

**DATAKOM**

Datacom Group Limited

# Consolidated Financial Statements

For the year ended 31 March 2020



# DATAKOM GROUP LIMITED

## TABLE OF CONTENTS

General Information	3
Consolidated Statement of Comprehensive Income	4
Consolidated Statement of Financial Position	5
Consolidated Statement of Changes in Equity	6
Consolidated statement of Cash Flows	7
Notes to and forming part of the Consolidated Financial Statements	8
Independent Auditor's Report	46

# DATACOM GROUP LIMITED

## GENERAL INFORMATION

### DIRECTORS

A J Carter (appointed 1 August 2019)  
C W Day (appointed 1 August 2019)  
J A Fahey  
J W Holdsworth  
M Holdsworth (alternate)  
S J Holdsworth  
S E Owen  
R Phillippo  
JR Bartley (alternate, resigned 15 November 2019)  
C D Boyce (resigned 31 March 2020)

### AUDITOR

Ernst & Young (EY)

### SOLICITORS

Minter Ellison Rudd Watts (New Zealand)  
Duncan Cotterill (New Zealand)  
Herbert Smith Freehills (Australia)  
Norton Rose Fulbright (Australia)

### MANAGEMENT <sup>(Note 21)</sup>

G L Davidson – Group Chief Executive  
R Walsh – Group Chief Financial Officer  
A Coates – Managing Director Australia  
S Gallagher – Chief People Officer  
J Gray – Managing Director Public Sector Wellington (appointed 31 March 2020)  
V Kay – Managing Director New Zealand Commercial  
Q Lowcay – Head of Legal & Commercial  
M Muru – Managing Director Public Sector  
B Peebles – Managing Director Strategy & Portfolio  
S Tomasoni – Managing Director Connect  
J D Usher – Managing Director Products & Marketing

### BANKERS

ANZ  
ASB Bank  
Citibank  
HSBC

### REGISTERED OFFICE

Level 10, South Tower  
68 Jervois Quay  
Wellington 6011  
Phone: (64) 4 460 1500  
Website: [www.datacom.co.nz](http://www.datacom.co.nz)

Mail contact:  
PO Box 6376  
Wellington 6141

# DATAKOM GROUP LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Note	2020 \$m	2019 Restated* \$m
Revenue	3	1,342	1,295
Cost of goods sold		(436)	(427)
<b>Gross profit</b>		<b>906</b>	<b>868</b>
Employee benefits expense	4	(727)	(662)
Other expenses	4	(88)	(113)
Net gain on disposal of subsidiary	17	2	-
<b>Earnings before interest, income tax, depreciation and amortisation</b>		<b>93</b>	<b>93</b>
Depreciation and amortisation expense		(67)	(31)
Net finance costs	5	(7)	(2)
<b>Profit before income tax</b>		<b>19</b>	<b>60</b>
Income tax expense	6	-	(20)
<b>Profit after tax</b>		<b>19</b>	<b>40</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss in subsequent years</i>			
Foreign currency translation loss		(1)	(1)
<b>Net other comprehensive loss that may be reclassified to profit or loss in subsequent years</b>		<b>(1)</b>	<b>(1)</b>
<i>Items that will not be reclassified to profit or loss in subsequent years</i>			
Revaluation of land at fair value		(6)	-
Income tax effect		2	-
<b>Net other comprehensive loss not to be reclassified to profit or loss in subsequent years</b>		<b>(4)</b>	<b>-</b>
<b>Total other comprehensive loss for the year, net of tax</b>		<b>(5)</b>	<b>(1)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>14</b>	<b>39</b>
<b>Profit for the year is attributable to:</b>			
Equity holders of Datacom Group Limited		16	38
Non-controlling interest		3	2
		<b>19</b>	<b>40</b>
<b>Total comprehensive income for the year is attributable to:</b>			
Equity holders of Datacom Group Limited		11	37
Non-controlling interest		3	2
		<b>14</b>	<b>39</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Parent:</b>			
Basic and Diluted earnings per share	19	<b>2.80</b>	6.54

\* See note 27 for details regarding restatement.

The accompanying notes form part of and are to be read in conjunction with these consolidated financial statements.

# DATAKOM GROUP LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	2020	2019	2018
		\$m	Restated*	Restated*
			\$m	\$m
<b>Current assets</b>				
Cash and cash equivalents	7	18	42	32
Receivables and contract assets	8	244	229	216
Inventories		7	8	5
Other assets	9	28	19	19
<b>Total current assets</b>		<b>297</b>	<b>298</b>	<b>272</b>
<b>Non-current assets</b>				
Property, plant & equipment	10	195	192	169
Right-of-use assets	11	142	-	-
Intangible assets	12	63	53	42
Deferred tax assets	6	23	13	12
Receivables and contract assets	8	8	3	4
Other assets	9	7	7	6
<b>Total non-current assets</b>		<b>438</b>	<b>268</b>	<b>233</b>
<b>TOTAL ASSETS</b>		<b>735</b>	<b>566</b>	<b>505</b>
<b>Current liabilities</b>				
Trade and other payables	13	138	146	143
Employee entitlements		80	85	85
Lease liabilities	11	34	-	-
Borrowings	14	76	68	20
Provisions	18	12	10	12
Current tax liability		21	11	6
<b>Total current liabilities</b>		<b>361</b>	<b>320</b>	<b>266</b>
<b>Non-current liabilities</b>				
Other payables	13	4	17	6
Lease liabilities	11	124	-	-
Borrowings	14	43	31	44
Provisions	18	5	5	7
Deferred tax liabilities	6	-	-	2
<b>Total non-current liabilities</b>		<b>176</b>	<b>53</b>	<b>59</b>
<b>TOTAL LIABILITIES</b>		<b>537</b>	<b>373</b>	<b>325</b>
<b>TOTAL NET ASSETS</b>		<b>198</b>	<b>193</b>	<b>180</b>
<b>Equity</b>				
Issued capital	19	15	15	12
Retained earnings		187	178	164
Other reserves		(6)	(1)	1
<b>Capital and reserves attributable to owners of the Group</b>		<b>196</b>	<b>192</b>	<b>177</b>
<b>Non-controlling interest</b>		<b>2</b>	<b>1</b>	<b>3</b>
<b>TOTAL EQUITY</b>		<b>198</b>	<b>193</b>	<b>180</b>

\* See note 27 for details regarding restatement.

The accompanying notes form part of and are to be read in conjunction with these consolidated financial statements.

For and on behalf of the Board, 28 July 2020



A J Carter  
Chairman



C W Day  
Director

## DATAKOM GROUP LIMITED

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

\$m	Note	Share Capital and Premium	Employee Share Scheme Reserve	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Retained Earnings	Equity Attributable to the Owners	Non-controlling Interest	Total Equity
<b>At 1 April 2018**</b>		<b>13</b>	<b>1</b>	<b>13</b>	<b>(12)</b>	<b>181</b>	<b>196</b>	<b>3</b>	<b>199</b>
Impact of restatement*	27	(1)	(1)	-	-	(24)	(26)	-	(26)
<b>Restated total equity at the beginning of the financial year**</b>		<b>12</b>	<b>-</b>	<b>13</b>	<b>(12)</b>	<b>157</b>	<b>170</b>	<b>3</b>	<b>173</b>
Profit for the year (restated*)		-	-	-	-	38	38	2	40
Other comprehensive income		-	-	-	(1)	-	(1)	-	(1)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>38</b>	<b>37</b>	<b>2</b>	<b>39</b>
<i>Transactions with shareholders in their capacity as owners</i>									
Issue of shares (restated*)		3	-	-	-	-	3	-	3
Transfer of revaluation reserve		-	-	(1)	-	1	-	-	-
Dividends paid (restated*)	19	-	-	-	-	(14)	(14)	(2)	(16)
Repurchase of non-controlling interest	17	-	-	-	-	(4)	(4)	(2)	(6)
<b>At 31 March 2019 (restated*)</b>		<b>15</b>	<b>-</b>	<b>12</b>	<b>(13)</b>	<b>178</b>	<b>192</b>	<b>1</b>	<b>193</b>
Profit for the year		-	-	-	-	16	16	3	19
Other comprehensive income		-	-	(4)	(1)	-	(5)	-	(5)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>(4)</b>	<b>(1)</b>	<b>16</b>	<b>11</b>	<b>3</b>	<b>14</b>
<i>Transactions with shareholders in their capacity as owners</i>									
Dividends paid	19	-	-	-	-	(7)	(7)	(2)	(9)
<b>At 31 March 2020</b>		<b>15</b>	<b>-</b>	<b>8</b>	<b>(14)</b>	<b>187</b>	<b>196</b>	<b>2</b>	<b>198</b>

\* See note 27 for details regarding restatement.

\*\* Includes \$7 million impact of adoption of NZ IFRS 15

The accompanying notes form part of and are to be read in conjunction with these consolidated financial statements.

# DATAKOM GROUP LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2020

	Note	2020	2019
		\$m	Restated* \$m
<b>Cash flows from operating activities</b>			
<i>Cash was provided from</i>			
Receipts from customers		1,323	1,292
Interest received		3	3
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		(1,262)	(1,180)
Income tax paid		-	(14)
Operating leases paid		-	(37)
<b>Net cash flows from operating activities</b>	20	<b>64</b>	<b>64</b>
<b>Cash Flows from investing activities</b>			
<i>Cash was provided from</i>			
Proceeds from sale of property, plant & equipment		-	1
Finance lease receipts		11	2
Proceeds from disposal of subsidiaries		3	-
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		(40)	(50)
Purchase of intangible assets		(16)	(17)
<b>Net cash (outflows) from investing activities</b>		<b>(42)</b>	<b>(64)</b>
<b>Cash Flows from financing activities</b>			
<i>Cash was provided from</i>			
Proceeds from bank loans	20	6	54
Proceeds under sale and leaseback liabilities	20	15	-
Proceeds from issuance of shares	19	-	3
<i>Cash was disbursed to</i>			
Repayment of bank loans	20	(35)	(19)
Interest expense on bank loans		(3)	(3)
Repayment of interest and principal under finance leases	20	(37)	(1)
Repayment of liability and interest under sale and lease-back transactions	20	(9)	-
Acquisition of non-controlling interest in Datacom Australia Holdings	17	(1)	(5)
Dividends paid	19	(7)	(18)
Dividends paid to non-controlling interests	19	(2)	(1)
<b>Net cash (outflows)/inflows from financing activities</b>		<b>(73)</b>	<b>10</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(51)</b>	<b>10</b>
Cash and cash equivalents at the beginning of the year		42	32
<b>Cash and cash equivalents at the end of the year</b>	7	<b>(9)</b>	<b>42</b>

\* See note 27 for details regarding restatement.

The accompanying notes form part of and are to be read in conjunction with these consolidated financial statements.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 1. Entity information

#### Reporting entity

Datacom Group Limited ('the Company' and 'Datacom') is a company domiciled in New Zealand and primarily involved in supplying IT services and business process outsourcing. It is registered under the New Zealand Companies Act 1993.

The consolidated financial statements of the Company and its controlled subsidiaries (together 'the Group') have been prepared in accordance with generally accepted accounting practice in New Zealand.

### 2. Basis of accounting

#### Basis of preparation

The consolidated financial statements of the Group (the 'financial statements') have been prepared in accordance with Generally Accepted Accounting Practices in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable New Zealand accounting standards and pronouncements, as appropriate for Tier 1 for-profit entities. The financial statements comply with the International Financial Reporting Standards (IFRS).

Except where indicated in the notes, the financial statements have been prepared using historical cost convention.

The financial statements are presented in New Zealand dollars and have been rounded to the nearest million dollars (\$m), unless otherwise stated.

During the year, the Group re-evaluated the accounting treatment for the share scheme arrangements based on the manner in which the schemes operate. As a result, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 March 2019 and the consolidated statement of financial position at 1 April 2018 and 31 March 2019 have been restated. Refer note 27 for details regarding restatement.

On 11 March 2020 the World Health Organization declared a global pandemic as a result of the COVID-19 outbreak. Following the ensuing period of economic and social disruption Datacom has continued to operate in a normal course of business leveraging its infrastructure and people capabilities in supporting its customers. The Group's operation was not materially impacted and the business was able to maintain a normal level of operations and utilization throughout this period. The Board continues to closely monitor the situation and has undertaken additional measures to maintain a sufficient level of liquidity and business continuity. The Board expects that the Group's service range, its quality customer base and strong liquidity position will enable Datacom to operate at normal capacity through the time of economic uncertainty resulting from COVID-19.

The Board has considered the heightened risk of sustained economic downturn in applying accounting judgments and estimates when preparing the financial statements. These considerations are disclosed in the relevant notes to the financial statements.

#### Consolidation

The financial statements comprise the financial statements of the Group and its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

# DATACOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 2. Basis of accounting (continued)

#### Foreign Currency Translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The presentation and functional currency of Datacom Group Limited is New Zealand dollars (\$).

At the reporting date the assets and liabilities of the overseas subsidiaries are translated into the presentation currency of Datacom Group Limited at the rate of exchange ruling at balance date and the statement of comprehensive income is translated using rates approximately those at transaction date. The exchange differences arising on the retranslation are taken to the foreign currency translation reserve. On disposal of a foreign entity, the proportional share of exchange differences is transferred out of reserves and reclassified to income statement in the consolidated statement of comprehensive income.

Foreign exchange rates for significant currencies (in NZ Dollars):

	2020		2019	
	Average	Year end	Average	Year end
Australian dollar	0.95	0.97	0.93	0.96
Malaysian ringgit	2.69	2.58	2.79	2.89
Philippines peso	33.13	30.52	35.98	35.37

#### Fair value estimation

Datacom classifies its fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making measurements. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable data.

During the year ending 31 March 2020, the valuation technique for Land at fair value was amended from Level 3 to Level 2 following the circumstances described in note 10. There were no other changes in valuation techniques for recurring fair value measurements of assets or liabilities.

#### Critical judgements and estimates in applying the accounting policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on various other factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values for assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

#### Revenue recognition

The complexity of the Group's revenue arrangements requires the exercise of significant judgement on application of the Group's accounting policy. These judgements relate to various stages of the five-step revenue model under NZ IFRS 15 including identification of performance obligations, determination of transaction price and considerations around agent-principal framework. The details on the nature of these judgements are included in the note 3.

#### Lease accounting

The Group cannot readily determine the interest rate implicit in its leases, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR represents the rate of interest that the Group would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The Group estimates the IBR using observable inputs when available and is required to make entity-specific estimates e.g. credit risk.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 2. Basis of accounting (continued)

Management also applies judgement to determine a lease term for leases with extension, termination or purchase options. The Group has also considered lease modification where the underlying asset is utilised for an extended term. See note 11 for further information on the assumptions applied in determining the lease term and incremental borrowing rate.

#### *Useful life of non-current assets*

Management determines the useful lives and residual values for assets when they are acquired, based on experience with similar assets and taking into account other relevant factors such as any expected change in technology. The useful life over which assets are depreciated or amortised depends on management's estimate of the period over which economic benefit will be derived from the asset.

#### *Impairment of goodwill and other assets*

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows known as cash generating units. The recoverable amounts of the Group's cash generating units are based on value in use, which is determined using discounted cash flow models. The value in use calculations require management to estimate the future cash flows expected to arise from the cash-generating units and suitable discount rates to determine the present value. See note 12 for information about the significant assumptions applied in the impairment testing of goodwill. All other assets are reviewed for indicators or objective evidence of impairment. If indicators or objective evidence exists, the recoverable amount is determined.

#### **Change in accounting policies and disclosures**

Changes to accounting policies and disclosures relate to the adoption of NZ IFRS 16 'Leases' that became effective for the Group from 1 April 2019. This standard introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requires the recognition of a right-of-use asset and a lease liability at commencement for all leases. The requirements for lessor accounting have remained largely unchanged. Further details of the impact of the standard, including transitional adjustments arising on adoption, are included in note 26 and the new accounting policies in notes 8 and 11.

Except for the adoption of NZ IFRS 16, the Group has applied accounting policies consistently to all periods presented in these financial statements. Certain items in the financial statements were regrouped to improve the precision and relevance of the financial information presented to its users. The reclassifications did not have material impact on the financial statements.

No other new standards, interpretations or amendments effective beginning on April 1, 2019 had a material impact on the financial statements.

### 3. Revenue

#### **Revenue policy**

Revenue is recognised if a contract exists between Datacom and its customer. A contract exists if collection of consideration is probable, rights to goods or services and payment terms can be identified, and parties are committed to their obligations.

The method for recognising revenues and costs depends on the nature of the services rendered. The revenue policy for each category of revenue is detailed below.

- **Professional services revenue**  
Most revenue generated by Professional Services is recognised over-time as Project-based contracts and Resource-based contracts.

#### *Project-based contracts*

Project-based contracts typically include fixed price projects or time and material based price projects, for example, system integration or design and development of customised IT systems and related processes. Contract terms typically range from 3 months to 2 years. Contract prices might be subject to incentives and penalties, based on achievement of specified performance targets or level of benefits delivered to the customer.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 3. Revenue (continued)

For project-based contracts, revenue is generally recognised over time, as at least one of the following conditions is met:

- Datacom's performance creates or enhances an asset that the customer controls as Datacom performs, or
- Datacom doesn't create an asset with an alternative use (e.g. it is customer-specific) and has an enforceable right to payment for performance to date in case of termination by the customer.

Datacom usually applies an input method to measure progress to completion, by calculating the costs incurred to date as a percentage of the total expected costs of the project.

For project-based contracts, invoicing is typically monthly or upon achievement of specific milestones.

#### *Resource-based contracts*

Revenue from Resource-based contracts is recognised as Datacom earns the right to bill the customer as the amount invoiced corresponds directly to the value to the customer of the performance completed to date. Each performance obligation is satisfied over time as the client continuously receives and consumes the benefits of the services. The amount to be billed is representative of the value of the service delivered to the customer and therefore, applying the right-to-bill practical expedient, revenue is recognised over time based on the hours spent. For resource-based contracts, invoicing is typically monthly. The related costs on resources-based contracts are expensed as incurred.

- **Operations Services revenue**

Revenue recognised by Operation Services mostly follows the Service contracts revenue recognition policy and the Multiple arrangements services contracts recognition policy.

#### *Service contracts*

Service contracts include IT management, data centre and network management, private cloud management, application management and business services activities. Initial contract terms typically range from 3 to 5 years. Fees are billable on a monthly basis, based on a fixed-price per work unit consumed, or based on monthly fixed fees subject to adjustment mechanisms for volume changes or scope changes. Service contracts usually provide for service-level penalties.

Recurring services are generally considered to be one single performance obligation, comprised of a series of distinct daily units of service satisfied over time. Contract modifications are recorded on a prospective basis. Revenue on Service contracts is recognised as rights to bill arise, except in specific cases where invoicing terms do not reflect the value to the customer of services rendered to date relative to the value of the remaining services (for example, in case of significant front-loaded or back-loaded fees or discounts). Service-level penalties or bonuses, if any, are accrued in full in the period when the performance targets are failed or achieved, as appropriate. Service revenue is constrained where service-level penalties or bonuses are incurred.

For service contracts, invoicing is typically monthly except for initial transition or setup activities usually billed in the initial phase.

#### *Multiple arrangement service contract*

Datacom may enter into multiple arrangements services contracts, which are long-term complex contracts with multiple phases which may include design, transition, transformation, build and service delivery.

Datacom may be required to perform initial transition or transformation activities under certain recurring service contracts. Initial set-up activities, mainly transition phases, necessary to enable the ongoing services, are not considered to be performance obligations. Any amount received in connection with those activities is deferred and recognised as revenue over the contractual service period. Other activities performed during the initial phase such as design, transformation and build are treated as a separate performance obligation if they transfer to the customer the control of an asset or if the customer can benefit from those initial activities independently from the ongoing service. In such cases, the corresponding revenues are generally recognised over time usually applying an input method to measure progress to completion, by calculating the costs incurred to date as a percentage of the total expected costs of the project.

# DATACOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 3. Revenue (continued)

When multiple performance obligations are identified within a single contract, Datacom allocates the total contract price to the performance obligations based on their relative standalone selling prices. In the absence of directly observable prices for similar services sold separately to similar customers, standalone selling prices are estimated, based on expected costs plus a margin rate commensurate with the nature and risk of the service.

For Multiple arrangement service contracts, invoicing is typically monthly except for initial transition or setup activities usually billed in the initial phase.

- **Infrastructure Products revenue**

Infrastructure products revenue mostly represents Services contracts where revenue is recognised over-time and comprise data centre and private cloud operations. Infrastructure products services operate mostly Service contracts detailed above.

- **Software as a service revenue ('SaaS')**

Software as a Service revenue is recognised over-time. The SaaS division comprises the Pay Systems and the Local Government contracts.

Software as a Service (SaaS) is a right to use software functionality (including standard functionalities and custom cloud applications and extensions) in a cloud-based infrastructure hosted by Datacom or third parties engaged by Datacom, where the customer does not have the right to terminate the hosting contract and take possession of the software to either run it on its own IT infrastructure or to engage a third-party provider unrelated to Datacom to host and manage the software.

For SaaS licence arrangements, licences are deemed to be a right to access. Revenue is recognised over time and taken in equal instalments over the period of the contract from the point the software is functional.

- **Product resale revenue**

Product resale mostly represents the sale of hardware, software, licences and other third-party products or services. Specific consideration are taken to determine the portion of revenue recognised at a point-in-time or the portion recognised over time. Management has also applied judgement in determining when Datacom recognises revenue as an agent or as principal.

Datacom may resell hardware, software licenses and other products obtained from third-party suppliers. Datacom also sells warranties and maintenance for these products. When the asset or service is distinct from the other services provided by Datacom, Datacom assesses whether it is acting as an agent or a principal in the purchase and resale transaction. Datacom acts as a 'principal' when it obtains control of the hardware, software licence or warranty before transferring them to the customer or when it performs the maintenance services. In such cases, the transaction is presented on a gross basis in the statement of comprehensive income. If Datacom acts as an 'agent', the transaction is recorded on a net basis. Depending on the type of products or services sold as part of the Product resale activities, revenue is recognised either at a point-in-time (products and licences) or over-time (ancillary services, e.g. maintenance and implementation services). When recognised over-time, Datacom generally applies an input method to measure progress to completion, by calculating the costs incurred to date as a percentage of the total expected costs of the project. The percentage of completion is based on costs incurred to date relative to the total estimate of cost at completion of the contract.

Datacom provides its customers with 'assurance-type' warranties where it gives the assurance that the related product will function as intended because it complies with agreed-upon specifications but also provides 'service-type' warranties where it delivers a service in addition to the assurance that the product complies with agreed-upon specifications. When the customer purchase a warranty separately (e.g. because the warranty is priced or negotiated separately), the promised warranty is accounted for as a separate performance obligation and a portion of the transaction price is allocated to the warranty service provided.

For resale arrangement activities, invoicing usually occurs when the performance obligations are completed.

Other elements related to the revenue recognition are common to Datacom's various categories of revenue have been detailed below:

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 3. Revenue (continued)

- **Variable remuneration**  
Estimates of incentives, penalties, and any other variable revenues are included in the transaction price, but only to the extent that it is highly probable the subsequent resolution of the price contingency will not result in a significant reversal of the cumulative revenue previously recognised. To make such an estimate, Datacom considers the specific facts and circumstances of the contract and its experience with similar contracts. Changes in estimates of variable consideration are recorded as cumulative catch-up adjustments to revenue.
- **Revenue recognised when invoiced**  
Where Datacom has a right to consideration from customers in an amount that corresponds directly with the value to the customer of Datacom's performance completed to date (for example, a service contract in which Datacom bills a fixed amount for each hour of service provided), Datacom is using the practical expedient and recognises revenue in the amount to which it has the right to invoice.

Datacom generally makes use of the practical expedients in NZ IFRS 15 where outstanding performance obligations under contracts with an expected original term of no more than one year and revenues recognised in accordance with the billed amounts are exempt from the disclosure requirement.

#### Critical judgements and estimates in applying the accounting policies – revenue transactions

Datacom uses estimates and judgements in determining the amount and timing of revenue under NZ IFRS 15. The areas of judgement include the identification of distinct performance obligations under each contract, the determination of the transaction price, the estimation of the stage of completion and the assessment for the revenue to be recognised as an agent or as principal.

The transaction prices of individual products or services that are part of multiple-arrangement service contracts are complex to determine, because the standalone selling prices might not be readily identifiable within the organisation and it may include variable elements such as discounts, performance related price adjustments or contract penalties that are estimated at the commencement of the contract and periodically revised.

Changes in estimates of standalone selling prices can significantly influence the allocation of the transaction price for the entire multiple-arrangement service contract among the individual performance obligations and therefore affect both the financial position (i.e., the carrying amount of contract assets and contract liabilities) and the current and future results of operations. Datacom uses judgement in the process of estimating the transaction prices based on estimates and historical experience with the type of business and customer.

For most contracts, Datacom recognises revenue over-time and determines the progress to completion by estimating the total expected costs of the project. The degree of completion requires judgement and is assessed regularly by the responsible employees and the area is closely monitored by management. Adjustments are made to the stage of completion and to the level of revenue recognised when deemed necessary.

Datacom applies significant judgement in determining if setup activities constitute a separate performance obligation. For activities that involve changes to the customer IT environment, Datacom determines if the setup or installation provides incremental benefits to the customer and determines if it is sufficiently material to require the identification of a separate performance obligation.

Datacom also uses judgement in its assessment to present revenue gross as the principal or net after deduction of costs as the agent. Datacom considers all of the relevant facts and circumstances for each individual contract to determine the method for recording revenue, however in many cases the decision involves a degree of judgement, even if a uniform method of assessment is applied. Depending on the conclusion reached, there may be material differences in the amounts of revenues and expenses recognised, however this has no incidence on the level of gross profit reported.

# DATACOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 3. Revenue (continued)

Disaggregation of the Group's revenue from the transfer of goods and services over time and at a point of time as described in the above policy has been presented as follows:

	2020	2019
	\$m	\$m
Professional Services	273	241
Operations Services	638	630
Infrastructure Products	114	87
Software as a Service	37	36
Product Resale	280	301
<b>Total revenue</b>	<b>1,342</b>	<b>1,295</b>

### 4. Expenses

	2020	2019
	\$m	Restated* \$m
<b>Employee benefits expense</b>		
Short-term salary and benefits, including temporary staff cost	718	657
Long service leave	2	-
Termination expenses	6	4
Net movement in share-based payment expense	1	1
<b>Total employee benefits expense**</b>	<b>727</b>	<b>662</b>

\* See note 27 for details regarding restatement.

\*\*This excludes salaries of \$12 million (2019: \$12 million) capitalised into carrying value of non-current assets.

#### Other expenses

Audit fees	1	1
Rental and operating lease expense	-	37
Travel	11	12
Software Licensing	16	6
Amortisation of contract costs	3	1
Other expenses	57	56
<b>Total other expenses</b>	<b>88</b>	<b>113</b>

#### Audit fees

Fees paid and payable to EY for the audit of the Group financial statements amounted to \$927,000 (2019: \$802,000). Tax services relating to tax audit and compliance work amounted to \$78,000 (2019: \$214,000) and other non-audit services amounted to \$24,000 (2019: \$152,000). Fees paid for the audit of financial statements to auditor's other than the auditor of Datacom Group Limited were \$19,500 (2019: \$15,000).

**DATAKOM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**5. Net finance costs**

	2020	2019
		Restated*
	\$m	\$m
Interest income	(3)	(3)
<b>Total finance income</b>	<b>(3)</b>	<b>(3)</b>
Interest expense on bank borrowings	3	3
Interest expense on lease liabilities	7	-
<b>Total finance expense</b>	<b>10</b>	<b>3</b>
Remeasurement of share scheme liability	-	2
<b>Total net finance costs</b>	<b>7</b>	<b>2</b>

\* See note 27 for details regarding restatement.

*Interest income*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Interest expense*

Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs are charged to profit or loss in the period they occur except for those attributable to the acquisition, construction or production of a qualifying asset which are capitalised as part of that asset.

*Remeasurement of share scheme liability*

Share scheme expense recognised under net finance costs represents movement in fair value of vested but unsettled share-based awards, refer to note 23 for policy disclosure.

*Interest income from finance leases and interest expenses on lease liabilities*

The Group's lease interest income and lease interest expenses include interest receivable and payable on existing finance lease receivables and lease liabilities respectively. This is computed using the effective interest rate method.

**DATAKOM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**6. Income tax**

Current income tax

	2020	2019
		Restated*
	\$m	\$m
Current income tax	8	21
Deferred income tax	(8)	(1)
<b>Total income tax expense</b>	<b>-</b>	<b>20</b>
Accounting profit before tax	19	60
<b>At New Zealand statutory income tax rate of 28%</b>	<b>5</b>	<b>17</b>
Adjustments in respect of current income tax of previous years	-	1
Revenue not assessable for income tax purposes	(1)	-
Expenditure not allowable for income tax purposes	1	1
Tax losses not recognised	1	1
Capital losses not previously recognised	(2)	-
Effect of reinstatement of tax depreciation on buildings	(4)	-
<b>At effective income tax rate of 0% (2019: 32%)</b>	<b>-</b>	<b>20</b>

\* See note 27 for details regarding restatement.

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantially enacted at the reporting date where the Group operates and generates taxable income.

Under the tax consolidation regime only wholly owned entities are eligible to join a consolidation group. Datacom Australia Holdings Pty Limited is the head company of the consolidated tax group in Australia. Datacom Group Limited is the head company of the consolidated tax group in New Zealand.

The Group has historical capital tax losses carried forward from its Australian operations. Subsequent to disposal of subsidiaries these amount to \$8 million (gross). These losses were not previously recognised, in FY20 management has re-assessed the utilisation of these capital losses triggering a recognition of deferred tax asset amounting to \$2 million at 31 March 2020.

As part of its COVID-19 Economic Response Package the New Zealand Government has increased the rate of tax depreciation permitted for commercial and industrial buildings. The reinstatement of tax deductions for depreciation has resulted in an increase in deferred tax asset amounting to \$4m at 31 March 2020.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 6. Income tax (continued)

#### Deferred income tax

	31 March		Movement	
	2020	2019	2020	2019
	\$m	\$m	\$m	\$m
<b>Deferred income tax liabilities</b>				
Land at fair value	(3)	(5)	2	(1)
Property, plant and equipment at cost*	-	(2)	2	1
Intangibles	(2)	(1)	(1)	(1)
Contract assets	(1)	(2)	1	(1)
Contract costs	(2)	(2)	-	(1)
<b>Gross deferred tax liabilities</b>	<b>(8)</b>	<b>(12)</b>		
<b>Deferred income tax assets</b>				
Employee entitlements	13	13	-	3
Contract liabilities	7	6	1	6
Provisions	4	4	-	(1)
Right-of-use assets	1	-	1	-
Property, plant and equipment at cost*	2	-	2	-
Recognised tax losses	2	2	-	-
Recognised capital losses	2	-	2	(2)
<b>Gross deferred income tax assets</b>	<b>31</b>	<b>25</b>		
<b>Net deferred income tax assets</b>	<b>23</b>	<b>13</b>	<b>10</b>	<b>3</b>

\* includes land and specialised data centre buildings

	2020	2019
	\$m	\$m
Net deferred tax asset at 1 April	13	10
Adoption of NZ IFRS 15	-	3
Charged to income statement	8	1
Charged to other comprehensive income	2	-
Foreign exchange movement	-	(1)
<b>Net deferred tax asset at 31 March</b>	<b>23</b>	<b>13</b>

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. Deferred income tax is provided on all temporary differences at balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

# DATACOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 6. Income tax (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed and assessed by management at each balance date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

The deferred tax assets include an amount of \$2 million which relates to historical carried forward tax losses from the Group's Australian operations which arose in prior periods. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets. The losses can be carried forward indefinitely and have no expiry date.

The Group has unrecognised tax losses available to carry forward of \$7 million (gross) for subsidiaries in Singapore, the United Kingdom and the United States of America (2019: \$3 million). During prior period a local law change has removed the income tax exemption previously afforded in Malaysia. Each of Singapore, the United Kingdom and the United States of America are new businesses in the respective countries operating akin to start-ups.

### 7. Cash and cash equivalents

	2020	2019
	\$m	\$m
Cash at bank and in hand	18	42

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. They are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

#### Reconciliation to cash flow statement

	2020	2019
	\$m	\$m
Balances as above	18	42
Bank overdrafts (note 14)	(27)	-
<b>Balances per statement of cash flows</b>	<b>(9)</b>	<b>42</b>

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 8. Receivables and contract assets

	2020	2019
	\$m	\$m
<b>Current</b>		
Trade receivables	225	214
Contract assets	8	10
Allowances for credit loss	(1)	(1)
<b>Net trade receivables</b>	<b>232</b>	<b>223</b>
Finance lease receivables	9	2
Other receivables	3	4
<b>Total current</b>	<b>244</b>	<b>229</b>
<b>Non-current</b>		
Finance lease receivables	7	1
Contract assets	1	2
<b>Total non-current</b>	<b>8</b>	<b>3</b>

#### Contract assets and trade receivables

Contract assets represents work completed by the Group but not invoiced at the reporting date. In addition, upfront amounts payable to customers, if in excess of the fair value of assets transferred to customers, are capitalised as contract assets and amortised over the contractual period, as a deduction to revenue.

Trade receivables are non-interest bearing and are generally on 30-60 day terms. For terms and conditions relating to related parties refer to note 21.

#### Finance lease receivables

Some service contracts undertaken by the Group in the operational services business involve provision of dedicated IT equipment to end customers generally under sale-type finance leases. In most cases the Group sources such equipment through sales and leaseback arrangements and the accounting treatment depends on whether the transfer of the asset constitutes a sale under NZ IFRS 15. A sale and leaseback transaction constitutes a genuine sale if control of an asset is transferred under NZ IFRS 15.

The Group has determined that its existing sale and leaseback arrangements do not result in control transfer and thus do not satisfy the revenue recognition requirements. As a seller-lessee, the Group continues to recognise the asset as per the capitalisation policy and recognises a financial liability equal to the transaction proceeds.

As per the transition requirements of NZ IFRS 16, the sale and leaseback arrangements existing at transition date have not been re-assessed to determine whether or not a sale has occurred and have instead been accounted for as back to back finance leases. As the lease arrangements relate to sales-type finance lease arrangements, the selling profit is recognised as an outright sale on the lease on commencement date. The weighted average remaining term of these finance leases in customer contracts is 2 years.

The Group sometimes acts as an intermediate lessor where leased assets are sub-leased to end customers. In those cases, the lease is classified as a finance lease or an operating lease as follows:

- If the head lease is a short-term lease that the Group has accounted for accordingly, the lease is classified as an operating lease;
- Otherwise, the lease is classified by reference to the right of use asset arising from the head lease, rather than by reference to the underlying asset. A lease is classified as a finance lease if it transfers substantially all the risks and rewards from the right of use asset resulting from the head lease, otherwise, it is classified as an operating lease.

**DATACOM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**8. Receivables and contract assets (continued)**

The profile of finance lease net receipts is set out below:

	2020	2019
	\$m	\$m
Within one year	10	2
After one year but not more than five years	7	1
<b>Total undiscounted lease receivables</b>	<b>17</b>	<b>3</b>
Less amounts representing finance income	(1)	-
<b>Total finance lease receivable 31 March</b>	<b>16</b>	<b>3</b>
<b>Reconciled to:</b>		
Current	9	2
Non-current portion	7	1

For leases classified as finance lease, the Group derecognises the right of use asset relating to the head lease and recognises the net investment in the lease as a finance lease receivable; any difference between the right of use assets and the net investment in the finance lease is recognised in profit or loss. At commencement date, the net investment in the lease is measured at an amount equal to the present value of the lease payments for the underlying right of use assets during the lease term. The Group, as a lessor, recognises finance income over the lease term, based on a pattern reflecting the constant period of return on the lessor's net investment in the lease.

The interest rate implicit in the leases is fixed at the contract date for the entire lease term. The average effective interest rate was 3.5%.

**Expected credit loss**

The Group has four types of financial assets that are subject to the expected credit loss model considerations:

- Cash and cash equivalents;
- Trade and other receivables;
- Finance lease receivable; and
- Contract assets.

Except for trade receivables, the expected credit loss for the remaining three types of financial assets was not material.

The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses ('ECL') which uses a lifetime expected loss allowance for trade and other receivables, finance lease receivables and contract assets. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the historical payment pattern of sales over a period of 5 years preceding and the corresponding historical credit losses experienced within this period. The historical loss rates were adjusted to reflect current and forward-looking information based on management's assessment of current macroeconomic conditions in the countries of operation that may negatively affect customer's ability to settle the receivables. Management also considers the segmentation of its customer portfolio based on size and ownership profile and incorporates this information in the credit loss estimates.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 8. Receivables and contract assets (continued)

The expected credit loss allowance for trade and other receivables was determined as follows:

31 March 2020, \$m	Total	Current	0-30 Days	31-60 Days	61-90 Days	91 days +
Gross carrying amount	228	189	28	4	2	5
Total expected credit loss	0.57%	0.03%	0.45%	1.32%	9.93%	13.73%
Lifetime ECL	(1)	-	-	-	-	(1)

31 March 2019, \$m	Total	Current	0-30 Days	31-60 Days	61-90 Days	91 days +
Gross carrying amount	218	173	34	6	2	3
Total expected credit loss	0.29%	0.02%	0.27%	0.49%	6.54%	12.27%
Lifetime ECL	(1)	-	-	-	-	(1)

Movements in the credit loss allowance were as follows:

	2020 \$m	2019 \$m
At 1 April	1	1
Additional allowance	1	1
Reversals of previous allowances	-	(1)
Amounts written off	(1)	-
At 31 March	1	1

The movement in the Lifetime ECL allowance is presented within other expense line of the statement of comprehensive income, except for the write off amounts which are directly taken against the existing balance of the previously created allowance.

### 9. Other assets

	2020 \$m	2019 \$m
<b>Current</b>		
Prepayments	24	17
Costs to obtain customer contracts	2	-
Costs to fulfil customer contracts	2	2
<b>Total current other assets</b>	<b>28</b>	<b>19</b>
<b>Non-current</b>		
Prepayments	5	4
Costs to obtain customer contracts	1	1
Costs to fulfil customer contracts	1	2
<b>Total non-current other assets</b>	<b>7</b>	<b>7</b>

Incremental costs to acquire a multi-year service contracts (like sales commissions) are capitalised and amortised over the life of the contract. Commissions are not capitalised if the amortisation period is one year or less.

Costs incurred prior to the acceptance of an enforceable contract are capitalised as costs to fulfil customer contracts only if they are directly attributable to the design or set-up phase of a specifically identified contract, if the acceptance of the contract is probable, and if the costs are expected to be recoverable from the contract.

**DATACOM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**10. Property, plant and equipment**

\$m	Land and specialised data centre buildings	Land at fair value	Leasehold improvement	Computers	Plant and equipment	Furniture and fittings	Work in Progress	Total
Cost	66	31	70	72	72	18	24	353
Accumulated depreciation	(16)	(0)	(41)	(57)	(61)	(9)	-	(184)
Net carrying amount at 1 April 2018	50	31	29	15	11	9	24	169
Additions	-	-	5	5	3	3	34	50
Transfers from WIP	3	-	12	1	1	-	(17)	-
Disposals	-	-	-	-	(2)	-	-	(2)
Reclassifications	5	(5)	-	-	-	-	-	-
Depreciation for the year	(2)	-	(6)	(9)	(4)	(4)	-	(25)
Cost	74	25	84	75	71	19	41	389
Accumulated depreciation	(18)	-	(43)	(63)	(61)	(12)	-	(197)
Net carrying amount at 31 March 2019	56	25	41	12	10	7	41	192
Additions	-	-	2	7	25	1	6	41
Transfers from WIP	10	-	25	3	-	-	(38)	-
Revaluation	-	(6)	-	-	-	-	-	(6)
Depreciation for the year	(3)	-	(10)	(8)	(7)	(3)	-	(31)
Cost	84	19	112	75	95	20	8	413
Accumulated depreciation	(21)	-	(53)	(62)	(67)	(15)	-	(218)
Net carrying amount at 31 March 2020	63	19	59	13	28	5	8	195

**Plant and equipment**

Plant and equipment, including land and specialised data centre buildings, is stated at cost, including costs directly attributable to bringing the asset to its working condition, less accumulated depreciation and any accumulated impairment losses.

Any expenditure that increases the economic benefits derived from an asset is capitalised. Expenditure on repairs and maintenance that does not increase the economic benefits is expensed in the period it occurs.

All items are depreciated/amortised on a straight-line basis. Expected useful lives are:

Furniture and fittings	3-10 years
Leasehold improvements	3-25 years
Computers	2-10 years
Plant and equipment	3-20 years
Leased plant and equipment	2-4 years
Specialised data centre buildings	20-25 years

**Land at fair value**

Land and buildings owned and occupied by the Group as office space are measured at cost on initial recognition and subsequently measured at fair value less accumulated depreciation on buildings and impairment losses recognised after the date of revaluation. Valuations are done frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. This category of property, plant and equipment is represented by one office property situated in Melbourne, Australia. As the valuation ascribed all value of the property to land, the asset is not depreciated.

Any revaluation increment is recorded in other comprehensive income and credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss, except to the extent that it offsets a previous revaluation increase for the same asset, in which case the decrease is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 10. Property, Plant & Equipment (continued)

Additionally, any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the asset and the net amounts are restated to the revalued amounts of the assets. Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

At 31 March 2020 the Group has reduced the carrying value of the asset by \$6 million with a corresponding decrease in the revaluation reserve, net of deferred tax, of \$4 million. The change in the asset valuation reflects current market conditions.

Following a restructure of Datacom's banking facilities on 31 July 2019, the abovementioned asset is no longer pledged as security.

#### Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, based on the cash generating unit they are allocated to, with the recoverable amount being estimated when events or changes in circumstances indicate value may be impaired. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell 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.

#### Property, plant and equipment pledged as security for liabilities

There is no material carrying value of plant and equipment pledged as security under third party arrangements.

### 11. Right-of-use assets and Lease liabilities

#### Right-of-use assets

The Group's leases include:

- Property – the Group leases office premises as part of its operating activities. The weighted average lease term is 5 years, but may have extension options. These extension options are usually at the discretion of Datacom.
- Data centers – The Group has leased data centre premises across Australia and New Zealand and makes use of these specialised buildings for data centre related business activities. The weighted average lease term remaining is 3 years. The lease terms include extension options.
- IT Equipment – the Group leases equipment/hardware relating to fulfilment of customer contracts. The weighted average lease term is 2 years. These contracts include sale and leaseback arrangements that were existing at 1 April 2019 and were previously, under NZ IAS 17, accounted for as operating leases. As per transition requirements, these contracts have not been reassessed for the new Sale and Leaseback guidance under NZ IFRS 16. Similar contracts entered into after 1 April 2019 have been assessed as financing arrangements. See note 14 with further disclosures on the financial liability.

#### The Group as a Lessee

The Group assesses whether a contract is, or contains a lease, at inception of the contract. The Group recognises a right of use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee (except for short-term leases defined as a lease with a lease term of 12 months or less). For these short-term leases, the Group recognises the lease payments as an operating expense.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

#### Lease term

The Group has applied judgement in the determination of a lease term for leases with extension, termination or purchase options. The Group has also considered lease modification where the underlying asset is utilised for an extended term.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 11. Right-of-use assets and Lease liabilities (continued)

Leases relating to office premises are negotiated on an individual basis and contain a range of different terms and conditions, with typical fixed term periods of between 3-15 years. Where Datacom is a lessee of IT equipment, the lease agreements have a fixed term of between 2 to 5 years with extension options.

In determination of the lease term, the Group has considered all the facts and circumstances that create an economic incentive to exercise an extension, termination or purchase option. These factors differ depending on the contractual arrangements and the nature of the underlying assets.

Extension options are only included in the lease term if the lease is reasonably certain to be extended. Periods beyond termination options are only included in the lease term if it is reasonably certain that the lease will not be terminated.

The level of certainty required to make the judgements about the lease term is high. The longer the fixed leased term, the less certain a lessee is to exercise the option to extend the lease. Extension options for office premises have been considered in line with the Group's planning model as a basis for forecasting renewals. Where the Group has made significant investments in the buildings (data centres and office fit-outs), the determination of the lease term has considered all enforceable renewals.

For back-to-back leases relating to customer equipment, no extension options have been considered, as it is not reasonably certain that the leases will be extended. None of the termination options have also been considered to be reasonably certain to be exercised.

The lease term assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and is within the Group's control as lessee.

#### *Leases with lease payment increases*

Under most of the Group's lease arrangements, Datacom pays fixed lease payments which are included in the measurement of the lease liabilities on initial recognition or at the time of the re-assessment. The fixed lease payments include an average fixed increase of 3% in a number of office premises leases. However, some office premises leases, contain other escalation clause, including increases subject to the consumer price indices or subject to market rates. No material adjustment to lease liability has resulted from these escalation clauses recognised at 31 March 2020.

The Group applies NZ IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, plant and equipment' policy. See note 10 for further details on impairment.

Key movements relating to right-of-use assets are presented below:

\$m	Property	IT Equipment	Specialised data centre premises	Total
Net carrying amount at 1 April 2019	117	12	12	141
Additions during the year	3	21	7	31
Depreciation charge	(21)	(6)	(3)	(30)
Cost	120	33	19	172
Accumulated depreciation	(21)	(6)	(3)	(30)
<b>Net carrying amount at 31 March 2020</b>	<b>99</b>	<b>27</b>	<b>16</b>	<b>142</b>

**DATAKOM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**11. Right-of-use assets and Lease liabilities (continued)**

**Lease liabilities**

Key movements relating to lease liabilities are presented below:

\$m	Property	IT Equipment	Specialised data centre premises	Total
Net carrying amount at 1 April 2019	122	23	12	157
Leases entered into during the year	3	21	7	31
Interest expense	5	2	1	8
Principal Repayments	(23)	(11)	(3)	(37)
Net exchange difference	-	(1)	-	(1)
<b>Net carrying amount at 31 March 2020</b>	<b>107</b>	<b>34</b>	<b>17</b>	<b>158</b>
Short-term lease liabilities	19	13	2	34
Long-term lease liabilities	89	21	14	124

Maturity analysis	2020 \$m
Less than one year	41
One to five years	88
More than five years	57
<b>Total undiscounted lease liabilities</b>	<b>186</b>
less future finance charges	(28)
<b>Total lease liabilities at 31 March 2020</b>	<b>158</b>

The lease liability is initially measured at the present value of future lease payments discounted by using the rate implicit in the lease. If the rate cannot be readily determined, the Group uses an incremental borrowing rate. To determine the incremental borrowing rate, the Group:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.
- Uses the build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- Makes adjustment specific to the term of the lease eg term, country, currency and security.

The incremental borrowing rate applied to our IT equipment leases ranged from 3 per cent to 4 per cent while the incremental borrowing rate for our property leases ranged from 3 per cent to 5 per cent for New Zealand and Australian property leases and 8 per cent for other international property leases. The weighted average discount rate at 31 March 2020 was 4.9 per cent.

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Expected amount of payment penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 11. Right-of-use assets and Lease liabilities (continued)

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group assesses at lease commencement whether it expects to exercise renewal options where these are included in the contract. Where it is reasonably certain that renewal options will be exercised, the extension period is included in the lease liability calculation.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

### 12. Intangibles

	Goodwill	Software	Work in Progress	Total
	\$m	\$m	\$m	\$m
Cost	28	49	12	89
Accumulated amortisation and impairment	(10)	(37)	-	(47)
<b>Net carrying amount at 1 April 2018</b>	<b>18</b>	<b>12</b>	<b>12</b>	<b>42</b>
Additions	-	16	1	17
Transfers from WIP	-	3	(3)	-
Amortisation	-	(6)	-	(6)
Cost	28	68	10	106
Accumulated amortisation and impairment	(10)	(43)	-	(53)
<b>Net carrying amount at 31 March 2019</b>	<b>18</b>	<b>25</b>	<b>10</b>	<b>53</b>
Additions	-	5	11	16
Amortisation	-	(6)	-	(6)
Cost	28	73	21	122
Accumulated amortisation and impairment	(10)	(49)	-	(59)
<b>Net carrying amount at 31 March 2020</b>	<b>18</b>	<b>24</b>	<b>21</b>	<b>63</b>

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets (including other intangibles acquired), liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units ('CGU') expected to benefit from the combination's synergies. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 12. Intangibles (continued)

Carrying value of goodwill is allocated to the following cash generating units:

	Country	2020 \$m	2019 \$m
Datacom Connect	AU	2	2
Datacom Systems	AU	9	9
Smartbusinesslive	NZ	5	5
Local Government	NZ	2	2
<b>Total carrying value of goodwill</b>		<b>18</b>	<b>18</b>

Following structural changes in internal reporting and performance monitoring of the Group, individual divisions within Datacom Systems has been amalgamated into a single entity. As a direct outcome of these changes it is no longer practicable to reliably estimate and assess the cash inflows of each individual division. As a result, the number of CGUs reported for Australian-based goodwill has been reduced from three CGUs in FY19 to two CGUs in FY20.

#### *Impairment testing of goodwill*

The recoverable amount for all cash generating units has been determined using management adopted cash flow projections based on a three-year business plan approved by the Board and applying management's growth rate assumptions beyond the period of the forecast. These assumptions are based on external market validations conducted during the year as well as management's own industry expertise and experience with other niche propositions. For the year ended 31 March 2020, no goodwill impairment was recorded (2019: none).

Key assumptions used for value in use calculations:

	2020		2019	
	NZ	AU	NZ	AU
Pre-tax discount rate	15% -21%	13% -14%	19% -21%	16% -17%
Revenue CAGR*	12% - 26%	5% - 9%	9% - 54%	6%
EBITDA CAGR	9% - 233%	1% - 12%	7% - 56%	0% - 13%
Terminal value multiple	5	5	4 - 5	5

\*Refers to Compound Annual Growth Rate

Management have considered and assessed reasonable possible changes for the above key assumptions and have not identified any instances that could cause the carrying amount of any CGU to exceed its recoverable amount.

In response to economic uncertainty triggered by COVID-19, management has incorporated additional testing scenarios over the key inputs into the forecast model used for the goodwill impairment test. The assessment included a significant reduction in the baseline revenue. The results of this modelling have confirmed that in such an unlikely scenario, the recoverable amount for each CGU still maintains sufficient headroom over its carrying amount.

#### **Intangible assets**

Intangible assets acquired separately or in a business combination are initially measured at cost. The intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method is reviewed annually. Changes in the expected useful life or the pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, which is a change in accounting estimate. The amortisation expense is recognised in profit or loss.

# DATACOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 12. Intangibles (continued)

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use, its intention to complete and its availability for use, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following initial recognition, the development expenditure is capitalised at cost and amortised over the period of expected benefit from the related project.

The Group's intangible assets are amortised on a straight-line basis over a period of 3-9 years which is commensurate with the expected useful life of the asset.

Reviews are undertaken on an annual basis of all finite life intangible assets to assess whether any indicators of impairment exist. Indicators include matters such as loss of ability to generate revenue, loss of customers or loss of market share.

### 13. Trade and other payables

	2020	2019
	\$m	\$m
<b>Current</b>		
Trade payables	69	82
Other payables and accruals	39	33
Contract liabilities	29	29
Deferred income on government grants	1	2
<b>Total current trade and other payables</b>	<b>138</b>	<b>146</b>
<b>Non-current</b>		
Other	-	7
Contract liabilities	4	10
<b>Total non-current trade and other payables</b>	<b>4</b>	<b>17</b>

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and non-interest bearing. They are usually paid within 30 days of recognition.

Contract liabilities represents invoiced not yet performed work. In addition, upfront fees received from customers are deferred and recognised over the service period as contract liabilities, even if non-refundable.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 14. Borrowings

	2020	2019
	\$m	\$m
<b>Current</b>		
Bank loans	38	67
Bank overdrafts	27	-
Finance lease liabilities	-	1
Sale and lease-back liabilities	11	-
<b>Total current</b>	<b>76</b>	<b>68</b>
<b>Non-current</b>		
Bank loans	30	30
Finance lease liabilities	-	1
Sale and lease-back liabilities	13	-
<b>Total non-current</b>	<b>43</b>	<b>31</b>

#### *Interest-bearing loans*

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. The effective interest rate is calculated by taking into account any issue costs, and any discount or premium on settlement.

#### *Sale and lease back liabilities*

Following the adoption of NZ IFRS 16, sale and leaseback transaction entered into during the year have been determined to be financing arrangements and recognised at amortised cost in accordance with NZ IFRS 9. requirements.

Sale and leaseback arrangements concluded prior to transition date have been accounted for as per NZ IFRS 16 transition requirements, whereby the seller-lessee is not required to perform any retrospective accounting specific to the sale element of a sale and leaseback transaction on transition. These transition sale and leaseback arrangements have thus been accounted for as leases.

#### Summary of bank loans

	2020	2019	Interest rate
	\$m	\$m	
Australia	25	20	The floating interest rate paid was 1.34-3.56% (2019: 2.45-3.77%).
Asia	-	1	
New Zealand	70	76	The floating interest rate paid was 1.35-3.81% (2019: 3.76-3.87%).
<b>Total bank loans and overdrafts</b>	<b>95</b>	<b>97</b>	

Additionally, the Group had access to \$57 million (2019: \$19 million) of undrawn borrowing facilities available at the end of the reporting period.

The interest rate under the sale and leaseback arrangements ranged between 3-4%.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 15. Financial instruments

#### Classification of financial instruments

	2020	2019
	\$m	\$m
<b>Financial assets measured at amortised cost</b>		
Cash and cash equivalents	18	42
Receivables and contract assets	252	232
<b>Total financial assets</b>	<b>270</b>	<b>274</b>
<b>Financial liabilities measured at amortised cost</b>		
Trade and other payables	93	105
Borrowings	95	99
Sale and lease-back liabilities	24	-
Lease liabilities	158	-
<b>Total financial liabilities</b>	<b>370</b>	<b>204</b>

Management determines the classification of the Group's financial assets and liabilities at initial recognition. The Group's financial assets and liabilities for the periods covered by these financial statements are measured at amortised cost.

#### *Financial assets measured at amortised cost*

The classification of financial assets and liabilities depends on the purpose for which they were acquired. The Group classifies all of its financial assets at amortised cost as they meet both of the following criteria:

- The asset is held within a business model whose objective is to collect the contractual cash flows, and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

#### *Financial liabilities measured at amortised cost*

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method. The Group classifies all of its financial liabilities at amortised costs.

#### *Recognition and derecognition*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

#### *Measurement*

At initial recognition, the Group measures a financial asset and liability at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. After initial recognition, both financial assets and financial liabilities are subsequently carried at amortised cost using the effective interest method.

#### *Fair value of financial assets and liabilities*

The carrying value materially approximates the fair value for each of the classes of financial instruments as of the Balance Sheet date.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 16. Investment in associate

Associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures. Investment in associates accounting treatment follows the equity method of accounting.

The Group has a 20% interest in Humanetix Holdings Limited (previously known as Smartward Holdings Pty Limited), a company specialising in management of activities within aged care facilities and hospital wards. Humanetix is a private company and not listed on any public exchange.

The net profit of the associate for the year ended 31 March 2020 is \$509,000 (2019: net loss \$642,000). The total carrying amount of the investment in associate was fully impaired in FY18 due to the associate's continuous operating losses and the Group's uncertainty of realising its investment. As the carried forward losses outweigh the net profit for the year the Group has not considered reversing the previously recognised impairment charge. The associate has a June year end.

The associate had no material contingent liabilities or capital commitments at 31 March 2020 (2019: nil).

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 17. Investment in subsidiaries

	Country of Incorporation	% Equity interest	
		2020	2019
Datacom Holdings Limited	New Zealand	100%	100%
Datacom New Zealand Limited	New Zealand	100%	100%
Datacom Systems Limited	New Zealand	100%	100%
Datacom CSG Limited	New Zealand	100%	100%
Datacom Solutions Limited	New Zealand	100%	100%
Smartbusinesslive Limited	New Zealand	55%	55%
Smartbooks Limited	New Zealand	100%	100%
Smartpayroll Limited	New Zealand	100%	100%
Datacom Data Centres Limited	New Zealand	100%	100%
Datacom Connect Limited	New Zealand	100%	100%
Datacom Foundation <sup>1</sup>	New Zealand	-	N/A
Datacom Australia Holdings Pty Limited	Australia	100%	99.29%
Datacom Investments Pty Ltd (dormant)	Australia	100%	100%
Datacom Systems (Vic) Pty Ltd (dormant)	Australia	100%	100%
Datacom Connect Pty Ltd	Australia	100%	100%
Datacom Solutions (AU) Pty Ltd	Australia	100%	100%
Datacom Systems Pty Ltd (dormant)	Australia	100%	100%
Datacom Systems (NSW) Pty Ltd (dormant)	Australia	100%	100%
Datacom Systems S.A. Pty Ltd (dormant)	Australia	100%	100%
Datacom Systems (AU) Pty Ltd	Australia	100%	100%
Datacom Business Services Pty Ltd	Australia	100%	100%
TSS Cyber Pty Ltd	Australia	-	90.40%
Datacom Data Centres Pty Ltd	Australia	100%	100%
Datacom Systems (W.A.) Pty Ltd	Australia	100%	100%
Datacom Systems Asia Sdn Bhd <sup>2</sup>	Malaysia	-	100%
Datacom IT Systems Philippines <sup>2</sup>	Philippines	-	100%
Datacom Holdings Singapore PTE Limited	Singapore	100%	100%
Datacom Systems Asia Sdn Bhd <sup>2</sup>	Malaysia	100%	-
Datacom IT Systems Philippines <sup>2</sup>	Philippines	100%	-
Datacom UK Holdings Limited	UK	100%	100%
Datacom US Holdings Limited	New Zealand	100%	100%
Datacom Corporation US Limited Inc.	USA	100%	100%

<sup>1</sup>In 2019, Datacom registered a charity, Datacom Foundation. It was determined that Datacom Group controls Datacom Foundation, and therefore it is consolidated for the purpose of the financial statements.

<sup>2</sup>On 17 June 2019 Datacom Australia Holdings Pty Limited sold and transferred full ownership of its subsidiary, Datacom Systems Asia Sdn Bhd, to Datacom Holdings Singapore PTE Limited. The transaction did not have an impact on Datacom Group Limited's consolidated financial statements.

All subsidiaries have the same financial year end as the Group.

In March 2019 the Group terminated its Australian share-based schemes by agreeing to repurchase both vested and unvested shares from the employees. During the year the shares owned by employee-shareholders were repurchased for \$1,274,113 reflecting the Group's 100% ownership in Datacom Australia Holdings Pty Limited.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 17. Investment in subsidiaries (continued)

#### Details of the sale of TSS Cyber Pty Ltd

On 13 December 2019 the Group sold all of its 90.4% equity interest in TSS Cyber Pty Ltd, an Australian based subsidiary. Management have determined that the disposal does not meet the definition of a discontinued operations as trading results, assets and liabilities are not material to the Group. Consideration of \$3 million was received, net assets sold at the date of disposal amounted to \$1 million resulting in a gain on sale of \$2 million recognised in the consolidated statement of comprehensive income.

### 18. Provisions

	2020	2019
	\$m	\$m
<b>Current</b>		
Long service leave	5	5
Make good provisions	1	1
Customer contracts provision	5	3
Other	1	1
<b>Total current provisions</b>	<b>12</b>	<b>10</b>
<b>Non-current</b>		
Long service leave	4	4
Make good provisions	1	1
<b>Total non-current provisions</b>	<b>5</b>	<b>5</b>

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

	Long service leave	Customer contracts provision	Make good provisions	Other
	\$m	\$m	\$m	\$m
At 1 April 2019	9	3	2	1
Arising during the year	2	5	-	1
Utilised	(2)	(3)	-	(1)
<b>At 31 March 2020</b>	<b>9</b>	<b>5</b>	<b>2</b>	<b>1</b>
Current	5	5	1	1
Non-current	4	-	1	-

#### Long service leave

The liability for long service leave relates mainly to the Australian business of the Group. It is measured as the present value of expected future payments in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 18. Provisions (continued)

#### *Customer contracts provision*

The Group recognises provisions in respect of certain customer contracts where it, expects that the amount of total costs outweighs the net benefits arising from these contracts, or where the Group has a mandatory obligation to remediate on certain contractual provisions.

#### *Make good provision*

Provisions to make good leasehold premises are reviewed annually. The provisions relate to leases occupied by the Group expiring between 1 -7 years. Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the cost that will ultimately be incurred. Originally estimates are provided from professional organisations and CPI increases are applied annually.

### 19. Equity

#### Share Capital

	2020		2019	
	Number	Value	Restated*	
			Number	Value
	000	\$m	000	\$m
<b>Ordinary shares</b>	<b>5,873</b>	<b>15</b>	5,873	15

\* See note 27 for details regarding restatement.

During the year the Group had no movement in its share capital. In FY19 issue of shares to shareholders amounted to \$3 million. Treasury shares at 31 March 2020 amounted to 398,120 (2019: 398,120).

Each ordinary share in the Company entitles the holder to participate in dividends, and to an equal share in the distribution of the surplus assets of the Company on winding up. All issued shares are fully paid and have no par value. Holders of ordinary shares have the right to vote at any general meeting of the Company.

#### Dividends

	2020	2019
	\$m	\$m
Interim imputed dividends on ordinary shares: 62 cents (2019: 240 cents)	4	14
Final imputed dividends on ordinary shares for 2019: 50 cents	3	-
<b>Total distributions to owners</b>	<b>7</b>	<b>14</b>
<b>Total distributions to non-controlling interest</b>	<b>2</b>	<b>2</b>

On 28 July 2020, the Board of Directors declared a fully imputed final dividend for the financial year ended 31 March 2020 of 70 cents per ordinary share payable on 28 August 2020. The total amount payable will be \$4 million and has not been recognised in these financial statements.

#### *Imputation credit account*

Imputation credits available at 31 March 2020 were \$42,004,362 (2019: \$34,777,000). This includes imputation credits that will arise from the payment of the amount of the provision for income tax, imputation credits that will arise from the receipts of dividend recognised as receivables at the reporting date. The Company expects that future tax payments will generate sufficient imputation credits for the Company to be able to continue to fully impute future dividend payments.

**DATACOM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**19. Equity (continued)**

Earnings per share

	2020	2019 Restated*
<b>Earnings used in calculating earnings per share</b>		
Net profit attributable to ordinary equity shareholders of the parent, \$m	16	38
<b>Weighted average number of ordinary shares</b>	<b>5,873,454</b>	<b>5,856,208</b>
<b>Earnings per share for profit attributable to the ordinary equity holders</b>		
Basic and Diluted Earnings per share	<b>\$ 2.80</b>	<b>\$ 6.54</b>

\* See note 27 for details regarding restatement.

**20. Cash flow information**

Reconciliation from the net profit after tax to the net cash flows from operating activities:

	2020	2019 Restated*
	\$m	\$m
<b>Profit after tax</b>	<b>19</b>	<b>40</b>
<i>Adjustments for</i>		
Income tax expense	-	20
Depreciation & impairment of property, plant & equipment	31	25
Depreciation of right-of-use assets	30	-
Amortisation of intangibles	6	6
Amortisation of contract costs	3	1
Interest expense	10	5
Bad debt expense	1	-
Share based payment expense	1	1
Interest income from finance leases	(1)	-
Inventory write off	-	1
Gain on disposal of subsidiary	(2)	-
Other non-operating/non-cash activities	-	(1)
<i>Changes in assets and liabilities</i>		
Increase in receivables and contract assets	(12)	(14)
Decrease/(Increase) in inventories	1	(4)
Increase in other assets	(12)	(1)
Decrease in trade and other payables	(8)	(12)
Decrease in employee entitlements	(5)	-
Increase/(Decrease) in provisions	2	(3)
<b>Net cash flows from operating activities</b>	<b>64</b>	<b>64</b>

\* See note 27 for details regarding restatement.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 20. Cash flow information (continued)

Reconciliation of the movement in liabilities from financing activities to the consolidated statement of financial position:

	31 March 2019	Recognised on adoption of NZ IFRS 16	Cash flow movement	Non-cash movement	Foreign exchange movement	31 March 2020
	\$m	\$m	\$m	\$m	\$m	\$m
Borrowings due within 1 year	68	-	(26)	35	(1)	76
Lease liabilities due within 1 year	-	27	(27)	34	-	34
Borrowings due after 1 year	31	-	3	11	(2)	43
Lease liabilities due after 1 year	-	128	(10)	4	2	124
<b>Total</b>	<b>99</b>	<b>155</b>	<b>(60)</b>	<b>84</b>	<b>(1)</b>	<b>277</b>

Reconciled to:

Repayment of bank loans	(35)
Repayment of interest and principal under leases	(37)
Repayment of liability and interest under sale and lease-back transactions	(9)
Proceeds from bank loans	6
Proceeds under sale and lease-back transactions	15
<b>Total</b>	<b>(60)</b>

	31 March 2018	Cash flow movement	Foreign exchange movement	31 March 2019
	\$m	\$m	\$m	\$m
Borrowings due within 1 year	20	48	-	68
Borrowings due after 1 year	44	(13)	-	31
<b>Total</b>	<b>64</b>	<b>35</b>	<b>-</b>	<b>99</b>

Reconciled to:

Repayment of bank loans	(19)
Repayment of interest and principal under finance leases	(1)
Proceeds from bank loans	54
<b>Total</b>	<b>35</b>

### 21. Related parties

#### Key management personnel compensation

At 31 March 2020, key management personnel consist of 11 (2019: 9) executives involved in the operation of the Group. During FY20 short-term employee benefits amount to \$7.0 million (2019: \$6.8 million), termination benefits amounted to \$0 (2019: \$0.6 million), directors fees amounted to \$0.8 million (2019: \$0.5 million) and share based benefits amounted to \$0.5 million (2019 restated: \$0.9 million).

During FY19 the Group repurchased shares held in Datacom Australian Holdings from one of the executives leaving the Group. The amount paid for the shares was \$1.6 million and was based on the value of the shares determined for the purpose of the termination of the Australian share schemes (refer to note 23).

#### Transactions with related parties

The Datacom Group is a joint venture between Evander Management Limited and The Guardians of New Zealand Superannuation as a manager and administrator of the New Zealand Superannuation Fund. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. The Group, therefore, does not have an ultimate controlling party.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 21. Related parties (continued)

All transactions with related parties are on normal commercial terms.

During the year revenue transactions with Guardians of New Zealand Superannuation amounted to \$2 million (2019: \$2 million).

For information regarding outstanding balances on related party trade receivables and payables at year end, refer to notes 8 and 13 respectively.

#### *Other related parties*

One of the Group's major shareholders – The Guardians of New Zealand Superannuation is an autonomous Crown entity owned by the New Zealand Government ('the Government'). This means that both the Government and its controlled entities are related parties of the Group.

The Group regularly transacts with the Government and its related entities in both vendor and customer capacities which are not exclusively limited to tax and compliance-related activities. These transactions have not been separately disclosed as they occur within normal supplier/recipient relationships and are undertaken on terms and conditions equivalent to those that prevail in arm's length transactions.

### 22. Financial risk management

The Group's principal financial instruments comprise receivables, payables, bank loans, finance leases and cash.

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group continues to be cognisant of the developments in the economic conditions following the outbreak of COVID-19 and the impact this may have on the Group. Datacom is not experiencing significant changes in the financial risks' exposure, has sufficient liquidity, possess a quality customer base and is qualified as an essential services provider across its major markets. Therefore, at the time of preparation of these Consolidated Financial Statements, it is considered the overall financial risk profile for the Group remains materially in line with its pre-COVID-19 level and last year's assessment.

#### **Credit risk**

Credit risk relates to cash and cash equivalents, trade and other receivables, finance lease receivables and contract assets. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure to the carrying amount of these instruments.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. New customers are regularly analysed for creditworthiness before the Group's standard payment, delivery terms and conditions are offered. The Group's review includes external ratings, when available, and in some cases bank references. The Group's customer base is long term by nature and credit losses have occurred very infrequently.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 22. Financial risk management (continued)

	2020	2019
	\$m	\$m
Cash and cash equivalents	18	42
Finance lease receivables	16	3
Contract assets	9	12
Trade and other receivables	227	217
<b>Total</b>	<b>270</b>	<b>274</b>

The Group's largest customer accounts for 6.51% (2019: 5.28%) of total sales and 9.78% (2019: 1.83%) of trade receivables at balance date. There is no significant concentration of credit risk within the Group and cash and cash equivalents are spread amongst financial institutions to minimise the risk of default.

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to take a conservative position to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group carries positive cash balances to ensure that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations: this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities including interest payments and excluding the impact of netting arrangements.

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

31 March 2020	Carrying amount	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	over 5 years
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Secured bank loans	68	68	-	38	30	-	-
Bank overdrafts	27	27	14	13	-	-	-
Trade and other payables	93	93	93	-	-	-	-
Sale and lease-back liabilities	24	25	6	6	7	6	-
Lease liabilities	158	185	20	20	33	55	57
<b>Total</b>	<b>370</b>	<b>398</b>	<b>133</b>	<b>77</b>	<b>70</b>	<b>61</b>	<b>57</b>

31 March 2019	Carrying amount	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	over 5 years
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Secured bank loans	97	101	16	54	1	30	-
Lease liabilities	2	2	-	-	2	-	-
Trade and other payables	104	104	104	-	-	-	-
<b>Total</b>	<b>203</b>	<b>207</b>	<b>120</b>	<b>54</b>	<b>3</b>	<b>30</b>	<b>-</b>

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 22. Financial risk management (continued)

#### *Currency risk*

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian Dollar (AUD). The Group uses forward exchange contracts as deemed necessary to hedge its currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge and no derivatives are entered into. The Group's investments in subsidiaries are not hedged as those currency positions are considered to be long-term in nature.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are translated into NZD at the closing rate and include intercompany foreign denominated balances:

31 March 2020, \$m	AUD	MYR	PHP	GBP	SGD	USD
Accounts payable	(1)	(3)	(2)	(3)	(3)	(3)
Accounts receivable	4	2	2	3	3	8
<b>Total net exposure</b>	<b>3</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>

  

31 March 2019, \$m	AUD	MYR	PHP	GBP	SGD	USD
Accounts payable	(7)	(2)	-	-	-	(1)
Accounts receivable	8	4	-	1	1	5
<b>Total net exposure</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>4</b>

All other things being equal and assuming a +/- 10% change of the New Zealand Dollar against the most significant currencies for which the Group has foreign exchange exposure results in a total movement of less than \$1 million. The percentage has been determined based on the average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date.

#### *Interest rate risk*

The Group's main interest rate risk arises from the use of variable interest rates which expose the Group to cash flow interest rate risk. The Group policy is to use short term variable borrowing at variable interest rates to maintain flexibility in its borrowing program and to moderate its interest risk exposure. During 2020 and 2019 the Group's borrowings were primarily denominated in New Zealand and Australian dollars. Any reasonable change in the variable interest rates during the reporting period would not have resulted in a material impact to net profit or equity of the Group.

#### **Capital management**

For the purpose of the Group's capital management, capital includes issued capital, and all other equity reserves attributable to the equity holders of the parent. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirement of the financial covenants. The Group may adjust the dividend payment to shareholders.

The Group maintains banking covenants with the ANZ and ASB which monitor funding cost, debt to EBITDA and equity to debt levels. The Group has been fully compliant with these requirements throughout the year.

There were no changes in the Group's approach to capital management during the year.

### 23. Employee share schemes

The Group manages a share-based compensation plan whereby employees provide part of their service in exchange for share-based awards. The plan was closed to new participants at the end of FY19. Following a review of all share scheme arrangements during FY20 it was concluded that all existing share schemes are cash-settled arrangements as opposed to the previous treatment as equity-settled schemes. Refer note 27 for details regarding restatement.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 23. Employee share schemes (continued)

The share-based incentive plan is administered through four employee share scheme trusts on near identical terms ("Trust") that hold beneficial interest in the allotted shares on behalf of participating employees. As the Trust is fully controlled by the Group, the allotted shares are classified as treasury stock for accounting purposes. Each participating employee receives an interest free loan from the Group to enable them to acquire an interest in the allotted shares in Datacom Group Limited. All dividends distributed to scheme participants are applied toward reduction of the loan until its full redemption. For accounting purposes all share-based awards under the share-based compensation plan have been classified as cash-settled share-based payments.

Employees' entitlement to share awards is conditional on satisfaction of vesting conditions which are generally based on an individually specified service period of up to 8 years. In limited cases, vesting conditions also include market performance conditions that are linked to achieving a predetermined cumulative level of total shareholders return over the vesting period.

The cost of each cash-settled allocation is measured by reference to the fair value of the equity instruments which are linked to the price of the shares at each reporting date. The cost is recognised as an expense in the Consolidated Statement of Comprehensive Income with a corresponding increase in liabilities up until the liability to the participant has been settled.

During the vesting period, the expense for unvested cash-settled awards is recognised as an employee benefit expense over a relevant service period and, where necessary, adjusted for any revision in the assumptions of non-market conditions at each reporting date.

Post vesting period, any movement in the fair value of the redemption liability is recorded within the net finance cost line of the Consolidated Statement of Comprehensive Income as there is no longer a link to employee services. The expense at each reporting date represents the movement in fair value of unsettled vested share-based awards.

#### Fair value of unvested shares

The fair value of unvested shares was determined by applying the Black-Scholes option pricing model using the following key inputs:

	2020	2019	2018
Dividend yield	1%	1%	4%
Expected volatility	20%	20%	20%
Risk-free interest rate	0.87%	1.52%	2.30%
Expected life of option, years	8	8	8
Expected life of option, years*	5	5	5
Option exercise price, \$	54	48	24
Share price at reporting date, \$	113	109	101

\*For allocations with market performance conditions

The expected price volatility was based on the historic volatility of the Group shares, adjusted for any expected changes to future volatility. The impact from any reasonable change in any of these key assumptions would not produce significant impact to the financial statements.

At of 31 March 2020, the fair value of unvested shares amounted to \$5 million (2019: \$7 million, 2018: \$8 million).

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 23. Employee share schemes (continued)

Share option activity during the year was as follows:

\$000	New Zealand				Australia			
	2020		2019		2020		2019	
	Number	WAEP*	Number	WAEP*	Number	WAEP*	Number	WAEP*
Outstanding at 1 April	166	48	161	24	-	-	145	8
Granted during the year	-	-	40	94	-	-	-	-
Forfeited during the year	(6)	28	17	28	-	-	(68)	7
Exercised during the year**	(25)	18	18	16	-	-	(77)	8
<b>Outstanding at 31 March</b>	<b>135</b>	<b>54</b>	<b>166</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

\* Weighted average exercise price

\*\* The weighted average share price at the date of exercise of options during the year ended 31 March 2020 was \$109 (2019: \$101)

#### Fair value of vested but not yet settled shares

The fair value of vested but not yet settled shares represents the current share price less current value of unsettled loans to employees. The current share price has been determined by an independent third party valuer and adopted by the Board of Directors. At of 31 March 2020 the fair value amounted to \$15 million (2019: \$17 million, 2018: \$19 million).

The total carrying amount of redemption liability at 31 March 2020 amounted to \$20 million (2019: \$24 million, 2018: \$27 million) and is shown under employee entitlements in the consolidated statement of financial position. The total share-based payment expense during the year amounted to \$1 million (2019: \$3 million).

### 24. Commitments and contingencies

#### Capital commitments

The Company had no material capital commitments outstanding at 31 March 2020 (2019: \$4 million).

#### Contingencies

During the year the Group has given financial guarantees to banks in relation to rental of premises for \$2 million at 31 March 2020 (2019: \$2 million) and granted performance guarantees to banks in relation to customer contracts for \$7 million at 31 March 2020 (2019: \$6 million). Apart from the above there are no material contingencies at 31 March 2020.

The Group has the potential to become a party to litigation, legal proceedings and tax examinations arising from its operations from time to time, in addition to possible customer obligations we may have to fulfil in addition to already performed obligations. The Group establishes provisions for claims and proceedings that constitute a present obligation when it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of such obligation can be made. While it is not possible to predict the outcome of any of these matters, based on management's assessment of the facts and circumstances now known, management does not believe any of these matters, individually or in the aggregate, will have a material adverse effect on the Group's financial position, results of operations or cash flows. However, actual outcomes may differ from those expected and could have a material effect on the Group's financial position, results of operations or cash flows in a particular future period. At 31 March 2020 there was no litigation nor legal proceedings pending and the Group's view no provisions are required to be made, other than the provisions already disclosed in the financial statements.

### 25. Events after balance date

Subsequent to balance date the Group entered into a two year \$50 million term debt facility and a one year \$10 million multi-currency facility with HSBC in New Zealand with an expiry date of April 2022 and April 2021 respectively.

In July 2020 the Group has renegotiated an extension of the maturity dates for its existing ANZ loan portfolio across New Zealand and Australia. An overdraft facility of \$40 million and \$25 million of term debt in New Zealand were refinanced until July 2021 and 2022, respectively. An AUD\$40 million overdraft and AUD\$13.5 million of term facility has been extended to July 2021.

# DATAKOM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

### 26. Impact of new accounting standards

#### New Zealand Equivalent to International Financial Reporting Standard 16: Leases ('NZ IFRS 16')

NZ IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requires the recognition of a right-of-use asset and a lease liability at commencement for all leases (except for short-term leases and leases of low value assets when such recognition exemptions are adopted). The requirements for lessor accounting have remained largely unchanged. The impact of the adoption of NZ IFRS 16 on the Group's consolidated financial statements is described below.

The Group has applied NZ IFRS 16 using the cumulative catch-up approach which:

- Requires the Group to recognise the cumulative effect of initially applying NZ IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application, being 1 April 2019.
- Does not permit restatement of comparatives, which continue to be presented under NZ IAS 17 and NZ IFRIC 4.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying NZ IAS 17.

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics. The portfolio has been determined as detailed below;
- The Group has elected not to recognise right-of-use assets and lease liabilities in relation to leases for which the lease term ends within 12 months of the date of initial application;
- The Group has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- The Group has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

#### a) Impact of the new definition of a lease

NZ IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in NZ IAS 17 and NZ IFRIC 4. The Group has reviewed all existing significant contracts to determine whether they meet the definition of leases under NZ IFRS 16. Details of identified leases are outlined in note 11.

#### b) Impact on Lessee Accounting

##### *Former operating leases*

NZ IFRS 16 changes how the Group accounts for leases previously classified as operating leases under NZ IAS 17, which were off balance sheet.

Applying NZ IFRS 16, the Group:

- a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments;
- b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income; and
- c) Separates the total amount of cash paid into a principal and interest portion. Both presented within the financing activities in the consolidated statement of cash flows.

##### *Former financing leases*

For leases that were classified as finance leases applying NZ IAS 17, the carrying amount of the leased asset and obligation under finance leases measured applying NZ IAS 17 immediately before the date of initial application has been reclassified to right-of-use assets and lease liabilities respectively.

#### c) Impact in lessor accounting

NZ IFRS 16 does not change substantially how a lessor accounts for leases. Under NZ IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.

As indicated in paragraph (a) because of the new definition of leases, the Group has identified new lessor instances mainly relating to the sale and leaseback arrangements within operational services. The arrangements relate to sales type finance leases where Group is a dealer-lessor.

**DATAKOM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**26. Impact of new accounting standards (continued)**

**d) Financial impact of initial application of NZ IFRS 16**

The impact of the changes on the affected line items in the statement of financial position at 1 April 2019 is set out below:

Consolidated Statement of Financial Position	31 March 2019	NZ IFRS 16	NZ IFRS 16	1 April 2019
	Prior to application of NZ IFRS 16	Reclassifications	Adjustments	Post application of NZ IFRS 16
	\$m	\$m	\$m	\$m
Receivables and contract assets <sup>2</sup>	229	-	3	232
<b>Total current assets</b>	<b>298</b>	<b>-</b>	<b>3</b>	<b>301</b>
Right-of-use assets <sup>1</sup>	-	-	141	141
Receivables and contract assets <sup>2</sup>	3	-	6	9
<b>Total non-current assets</b>	<b>267</b>	<b>-</b>	<b>147</b>	<b>414</b>
<b>TOTAL ASSETS</b>	<b>565</b>	<b>-</b>	<b>150</b>	<b>715</b>
<b>Current liabilities</b>				
Trade and other payables <sup>3</sup>	146		(5)	141
Lease liabilities <sup>1</sup>	-	1	27	28
Borrowings <sup>4</sup>	68	(1)	-	67
<b>Total current liabilities</b>	<b>298</b>	<b>-</b>	<b>22</b>	<b>320</b>
<b>Non-current liabilities</b>				
Lease liabilities <sup>1</sup>	-	1	128	129
Borrowings <sup>4</sup>	31	(1)	-	30
<b>Total non-current liabilities</b>	<b>52</b>	<b>-</b>	<b>128</b>	<b>180</b>
<b>TOTAL LIABILITIES</b>	<b>350</b>	<b>-</b>	<b>150</b>	<b>500</b>
<b>TOTAL NET ASSETS</b>	<b>215</b>	<b>-</b>	<b>-</b>	<b>215</b>

1. Recognised right-of-use asset and lease liability.
2. Receivables and contract assets increased due to recognition of finance lease receivables for finance leases of right-of-use assets.
3. Trade and other payables decreased due to lease incentives adjusting the right-of-use assets.
4. Borrowings have decreased due to reclassification of existing finance lease liabilities to lease liabilities.

**DATACOM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**26. Impact of new accounting standards (continued)**

Comparative information on transition to NZ IFRS 16 (Lessee instances)

The lease liabilities at 1 April 2019 can be reconciled to the operating lease commitments at 31 March 2019, as follows:

Measurement of lease liabilities	2020 \$m
<b>Operating lease commitments at 31 March 2019</b>	<b>179</b>
Discounting impact using the incremental borrowing rate	(30)
New leases identified on transitioning to NZ IFRS 16	28
Adjustments as a result of a different treatment of extension and termination options	(11)
Adjustments relating to changes in the index or rate affecting variable payments	(9)
Short term leases recognised on a straight-line basis as expenses	(2)
Reclassification of existing finance lease liabilities to lease liabilities	2
<b>Lease liabilities at 1 April 2019</b>	<b>157</b>

\* Weighted average incremental borrowing rate at 1 April 2019 was 4.92%

**27. Restatement relating to classification of employee share schemes**

During the year management has performed a review of all share scheme arrangements. The review has concluded that existing share schemes are cash-settled arrangements as opposed to the previous treatment as equity-settled schemes. The previous treatment has resulted in the understatement of the Group's expenses in the Consolidated Statement of Comprehensive Income for the last financial year with a corresponding overstatement of the net assets position. Prior period comparatives have been restated to reflect this change in interpretation as detailed below.

Consolidated Statement of Comprehensive Income (extract)	2019		2019
	As originally presented	Adjustments	Restated
	\$m	\$m	\$m
Employee benefits expense	(662)	-	(662)
Net finance costs	-	(2)	(2)
<b>Profit before income tax</b>	<b>62</b>	<b>(2)</b>	<b>60</b>
Income tax expense	(20)	-	(20)
<b>Profit after tax</b>	<b>42</b>	<b>(2)</b>	<b>40</b>
<b>Profit for the year is attributable to:</b>			
Equity holders of Datacom Group Limited	40	(2)	38
Non-controlling interest	2	-	2
	<b>42</b>	<b>(2)</b>	<b>40</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Parent:</b>			
Basic earnings per share	6.69	(0.15)	6.54
Diluted earnings per share	6.54	-	6.54

**DATACOM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
For the year ended 31 March 2020

**27. Restatement relating to classification of employee share schemes (continued)**

Consolidated Statement of Financial Position (extract)	Comparative			Opening Position		
	31 March 2019 As originally presented \$m	Adjustments \$m	31 March 2019 Restated \$m	31 March 2018 As originally presented \$m	Adjustments \$m	1 April 2018 Restated \$m
<b>Non-current assets</b>						
Receivables and contract assets	3	-	3	5	(1)	4
<b>TOTAL ASSETS</b>	<b>565</b>	<b>-</b>	<b>565</b>	<b>505</b>	<b>(1)</b>	<b>504</b>
<b>Current liabilities</b>						
Employee entitlements	63	22	85	60	25	85
<b>TOTAL LIABILITIES</b>	<b>350</b>	<b>22</b>	<b>372</b>	<b>299</b>	<b>25</b>	<b>324</b>
<b>TOTAL NET ASSETS</b>	<b>215</b>	<b>(22)</b>	<b>193</b>	<b>206</b>	<b>(26)</b>	<b>180</b>
<b>Equity</b>						
Issued capital	13	2	15	13	(1)	12
Retained earnings	201	(23)	178	188	(24)	164
Other reserves	-	(1)	(1)	2	(1)	1
<b>TOTAL EQUITY</b>	<b>215</b>	<b>(22)</b>	<b>193</b>	<b>206</b>	<b>(26)</b>	<b>180</b>

The restatement resulted in a reclassification within the FY19 Consolidated Statement of Cash Flows where \$7 million was reclassified from finance activities to operating activities. Where the restatement has impacted other disclosures in the FY19 financial statements, these have been amended in the respective disclosure notes of these consolidated financial statements – refer to notes 4, 5, 19, 20 and 23.



## **Independent auditor's report to the Shareholders of Datacom Group Limited Report on the audit of the financial statements**

### **Opinion**

We have audited the financial statements of Datacom Group Limited ("the Company) and its subsidiaries (together "the Group") on pages 4 to 45, which comprise the consolidated statement of financial position of the Group as at 31 March 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 4 to 45 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2020 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the Company's shareholders. Our audit has been undertaken so that we might state to the Company shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, for our audit work, for this report, or for the opinions we have formed.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Ernst & Young provides taxation compliance and advice, transfer pricing advice, research and development tax advisory services, employee tax mobility advisory services and remuneration framework advisory services to the Group. We have no other relationship with, or interest in, the Group.

### **Information other than the financial statements and auditor's report**

The directors of the Company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if uncorrected, to take appropriate action to bring the matter to the attention of users for whom our auditor's report was prepared.

### **Directors' responsibilities for the financial statements**

The directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board website: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/>. This description forms part of our auditor's report.

The logo for Ernst &amp; Young, featuring the company name in a stylized, cursive script.

Chartered Accountants  
Auckland  
28 July 2020