenditure is capitalized as an additional cost of fixed assets. When assets are sold or retired, their cost and accumulated depreciation are removed from the accounts and any gain or loss resulting from their disposal is included in the statement of comprehensive income. Depreciation has been determined by the straight-line method so as to write off the net cost of each asset during its expected useful life. Principal annual rates used are as follows:

	Rates
Motor vehicles	20%
Computers and accessories	25-33%
Servers	4-10%
Furniture and fixtures	20%
Building and contents (INFRA)	2%
Office equipment	13-20%
Building Fit-out	20%
Miscellaneous assets	45-50%
Fibre optic lines	4-10%
Telecoms assets	20%
PPE - Others	25%
PPE – Network assets and Testing equipment	4-10%

The assets' residual values, useful lives and depreciation method is reviewed periodically, and adjusted, if appropriate, at each balance sheet date, to ensure that the useful lives and method of depreciation is consistent with the expected pattern of economic benefits from items of fixed assets. At each reporting date, the carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. Impairment losses, if any, are recognized in the statement of income.

(e) Trade and other payables

Trade and other payables are obligations on the basis of normal credit terms and do not bear interest. These are recognized in the period in which the related money, goods, or services are received or when a legally enforceable claim against the Company is established or when the corresponding assets or expenses are recognized.

(f) Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Cost and expenses are expenditures that arise in the course of ordinary operation of the Company. These are recognised in the income statement upon utilisation of the service or at the date they are incurred.

(g) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.



2 Summary of Significant Accounting Policies (continued)

2.4 Summary of accounting policies (continued)

(h) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognized as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred income tax is provided using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rate that is applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

(i) Share capital

Ordinary shares are classified as contributed capital. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Accumulated profit represents accumulated earnings of the Company less dividends declared.

(j) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at reporting date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

(k) Contingencies

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but is disclosed when an inflow of economic benefits is probable.

(l) Events after the reporting date

Subsequent events that provide additional information about the Company's financial position at reporting date (adjusting events), are reflected in the financial statements. However, subsequent events that are not adjusting events are disclosed in the notes to the financial statements, if material.

The preparation of the Parent entity's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods. In particular, the Parent entity has identified the following areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.



PNG DATACO LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2019

2 Summary of Significant Accounting Policies (continued)

2.4 Summary of accounting policies (continued)

(m) Restatement and correction of prior period error

The Independent State of Papua New Guinea entered into a Loan agreement with the Export Import Bank of China on 6 July 2016. The agreement allowed The Independent State of Papua New Guinea to drawdown on the total loan facility of US\$229,198,215.15 in order to make payments for the acquisition of PNG DataCo's infrastructure assets. PNG DataCo and the Independent State of Papua New Guinea signed an on-lending agreement on 2nd of December 2016. The on-lending agreement resulted in PNG DataCo being liable to repay drawdowns and interest on the Export Import Bank of China loan facility

During the financial year ended 31 December 2018, PNG DataCo made 2 drawdowns on the 24 June 2018 and 15 November 2018 amounting to PGK 258,442,445. The fair value at initial recognition and related interest based on the effective interest method had not been recognised. The interest would be recognised in accordance to IAS 23, Borrowing costs, as the asset was still under construction as at 31 December 2018.

Given that the error occurred in the financial year ended 31 December 2018, the opening balances of assets, liabilities and equity for the year ended 31 December 2018 have been restated, thus, in line with IAS 8.

Impact on the 2018 Equity

No impact noted.

Impact on the 2018 Assets, Liabilities and Equity

	Assets K	Liabilities K	Equity K
Initial Amount before restatement	226,903,455	(68,589,588)	(158,313,867)
Prior Period Adjustment	-	-	-
Loan drawdowns during 2018	261,089,504	(261,089,504)	-
Related Borrowing costs	258,442,445	(258,442,445)	-
	2,647,059	(2,647,059)	-
Amount after restatement	<u>487,992,959</u>	<u>(329,679,092)</u>	<u>(158,313,867)</u>

The change did not have an impact on OCI for the period.

The impact on the Company's investing and financing cashflows has been noted in the cashflow statement.



2 Summary of Significant Accounting Policies (continued)

2.5 Judgements

In the process of applying the Parent entity's accounting policies, management has made no judgements on the amounts recognised in the financial statements.

(a) Operating lease commitments - company as lessee

The Company has entered into a lease agreement. The Company has determined that the lessor retains all significant risks and rewards of ownership of these properties, thus, recognizing these leases as an operating lease. In determining significant risks and rewards, the Company considered, among others, the significance of the lease term as compared with the total estimated life of the assets

2.6 Estimates and assumptions

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

(a) Useful lives of property and equipment

The Company estimates the useful lives of its property and equipment based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above.

(b) Impairment of property and equipment

The Company determines at each reporting date whether there is any indication that an item of property and equipment may be impaired, or whether there is any indication that an impairment loss previously recognized for an asset in prior periods may no longer exist or may have decreased. If any indication exists and when the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to its recoverable amount.

(c) Recognition of deferred tax assets

The Company reviews the carrying amounts of deferred tax assets at each reporting date and reduces to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized.

3 Revenue

	2019	2018
	K	K
Sales	116,993,872	46,587,917

Sales pertain to revenue earned from the lease of fibre optic cable lines acquired from PNG Power and the wholesale internet business transferred from Telikom PNG as well as the new capital investment programs or projects such as the Highlands Fiber network.



PNG DATACO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

4. Operating Expenses

	2019 K	2018 K
Depreciation		
Consultancy fees	26,517,982	13,218,231
Salaries and wages	736,108	266,075
Travel and accommodation	9,590,913	5,722,912
Rent	307,012	136,425
Security	764,577	699,104
Director fees and expenses	152,857	166,616
Marketing	273,258	115,153
Motor vehicle expenses	-	93,287
Operation and maintenance	270,756	395,781
Communication	-	3,316,239
Doubtful debts expense	278,556	379,233
Donations and sponsorships	28,130,461	9,554,577
Others	333,839	42,099
	<u>3,062,356</u>	<u>6,016,803</u>
	<u>70,418,676</u>	<u>40,122,535</u>

5. Income Taxes

5.1. Income tax expense

	2019 K	2018 K
Current Tax expense	-	-
Deferred Tax credit / (expense)	-	-
Total	<u>1,694,572</u>	<u>(180,900)</u>
	<u>1,694,572</u>	<u>(180,900)</u>

The prima facie tax payable on the operating profit differs from the income tax provided in the accounts and is reconciled as follows:

	2019 K	2018 K
Operating loss before income tax	20,758,481	10,619,054
Prima facie tax credit at 30%	<u>6,227,544</u>	<u>3,185,716</u>
Tax effect of permanent differences		
- Notional interest on borrowings	(2,430,299)	(86,275)
- Provision for bad debts	(8,439,138)	(2,866,373)
- Non-deductible expenses	(34,133)	(413,968)
Movement in unrecognized deferred tax assets:		
Accruals	-	-
Net loss carryover	-	-
Total	<u>6,370,598</u>	<u>-</u>
	<u>1,694,572</u>	<u>(180,900)</u>



PNG DATACO LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2019

5. Income Taxes (continued)

5.2 Deferred Tax Asset

	2018	Tax effect of Day 1 IFRS 16 adjustment	Deferred tax credit	2019
	K		K	K
Property, plant & equipment	1,297,741	-	(10,463,224)	(9,165,483)
Expected credit losses	-	-	4,490,365	4,490,365
Tax losses carried forward	16,733,293	-	6,990,860	23,724,153
Provisions	249,413	-	93,668	343,081
Other	-	-	180,818	180,818
Lease liability & Right of use asset	-	853,633	402,085	1,255,718
Total	18,280,447	853,633	1,694,572	20,828,652

The Company recognized the deferred tax asset amounting to PGK20,828,652 (2018: PGK18,280,447) arising from employee provisions, fixed assets and tax losses as the Company expects future taxable profits in which these may be applied.

The Company believes that there will be sufficient taxable income in future periods which the Company will be able to utilize the tax losses carried forward. The tax losses carried forward are carried forward for a maximum of 7 years in accordance with the Internal Revenue Commission's regulations.

6. Cash and Cash Equivalents

	2019	2018
	K	K
Cash in bank	5,258,256	3,859,754
Cash on hand	2,127	501
	5,260,383	3,860,255

The cash at bank earns interest at floating rates based on daily bank deposit rates. Interest income earned from cash and cash equivalents amounted to K4,554 in 2019 (2018: K7,179).

7. Receivable and other current assets

Receivable from Customers	95,390,371	44,409,311
Provision for bad debts	(43,098,344)	(14,967,883)
	52,292,027	29,441,428
GST Receivable	9,657,466	8,416,550
Advances to suppliers	6,476,234	532,243
Others	1,178,900	60,190
	69,604,627	38,450,411

Receivables – Customers are non-interest bearing and are generally on terms of 30 to 90 days.



PNG DATACO LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2019

7. Receivable and other current assets (continued)

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Trade receivables written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate.

Movement in provision for impairment of receivables is as follows:

	2019 K	2018 K
Opening balance	(14,967,883)	(5,413,306)
Provision made during the year	(28,130,461)	(9,554,577)
Closing balance	<u>(43,098,344)</u>	<u>(14,967,883)</u>

The creation and release of the provision for impaired receivables has been included under "Operating expenses" in the statement of comprehensive income. Amounts charged to the allowance are generally written off when there is uncertainty of recovery and in compliance with IFRS requirements.

The ageing analysis of these trade receivables is as follows:

	2019 K	2018 K
Up to 3 months	25,916,558	37,907,193
More than 3 months	69,473,813	6,502,118
	<u>95,390,371</u>	<u>44,409,311</u>



PNG DATACO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

8. Property and equipment

For the year ended 31 December 2019:

Cost	Motor Vehicle	Furniture and Fittings	Computer Equipment	Office Fit-out	Office Equipment	Fibre Optic Cables	*Telecom Assets	Capital Work in Progress	Total
	K	K	K	K	K	K	K	K	K
At beginning of year before adjustment	239,885	75,775	925,521	900,782	286,949	184,815,474	8,074,575	15,796,020	211,114,981
Prior period adjustment						261,089,504			261,089,504
At beginning of year after adjustment	239,885	75,775	925,521	900,782	286,949	445,904,978	8,074,575	15,796,020	472,204,485
Additions	734,960	25,596	161,358	-	41,494	525,695,830	-	3,052,799	529,712,037
At end of year	974,845	101,371	1,086,879	900,782	328,443	971,600,808	8,074,575	18,848,819	1,001,916,522
Accumulated Depreciation									
At beginning of year	(223,894)	(35,700)	(499,191)	(705,611)	(185,299)	(42,506,978)	(645,966)	-	(44,802,639)
Depreciation	(79,305)	(9,992)	(128,125)	(180,156)	(17,001)	(22,227,607)	(3,875,796)	-	(26,517,982)
At end of year	(303,199)	(45,692)	(627,316)	(885,767)	(202,300)	(64,734,585)	(4,521,762)	-	(71,320,621)
Net Book Value	671,646	55,679	459,563	15,015	126,143	906,866,223	3,552,813	18,848,819	930,595,901

For the year ended 31 December 2018:

Cost	Motor Vehicle	Furniture and Fittings	Computer Equipment	Office Fit-out	Office Equipment	Fibre Optic Cables	*Telecom Assets	Capital Work in Progress	Total
	K	K	K	K	K	K	K	K	K
At beginning of year	239,885	71,694	621,341	900,782	191,918	184,746,704	-	2,710,228	189,482,552
Additions	-	4,081	304,180	-	95,031	68,770	8,074,575	13,085,792	21,632,429
At end of year	239,885	75,775	925,521	900,782	286,949	184,815,474	8,074,575	15,796,020	211,114,981
Accumulated Depreciation									
At beginning of year	(175,917)	(26,558)	(324,380)	(525,455)	(139,413)	(30,392,686)	-	-	(31,584,409)
Depreciation	(47,977)	(9,142)	(174,811)	(180,156)	(45,886)	(12,114,292)	(645,966)	-	(13,218,230)
At end of year	(223,894)	(35,700)	(499,191)	(705,611)	(185,299)	(42,506,978)	(645,966)	-	(44,802,639)
Net Book Value before adjustment	15,991	40,075	426,330	195,171	101,650	142,308,496	7,428,609	15,796,020	166,312,342
Prior period adjustment						261,089,504			261,089,504
Net Book Value after adjustment	15,991	40,075	426,330	195,171	101,650	403,398,000	7,428,609	15,796,020	427,401,846

*PNG DataCo Limited ("DataCo") was the recipient of Australian Aid by the Government of Australia in the O3B Satellite solutions funded by the Department of Foreign Affairs and Trade (DFAT) of Australia. The O3B Satellite asset was transferred to DataCo at a cost of K8,074,575 in 2019 (2018: Nil) and forms part of the Infrastructure Assets. The asset is recorded as a government grant (liability) and amortized and depreciated over its useful life in accordance with the depreciation policy.



PNG DATACO LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2019

9. Trade Creditors

	2019	2018
	K	K
Trade creditors	<u>58,939,709</u>	<u>22,772,802</u>

Trade creditors are non-interest bearing and are normally settled on 30-day terms. Due to the short-term nature of these balances, the fair value approximates their carrying value.

10. Other Creditors and Accruals

	2019	2018
	K	K
Contract retainer	477,108	477,108
Accrued expenses	10,163,572	5,444,064
Accrued staff benefits	1,169,122	887,913
Foreign currency withholding tax	22,028	22,827
Salaries and wages tax	103,324	1,035,464
Others	18,371,374	11,243,412
	<u>30,306,528</u>	<u>19,110,788</u>

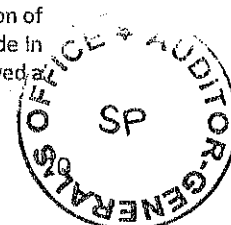
- a) Contract retainer fees of 10% are withheld from the contractor's progressive billings. The 10% retention serves as security from the contractor and it is later released upon satisfactory completion of the contract work. These are non-interest bearing and are normally settled on a 30-day term upon completion of the relevant contracts
- b) Accrued expenses are management's estimate of operations and maintenance costs on the network assets completed but not yet billed.

11. Borrowings

	2019	2018
	K	K
Current	15,490,000	18,750,000
Non-current	738,979,943	-
	<u>754,469,943</u>	<u>18,750,000</u>
Prior period adjustment – noncurrent	-	261,089,504
	<u>754,469,943</u>	<u>279,839,504</u>

- a) Borrowing pertains to the purchase of Lae to Madang OPGW Network Lines from PNG Power at a cost of PGK32.0 Million and is non-interest bearing. The agreement was for the company to make 3 equal annual instalments starting August 2015. However, the 3-installment payment plan was never honored resulting in the balance existing as at 31st December 2019 to be K15.49 Million after a total of K16.51 Million only was paid between 2015 and 2019.
- b) The amount of K282.14 Million is the first drawdown of the loan balance from the Exim Bank of China by contractor Huawei PNG Pty Limited after the commissioning of the completed cable network between Madang and Port Moresby known as the System 2 of the Kumul Submarine Cable Network. The full drawdown of the loan balance from Exim Bank is subject to the completion and commission of System 1 and System 3 of the Kumul Submarine Cable Network by the Contractor.

Exim Bank of China granted a USD229,198,215 loan facility to the Company at an applicable interest rate of 2% per annum, for financing needs under a Commercial contract with a foreign supplier. The maturity period for the facility is 240 months, where the grace period is 60 months and repayment are 180 months. Interest is paid on the principal amount drawn and outstanding under the agreement on the basis of a 360-day year. K8.4 million of the total facility was drawn in 2015 and additional drawdowns of K2.27 million and K7.56 million were made in 2017 and 2016, respectively. The KCH facilities matured on 31 December 2018. The Company has not received a formal extension of the KCH facilities subsequent to year end.



PNG DATACO LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2019

12. Share Capital

	2019 K	2018 K
Issued and fully paid with K1 par value	259,376,184	222,284,126

13. Financial Risk Management

The Company has various financial assets such as cash and receivables which arise directly from its operations. The Company's principal financial liabilities comprise trade creditors, accrued expenses and other current liabilities. The main purpose of these financial liabilities is to raise working capital for the Company's operations.

13.1 Market Risk

Cashflow and interest rate risk

The Company's interest rate risks arise from long term borrowings and its related party payables. Borrowings and related party payables obtained at variable rates expose the Company to cash flow and fair value interest rate risk. Long term borrowings and related party payables are at a fixed rate of interest. It is not the Company's policy to hedge cash flow and interest rate risks. At 31 December 2019, the Company was not exposed to any cashflow and interest rate risk.

Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company undertakes transactions denominated in foreign currencies from time to time and resulting from these activities, exposures in foreign currencies arise.

Exposure

The exposure to foreign currency risk at the end of the reporting period, expressed in original currency units, was as follows:

	2019		2018	
	USD	AUD	USD	AUD
Trade payables	91,365	-	91,365	1,007,605
Borrowings	81,538,591	-	-	-

13.2 Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk and from its financing activities, including deposits with banks and financial institutions and other financial instruments. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Details on the Receivables and other current assets to which the Company is exposed to credit risk are noted in Note 7

13.3 Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial assets and liabilities. Liquidity risk may result from a counterparty falling on repayment of a contractual obligation or inability to generate cash inflows as anticipated. The Company monitors its cash flow position and overall liquidity position in assessing its exposure to liquidity risk. The Company maintains a level of cash and cash equivalents deemed sufficient to finance operations and to mitigate the effects of fluctuation in cash flows.



PNG DATACO LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2019

13. Financial Risk Management (continued)

13.3 Liquidity Risk (continued)

Maturities of financial liabilities

	Carrying Amount K	Less than 1- year K	Between 1- and 5-years K	Beyond 5-years K	Total K
2019					
Trade creditors	58,939,709	58,939,709	-	-	58,939,709
Other creditors and accruals	30,306,528	30,306,528	-	-	30,306,528
Borrowings	754,469,943	15,490,000	-	738,979,943	754,469,943
	<u>843,716,180</u>	<u>104,736,237</u>	<u>-</u>	<u>282,140,455</u>	<u>843,716,180</u>
2018					
Trade creditors	22,772,802	22,772,802	-	-	22,772,802
Other creditors and accruals	19,110,788	19,110,788	-	-	19,110,788
Borrowings	279,838,504	18,750,000	-	261,089,504	279,838,504
	<u>321,723,094</u>	<u>60,633,590</u>	<u>-</u>	<u>261,089,504</u>	<u>321,723,094</u>

Maturity of financial liabilities represents contractual cash flows including interest.

13.4 Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

13.5 Fair Value Measurement

Financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. There are no material unrecognized financial assets and liabilities as of 31 December 2019.

14. Compensation of key management personnel

The members of key management personnel of the Company during the year were:

- a. Paul Kombol Managing Director
- b. Tony Morisause General Manager - Engineering Services
- c. Une O'Ome General Manager - Commercial
- d. Daniel Leki General Manager - Corporate Services
- e. Madsmolley Ikosi Company Lawyer /Secretary

Key management personnel remuneration follows:

	2019 K	2018 K
Short-term benefits	<u>2,158,852</u>	<u>2,158,852</u>

The number of employees in 2019 is 52 (2018: 45).



PNG DATACO LIMITED
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 31 DECEMBER 2019

18. Leases

a) Right of use asset

	2019 K	2018 K
Balance at 1 January	66,314,114	-
New lease arrangement	3,744,408	-
	<u>70,058,522</u>	-
Depreciation charge for the year	(18,584,537)	-
Other costs necessary to make asset ready and available	1,356,779	-
Impairment charges	-	-
Balance at 31 December	<u>52,830,764</u>	-

b) Lease Liability

Balance at 1 January	69,159,557	-
New lease arrangement	3,744,408	-
	<u>72,903,965</u>	-
Interest expense	8,100,996	-
Rental Payment	(23,988,470)	-
Balance at 31 December	<u>57,016,491</u>	-

Lease liabilities included in the statement of financial position at 31 December

Current	14,598,480	-
Non-current	42,418,011	-
	<u>57,016,491</u>	-

Maturity analysis – minimum lease payment

Not later than 1 year	20,756,592	-
Later than 1 year and not later than 5 years	49,509,138	-
Later than 5 years	3,110,469	-
	<u>73,376,199</u>	-
Unexpired finance charges	(16,359,708)	-
	<u>57,016,491</u>	-

Maturity analysis – present value of lease liabilities:

Not later than 1 year	14,598,480	-
Later than 1 year and not later than 5 years	39,747,070	-
Later than 5 years	2,670,941	-
	<u>57,016,491</u>	-

Amounts recognised in profit or loss

Finance Cost	8,100,996	-
Depreciation Charge	(18,584,537)	-
Variable and short-term lease payments not included in the measurement of lease liabilities	-	-



PNG DATACO LIMITED
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

19. Subsequent Events

a) COVID-19

Subsequent to the balance date, the World Health Organization declared a pandemic in relation to the Novel Coronavirus (COVID-19). The pandemic has resulted in economic uncertainty and financial market volatility both globally and locally. To date there has been no significant impact on operations as a result of COVID-19, however a deterioration in the current situation could have an adverse impact on the business, results of operations, financial position and cash flows in 2020, and cannot be reasonably estimated at this time. The Company is assessing and closely monitoring emerging risks

b) Coral Sea Cable

In November and December 2019, the Commonwealth of Australia represented by the Department of Foreign Affairs and Trade (DFAT), the PNG Government represented by PNG DataCo Limited (DataCo) and the Solomon Islands Government represented by Solomon Islands Submarine Cable Company Limited (SISCC) executed several agreements which would among other things:

- i. Establish a special purpose vehicle called the Coral Sea Cable Company Pty Limited (SPV);
- ii. Enable the transfer of title and ownership of the Coral Sea Cable System from DFAT to the SPV; and
- iii. Novate existing arrangements for EPC and cable landing among others from DFAT to the SPV.

The SPV was incorporated for the purpose of owning, operating and maintaining the Coral Sea Cable System (Project) over its effective life and to make the Coral Sea Cable System available in the telecommunication markets in Papua New Guinea and Solomon Islands.

In terms of shareholding in the SPV, DataCo and SISCC each have a 50% shareholding in the SPV and have full rights over dividends and expenses. The Commonwealth has a "golden share" in this arrangement which provides veto rights over certain aspects of the SPV except for rights on dividends or any expenses which have been left to DataCo and SISCC.

The Board of the SPV comprises three (3) Members, one (1) representative each from DFAT, DataCo and SISCC. Capital expenditures on the Project are reflected in the balance sheet of the SPV. The DFAT has contributed two thirds of the cost while the remaining one-third of the cost is being split between DataCo and SISCC.

The SPV will manage the operational and maintenance (O&M) costs on the Project which are shared by PNG and SI. The SPV will grant certain capacity of IRU to the beneficiaries namely PNG and Solomon Islands, at a cost of \$2 fixed price exclusive of GST.

Despite the SPV being registered and shares being issued at a face value of \$2.00 per share, it was not until January 2020 that the actual asset (i.e. Coral Sea Cable) was effectively transferred to the SPV. The reason for this is that the Asset Transfer of the Coral Sea Cable from the Commonwealth to the SPV was subject to some conditions being met, the full satisfaction on which would enable the effective legal transfer to SPV.

Between December 2019 and January 2020, DataCo has disbursed its portion of the O&M as prepayments ahead of the actual works being conducted and billed. DataCo has also migrated its customers from APNG2 to CS2 since the end of February 2020 as part of its monetization plan to maximize usage of the cable for the benefit of its customers and its people in PNG.

The valuation of Coral Sea Cable once completed will significantly increase the asset balance in the balance sheet of the company. The valuation will be recognized in 2020 financials.

