



Financial Statements

For the year ended 31 December 2023

PNG Power Limited
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Company Information

Place of incorporation	PNG Power Limited is a registered Company under the Papua New Guinea Companies Act 1997 (Amended 2014) and is incorporated and domiciled in Papua New Guinea.
Principal Registered Office	Section 12, Allotment 1, Cordia Street (off Wards Road), Hohola P O Box 1105, Boroko, National Capital District Papua New Guinea Telephone: 324 3200
Directors	Mr. McRonaId Nale – Chairman Mr Leo Meninga – Director Mr Jack Jimben Walker Ms Margareth Parua Mr Malcolm Lewis Mr Marlen Brunskill Ms. Debbie Taitarae
Board and Company Secretary	Shamir Sirigoi
Auditors	Auditor General's Office Papua New Guinea P O Box 423 Waigani Papua New Guinea
Bankers	Bank South Pacific Limited Boroko Branch P O Box 1143 Boroko National Capital District

Directors' Report

The directors of PNG Power Ltd (the Company) submit herewith the annual financial statements of the Company for the financial year ended 31 December 2023. In order to comply with the provisions of the *Companies Act 1997 (Amended 2014)*, the directors report is as follows:

Directors

The names of the directors in office at any time during the year and up to the 31 December 2023 were:

Mr. McDonald Nale	Director	Appointed on 11 April 2022
	Chairman	Appointed on 05 April 2023
Mr. Leo Meninga	Deputy Chairman	Appointed on 07 June 2018
Mr. Jack Jimben Walker	Director	Appointed on 11 April 2022
Ms. Margareth Parua	Director	Appointed on 11 April 2022
Mr. Malcolm Lewis	Director	Appointed on 05 April 2023
Mr. Marlen Brunskill	Director	Appointed on 05 April 2023
Mr. Debbie Taitarae	Director	Appointed on 05 April 2023
Mr. Moses Maladina	Chairman	Appointed on 20 January 2021
		Revoked on 05 April 2023
Professor Kenneth Sumbuk	Director	Appointed on 11 April 2022
		Revoked on 05 April 2023

Directors as at the time of the report are listed on page 2:

Principal activities

The Company's principal activity was the generation, transmission, distribution and retailing of electricity throughout Papua New Guinea and servicing individual electricity consumers.

Review of operations

The loss after income tax for the year ended 31 December 2023 amounted to K189.33 million (2022: K271.79 million).

Changes in state of affairs

There were no significant changes in the state of affairs of the Company during the financial year.

Subsequent events

Other than the matters disclosed in Note 24, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Dividends

No dividends have been declared since the completion of the financial year and the directors do not recommend the payment of any dividends in respect of the financial year.

Auditors Remuneration

Details of amounts paid to the auditors for audit and other services are included under professional fees in Note 5d to the financial statements.

Information on directors

Directors have disclosed the following interest in the Company and provided general disclosure of companies in which the Directors are to be regarded as interested parties as set out below:

Name of Director	Interest Declared	Nature of Interest
McRonaldd Nale	Kuta 1 Ltd Storage Ltd Pearl Pacific Properties Advance Signs PNG Ltd	Director/Secretary/Shareholder Director/Secretary/Shareholder Director/Secretary/Shareholder Director
Leo Meninga	Komkui Buildings Post PNG	Shareholder Director
Jack Jimben Walker	Loyalty Consultancy Limited Retrac Business Consultants	Shareholder Partner
Margareth Parua	Fairhaven No 55 Limited	Sole Shareholder/Director
Malcolm Lewis	Hornibrook NGI Ltd	Shareholder / Chairman
Marlen Brunskill	Golden Peak Limited Watgum (Aust) P/L NKW Australia P/L Expac (Qld) P/L Ascot Investments Limited Trading as Pure Water NKW Holdings Limited Watgum (PNG) Limited Hidden Valley Contractors Limited Pacific Cargo Services Limited Pacific Cargo Transport Limited Wicked Chicken Limited	85% Shareholder & Managing Director Managing Director & Shareholder Director Director 50% Shareholder and Director Chief Executive Officer Managing Director & Sole Shareholder Director Director Director 51% Shareholder & Director
Debbie Taitarae	University of Technology	Board Member
Moses Maladina	Chatswood PNG Ltd Homestate Co-operation Ltd Kumul Consolidated Holding Ltd Chatswood NZ Ltd	Owner/Chairman Director Chairman Director
Professor Kenneth Sumbuk	Link International	Consultant

Company and Board Secretary

The Company secretary is Mr Shamir Sirgoi. He was appointed to the position of the Company secretary in January 2022.

Directors' & Officers' Liability Insurance

The Company has paid a premium of K199,800 during the year (2022: K55,500) for directors and officers liability insurance in respect of directors and Managing Directors of the Company.

Meeting of Directors

The number of meetings of the Company's board of directors and of each board committee held during the year ended 31 December 2023, and the number of meetings attended by each director are as follows:

Directors	Board Meetings of Directors	
	A	B
Moses Maladina	2	2
Leo Meninga	11	11
Professor Kenneth Sumbuk	-	3
Jack Jimben Walker	11	11
McRonalale Nale	10	11
Margareth Parua	11	11
Malcolm Lewis	6	7
Marlen Brunskill	6	7
Debbie Taitarae	3	7

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

Remuneration of directors

Directors' remuneration, including the value of other benefits, paid or payable during the year, in respect of persons who were Directors in 2023.

	2023	2022
Directors	K	K
McRonalale Nale	273,300	114,606
Leo Meninga	213,917	188,521
Jack Jimben Walker	224,333	142,239
Margareth Parua	211,293	119,480
Malcolm Lewis	227,967	-
Marlen Brunskill	226,383	-
Debbie Taitarae	209,683	-
Moses Maladina	-	202,632
	1,586,876	767,478

Remuneration of Employees

The number of employees other than directors, whose remuneration and other benefits are K100,000 and above and within the bands are as follows:

BAND	2023	2022
K	No	No
100,000 – 129,999	69	90
130,000 – 139,999	115	121
140,000 – 149,999	116	137
150,000 – 179,999	94	96
180,000 – 189,999	52	55
190,000 – 259,999	150	157
260,000 – 269,999	6	6
270,000 – 359,999	18	21
360,000 – 369,999	-	-
370,000 – 439,999	1	4
440,000 – 449,999	-	-
450,000 – 559,999	8	10
560,000 – 569,999	-	1
570,000 – 789,999	1	3
790,000 – 799,999	-	-
800,000 and above	2	2

DIRECTORS DECLARATION

In the opinion of the Directors of PNG Power Limited:

- a) The Statement of Profit or Loss and Other Comprehensive Income is drawn up so as to give a true and fair view of the results of the Company for the year ended 31 December 2023.
- b) The Statement of Financial Position is drawn up so as to give a true and fair view of affairs of the Company as at 31 December 2023.
- c) The Statement of Cash Flows is drawn up so as to give a true and fair view of the movements in cash of the Company for the year ended 31 December 2023.
- d) The Statement of Changes in Equity (Deficit) is drawn up so as to give a true and fair view of the Changes in equity (deficit) of the Company for the year ended 31 December 2023.
- e) The Notes to the Financial Statements including the Accounting Policies are drawn up so as to give a true and fair view of the operation and state of affairs of the Company for the year ended 31 December 2023.

Additional Statutory Information

The results of the Company during the financial year have, in the opinion of the Directors, not been materially affected by items of a significant nature, other than those disclosed in the financial statements.

In the opinion of the Directors, no circumstances have arisen that make the adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

No contingent liability has arisen since the end of the financial year, which continues to exist at the date of this report, other than those disclosed in the financial statements.

At the date of this report, the Directors are not aware of any circumstances that would render the values attributed to assets and liabilities in the financial statements misleading.

No contingent liability other than that disclosed in the notes to the attached financial statements has become enforceable, or is likely to become enforceable, within a period of twelve months from the date of this report, that will materially affect the Company in its ability to meet obligations, as and when they fall due.

The Directors' Declaration is signed in accordance with a resolution of directors made pursuant to s.209 (1) of the *Companies Act 1997 (amended 2014)*.

On behalf of the Directors:

Dated: 30/05/2025



McRonald Nale
Chairman
PO Box 332, Vision City
Waigani
NCD, Papua New Guinea

Dated: 30/05/2025



Jack Jimben Walker
Director
PO Box 4439 Lae
Morobe Province, Papua New Guinea

PNG Power Limited
Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2023

	Notes	2023 K'000	2022 K'000
Revenue from contract with customers	5a	948,625	924,607
Government grants	5b	6,464	7,185
Other revenue	5c	4,976	6,175
Total revenue		960,065	937,967
Operating expenses	5d	(1,066,098)	(934,655)
Operating profit (loss)		(106,033)	3,312
Finance costs	6	(189,336)	(228,211)
Other expenses	14	(1,604)	(17,007)
Loss before income tax		(296,973)	(241,906)
Income tax benefit (expense)	7a	107,629	(29,881)
Net loss		(189,334)	(271,787)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gains/(Losses) on property revaluation		257,829	-
Other comprehensive income/(loss) for the year net of income tax		-	-
Total comprehensive gain (loss)		68,495	(271,787)



Notes to the financial statements are included on pages 11 to 43.

PNG Power Limited
Statement of Financial
Position

**Statement of Financial Position
as at 31 December 2023**

	Notes	2023 K'000	2022 K'000
Current assets			
Cash and cash equivalents	19	122,464	95,094
Trade and other receivables - net	11	228,556	141,129
Inventories - net	10	40,650	37,062
Current tax assets		16	16
Total current assets		391,686	273,301
Non-current assets			
Trade and other receivables - net	11	-	4,986
Property, plant and equipment - net	8	3,463,015	3,332,501
Capital contributions	8	(265,549)	(256,171)
Power Purchase Assets	9	1,203,954	1,676,224
Deferred tax assets - net	7b	243,941	136,312
Total non-current assets		4,645,361	4,893,852
TOTAL ASSETS		5,037,047	5,167,153
Current liabilities			
Trade and other payables	14	1,325,833	1,136,987
Contract liability	16	1,896	1,896
Bank overdraft	12	19,101	17,041
Borrowings	12	720,347	1,002,001
Employee provisions	17	21,726	22,584
Consumer advances	15	31,238	32,609
Power Purchase Liabilities	13	61,393	103,396
Other provisions	17	2,374	2,374
Total current liabilities		2,183,908	2,318,888
Non-current liabilities			
Employee provisions	17	50,375	52,920
Consumer advances	15	19,663	18,654
Borrowings	12	1,083,102	850,217
Power Purchase Liabilities	13	1,365,748	1,778,655
Total non-current liabilities		2,518,888	2,700,446
TOTAL LIABILITIES		4,702,796	5,019,334
NET ASSETS		334,251	147,819
Equity			
Contributed equity		230,666	230,666
Accumulated losses		(737,532)	(666,135)
Revaluation reserves	18	841,117	583,288
TOTAL LIABILITIES		334,251	147,819



Notes to the financial statements are included on pages 11 to 43.

PNG Power Limited
Statement of Changes in Equity

**Statement of Changes in Equity
for the year ended 31 December 2023**

	Note	Contributed Equity K'000	Revaluation Reserve K'000	Accumulated Losses K'000	Total K'000
Balance as at 1 January 2022		230,666	583,288	63,023	876,977
Net loss		-	-	(271,787)	(271,787)
Prior period adjustments	3.20	-	-	(457,371)	(457,371)
Balance as at 1 January 2023		230,666	583,288	(666,135)	147,819
Net loss		-	-	(189,334)	(189,334)
Fair value Adjustments	18	-	257,829	-	257,829
Prior period adjustments	3.20	-	-	117,937	117,937
Balance at 31 December 2023		230,666	841,117	(737,532)	334,251



Notes to the financial statements are included on pages 11 to 43.

Statement of Cash Flows
for the year ended 31 December 2023

	Note	2023 K'000	2022 K'000
Cash flows from operating activities			
Receipts from customers		877,262	986,317
Cash paid to suppliers and employees		(477,429)	(1,129,204)
Net cash (used in) generated from operating activities		399,833	(142,887)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(271,725)	(276,255)
Net cash used in investing activities		(271,725)	(276,255)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment on power purchase arrangements		(146,613)	(197,017)
Proceeds from borrowings		46,318	628,404
Interest paid		(2,503)	(2,637)
Availment (Payment) of bank overdraft		2,060	(3,834)
Net cash generated from (used in) financing activities		(100,738)	424,916
Net increase in cash and cash equivalents		27,370	5,774
Cash and cash equivalents at the beginning of the year		95,094	89,320
Cash and cash equivalents at the end of the year	19	122,464	95,094



Notes to the financial statements are included on pages 11 to 43.

**Notes to the Financial Statements
for the year ended 31 December 2023**

1. General information

PNG Power Limited ('PPL' or the Company) is a State Owned Entity (SOE) incorporated and domiciled in Papua New Guinea. Kumul Consolidated Holdings Limited (KCH) acts as the sole shareholder on behalf of the Government. PPL is a registered Company under the Papua New Guinea Companies Act 1997 (Amended 2014). The address of the Company's registered office is shown on page 2.

The Company's principal activity was the generation, transmission, distribution and retailing of electricity throughout Papua New Guinea and servicing individual electricity consumers.

The Board of Directors is responsible to the shareholding Minister for the financial performance of the Company.

2. Adoption of new and revised standards

2.1 New and amended IFRS Standards that are effective for the current year

The accounting policies adopted are consistent with those of the previous year, except in the current year, the Company adopted all new and revised IFRS, amendments to existing International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretation that are effective for annual periods beginning on or after 1 January 2023.

IFRS 17 Insurance Contracts IFRS 17

Insurance Contracts is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide a comprehensive accounting model for insurance contracts that is more useful and consistent for insurers, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

The new standard had no impact on the financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments had no impact on the financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 The amendments to IAS 12

Income Tax narrow the scope of the initial recognition exception, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning liabilities. The amendments had no impact on the financial statements.



2. Adoption of new and revised standards (continued)

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception – the use of which is required to be disclosed – applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023. The amendments had no impact on the financial statements as the Company is not in scope of the Pillar Two model rules.

2.2 New and revised IFRS Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Company intends to adopt the following pronouncements when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to IFRS 16, Lease liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	1 January 2024
Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7	Deferred effectivity

The Company continues to assess the impact of the foregoing new and amended accounting standards and interpretations effective subsequent to 2023 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the Company's financial statements when these amendments are adopted.

3. Significant accounting policies

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the *Companies Act 1997*.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.



3. Significant accounting policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, therefore ensuring that the substance of the underlying transactions or other events is reported. The accounting policies adopted are consistent with those of the previous year unless otherwise specified.

These financial statements are presented in PNG Kina (PGK) and are rounded to the nearest Kina amount. Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency is determined to be PGK.

3.3 Going Concern

The Company reported a loss after tax of K189.33 million for the year ended 31 December 2023 (2022: K271.79 million) and as of that date, the Company was in a net current liability position of K1,792.22 million (2022: K2,045.59 million) and the financial statements have been prepared on the going concern basis, which assumes that the Company will be able to meet its liabilities and obligations as and when they fall due in the normal course of business for the foreseeable future.

As at the date of signing the financial report, the Directors are confident that the Company will be able to continue as a going concern given the following factors:

- The Company maintains the ability to request funding assistance from Kumul Consolidated Holdings (KCH) in its capacity as the sole shareholder on behalf of the Papua New Guinea Government, to enable the Company to pay its debts as and when they fall due and payable for a period of at least 12 months from the date of signing this report;
- The Directors and management team has developed and initiated their corporate plan for 2024-2026 to improve the cash flow and profitability of the Company by among others designing and implementing revenue regeneration and network stabilisation programs, investing in least cost generation sources, expansion of revenue protection program initiatives, designing and implementing cost control measures, strengthening capital structure through ongoing debt reduction and investment in new capital, and putting in place competitive process for Independent Power Producers including review of existing PPAs. Programs are being implemented with the support of our donor partners – KCH, the Government of Papua New Guinea and other donors. The Government, through KCH have committed to fund the reliability initiatives focusing on stabilising the POM grid and fully resourcing the meter boxing and feeder teams projects which are expected to contribute significantly to reduction of non-technical losses, consequently result in revenue growth;
- The Company receives the ongoing forbearance from its major suppliers in regard to accepting payment terms beyond normal settlement periods. Many of these creditors have been supplying the business for many years and are expected to continue to do so; and
- The Company receives the ongoing support from its major lenders. The lenders are aware of the Company's situation and the Company is continuing its discussions with the major lenders regarding loan requirements including repayments.



3. Significant accounting policies (continued)

The Directors and Management are satisfied that the conditions of the Company have been sufficiently disclosed. Based on the circumstances described above, the financial statements are prepared on the assumption that the Company is a going concern. The ability of the Company to continue as a going concern is dependent upon:

- continuing financial support from KCH and the PNG Government as the ultimate shareholder;
- the successful implementation of the strategy to turn the business around;
- ongoing cash flow management including the continued forbearance of the Company's creditors in respect of amounts owing beyond normal settlement periods; and
- the continued support of the Company's financial lenders.

Should any of the above matters not occur, a material uncertainty would exist which would cast significant doubt regarding the Company's ability to continue as a going concern and therefore whether it would be able to realise its assets and discharge its liabilities in the normal course of business. The strategy, when this occurs, will need to be readjusted in line with the economic conditions. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

3.4 Revenue recognition

Revenue is recognised when performance obligations under relevant customer contracts are completed.

The Company has adopted the following recognition and measurement of revenue for in its accounts:

Sale of electricity

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue from the sale of electricity to retail customers is recognised at the time of the provision of the electricity to the customer.

Electricity sales revenue from customer sales contracts is recognised on measurement of electrical consumption (KWh) at the metering point, as specified in each contractual agreement, and is billed monthly in arrears or prepaid in the case of Easypay. The transaction price is the contracted price for the electricity consumed during the period. When the consideration receivable is subject to variability, such as prompt payment discount or estimated meter reads, an assessment is performed to determine whether it is highly probable that the receivables or accrued income will be received. At each balance date, sales and receivables include an amount of sales delivered to customers but not yet billed and recognised as accrued income. Unbilled revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Cash received for which performance obligation is yet to be rendered is presented as contract liability in the statement of financial position.

Services revenue

The Company recognises revenue from installation services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company. Deposits from customers are recorded as consumer advances in the statement of financial position.

Other income

Other income is recognised when it is received or when the right to receive payment is established and when performance obligations under relevant customer contracts are completed.



3. Significant accounting policies (continued)

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.5 Expenses

Expenses are recognized in the statement of income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

3.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.7 Power purchase arrangements

Power purchase arrangements are accounted for as either Leases or Service Concession arrangements depending on the terms and conditions of each contract. In the Statement of Financial Position, regardless whether the arrangement is a lease or a service concession, the associated assets and liabilities are disclosed as "Power Purchase Assets" and "Power Purchase Liabilities".

For arrangements that qualify as a lease, a right-of-use asset and a corresponding liability are recognized for all leases by the lessees except for short term leases and low value assets. Lessor accounting still applies and continues to require the lessor to classify a lease either as an operating or a finance lease.

For power purchase arrangements that qualify as a service concession arrangement, the Company accounts for these under the financial liability model since the Company as a grantor has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset. Under this model, a service concession liability with a corresponding asset are recognized.

PPL as Grantor

The Company considers a power purchase arrangement as a service concession when the Company, as the grantor:

- controls or regulates the services the operator must provide using the infrastructure, including to whom the services are to be provided and at what price.
 - The control or regulation of services does not have to be governed by contract as it could include control via an industry regulator.
 - Control also extends to circumstances in which the grantor buys all the output as well as those in which it is bought by other users.
- controls any residual interest in the infrastructure at the end of the concession term.
 - control over the residual interest does not require the infrastructure to be returned to the grantor.
 - It is sufficient that the grantor controls how access to the infrastructure is awarded after the concession term, it is sufficient to restrict the operator's ability to sell or pledge the infrastructure.



3. Significant accounting policies (continued)

The Company accounts for these power purchase arrangements as service concession arrangements under the financial liability model, wherein a liability with a corresponding asset is recognised. The service concession asset is initially recognised at the initial amount of the service concession liability, and is subsequently depreciated using the straight-line method over the term of the service concession arrangement or the life of the asset, whichever is lower. The service concession liability on the other hand is considered a financial liability.

PPL as lessee

Almost all leases are to be recognised in the statement of financial position as a 'right-of-use' asset and a lease liability. There are narrow exceptions to this recognition principle for leases where the underlying asset is of low-value and for short-term leases (i.e. those with a lease term of twelve months or less). The asset is subsequently accounted for in accordance with the cost or revaluation model in IAS 16 Property, Plant and Equipment (IAS 16) or, if the right-of-use asset meets the definition of investment property, in accordance with the requirements of IAS 40 *Investment Property* (the fair value model is required if the lessee measures investment property at fair value). The liability and right-of-use asset are unwound over the term of the lease giving rise to an interest expense and depreciation charge, respectively.

Under IFRS 16, all of these are recognized in balance sheet instead as a 'right-of use' asset and a lease liability.

i) Right-of-use assets

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. Both are presented as separated items in the statement of financial position.

The right-of-use assets is measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimated of costs for dismantling less any lease incentive received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability (ex: escalations).

ii) Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.



3. Significant accounting policies (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value (i.e., below K17,000). Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

PPL as lessor

The requirements of lessor accounting are applied whereby, amounts due from lessees under finance leases are recognised as receivables at the amount of the PPL's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the PPL's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

As noted above, the guidance relating to lessors remains substantially unchanged from IAS 17. PPL will continue to account for leases as either operating or finance leases depending on whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. An exception is intermediate lessors, where the classification of the sublease is determined with reference to the intermediate PPL's right-of-use asset, and not the entire underlying asset. Operating leases continue to be recorded as assets in the statement of financial position and lease income is recognised on a straight line basis over the lease term. For finance leases, PPL is required to derecognise the underlying asset and record a receivable equal to the net investment in the lease, with a gain or loss on sale. Finance income is subsequently recognised at the interest rate implicit in the lease over the lease term.

3.8 Government Grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below- market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants towards staff re-training costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to the acquisition of property, plant and equipment are treated as deferred income and released to profit or loss over the expected useful lives of the assets concerned.



3. Significant accounting policies (continued)

3.9 Defined contribution superannuation expense

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit plans are accounted for as payments to defined contribution plans and are expensed in the period in which they are incurred.

3.10 Short-term and other long-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to the reporting date.

3.11 Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.



3. Significant accounting policies (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

For the purposes of measuring deferred tax liabilities and deferred tax assets for properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The directors reviewed the Company's property portfolios and concluded that none of the Company's properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the properties over time, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Company has not recognised any deferred taxes on changes in fair value of the properties as the Company is not subject to any income taxes on the fair value changes of the properties on disposal.

Current tax and deferred tax

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.12 Property, plant and equipment

Property, plant and equipment comprised of land and building, power production equipment dams, transmission and distribution systems, tools, motor vehicles, furniture and equipment.

Land and buildings held for use in the production and supply of electricity, are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.



3. Significant accounting policies (continued)

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Properties in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Company's accounting policy. Depreciation of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Asset category	Years
Power production – Thermal & Hydro	1 to 60
Dam and Associated works & Transmission	1 to 60
Distribution Systems and Building & Housing	1 to 35
Equipment, Vehicles, Furniture	1 to 28

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

All assets are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.13 Impairment of tangible assets

At each reporting date, PPL reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, PPL estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.



3. Significant accounting policies (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.14 Inventories

Inventories comprise mainly of consumables which are recorded at cost using weighted average method. Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

3.15 Financial instruments

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

Initial recognition and measurement

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

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

Classification

The classification of financial assets at initial recognition depends on the financial asset's contract cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction cost. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.



3. Significant accounting policies (continued)

Financial assets at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is acquired for the purposes of selling, and which may be disposed of in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices or is designated as such upon initial recognition.

Upon initial recognition, attributable transaction costs are recognized in income or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income or loss in the statement of comprehensive income. The determination of fair values is based on quoted market prices or dealer price quotations for financial instruments traded in active markets.

The Company does not have financial assets classified as held at fair value through profit or loss.

Financial assets at amortized costs (debt instruments)

A financial asset is measured at amortized cost if it meets both of the following conditions as is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flow; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets at amortised cost include cash and cash equivalents, and trade and other receivables.

Impairment

The Company always recognizes lifetime expected credit loss (ECL) for trade and other receivables. The expected credit losses on these financial assets are estimated based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the impairment for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Company's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Company's core operations.



3. Significant accounting policies (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) credit rating
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse condition that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, PPL assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including PPL, in full (without taking into account any collateral held by PPL).

Irrespective of the above analysis, PPL considers that default has occurred when a financial asset is more than 90 days past due unless PPL has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Write-off policy

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.



3. Significant accounting policies (continued)

(iv) Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Recognition and measurement

Financial liabilities are classified, at initial recognition, as either financial liabilities 'at FVTPL' or 'other financial liabilities at amortised cost'. Subsequently, all financial liabilities are classified as either FVTPL or other financial liabilities at amortised cost.

The Company's financial liabilities are trade and other payables, bank overdraft and borrowings

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.16 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.



3. Significant accounting policies (continued)

3.17 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 the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Insurance claims

Provision is made for claims lodged by third parties for claim of injuries or damages suffered due to alleged electrocution or faulty workmanship; to the extent that those claims are not covered by insurance cover the Company has with its insurers. Management estimates the provision based on claim and historical claim data, and any recent trends that may suggest future claims could differ from historical amounts. These claims are expected to be made in the next financial year.

Legal claims

Provision is made for claims received from third parties relating to disputes arising from electricity supply or other legal disputes. These claims are reviewed on a case-by-case basis and provision is made upon receiving legal advice and it is considered more probable, than not, that these claims will materialize. These claims are expected to be made in the next financial year.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3.18 Contributed equity

Contributed equity by the shareholder is classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

3.19 Retained Earnings

Retained earnings are the results of the Company's accumulated profits or losses, declaration of dividends, and the effects of adjustments in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, if any.

3.20 Correction of Error

During the year, the Company has identified transactions that relate to prior period but were only recorded or adjusted in the current year. These adjustments arises mainly from accounting for power purchase arrangements, The Company recorded these adjustments under "prior period adjustments" in the statement of changes in equity, instead of restating the prior year comparative financial statement line items.



3. Significant accounting policies (continued)

3.21 Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Determining the arrangement that contains a lease or features of a service concession arrangements

In assessing whether the arrangement contains a lease or features of a service concession, the Company considers whether it has the ability to control or regulate the services PPL must provide using the infrastructure, to whom it must provide them, and at what price; and whether it controls any residual interest in the infrastructure at the end of the concession term. Management may assess that the arrangement has features of a service concession arrangement and meets the control criteria within the scope of IFRIC 12.

As per the power purchase arrangements, while ownership of the facility does not vest to the Company automatically, the Company has the first option to renew the arrangement with the operators prior to the end of the contract term. If the Parties cannot agree on terms, the operator is permitted to then negotiate with other parties. If the operator also ceases to operate the facility for 360 consecutive hours for no valid reason, then the Company has the right to enter the facility and operate it accordingly. This provides the Company control over the asset if something goes wrong. On the basis of the above, the Company considers it meets the control criteria within the scope of service concession arrangements.

In situations where the features of a service concession arrangement are not met, the Company assess whether the arrangement contains a lease. The Company uses the exemptions of IFRS 16 for its short-term leases with a term of 12 months or less and low value assets. For all other leases, the Company recognizes a Right-of-use assets and lease liabilities measures at the present value of lease payments to be made over the lease term using an incremental borrowing rate.

Determining the term of contracts with renewal and termination options – Company as either a Lessee or Grantor

The Company determines the term of the lease or power purchase arrangement as noncancelable term, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease or power purchase arrangement, if it is reasonably certain not to be exercised.



4. Critical accounting judgements and key sources of estimation uncertainty (continued)

The Company's lease or power purchase arrangement includes an extension option. The Company applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate these arrangements. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Company did not include the option period as part of the lease or service concession term as it is not reasonably certain to be exercised. Economic environment in the industry of oil and in Papua New Guinea where they operate is too volatile to justify that they are reasonably certain that they will exercise these options so far away in the future.

Determining the incremental borrowing rate (IBR)

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates. The Company has used an IBR based on corporate yield curve for investment grade bonds issued in the currency analysed and adjusted for country specific risk for Papua New Guinea.

Contingencies

The Company has possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence of non-occurrence of one 91) or more uncertain future events not wholly within its control. Management has determined that the present obligations with respect to contingent liabilities and claims, do not meet the recognition criteria, and therefore has not recorded any such amounts.

4.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for expected credit losses on trade and other receivables

When measuring ECL the Company uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

The Company always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.



4. Critical accounting judgements and key sources of estimation uncertainty (continued)

For other financial assets, loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

The Company's expected credit losses on its trade and other receivables amounted to K30.17 million and K54.13 million as at 31 December 2023 and 2022, respectively (refer to Note 11).

Allowance for slow moving, damaged and obsolete inventories

Inventory is recorded at the lower of cost or net realizable value. Inventory obsolescence is recognised on the basis of inventory ageing and historical experience.

The Company's allowance for slow moving, damaged and obsolete inventories amounted to K2.45 million and K3.41 million as at 31 December 2023 and 2022, respectively (refer to Note 10).

Estimation of recoverability of deferred tax assets

In assessing the realisability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the actual levels of past taxable income, scheduled reversal of deferred tax liabilities, projected future taxable income, projected tax rates and tax planning strategies in making this assessment. As at 31 December 2023 and 2022 the Management assessed that future taxable income will become available in which those temporary differences can be utilized, thus, the deferred tax assets were recognized.

The Company has recognised deferred tax assets on tax losses of K223.79 million and K94.33 million as at 31 December 2023 and 2022, respectively (refer to Note 7b).

Estimation of useful lives of property and equipment and power purchase Assets

Useful lives of property and equipment and right-of-use assets are estimated based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment and right-of-use assets are reviewed periodically and are updated if expectations differ from previous estimates. It is possible that future results of operation could be materially affected by changes in these estimates. Any reduction in the estimated useful lives of property and equipment and right-of-use assets would increase the Company's recorded operating expenses and decrease noncurrent assets.

The carrying value of property, plant and equipment amounted to of K3,463.02 million and K3,332.50 million as at 31 December 2023 and 2022, respectively (refer to Note 8). The carrying value of purchase power assets amounted to K1,203.95 million and K1,676.22 million as at 31 December 2023 and 2022, respectively (refer to Note 9).

Fair value measurements and valuation processes

Land and buildings held for use in the production and supply of electricity are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any accumulated depreciation and accumulated impairment losses. Independent valuers (Rubeen Valuations, Sovereign Estate Limited and Gazelle Realty Limited) undertook the last revaluation exercise between 2020 to 2022.



4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Impairment of nonfinancial assets

The Company assesses at each reporting date whether there is any indication that its nonfinancial assets may be impaired. The factors that the Company considers important which trigger an impairment review include the following, among others:

- significant underperformance relative to expected historical or projected operating results;
- significant changes in the manner of use of the acquired assets or the overall business strategy; and,
- significant industry or economic trends.

Estimating the value in use requires preparation of an estimate of the expected future cash flows from the cash generating unit and choosing an appropriate discount rate in order to calculate the present value of those cash flows

Determining the recoverable amount of utility plant, generation plant and others, property, plant and equipment and other noncurrent assets, requires (i) the determination of future cash flows expected to be generated from the continued use as well as ultimate disposition of such assets and (ii) making estimates and assumptions that can materially affect the financial statements. Future events may cause management to conclude that utility plant, generation plant and others, property, plant and equipment and other noncurrent assets are impaired.

The Company has not recognised impairment loss during the year (2022: Knil). As of 31 December 2023, and 2022, based on management's evaluation, there were indicators of impairment on the Company's nonfinancial assets, however, there is significant estimation uncertainty on the impairment review which the Company will finalise in the subsequent period.

The carrying values of nonfinancial assets subject to impairment review are as follows:

	Notes	2023 K'000	2022 K'000
Property, plant and equipment		3,463,015	3,332,501
Power Purchase Assets		1,203,954	1,676,224
		4,666,969	5,008,725

5. Revenue and Operating Expenses

The company derives its revenue from contracts with customers for the transfer of goods and services over time and at a point in time in the following major product lines. The Company only generates revenue in one Geographic area being Papua New Guinea.

a) Revenue from Contract with Customers

	2023 K'000	2022 K'000
Electricity Sales		
General Sales	554,363	524,733
Industrial Sales	199,520	202,192
Easipay Sales	183,943	185,307
Domestic Sales	10,799	12,375
	948,625	924,607



5. Revenue and Operating Expenses (continued)

b) Government Grants

	2023 K'000	2022 K'000
Government grants	6,464	7,185
	6,464	7,185

c) Other Revenue

	2023 K'000	2022 K'000
New meters and service fees	1,109	1,203
Other operating income	3,867	4,972
	4,976	6,175

d) Operating Expenses

	2023 K'000	2022 K'000
Bulk Electricity power purchase	336,291	51,006
Fuel	155,456	236,729
Depreciation	175,717	222,528
Personnel expenses	137,016	139,481
Salaries and wages	107,153	106,418
Overhead	65,271	59,070
Professional fees	6,166	6,283
Purchased electricity - leases gensets	2,260	5,977
Other expenses	80,768	107,163
	1,066,098	934,655

6. Finance Costs

	Note	2023 K'000	2022 K'000
Interest on power purchase arrangements	13	163,973	180,819
Interest on bank overdrafts and borrowings	12	25,363	47,392
		189,336	228,211



7. Income Tax

a) Income tax benefit (expense) consists of:

	2023 K'000	2022 K'000
Current tax		
In respect of current year	-	-
In respect of prior years	-	-
Total current tax expense	-	-
Deferred tax		
In respect of the current year	107,629	(29,881)
In respect of prior years	-	-
Total deferred tax benefit (expense)	107,629	(29,881)
	107,629	(29,881)

The reconciliations of income tax benefit (expense) is as follows:

	2023 K,000	2022 K,000
Loss before income tax	(296,973)	(241,906)
Income tax benefit calculated at 30%	89,092	72,572
Effect of expense that are not deductible in determining taxable profit (tax effect of permanent differences)	(4,372)	665
Effect of prior period adjustments	22,909	(103,118)
	107,629	(29,881)

The tax rate used for the 2023 and 2022 reconciliations above is the corporate tax rate of 30% payable by corporate entities under tax law that have been enacted or substantively enacted by reporting date.

b) Deferred tax assets - net

The net deferred tax asset - net recognised by the Company during the year is as follows:

	2023 K'000	2022 K'000
Deferred tax liabilities	(445,350)	(562,698)
Deferred tax assets	689,291	699,010
	243,941	136,312

Components of deferred tax assets - net is as follows:

	2023 K'000	2022 K'000
Deferred tax assets		
Tax losses	223,792	94,325
Power purchase liabilities	428,142	564,616
Employee provisions	21,641	22,661
Doubtful debts	9,051	16,239
Stock obsolescence	736	1,022
Unrealized foreign exchange loss	647	-
Stock obsolescence	122	-
Other Provisions	5,160	147
	689,291	699,010
Deferred tax liabilities		
Property, plant and equipment	(71,233)	(59,831)
Power purchase assets	(361,186)	(502,867)
Others	(12,931)	-
	(445,350)	(562,698)
	243,941	136,312



7. Income Tax (continued)

Movements in deferred taxes are as follows:

	2023 K'000	2022 K'000
Deferred tax assets		
Balance at beginning of year	699,010	578,955
Statement of profit or loss credits/ (charges)	(9,719)	120,055
Balance at end of the year	689,291	699,010
Deferred tax liabilities		
Balance at beginning of year	(562,698)	(491,314)
Statement of profit or loss credits/ (charges)	117,348	(71,384)
Balance at end of the year	(445,350)	(562,698)
	243,941	136,312

8. Property, plant and equipment - net

	2023 K'000	2022 K'000
Cost or valuation	3,096,607	2,610,702
Capital work in progress	1,642,833	1,918,888
Less: Accumulated depreciation	(1,276,425)	(1,197,089)
	3,463,015	3,332,501
Less: Capital contributions	(265,549)	(256,171)
	3,197,466	3,076,330
 Power production – Thermal & Hydro	836,557	567,186
Dam and Associated works & Transmission	330,882	280,757
Distribution Systems and Building & Housing	643,002	559,860
Equipment, Vehicles, Furniture	9,741	5,810
Capital work in progress	1,642,833	1,918,888
	3,463,015	3,332,501
Less: Capital contributions	(265,549)	(256,171)
	3,197,466	3,076,330

The movements of property, plant and equipment are as follows:

2023	Power production – Thermal & Hydro	Dam and Associated works & Transmission	Distribution Systems, Building & Housing	Equipment, Vehicles, Furniture	Capital work in progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Cost or valuation						
At 31 December 2022	1,078,345	459,616	939,321	133,420	1,918,888	4,529,590
Additions	-	-	-	4,978	266,747	271,725
Transfers	350	23,925	5,804	-	(30,079)	-
Retirements	-	-	-	-	-	-
Final Revaluation	126,580	37,380	93,869	-	-	257,829
Adjustments	178,321	841	9,444	4,413	(512,723)	(319,704)
At 31 December 2023	1,383,596	521,762	1,048,438	142,811	1,642,833	4,739,440
Accumulated depreciation						
At 31 December 2022	511,159	178,859	379,461	127,610	-	1,197,089
Depreciation	35,880	12,021	25,975	5,460	-	79,336
Retirements	-	-	-	-	-	-
Adjustments	-	-	-	-	-	-
At 31 December 2023	547,039	190,880	405,436	133,070	-	1,276,425
	836,557	330,882	643,002	9,741	1,642,833	3,463,015



8. Property, plant and equipment - net (continued)

2022	Power production – Thermal & Hydro	Dam and Associated works & Transmission	Distribution Systems, Building & Housing	Equipment, Vehicles, Furniture	Capital work in progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Cost or valuation At 31 December 2021	1,078,241	458,193	894,817	126,512	1,328,539	3,886,302
Additions	-	-	-	-	276,255	276,255
Transfers	-	177	2,981	3,020	(6,178)	-
Retirements	-	-	-	(1)	-	(1)
Adjustments	104	1,246	41,523	3,889	320,272	367,034
At 31 December 2022	1,078,345	459,616	939,321	133,420	1,918,888	4,529,590
Accumulated depreciation At 31 December 2021	475,976	166,296	354,655	118,350	-	1,115,277
Depreciation	32,720	11,592	25,867	3,041	-	73,220
Retirements	-	-	-	(1)	-	(1)
Adjustments	2,463	971	(1,061)	6,220	-	8,593
At 31 December 2022	511,159	178,859	379,461	127,610	-	1,197,089
	567,186	280,757	559,860	5,810	1,918,888	3,332,501

Fair value measurement of freehold land and buildings

Freehold land and buildings are stated at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Independent valuers (Rubeen Valuations, Sovereign Estate Limited and Gazelle Realty Limited) undertook the last revaluation between 2020-2022. The valuers are members of the Institute of Valuers of Papua New Guinea, and they have appropriate qualifications and experience in the fair value measurement of properties in the relevant locations.

The carrying amount recorded as at 31 December 2023 and 2022 for freehold land and buildings are as follows:

	2023 K'000	2022 K'000
Freehold land	631,958	303,417
Buildings	145,427	223,292
	777,385	526,709

There has been no change to the valuations during the year. The directors of the Company have deferred the valuation exercise.

The revaluation reserves is disclosed in note 18.

Impairment losses

No impairment loss has been recognised in respect of property, plant and equipment in the current year (2022: Nil).



8. Property, plant and equipment - net (continued)

Assets pledged as security

Freehold land and buildings as above have been pledged to secure borrowings of the Company. The Company is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

Capital contributions

Capital contributions during the year amount to K265.55 million (2022: K256.17 million).

9. Power Purchase Assets

Power production – Thermal & Hydro assets in note 8 above excludes certain power generation facilities where the company is either a lessee or a grantor under the arrangements. The Company entered into certain power purchase agreements with terms between 5-25 years. The incremental borrowing rate (interest rate) for these arrangements is fixed at the contract date. The interest rates contracted approximates between 7.21% - 15.67% (2022: 9.35%) per annum.

The movements in and carrying value of power purchase assets are as follow:

	Notes	2023 K'000	2022 K'000
Cost at 1 January		2,152,946	1,553,149
Adjustments		(517,310)	599,797
Cost at 31 December		1,635,636	2,152,946
Accumulated depreciation at 1 January		476,722	236,557
Prior period Adjustments		(141,421)	90,857
Accumulated depreciation at 1 January (adjusted)		335,301	327,414
Depreciation		96,381	149,308
Accumulated depreciation at 31 December		431,682	476,722
		1,203,954	1,676,224

10. Inventories - net

	Notes	2023 K'000	2022 K'000
General stores		16,902	15,929
Fuel oil		10,408	8,667
Transformers		3,378	4,819
Others		12,416	11,055
Provisions for stock obsolescence		(2,454)	(3,408)
		40,650	37,062

The movements in provisions for stock obsolescence are as follows:

	Notes	2023 K'000	2022 K'000
Balance at 1 January		3,408	2,957
Provision (reversal of provision)		(954)	451
		2,454	3,408



11. Trade and other receivables - net

	Notes	2023 K'000	2022 K'000
Trade receivables		207,362	158,285
Allowance for expected credit losses		(30,171)	(54,131)
Trade receivables, net		177,191	104,154
Prepayments		36,227	28,477
Home loan mortgage		5,222	6,135
Fuel prepaid		1,383	1,383
Other receivables		8,533	5,966
Other receivables		51,365	41,961
		228,556	146,115

Trade receivables

Trade receivables consist of amounts owed for electricity and services provided to customers. The average credit term is 30 days.

No interest is charged on outstanding trade receivables.

Trade and other receivables is presented in the statement of financial position as follows:

	Notes	2023 K'000	2022 K'000
Trade and other receivables – current		228,556	141,129
Trade and other receivables – noncurrent		-	4,986
		228,556	146,115

Allowance for expected credit losses

The Company measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Company has recognised a loss allowance of 100% against all receivables over 120 days past due because historical experience has indicated that these receivables are generally not recoverable.



11. Trade and other receivables - net (continued)

The following table details the risk profile of trade receivables based on the Company's provision matrix. As the Company's historical credit loss experience shows significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is further distinguished between the Company's different customer base – private sector and public sector.

Public sector includes government departments, agencies, and local government entities. Private sector includes all other customers.

		Trade receivables – days past due				
Public sector						
2023	Current-<30	31-60	61-90	91-120	>120	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Expected credit loss rate	0%	0%	0%	0%	0%	
Estimated total gross carrying amount at default	17,225	17,092	11,962	11,508	73,801	131,588
Lifetime ECL	-	-	-	-	-	-
		Trade receivables – days past due				
Private sector						
2023	Current-<30	31-60	61-90	91-120	>120	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Expected credit loss rate	18%	31%	81%	100%	100%	
Estimated total gross carrying amount at default	54,075	1,355	1,905	319	18,120	75,774
Lifetime ECL	9,778	414	1,540	319	18,120	30,171
Total ECL	9,778	414	1,540	319	18,120	30,171

		Trade receivables – days past due				
Public sector						
2022	Current-<30	31-60	61-90	91-120	>120	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Expected credit loss rate	0%	0%	0%	0%	0%	
Estimated total gross carrying amount at default	9,000	10,860	12,486	6,691	30,462	69,499
Lifetime ECL	-	-	-	-	-	-
		Trade receivables – days past due				
Private sector						
2022	Current-<30	31-60	61-90	91-120	>120	Total
	K'000	K'000	K'000	K'000	K'000	K'000
Expected credit loss rate	25%	33%	71%	97%	97%	
Estimated total gross carrying amount at default	36,110	7,331	4,581	2,659	38,105	88,786
Lifetime ECL	8,891	2,429	3,249	2,572	36,990	54,131
Total ECL	8,891	2,429	3,249	2,572	36,990	54,131

Other receivables

The company provides Equity and Housing Advance Loans ("loans") qualifying employees for assisting them secure loans to buy or build/renovate their first home. The loans are interest free and provide up to 15% of the total purchase price of the house and land (limits apply tiered according to salary grade, giving financing in the range of K52,500 to K105,000). The employee finances the remaining 85% of the total purchase price of the house and land. The loan terms are up to 10 years with repayments made through fortnightly payroll deductions. The company has the right to withhold any final employee entitlements due to an employee until the liability is settled.

As at 31 December 2023 and 2022, management believes that the unimpaired amounts are collectible, based on historical payment behaviour and analysis of borrowers' credit risk, as well as analysis of collateral values.



12. Borrowings and Bank Overdraft

The Company has entered into various loan arrangements with the State, the Parent Entity (KCH), and a local bank specifically to finance its major capital projects that includes the Port Moresby grid development project, national power grid and rehabilitation facility and stabilisation projects in various locations in the country.

These borrowings and bank overdraft are interest-bearing. Interest expense on borrowings and bank overdraft amounted to K25.36 million for the year ended 31 December 2023 (2022: K47.39 million). As of 31 December, the borrowings account and Bank Overdraft as presented in the Statement of Financial Position is as follows:

	2023 K'000	2022 K'000
Borrowings - current	720,347	1,002,001
Borrowings - noncurrent	1,083,102	850,217
	1,803,449	1,852,218

	2023 K'000	2022 K'000
Bank Overdraft	19,101	17,041
	19,101	17,041

13. Power Purchase liabilities

The Company has entered into certain power purchase agreements for a period an average period of 2 to 99 years. The future minimum payments under these arrangements, together with the present value of the net minimum payments are, as follows:

	2023 K'000	2022 K'000
Within one year	243,950	275,012
After one year but not more than five years	975,802	1,024,395
More than five years	2,042,318	2,089,877
Total minimum payments	3,262,070	3,389,284
Less amounts representing finance charges	(1,834,929)	(1,507,233)
	1,427,141	1,882,051

Power purchase liabilities are presented in the statement of financial position is as follows:

	2023 K'000	2022 K'000
Power purchase liabilities - current	61,393	103,396
Power purchase liabilities - noncurrent	1,365,748	1,778,655
	1,427,141	1,882,051

Set out below are the movements in and carrying amount of Power purchase liabilities:

	Notes	2023 K'000	2022 K'000
Balance at 1 January		1,882,050	1,362,203
Adjustment		(399,201)	614,213
Balance at 1 January (Adjusted)		1,482,849	1,976,416
Addition		-	-
Accretion of Interest	6	163,973	180,819
Payments		(219,681)	(275,184)
		1,427,141	1,882,051

The Company has reconsidered its accounting for the power purchase arrangements and have accounted for these as either a service concession arrangement or lease, depending on the nature of the arrangements. The relevant discount rates were also reviewed. As a result, adjustments that relate to opening balance are included as adjustment to prior period.



13. Power Purchase liabilities (continued)

For the year ended 31 December 2023, the average effective borrowing rate was 12% (2022:12%). All arrangements are on a fixed repayment basis and no arrangements have been entered into for contingent payments.

All obligations are denominated in USD but payable in local currency.

14. Trade and other payables

	2023 K'000	2022 K'000
Trade payables	876,441	702,345
Other payables	449,392	434,642
	1,325,833	1,136,987
Other payables consist of:		
Other payables - Consumer security deposits	14,772	13,965
Other payables - Payroll related costs	1,265	2,395
Other payables	433,355	418,282
	449,392	434,642

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. For most suppliers no interest is charged on the trade payables for the first 90 days from the date of the invoice. Thereafter, interest may be charged on the outstanding balances at various interest rates. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The Company consider that the carrying amount of trade payables approximates to their fair value.

Other payables include accrual of taxes payable of K178.94 (2022: K155.06 million) (mainly salaries withholding tax and goods services tax), and related tax penalty charges of K204.75 million as at 31 December 2023 (2022: K240.42 million). Any tax penalty or adjustments, if any, is recognised in profit or loss during the period under "other expense" account. Management is engaging in continuous discussions with the Internal Revenue Commission in regard to the settlement of the tax payables and the potential waiver of tax penalty charges.

15. Consumer Advances

	2023 K'000	2022 K'000
Current	31,238	32,609
Non-current	19,663	18,654
	50,901	51,263

Consumer advances relate to capital advance payments made by large industrial customers to the Company for financing works enabling electricity connections to premises nominated by the customers. The capital advances are interest free payments, which will offset future electricity sales at the connected customers.



16. Contract Liability

	2023 K'000	2022 K'000
Deferred income	1,896	1,896
	1,896	1,896

Deferred revenue represents prepayments of electricity by Easypay customers for services that have yet to be delivered.

17. Provisions

Notes	2023 K'000	2022 K'000
Long service Leave / Furlough	42,236	46,024
Restructuring/ Retrenchment	8,139	6,896
Annual leave	21,726	22,584
SAP/KPI	34	34
Other provisions	2,340	2,340
	74,475	77,878
Employee provisions - current	21,726	22,584
Employee provisions - noncurrent	50,375	52,920
Other provisions	2,374	2,374
	74,475	77,878

18. Revaluation reserves

The properties revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retained earnings. Items of other comprehensive income included in the property's revaluation reserve will not be reclassified subsequently to profit or loss.

	2023 K'000	2022 K'000
Revaluation of land and buildings	841,117	583,288
	841,117	583,288

The movement of revaluation reserves is as follows:

	2023 K'000	2022 K'000
Balance at beginning of year	583,288	583,288
Change in fair value of land and building	257,829	-
Balance at end of year	841,117	583,288



19. Cash and cash equivalents

	2023 K'000	2022 K'000
Cash and bank balances	20,889	12,741
Funds Held in trust	101,575	82,353
	122,464	95,094

Cash at banks earns interest at floating rates based on daily bank deposit rates. Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the consolidated reporting position as shown above.

The Company also entered into a multi - option facility with Bank of South Pacific (BSP) Limited. The multi-option facility includes loans, overdraft, insurance premium funding, revolving finance lease and documentary letters of credit to assist with trade transactions. The loan is secured by the following:

1. First Registered General Security Agreement Registration No. 1003911497 dated 07 September 2018
2. Securities held under Syndicate Secured Trust Deed
3. First Registered Mortgage over 37 properties

Funds held in trust represents restricted cash that is not freely available for a company to spend or invest. It refers to money that is held for a specific purpose (mainly for capital projects) and are not available to the company for immediate or general business use. Accordingly, these assets are presented as noncurrent asset in the statement of financial position.

20. Financial Risk Management Objectives and Policies

20.1 Financial risk management objectives

The Company's financial control function provides co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of the Company. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The internal auditors on a continuous basis review compliance with policies and exposure limits. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

20.2 Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see 21.3 below) and interest rates (see 21.4 below). There has been no change to the Company's exposure to market risks or the manner in which these risks are managed and measured.

20.3 Foreign currency risk management

The Company undertakes transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. The Company has negotiated a number of contracts with its customers where payments are received in either United States or Australian dollars. The value of these contracts is roughly equal to the anticipated outflow of expenditure in those respective currencies.



20. Financial Risk Management Objectives and Policies (continued)

20.4 Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate level of borrowings. Interest rates are subject to change based on review by the financial institutions and agreed by management.

20.5 Commodity Risk

The Company is exposed to commodity risk from fuel price changes. The company purchases fuel on an ongoing basis as its operating activities. Fuel prices are regulated in PNG by the Government and are set in Kina.

20.6 Credit risk management

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

Note 11 details the company's maximum exposure to credit risk and the measurement bases used to determine expected credit losses. In order to minimise credit risk, the Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Before accepting any new customer, the credit team assesses the potential customer's credit quality and defines credit limits by customer. Credit approvals and other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

Furthermore, the company reviews the recoverable amount of each trade debt and debt investment on an individual basis at the end of the reporting period to ensure that adequate loss allowance is made for irrecoverable amounts. In this regard, the directors of the Company consider that the company's credit risk is significantly reduced. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Of the trade receivables balance at the end of the year, K131.59 million (2022: K69.50 million) is due from national and local government agencies and departments, the Company's largest customers.

In addition, the Company is exposed to credit risk in relation to financial guarantees given to banks. The Company's maximum exposure in this respect is the maximum amount the Company could have to pay if the guarantee is called on.

The Company's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off



21. Capital risk management

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance.

In order to achieve this overall objective, the Company's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

The capital structure of the Company consists of net debt (borrowings after deducting cash and bank balances) and equity of the Company (comprising issued capital, reserves and retained earnings).

The Company is not subject to any externally imposed capital requirements.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. The Company monitors capital using a gearing ratio.

Gearing ratio

	2023 K'000	2022 K'000
Borrowings / overdraft	1,822,550	1,869,259
Cash and cash equivalents	122,464	95,094
Net debt	1,700,086	1,774,165
Equity	334,251	147,819
Net debt to equity ratio	508.63%	1,200.23%

Debt is defined as current and noncurrent borrowings as detailed in note 12, and bank overdraft.

Equity includes all capital and reserves of the Company that are managed as capital.

22. Related party transactions

Balances and transactions between the company and its related parties, have been are disclosed below.

Trading transactions

Kumul Consolidated Holdings (KCH) is the entity, which holds in trust, the Government's non-petroleum and non-mining assets. KCH is mandated to hold all Government-owned commercial assets in trust and to manage those assets to improve commercial performance and underpin economic development.

Associates relates the other State Owned Enterprises (SOEs) to which KCH is a Trustee.

The following amounts were outstanding at the reporting date.

	Amounts owed by related parties		Amounts owed to related parties	
	2023 K'000	2022 K'000	2023 K'000	2022 K'000
Kumul Consolidated Holdings (KCH)	-	-	556,605	438,830
Associates	23,633	21,282	477	1,134



22. Related party transactions (continued)

Sales of goods and services to related parties were made at the Company's usual tariff rates and purchases were made at market price.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Remuneration of directors

The remuneration of the directors has been disclosed in the Directors' Report.

23. Contingent liabilities

As at 31 December 2023 and 2022, Management is not aware of any material cases that would have a material impact on the financial statements.

24. Events after the reporting period

There were no other significant subsequent events that have significantly affected or may significantly affect the operations of the Company requiring disclosure in these financial statements.

25. Approval of the financial statements

The financial report was authorized for issue by the directors on the date included in the Directors' Report.

