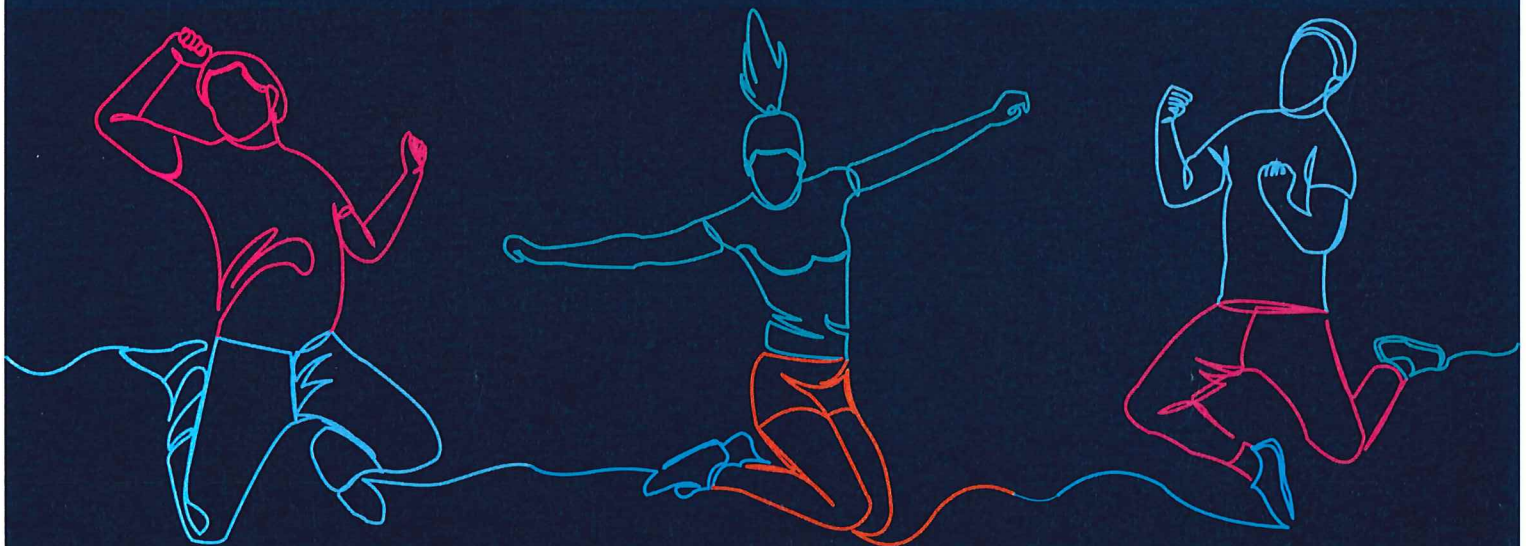


DATAKOM

Datacom Group Limited

Consolidated Financial Statements

For the year ended 31 March 2021



DATAKOM GROUP LIMITED

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DATAKOM GROUP LIMITED

GENERAL INFORMATION

DIRECTORS

A Carter
C Day
J Fahey
M Holdsworth (alternate)
S Holdsworth
R Keall (appointed 11 March 2020)
H Mirza (appointed 22 March 2021)
S Owen (resigned 22 March 2021)
R Phillippo

AUDITOR

Ernst & Young (EY)

SOLICITORS

Minter Ellison Rudd Watts (New Zealand)
Norton Rose Fulbright (Australia)

MANAGEMENT (Note 21)

G Davidson – Group Chief Executive Officer
R Walsh – Group Chief Financial Officer
A Coates – Managing Director Australia
S Gallacher – Datacom Group Director People
J Gray – Managing Director Technical Services New Zealand
V Kay – Director New Zealand Commercial (resigned 4 December 2020)
Q Lowcay – Head of Legal & Commercial
M Muru – Managing Director Public Sector (resigned 31 March 2021)
B Peebles – Managing Director Strategy & Portfolio Management Australia
S Tomasoni – Managing Director Connect
J Usher – Managing Director Products & Marketing

BANKERS

ANZ
ASB Bank
HSBC

REGISTERED OFFICE

Level 10, South Tower
68 Jervois Quay
Wellington 6011
Phone: (64) 4 460 1500
Website: 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 2021

	Note	2021 \$m	2020 \$m
Revenue	3	1,408	1,342
Cost of goods sold		(427)	(436)
Gross profit		981	906
Employee benefits expense	4	(777)	(727)
Other expenses	4	(55)	(88)
Net (loss)/gain on disposal of subsidiary	17	(1)	2
Earnings before interest, income tax, depreciation, amortisation and impairment		148	93
Depreciation, amortisation and impairment expense		(86)	(67)
Net finance costs	5	(10)	(7)
Profit before income tax		52	19
Income tax expense	6	(17)	-
Profit after tax		35	19
Other comprehensive income			
<i>Items that may be reclassified to profit or loss in subsequent years</i>			
Foreign currency translation gain/(loss)		5	(1)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent years		5	(1)
<i>Items that will not be reclassified to profit or loss in subsequent years</i>			
Revaluation of land at fair value		(1)	(6)
Income tax effect		-	2
Net other comprehensive loss not to be reclassified to profit or loss in subsequent years		(1)	(4)
Total other comprehensive income/(loss) for the year, net of tax		4	(5)
Total comprehensive income for the year, net of tax		39	14
Profit for the year is attributable to:			
Equity holders of Datacom Group Limited		34	16
Non-controlling interest		1	3
		35	19
Total comprehensive income for the year is attributable to:			
Equity holders of Datacom Group Limited		38	11
Non-controlling interest		1	3
		39	14
Earnings per share for profit attributable to the ordinary equity holders of the Parent:			
Basic and Diluted earnings per share	19	5.79	2.80

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 2021

	Note	2021 \$m	2020 \$m
Current assets			
Cash and cash equivalents	7	10	18
Receivables and contract assets	8	222	244
Inventories		9	7
Other assets	9	33	28
Total current assets		274	297
Non-current assets			
Property, plant & equipment	10	169	195
Investment property	11	10	-
Right-of-use assets	11	168	142
Intangible assets	12	77	63
Assets held for sale	10	19	-
Deferred tax assets	6	18	23
Receivables and contract assets	8	5	8
Other assets	9	6	7
Total non-current assets		472	438
TOTAL ASSETS		746	735
Current liabilities			
Payables and contract liabilities	13	126	138
Employee entitlements		101	80
Lease liabilities	11	47	34
Borrowings	14	32	76
Provisions	18	10	12
Current tax liability		19	21
Total current liabilities		335	361
Non-current liabilities			
Payables and contract liabilities	13	7	4
Lease liabilities	11	145	124
Borrowings	14	55	43
Provisions	18	5	5
Total non-current liabilities		212	176
TOTAL LIABILITIES		547	537
TOTAL NET ASSETS		199	198
Equity			
Issued capital	19	15	15
Retained earnings		186	187
Other reserves		(2)	(6)
Capital and reserves attributable to owners of the Group		199	196
Non-controlling interest		-	2
TOTAL EQUITY		199	198

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, 29 June 2021



A J Carter
Chair



C W Day
Audit Committee Chair

DATACOM GROUP LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2021

\$m	Note	Share Capital and Premium	Asset Revaluation Reserve	Foreign Currency Translation Reserve	Retained Earnings	Equity Attributable to the Owners	Non-controlling Interest	Total Equity
At 1 April 2019		15	12	(13)	178	192	1	193
Profit for the year		-	-	-	16	16	3	19
Other comprehensive income		-	(4)	(1)	-	(5)	-	(5)
Total comprehensive income for the year		-	(4)	(1)	16	11	3	14
<i>Transactions with shareholders in their capacity as owners</i>								
Dividends paid	19	-	-	-	(7)	(7)	(2)	(9)
At 31 March 2020		15	8	(14)	187	196	2	198
Profit for the year		-	-	-	34	34	1	35
Other comprehensive income		-	(1)	5	-	4	-	4
Total comprehensive income for the year		-	(1)	5	34	38	1	39
<i>Transactions with shareholders in their capacity as owners</i>								
Dividends paid	19	-	-	-	(12)	(12)	(1)	(13)
Acquisition of non-controlling interest	17	-	-	-	(23)	(23)	(2)	(25)
At 31 March 2021		15	7	(9)	186	199	-	199

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 2021

	Note	2021 \$m	2020 \$m
Cash flows from operating activities			
<i>Cash was provided from</i>			
Receipts from customers		1,423	1,323
Interest received		1	3
<i>Cash was disbursed to</i>			
Payments to suppliers and employees		(1,255)	(1,262)
Income tax paid		(13)	-
Net cash inflows from operating activities	20	156	64
Cash Flows from investing activities			
<i>Cash was provided from</i>			
Deposit for held for sale assets	10	4	-
Finance lease receipts		12	11
Net proceeds from disposal of subsidiaries	17	1	3
<i>Cash was disbursed to</i>			
Purchase of property, plant and equipment		(30)	(40)
Purchase of intangible assets		(17)	(16)
Net cash outflows from investing activities		(30)	(42)
Cash Flows from financing activities			
<i>Cash was provided from</i>			
Proceeds from bank loans	20	45	6
Proceeds under sale and leaseback transactions	20	9	15
<i>Cash was disbursed to</i>			
Repayment of bank loans	20	(53)	(35)
Interest expense on bank loans		(2)	(3)
Repayment of interest and principal under leases	20	(59)	(37)
Repayment of sale and lease-back liability and interest	20	(11)	(9)
Acquisition of non-controlling interest	17	(25)	(1)
Dividends paid	19	(12)	(7)
Dividends paid to non-controlling interests	19	(1)	(2)
Net cash outflows from financing activities		(109)	(73)
Net increase/(decrease) in cash and cash equivalents		17	(51)
Cash and cash equivalents at the beginning of the year		(9)	42
Cash and cash equivalents at the end of the year	7	8	(9)

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 2021

1. Entity information

Reporting entity

These consolidated financial statements are for Datacom Group Limited and its controlled subsidiaries (together 'the Group').

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.

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').

These consolidated financial statements are prepared on a going concern basis. In making this assumption, the Directors have considered the Group's current and forecast operational performance, expected profitability and debt maturity (see note 14). Based on this assessment the Directors have formed an opinion that the Group can continue to adopt a going concern basis of accounting for a period of at least twelve months from the date of these consolidated financial statements being issued.

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.

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.

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 the Company 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.

DATAKOM GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

2. Basis of accounting (continued)

Foreign exchange rates for significant currencies in NZ Dollars:

	2021		2020	
	Average	Year end	Average	Year end
Australian dollar	0.93	0.92	0.95	0.97
Malaysian ringgit	2.80	2.90	2.69	2.58
Philippines peso	32.88	34.00	33.13	30.52

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.

There were no 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.

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 changed 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 fair value less cost of disposal or 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 and, if identified, the recoverable amount is determined in line with NZ IAS 36.

DATAKOM GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

2. Basis of accounting (continued)

Change in accounting policies and disclosures

In late April 2021 the IFRS Interpretation Committee (IFRIC) issued an agenda decision clarifying capitalisation rules for the configuration or customisation costs in cloud computing arrangements. The clarification is anticipated to impact reporting entities that have been capitalising the implementation costs for SaaS-based solutions. The IFRIC expects entities to adopt accounting policy changes in a timely manner if current policy is not consistent with the guidance.

The Group has previously capitalised implementation costs for a number of third-party SaaS products used as part of its operations. By preliminary estimates, the consolidated statement of financial position at 31 March 2021 includes \$16 million of intangible asset in relation to historical SaaS implementation projects (2020: \$18 million). Some of these implementation projects, for instance the Group's core ERP system, required multi-phased roll-out involving development of complex integrations with the Group's existing infrastructure and on-premise software. In management's view, the technical complexities associated with these projects, resource and timing constraints to re-assess eligibility of the previously capitalised costs, do not permit a conclusion of the impact of the IFRIC decision to be made in a timely manner prior to the authorisation of these financial statements. Consequently, the Group has not revised these consolidated financial statements to reflect the change in the accounting policy arising from this agenda decision and expects to do so in next year's financial statements, if the impact of the decision is material, in accordance with the IFRIC guidance.

No other new standards, interpretations or amendments effective beginning on April 1, 2020 had a material impact on the financial statements.

3. Revenue

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.

Most revenue generated by the Group represents revenue recognised over-time reflecting the manner control over goods and services is transferred to customers across its revenue arrangements. The method for recognising revenue and costs over time depends on the nature of the services rendered to its customers. The revenue policy for most common types of revenue arrangements is detailed below.

Project-based contracts

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. 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 resource-based contracts are expensed as incurred.

Service contracts

Service contracts include IT management, data centre and network management, private cloud management, application management and business services activities. 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, including 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).

DATAKOM GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. Revenue (continued)

Service revenue is constrained where service-level penalties or bonuses are incurred or reasonably anticipated. Invoicing is typically monthly except for initial transition or setup activities usually billed in the initial phase.

Some service contracts are structured as Software as a Service arrangements. 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. Under existing arrangements 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. These licences are therefore deemed to be a right to access with revenue recognised over time and taken in equal instalments over the period of the contract from the point the software becomes functional.

Multiple arrangement service contract

Datacom may conclude 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. 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.

Product resale revenue

Product resale is mostly represented by sale of hardware, software, licences and other third-party products or services (including warranties and maintenance services). Specific consideration is taken to determine the portion of revenue recognised at a point-in-time (reported as product revenue) or the portion recognised over time (reported as part of service revenue). Management has also applied judgement in determining when Datacom recognises revenue as an agent or as principal.

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 product before transferring it to the customer or when it performs the maintenance services. In such cases, the transaction is presented on a gross basis in the consolidated 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/product revenue (products and licences) or over-time/service revenue (ancillary services, e.g. maintenance and implementation services). When recognised over-time, the accounting policy follows the accounting rules of project-based contracts.

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

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.

DATAKOM GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

3. Revenue (continued)

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.

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.

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

	2021	2020
	\$m	\$m
Service revenue	1,095	1,025
Product revenue	313	317
Total revenue	1,408	1,342

4. Expenses

	2021	2020
	\$m	\$m
Employee benefits expense		
Short-term salary and benefits, including temporary staff cost	732	683
Long service leave	2	2
Defined contribution plans	37	35
Termination expenses	5	6
Net movement in share-based payment expense	1	1
Total employee benefits expense*	777	727

*This excludes salaries of \$12 million (2020: \$12 million) capitalised into carrying value of non-current assets.

	2021	2020
	\$m	\$m
Other expenses		
Audit fees	1	1
Travel	2	11
Software licensing	16	16
Other expenses	36	60
Total other expenses	55	88

DATAKOM GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2021

4. Expenses (continued)

Audit fees

Fees paid and payable to EY for the audit of the Group financial statements amounted to \$735,000 (2020: \$927,000). No tax services were performed during the year (2020: \$78,000) and no other non-audit services were performed (2020: \$24,000). No fees were paid for the audit of financial statements to auditor's other than the auditor of Datacom Group Limited (2020: \$19,500).

5. Net finance costs

	2021	2020
	\$m	\$m
Interest income	(1)	(3)
Interest income from finance leases	(1)	-
Total finance income	(2)	(3)
Interest expense on bank borrowings	2	3
Interest expense on lease liabilities	7	7
Interest expense on sale and lease back liabilities	1	-
Total finance expense	10	10
Remeasurement of share scheme liability	2	-
Total net finance costs	10	7

Interest income & expense (including leases)

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

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.

DATACOM GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2021

6. Income tax

Current income tax

	2021	2020
	\$m	\$m
Current income tax	10	8
Deferred income tax	7	(8)
Total income tax expense	17	-

	2021	2020
	\$m	\$m
Tax items recognised in other comprehensive income		
Current income tax	(1)	-
Deferred income tax	1	2
Total tax recognised in other comprehensive income	-	2

	2021	2020
	\$m	\$m
Reconciliation of income tax expense		
Accounting profit before tax	52	19
At New Zealand statutory income tax rate of 28% (2020: 28%)	15	5
Revenue not assessable for income tax purposes	-	(1)
Expenditure not allowable for income tax purposes	1	1
Tax losses not recognised	-	1
Capital losses not previously recognised	-	(2)
Effect of zero depreciation rate on buildings (NZ)	-	(4)
Effect of tax rates in foreign jurisdictions	1	-
At effective income tax rate of 33% (2020: 0%)	17	-

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.

DATAKOM GROUP LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2021

6. Income tax (continued)

Deferred income tax

	31 March		Movement	
	2021	2020	2021	2020
	\$m	\$m	\$m	\$m
Deferred income tax liabilities				
Land at fair value	-	(3)	3	2
Property, plant and equipment*	-	-	-	2
Intangibles	(4)	(2)	(2)	(1)
Contract assets	(1)	(1)	-	1
Contract costs	(2)	(2)	-	-
Gross deferred tax liabilities	(7)	(8)		
Deferred income tax assets				
Employee entitlements	13	13	-	-
Contract liabilities	4	7	(3)	1
Provisions	3	4	(1)	-
Right-of-use assets	1	1	-	1
Property, plant and equipment*	3	2	1	2
Investment property	1	-	1	-
Recognised tax losses	-	2	(2)	-
Recognised capital losses	-	2	(2)	2
Gross deferred income tax assets	25	31		
Net deferred income tax assets	18	23	(5)	10

* includes land and specialised data centre buildings

	2021	2020
	\$m	\$m
Net deferred tax asset at 1 April	23	13
Charged to income statement	(7)	8
Charged to other comprehensive income	1	2
Foreign exchange movement	1	-
Net deferred tax asset at 31 March	18	23

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

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6. Income tax (continued)

- 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.

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 Group had historical tax losses carried forward of \$7 million which were recognised as a deferred tax asset in the prior year. These capital losses were utilised in full due to the sale of the Melbourne-based City Road property during the reporting year (refer to note 10). The accounting sale will be recognised in the year to 31 March 2023, however, for tax purposes a capital gains tax event has occurred in November 2020. Income tax impact resulting from the sale was recognised in other comprehensive income.

The Group had capitalised carry forward tax losses prior years that were available indefinitely for offsetting against future taxable profits of the companies in which those losses arose. The Group has utilised these tax losses in full during the current year.

The Group has unrecognised tax losses available to carry forward of \$5 million (gross) for subsidiaries in Singapore and the United Kingdom (2020: \$7 million). The Group is in the process of closing its USA subsidiary (refer to note 17).

7. Cash and cash equivalents

	2021	2020
	\$m	\$m
Cash at bank and in hand	10	18

Cash and cash equivalents comprise cash at bank and in hand, bank overdrafts 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

	2021	2020
	\$m	\$m
Balances as above	10	18
Bank overdrafts (note 14)	(2)	(27)
Balances per consolidated statement of cash flows	8	(9)

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8. Receivables and contract assets

	2021	2020
	\$m	\$m
Current		
Trade receivables	203	225
Contract assets	9	8
Allowances for credit loss	(1)	(1)
Net trade receivables	211	232
Finance lease receivables	5	9
Other receivables	6	3
Total current	222	244
Non-current		
Finance lease receivables	5	7
Contract assets	-	1
Total non-current	5	8

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. The accounting treatment of these leases follows dealer-lessor guidance of NZ IFRS 16 and the Group recognises revenue from transferring IT equipment to customers at a point in time at the commencement date of the lease.

In some cases, the Group sources IT 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 to a finance company and thus do not satisfy the revenue recognition requirements. As a seller-lessee, the Group continues to recognise the asset as per the accounting policy and recognises a financial liability equal to the transaction proceeds. The weighted average remaining term of these finance leases in customer contracts is 2 years (2020: 2 years).

The Group sometimes acts as an intermediate lessor where leased assets are subleased to end customers. In those back-to-back arrangements, 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.

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8. Receivables and contract assets (continued)

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

	2021	2020
	\$m	\$m
Within one year	6	10
After one year but not more than five years	5	7
Total undiscounted lease receivables	11	17
Less amounts representing finance income	(1)	(1)
Total finance lease receivable 31 March	10	16
Current	5	9
Non-current	5	7

For leases classified as finance leases, 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% (2020: 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 is 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.

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8. Receivables and contract assets (continued)

The aging analysis of trade and other receivables is presented below:

	2021	2020
	\$m	\$m
Current	184	189
0-30 days	18	28
31-60 days	5	4
61-90 days	1	2
91 days +	1	5
Total	209	228

Movements in the credit loss allowance were as follows:

	2021	2020
	\$m	\$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. The majority of the lifetime ECL allowance recorded during the year relates to accounts receivable with aging profile over 30 days (2020: over 30 days).

9. Other assets

	2021	2020
	\$m	\$m
Current		
Prepayments	29	24
Costs to obtain customer contracts	2	2
Costs to fulfil customer contracts	2	2
Total current other assets	33	28
Non-current		
Prepayments	4	5
Costs to obtain customer contracts	1	1
Costs to fulfil customer contracts	1	1
Total non-current other assets	6	7

Incremental costs to acquire 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.

Amortisation of contract costs during the year amounted to \$3 million (2020: \$3 million)

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10. Property, plant and equipment

\$m	Data centres*	Land at fair value	Leasehold improvement	Computers	Plant and equipment	Furniture and fittings	Work in Progress	Total
Cost	74	25	84	75	71	19	41	389
Accumulated depreciation	(18)	-	(43)	(63)	(61)	(12)	-	(197)
Net carrying amount at 1 April 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 and impairment	(21)	-	(53)	(62)	(67)	(15)	-	(218)
Net carrying amount at 31 March 2020	63	19	59	13	28	5	8	195
Additions	-	-	7	5	12	1	6	31
Transfers from WIP	2	-	2	3	-	-	(7)	-
Disposals	-	-	-	-	(2)	-	-	(2)
Disposal of subsidiary	-	-	-	-	-	-	-	-
Transfers to Assets held for sale	-	(19)	-	-	-	-	-	(19)
Transfers to Intangibles	-	-	-	-	-	-	(2)	(2)
Revaluation	-	(1)	-	-	-	-	-	(1)
Depreciation for the year	(3)	-	(10)	(8)	(10)	(3)	-	(34)
Net exchange difference	-	1	-	-	-	-	-	1
Cost	86	-	121	82	107	21	5	422
Accumulated depreciation and impairment	(24)	-	(63)	(69)	(79)	(18)	-	(253)
Net carrying amount at 31 March 2021	62	-	58	13	28	3	5	169

*Land and specialised data centre buildings

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
Specialised data centre buildings	20-25 years

Land at fair value

In November 2020 Datacom entered into a contract to sell its Melbourne – based property for \$20 million. Datacom has agreed to a deferred payment arrangement where the buyer paid a \$4 million non-refundable deposit with the balance of \$16 million to be settled in May 2022. Management concluded that control over the property was not transferred and therefore did not recognise the sale transaction in FY21. Accordingly, at reporting date the asset was reclassified from Property, plant and equipment and presented in the consolidated statement of financial position as “Assets held for sale” at the amount equal to its fair value less costs to sell of \$19 million.

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10. Property, plant and equipment (continued)

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

Included in the net carrying value of Property, plant and equipment is \$16 million (2020: \$15 million) of IT equipment securitised under sale and leaseback transactions. There are no other assets pledged as security under third party arrangements.

11. Right-of-use assets and Lease liabilities

The Group's leases include:

- Property – the Group leases office premises as part of its operating activities. The weighted average lease term is 6 years (2020: 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 (2020: 3 years). The lease terms include extension options.
- IT Equipment – the Group leases hardware relating to fulfilment of customer contracts. The weighted average lease term is 2 years (2020: 2 years).

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.

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.

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

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 fitouts), 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 may include price escalation for 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 2021.

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	3	21	7	31
Depreciation	(21)	(6)	(3)	(30)
Cost	120	33	19	172
Accumulated depreciation and impairment	(21)	(6)	(3)	(30)
Net carrying amount at 31 March 2020	99	27	16	142
Additions	29	54	3	86
Remeasurements	(2)	-	-	(2)
Depreciation	(20)	(21)	(3)	(44)
Impairment	(2)	-	-	(2)
Transfer to Investment property	(10)	-	-	(10)
Derecognition due to finance subleases	-	(5)	-	(5)
Net exchange difference	1	1	1	3
Cost	133	81	23	237
Accumulated depreciation and impairment	(38)	(25)	(6)	(69)
Net carrying amount at 31 March 2021	95	56	17	168

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.

Following COVID-19 impact on office space utilisation, the Group has revised its plans toward one of the recently acquired property leases in Melbourne by repurposing one of its unoccupied floors into a rental property. The change in management's intentions triggered an impairment review at 31 March 2021. This resulted in \$2 million of impairment charge against the right-of-use asset with a subsequent reclassification of the remaining net book value of \$10 million into investment property category in the consolidated statement of financial position.

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

The impairment assessment was performed by comparing the carrying value of the head lease as determined under NZ IFRS 16 with the fair value of the sublease of the right-of-use of the asset. The inputs into the sublease fair value model was based on management's expectations about the timing and quantum of the future cash flows receivable by the Group under the sublease using an indicative offer from an interested third party (Level 2 Fair value hierarchy). The discount rate used to derive the fair value of the sublease was 5% being equivalent to the incremental borrowing rate used to measure the head lease.

During the year the Group has not recorded any capital expenditures against the asset and aside from payments on the head lease, has not incurred material operating expenses toward the investment property. The Group has adopted the cost model under NZ IAS 40 "Investment Property" for subsequent measurement of the asset. As of 31 March 2021, the fair value of the investment property was materially in line with its cost value reported in the consolidated statement of financial position.

Key movements relating to lease liabilities are presented below:

\$m	Property	IT Equipment	Specialised data centre premises	Total
Lease liability balance at 1 April 2019	122	23	12	157
Leases entered into during the year	3	21	7	31
Interest expense	5	2	1	8
Repayments	(23)	(11)	(3)	(37)
Net exchange difference	-	(1)	-	(1)
Lease liability balance at 31 March 2020	107	34	17	158
Leases entered into during the year	29	54	3	86
Interest expense	4	2	1	7
Repayments	(23)	(33)	(3)	(59)
Remeasurements	(2)	-	-	(2)
Net exchange difference	1	1	-	2
Lease liability balance at 31 March 2021	116	58	18	192

Maturity analysis of lease liabilities is presented as follows:

	2021	2020
	\$m	\$m
Less than one year	54	41
One to five years	103	88
More than five years	67	57
Total undiscounted lease liabilities	224	186
less future finance charges	(32)	(28)
Total lease liabilities	192	158
Short-term lease liabilities	47	34
Long-term lease liabilities	145	124

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

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

- Makes adjustment specific to the term of the lease eg term, country, currency and security.

The incremental borrowing rate applied to IT equipment leases ranged from 3% to 4% (2020 : 3-4%) while the incremental borrowing rate for property leases ranged from 3% to 5% (2020: 3-5%) for New Zealand and Australian property leases and 5% (2020: 5%) for other international property leases. The weighted average discount rate at 31 March 2021 was 4.1% (2020: 4.9%).

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.

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.

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12. Intangibles

\$m	Goodwill	Software	Work in Progress	Total
Cost	28	68	10	106
Accumulated amortisation and impairment	(10)	(43)	-	(53)
Net carrying amount at 1 April 2019	18	25	10	53
Additions	-	5	11	16
Amortisation	-	(6)	-	(6)
Cost	28	73	21	122
Accumulated amortisation and impairment	(10)	(49)	-	(59)
Net carrying amount at 31 March 2020	18	24	21	63
Additions	-	-	17	17
Transfers from WIP	-	13	(13)	-
Reclassifications from Property, plant and equipment	-	-	2	2
Amortisation	-	(6)	-	(6)
Net exchange difference	1	-	-	1
Cost	29	71	27	127
Accumulated amortisation and impairment	(10)	(40)	-	(50)
Net carrying amount at 31 March 2021	19	31	27	77

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.

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

	Country	2021 \$m	2020 \$m
Datacom Connect	AU	2	2
Datacom Systems	AU	10	9
Smartbusinesslive	NZ	5	5
Local Government	NZ	2	2
Total carrying value of goodwill		19	18

Smartbusinesslive CGU

As disclosed in Note 17, during the year the Group acquired the remaining 45% ownership in Smartbusinesslive Limited – an entity which is considered a stand-alone CGU. As it was an arm's length transaction for a material ownership in the entity, management used the total transaction value of \$25 million to estimate the CGU's recoverable amount (applying fair value less cost of disposal method) for the purpose of the current year impairment assessment (2020: value in use method).

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12. Intangibles (continued)

Local Government CGU

Cashflow projections inputs for value in use model are based on an 8 years' (2020: 5 years) business plan. The long-term nature of the forecast reflects the timeline to complete the current investment program, execute the market roll out strategy and achieve steady state operations following the start-up period and initial growth phase. It is management's view in the context of this CGU that a longer forecast achieves greater transparency into the financial performance of the CGU through its growth cycle to maturity thereby reducing the risk of overinflating the recoverable amount through terminal value.

Other CGU's

The recoverable amount of the remaining CGUs has been determined using cashflow projections from the budget for the year to 31 March 2022 as approved by the Board and applying management's growth rate assumptions beyond the period of the forecast. These assumptions are based on management's own industry expertise and expectations of future growth in each respective segment of the business.

Key assumptions used for value in use calculations:

	2021		2020	
	NZ	AU	NZ	AU
Pre-tax discount rate	10.70%	10.6% -13.5%	15% -21%	13% -14%
Revenue CAGR*	28%	3% - 4%	12% - 26%	5% - 9%
EBITDA CAGR	95%	<1%	9% - 233%	1% - 12%
Terminal value multiple	5	5	5	5

*Refers to Compound Annual Growth Rate

For the year ended 31 March 2021, no goodwill impairment was recorded (2020: none).

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 materially exceed its recoverable 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.

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.

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13. Payables and contract liabilities

	2021	2020
	\$m	\$m
Current		
Trade payables	75	69
Other payables and accruals	28	40
Contract liabilities	23	29
Total current payables and contract liabilities	126	138
Non-current		
Contract liabilities	7	4
Total non-current payables and contract liabilities	7	4

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.

14. Borrowings

	2021	2020
	\$m	\$m
Current		
Bank loans	20	38
Bank overdrafts	2	27
Sale and lease-back liabilities	10	11
Total current	32	76
Non-current		
Bank loans	40	30
Sale and lease-back liabilities	15	13
Total non-current	55	43

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

Sale and leaseback transactions entered into during the year have been determined to be financing arrangements and recognised at amortised cost in accordance with NZ IFRS 9 requirements.

DATAKOM GROUP LIMITED

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For the year ended 31 March 2021

14. Borrowings (continued)

Summary of bank loans

	2021	2020	Interest rate
	\$m	\$m	
Australia	-	25	The floating interest rate paid was 1.11-2.22% (2020: 1.34-3.56%).
New Zealand	62	70	The floating interest rate paid was 1.36-1.55% (2020: 1.35-3.81%).
Total bank loans and overdrafts	62	95	

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

Additionally, the Group had access to \$152 million (2020: \$57 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% (2020: 3-4%).

The Group is currently finalising discussions with banks about extending its loan portfolio to a new term (refer to note 22 for maturity profile).

15. Financial instruments

Classification of financial instruments

	2021	2020
	\$m	\$m
Financial assets measured at amortised cost		
Cash and cash equivalents	10	18
Receivables and contract assets	227	252
Total financial assets	237	270
Financial liabilities measured at amortised cost		
Trade and other payables	103	93
Bank borrowings	62	95
Sale and lease-back liabilities	25	24
Lease liabilities	192	158
Total financial liabilities	382	370

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.

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15. Financial Instruments (continued)

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.

16. Investment in Humanetix

Humanetix (previously known as Smartward Holdings Pty Limited) is 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 company has been historically accounted for as an investment in associate in the Group's consolidated financial statements and has remained fully impaired since 31 March 2018 due to the associate's continuous operating losses and the Group's uncertainty of realising its investment.

In February 2021 Humanetix completed a capital raise resulting in dilution of Datacom's interest in Humanetix from 20% to 18.2% and forfeiture of right to appoint a board member. Management assessed the effect of the dilution on Datacom's ability to participate in Humanetix's financial and operating policy decisions and concluded that the Group no longer has significant influence over these activities. Consequently, as of 31 March 2021 the investment was classified as an investment in an equity instrument under NZ IFRS 9. The remeasurement to fair value as at 31 March 2021 supported a fair value of nil as determined by applying the Level 3 inputs of NZ IFRS 13 fair value hierarchy.

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17. Investment in subsidiaries

Subsidiary legal name	Country of Incorporation	% Equity interest	
		2021	2020
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 ^{1,2}	New Zealand	-	55%
Smartbooks Limited	New Zealand	-	55%
Smartpayroll Limited	New Zealand	100%	55%
Datacom Data Centres Limited	New Zealand	100%	100%
Datacom Connect Limited	New Zealand	100%	100%
Datacom Foundation	New Zealand	-	-
Datacom Australia Holdings Pty Limited	Australia	100%	100%
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 ³	Australia	-	100%
Datacom Data Centres Pty Ltd	Australia	100%	100%
Datacom Systems (W.A.) Pty Ltd (dormant)	Australia	100%	100%
Datacom Holdings Singapore PTE Limited	Singapore	100%	100%
Datacom Systems Asia Sdn Bhd	Malaysia	100%	100%
Datacom IT Systems Philippines	Philippines	100%	100%
Datacom UK Holdings Limited	UK	100%	100%
Datacom US Holdings Limited	New Zealand	100%	100%
Datacom Corporation US Limited Inc. ⁴	USA	100%	100%

¹In August 2020 the Group acquired the remaining 45% shares in Smartbusinesslive Limited for the total consideration of \$25 million. Since Datacom controlled the entity prior to the acquisition of the non-controlling interest, the excess of the fair value of the consideration paid over the carrying value of the non-controlling interest as the date of transaction of \$2 million was transferred to the retained earnings.

²Following the acquisition of the non-controlling interest in Smartbusinesslive Limited, the Group simplified the corporate structure of the Smartbusinesslive subgroup by amalgamating Smartbusinesslive Limited and Smartbooks Limited into Smartpayroll Limited using New Zealand's short form amalgamation regime. The process was completed in March 2021. The new merged entity will continue to trade under the Smartpayroll name.

³During the year the Group sold 100% ownership of Datacom Business Services Pty Ltd. 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. The transaction was concluded in September 2020 for the total consideration of \$2 million for \$2 million of net assets. Including transaction costs of \$1 million the sale resulted in a loss \$1 million recognised in the consolidated statement of comprehensive income.

⁴As part of corporate structure optimisation, the Group is in the process of closing down Datacom Corporation US Limited Inc. effective from 31 March 2021.

DATAKOM GROUP LIMITED

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18. Provisions

	2021	2020
	\$m	\$m
Current		
Long service leave	6	5
Customer contracts provision	2	5
Other	2	2
Total current provisions	10	12
Non-current		
Long service leave	5	4
Other	-	1
Total non-current provisions	5	5

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.

\$m	Long service leave	Customer contracts provision	Other	Total
At 1 April 2019	9	3	3	15
Arising during the year	2	5	1	8
Utilised	(2)	(3)	(1)	(6)
At 31 March 2020	9	5	3	17
Current	5	5	2	12
Non-current	4	-	1	5
At 1 April 2020	9	5	3	17
Arising during the year	2	1	-	3
Utilised	(1)	(4)	(1)	(6)
Net exchange difference	1	-	-	1
At 31 March 2021	11	2	2	15
Current	6	2	2	10
Non-current	5	-	-	5

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

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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.

Other provisions

Other provisions are reviewed annually and are mainly comprised of make good obligations for leasehold premises. 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

	2021		2020	
	Number	Value	Number	Value
	'000	\$m	'000	\$m
Ordinary shares	5,873	15	5,873	15

During the year the Group had no movement in its share capital (2020: none). The balance of treasury shares at 31 March 2021 was 398,120 (2020: 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

	2021	2020
	\$m	\$m
Interim imputed dividends on ordinary shares: 128 cents (2020: 62 cents)	8	4
Final imputed dividends on ordinary shares: 70 cents (2020: 50 cents)	4	3
Total distributions to owners	12	7
Total distributions to non-controlling interest	1	2

Imputation credit account

Imputation credits available at 31 March 2021 were \$48 million (2020: \$42 million). 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.

Earnings per share

	2021	2020
Earnings used in calculating earnings per share:		
Net profit attributable to ordinary equity shareholders of the parent, \$m	34	16
Weighted average number of ordinary shares	5,873,454	5,873,454
Earnings per share for profit attributable to the ordinary equity holders:	\$	\$
Basic and Diluted Earnings per share	5.79	2.80

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20. Cash flow information

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

	2021	2020
	\$m	\$m
Profit after tax	35	19
<i>Adjustments for</i>		
Deferred income tax	7	(10)
Depreciation, amortisation and impairment expense	86	67
Amortisation of contract costs	3	3
Interest expense	10	10
Bad debt expense	-	1
Share based payment expense	3	1
Interest income from finance leases	(1)	(1)
Loss/(Gain) on disposal of subsidiary	1	(2)
<i>Changes in assets and liabilities</i>		
Decrease/(Increase) in receivables and contract assets	18	(12)
(Increase)/Decrease in inventories	(2)	1
Increase in other assets	(3)	(12)
Decrease in trade and other payables	(11)	(8)
Increase/(Decrease) in employee entitlements	17	(5)
(Decrease)/Increase in provisions	(5)	2
(Decrease)/Increase in current tax liabilities	(2)	10
Net cash flows from operating activities	156	64

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20. Cash flow information (continued)

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

\$m	31-Mar-20	Cash flow movement	Non-cash movement	Bank overdraft	Foreign exchange movement	31-Mar-21
Borrowings due within 1 year	76	(34)	15	(26)	1	32
Lease liabilities due within 1 year	34	(34)	46	-	1	47
Borrowings due after 1 year	43	24	(13)	-	1	55
Lease liabilities due after 1 year	124	(25)	45	-	1	145
Total	277	(69)	93	(26)	4	279
Reconciled to:						
Repayment of bank loans		(53)				
Repayment of interest and principal under leases		(59)				
Repayment of sale and lease-back liability and interest		(11)				
Proceeds from bank loans		45				
Proceeds under sale and lease-back transactions		9				
Total		(69)				

\$m	31-Mar-19	Adoption of NZ IFRS 16	Cash flow of movement	Non-cash movement	Bank overdraft	Foreign exchange movement	31-Mar-20
Borrowings due within 1 year	68	-	(26)	8	27	(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
Total	99	155	(60)	57	27	(1)	277
Reconciled to:							
Repayment of bank loans			(35)				
Repayment of interest and principal under leases			(37)				
Repayment of sale and lease-back liability and interest			(9)				
Proceeds from bank loans			6				
Proceeds under sale and lease-back transactions			15				
Total			(60)				

21. Related parties

Key management personnel compensation

At 31 March 2021, key management personnel consist of 10 (2020: 11) executives involved in the operation of the Group. During FY21 short-term employee benefits amount to \$8 million (2020: \$7 million), directors fees amounted to \$0.8 million (2020: \$0.8 million) and share based benefits amounted to \$1 million (2020 \$0.5 million).

The Datacom Group is jointly controlled by Evander Management Limited and the Guardians of New Zealand Superannuation as a manager and administrator of the New Zealand Superannuation Fund. 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.

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21. Related parties (continued)

Transactions with related parties

All transactions with related parties are on normal commercial terms.

At 31 March 2021 the Group had \$43,000 outstanding trade receivables from Guardians of New Zealand Superannuation.

During the year revenue transactions with Guardians of New Zealand Superannuation amounted to \$2 million (2020: \$2 million). In addition, on 25 March 2021 the Board of Directors approved the sale of ordinary fully paid shares in the Datacom Group Limited to Guardians of New Zealand Superannuation for the total consideration of \$19 million. The completion of the sale is conditional on securing specific governmental approvals with a targeted completion in the second quarter of the 2022 financial year. The ordinary shares will be sourced from and will reduce the treasury shares balance.

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 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 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.

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22. Financial risk management (continued)

	2021	2020
	\$m	\$m
Cash and cash equivalents	10	18
Finance lease receivables	10	16
Contract assets	9	9
Trade and other receivables	208	227
Total	237	270

The Group's largest customer accounts for 7.39% (2020: 6.51%) of total sales and 4.93% (2020: 9.78%) 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.

31 March 2021, \$m	Carrying amount	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	> 5 years
Bank loans	60	76	21	-	55	-	-
Bank overdrafts	2	2	2	-	-	-	-
Trade and other payables	103	103	103	-	-	-	-
Sale and lease-back liabilities	25	26	6	6	7	7	-
Lease liabilities	192	223	27	27	42	61	66
Total	382	430	159	33	104	68	66

31 March 2020, \$m	Carrying amount	Contractual cash flow	6 months or less	6-12 months	1-2 years	2-5 years	> 5 years
Bank loans	68	68	-	38	30	-	-
Bank overdrafts	27	27	14	13	-	-	-
Finance lease liabilities							
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
Total	370	398	133	77	70	61	57

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.

DATAKOM GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 United States Dollar. 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 2021, \$m	AUD	MYR	PHP	GBP	SGD	USD
Accounts payable	(5)	(2)	(1)	-	-	(5)
Accounts receivable	5	-	-	1	-	4
Total net exposure	-	(2)	(1)	1	-	(1)

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
Total net exposure	3	(1)	-	-	-	5

All other things being equal and assuming a +/- 10% (2020: +/-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 2021 and 2020 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, ASB and HSBC which monitor funding cost, debt to EBITDA and guaranteeing group EBITDA. 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.

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23. Employee share schemes

The Group manages a share-based compensation plan whereby employees provide part of their service in exchange for cash settled share-based awards. The plan was closed to new participants on 31 March 2019.

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:

	2021	2020
Dividend yield	3%	1%
Expected volatility	20%	20%
Risk-free interest rate	0.95%	0.87%
Expected life of option, years	8	8
Expected life of option, years *	5	5
Option exercise price, \$	57	54
Share price at reporting date, \$	123	113

*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 2021, the fair value of unvested shares amounted to \$4 million (2020: \$5 million)

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23. Employee share schemes (continued)

Share option activity during the year was as follows:

	2021		2020	
	Number	WAEP*	Number	WAEP*
	'000	\$	'000	\$
At 1 April	135	54	166	48
Forfeited during the year	(24)	42	(6)	28
Exercised during the year**	(16)	23	(25)	18
At 31 March	95	57	135	54

* Weighted average exercise price

** The weighted average share price at the date of exercise of options during the year ended 31 March 2021 was \$123 (2020: \$113)

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 31 March 2021 the fair value amounted to \$17 million (2020: \$15 million)

The total carrying amount of redemption liability at 31 March 2021 amounted to \$21 million (2020: \$20 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 \$3 million (2020: \$1 million).

24. Commitments and contingencies

Capital commitments

The Company had no material capital commitments outstanding at 31 March 2021 (2020: none).

Contingencies

During the year the Group has given financial guarantees to banks in relation to rental of premises for \$5 million at 31 March 2021 (2020: \$2 million) and granted performance guarantees to banks in relation to customer contracts for \$8 million at 31 March 2021 (2020: \$7 million). Apart from the above there are no material contingencies at 31 March 2021.

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.

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 2021 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. Subsequent events

On 29 June 2021, the Board of Directors declared a fully imputed final dividend for the financial year ended 31 March 2021 of 151 cents per ordinary share payable on 27 August 2021. The total amount payable will be \$9.5 million and has not been recognised in these financial statements.



Independent auditor's report to the Shareholders of Datacom Group Limited

Opinion

We have audited the financial statements of Datacom Group Limited ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position of the Group as at 31 March 2021, 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 present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2021 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, as a body. Our audit has been undertaken so that we might state to the Company's 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, as a body, 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) 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.

Other than in our capacity as auditor we have no relationship with, or interest in, the company or any of its subsidiaries. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of 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.

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



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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. We have nothing to report in this regard.

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-7/>. This description forms part of our auditor's report.

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

Chartered Accountants
Auckland
29 June 2021