



# **Business Plan**

**FY 2023 – 2027**

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## Executive Summary

This 2023 – 2027 Belau Submarine Cable Corporation (BSCC) Business Plan focuses on:

- Offering interim services on the network extension to Airai (CAP-A), including the Eastside Fiber, in Q4 2022
- completing the Port Ollei and CAP-O fiber extensions and installation of optical routers by Q4 2023
- ongoing delivery of the second cable project (PC2), with Ready for Service expected Q3 2024.
- further refinement of operational processes and capability.

Forecast Revenue for 2023 is \$3,168K (ex PGST). Forecast cash outgoing is \$3,806K (ex PGST), representing general expenses of \$936K, specialist operational services of \$471K and interest expense of \$778K, as well as principal repayments of \$1,621K. A negative cashflow of \$638k results.

Project capex of \$8,367k is funded by borrowings/grant funding of \$6,912k. The shortfall of \$1,455k is met by funds already allocated to the PC2 project by AIFFP and USAID of \$4,517k – deposited in advance to BSCC’s account and held in cash reserves. Other capex of \$342k represents on-going operations-based capex for BSCC and is funded from cash reserves.

Interest rate rises form a large component of the increasing operating expenses. Interest rates are forecast to reach 6.41% in 2024, before progressively decreasing. This is from a low base of 2.93%.

The sale of 2 fiber-pairs on the PC2 cable system to Trans Pacific Networks (TPN) is scheduled to occur in 2024 with payment terms of \$3,250k payable in 2024 and \$0.050k pa payable for the next 15 years. Strong revenue for the 2024 year of \$6,972k results.

## BSCC Structure

BSCC was established in 2015 by RPPL9-47 (the BSCC Act), to provide international submarine fibre optic connectivity for the Republic of Palau (RoP).

ADB financed the original first cable (PC1) project, and surplus funds from the \$25M loan are financing the Capacity Access Point – Airai (CAP-A) Tech Center, Eastside Fiber, Port Ollei extension and 100 Gbps optical routers for the Babeldaob network.

Financing for the PC2 project is from a variety of sources, including Australian Infrastructure Financing Facility for the Pacific (AIFFP), Japan Bank for International Cooperation (JBIC) and Sumitomo Mitsui Banking Corporation (SMBC) debt, BSCC equity, and grants from USAID, AIFFP and US Department of the Interior.

BSCC has provisionally applied for a licence to operate a wholesale network in RoP in January 2018 in accordance with RPPL 10-17 of 2017 (the Telecoms Act).

The sole shareholder in BSCC is the Minister of Finance, on behalf of the Republic of Palau. A Board of Directors is appointed by the ROP government.

## Business Objectives

The primary business objective of BSCC is to

*Provide licensed Retail Service Providers in Palau with equal access to high quality wholesale capacity at the lowest pricing commensurate with full cost recovery.*

The focus of this Business Plan is to build on the gains flowing from the submarine link constructed in 2017, ensuring robust international connectivity and cost-effective core Palau infrastructure for RoP Retail Service Providers (RSPs) on a fair and equal basis.

The business issues addressed by this Plan are:

- (a) Bringing CAP-A and the Babeldaob Fiber Loop into service on an interim basis.
- (b) Procuring Ciena equipment to upgrade the BSCC network to 100 Gbps
- (c) Ongoing delivery of a second international fibre optic link for RoP (PC2)
- (d) Work with other parties in the RoP telecommunications market to ensure effective market performance.
- (e) Work with relevant authorities to ensure effective disaster planning for international connectivity.
- (f) Develop BSCC capability, including staff recruitment and network resilience.
- (g) Define key operational arrangements including ongoing management, marine maintenance, landing party agreements and Network Operations Center (NOC).
- (h) Update/review the expenditures and revenues associated with the development and operations of BSCCnet.
- (i) Set out the financing arrangements to underpin BSCC and its projects.
- (j) Analyse risks associated with the company's activities.

## Strategic Framework

BSCC's price positioning is defined by the BSCC Act. Accordingly, BSCC will operate pricing regimes that support servicing and repayment of debt and business costs, rather than maximising profits. To this end, BSCC continues to reduce its pricing, with a further 30% reduction in Q3 2022.

BSCC is a wholesale supplier in the RoP telecommunication market. This enables the lowest possible cost structure, as BSCC supplies raw capacity to Retail Service Providers (RSPs),

rather than telecommunications services to end-user customers, avoiding the need to invest in complex product support and billing systems, sales and marketing capability and customer support systems. By positioning as a wholesaler, BSCC also avoids the difficult position of competing with its own customers, who are much better resourced to develop, supply and support telecommunications services in the retail market.

BSCC offers the same capacity products, pricing, payment options and terms and conditions to all eligible customers (ie licensed RSPs).

Because BSCCnet (the entire BSCC international connectivity network) is relatively small in terms of capacity in service, compared to other intercontinental submarine networks, and is likely to have relatively few customers (perhaps no more than four in the medium term), its operational needs will not justify extensive full-time roles. Accordingly, BSCC outsources most business functions in network operations and management, finance, IT and legal. As CAP A comes into service and PC2 nears Ready for Service, additional resources will be recruited, in Q3 2023, to operate the additional network infrastructure.

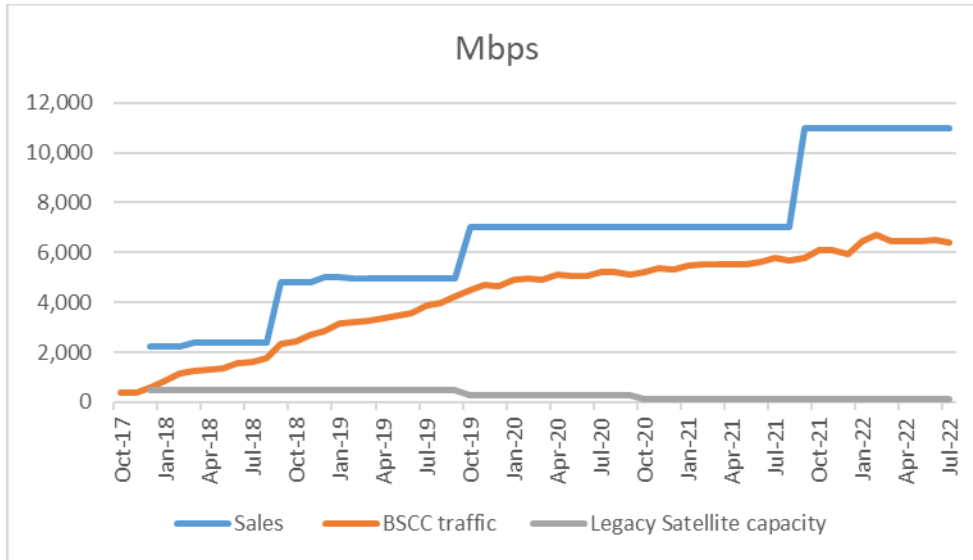
BSCC is pursuing a four-part strategy to achieve its business goals:

1. Ensure flawless operation of the current international submarine cable network connection for Palau
2. Develop the new Capacity Access Point at the airport site in Airai (CAP-A), to support equitable access for all RSPs, including co-location options at minimum cost
3. Extend the Babeldaob Fiber Loop to Port Ollei, to support more rapid provision of high-speed data services to communities along the route by Retail Service Providers (RSPs)
4. Improve resilience and capabilities with a second international submarine cable network connection for Palau

## Marketing

### Capacity

Pre-BSCCnet, total satellite capacity use for RoP was estimated at 400 Mbits / sec. There was an immediate increase to 1,000 Mbits / sec by March 2018. In the six months after Ready for Service, BSCCnet traffic doubled again to 2,000 Mbits / sec and nearly doubled again over the next 12-months. Since February 2020, the COVID-19 pandemic has slowed growth, with tourist numbers down to effectively zero. Current capacity sold is 11 Gbps.



BSCC is assuming a modest improvement in revenue for FY 2023 over 2022, as the market slowly returns to some form of normality following the COVID years and the tourism market slowly improves. As BSCC customers have already acquired adequate capacity to meet trading needs for the next 12 months, minimal sales are forecast in FY 2023.

Subdued rates of core revenue growth are forecast beyond 2023 of 17% in 2024 (adjusted), 34% in 2025 and 10% in 2026. It is still considered possible that a capacity growth spike could occur as the economy returns to normal, but this hasn't been factored in.

### Pricing

All pricing is in USD, which is industry standard.

BSCC reduced prices by a minimum 30% from July 2022. The current price list is:

Mbit /sec		3 Year Lease from 7/7/22	Previous price
From	To		
50	199	90	190
200	399	65	140
400	999	45	105
1000	1999	40	79
2000	4999	35	60
5000	9999	30	45
10000	19999	22	34
20000	29999	18	na
30000	39999	16	na

BSCC pricing is intended to support a virtuous cycle, where higher volume purchases attract lower unit prices, which in turn allow retail price reductions by customers, which in turn generate higher volumes.

## Market and Regulatory

The Palau telecommunications market is competitive, regulated by the Bureau of Communications established under RPPL 10-17 of 2017 (the Telecoms Act).

Regulation remains in its infancy, with significant uncertainty. A Regulator was appointed in late 2019.

The RoP telecommunications market is still largely dominated by the incumbent provider, Palau National Communications Corporation (PNCC). The main competitor is Palau Telecom, which has operated a Wi-Fi network and is now moving into mobile. Palau Mobile (previously Palau Wi-Fi) continues its smaller operation focused on tourist hotels and a limited set of customers. All have been impacted by the pandemic.

RoP is the world's first all-IP network. RSPs agreed to establish an open interconnection regime in August 2018 and PNCC and PT have implemented voice interconnection. BSCC supports minimum regulatory complexity consistent with orderly allocation of public resources such as spectrum and numbering.

## BSCC Positioning

BSCC positions as a carriers' carrier, providing wholesale capacity on its network to licensed RSPs. Irrespective of scale, BSCC will not sell capacity directly to retail customers. This "wholesale only" positioning has three features:

- BSCC focuses on capacity products, avoiding the need to maintain costly billing, customer management and sales infrastructure
- BSCC avoids competing with its own customers, who are better resourced to service retail markets
- BSCC supports ROP government's objective of fostering the development of healthy competition in the retail service provision market

BSCC offers CAP-N (capacity access point at Ngeremlengui Cable Landing Station) to CAP-G (Tata at Piti, Guam) connectivity, and will be offering connection at CAP-A (the long-term primary access point in Airai, at the airport site) from Q4 2022.

BSCC can offer minimum space for customer equipment at the Ngeremlengui cable station, but more extensive co-location space will be available on reasonable terms at CAP-A for all BSCC customers.

To meet the different cash flow goals of the different players in a developing capacity market, BSCC currently offers Lease products, although Indefeasible Rights of Use (IRU) are available, if customers express interest. To date customers have indicated interest only in



leases. BSCC customises its solutions to customer requirements beyond those supported by standard access approach on a cost-plus basis.

## BSCC Products

The core product offered by BSCC on the cable is leased capacity between the BSCC Capacity Access Point at the Cable Landing Station (CLS) at Ngeremlengui, Palau (CAP-N), and CAP-G at Tata Piti in Guam. This will be enhanced by availability of CAP-A (Airai) access in late 2022.

PC2 based options are expected to be available from Q3 2024.

The minimum capacity offered is 50 Mbit / sec.

Leases are available on three-year terms. Shorter leases can be negotiated.

BSCC is service provider neutral. Key elements of the product offering support this stance:

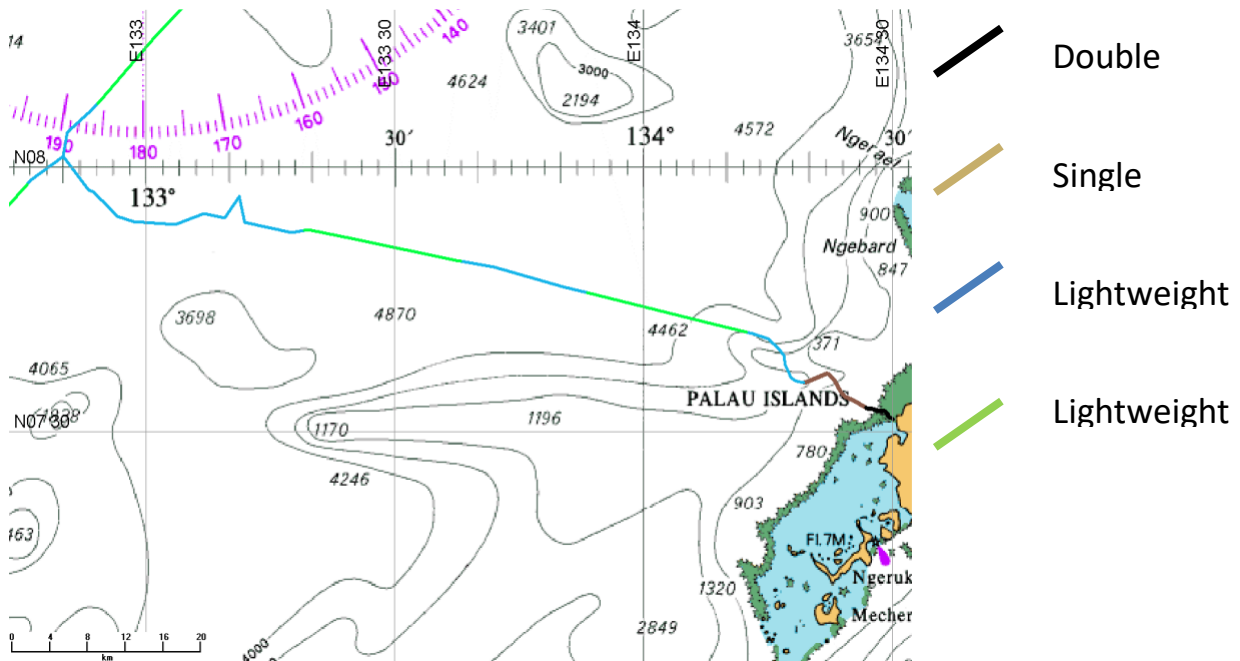
- BSCC will offer the same product set and pricing to all customers.
- BSCC will ensure that CAP-A space is available on fair terms to all BSCC customers.
- BSCC will provide access to the Babeldaob Add / Drop Loop on fair terms to all BSCC customers
- BSCC will ensure that low volume products remain available to encourage new market entrants, and will reduce the cost of market entry
- BSCC will ensure that distribution of customer information is limited to necessary operational purposes.
- BSCC will ensure that a process is defined to enable customers to raise and resolve concerns related to equal access and confidentiality.

A co-location product for CAP-A is currently under development and will be offered to customers in Q4 2022.

## Network

### PC1

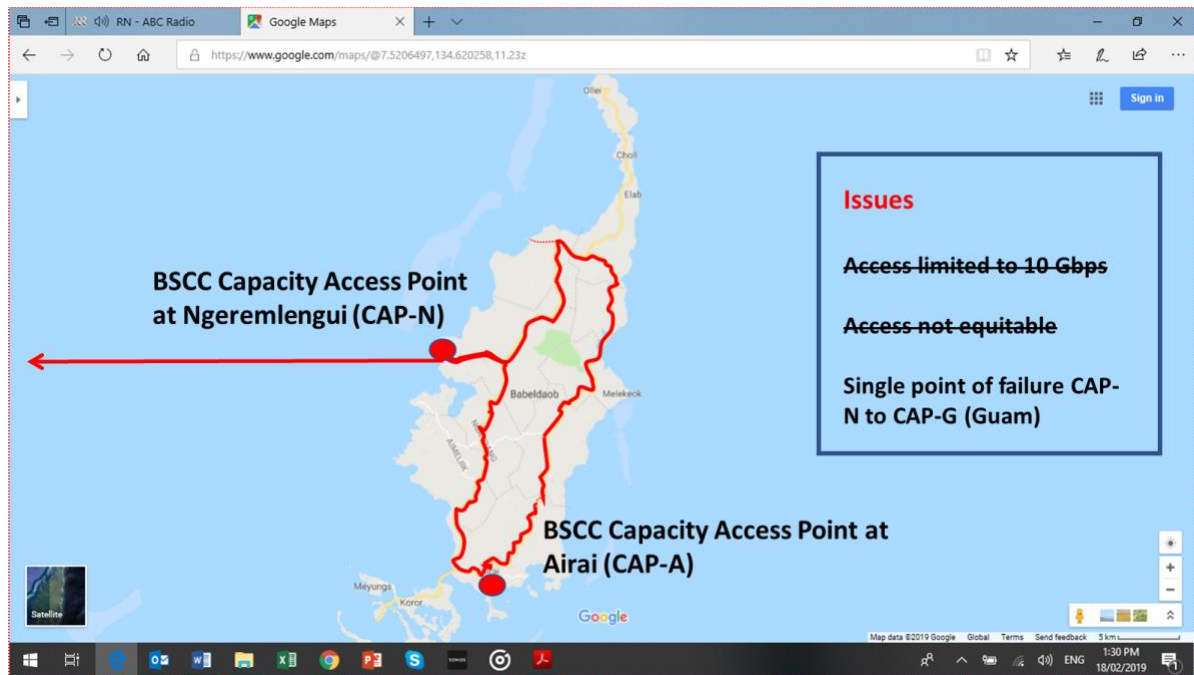
The international route is a repeatered branch connection from Ngeremlengui Cable Landing Station (CLS) to a Branching Unit on the SEA-US main trunk cable, with onward transport on SEA-US to the GTA CLS in Guam.



BSCC is currently completing a network extension to the Airai airport site to establish a new Capacity Access Point, CAP-A. Costs of current BSCC network development projects can be completed within the original \$25M loan to RoP from ADB:

Project	Completion Date	Cost (US\$M)
International connection to CAP-N	Completed December 2017	18.7
Network extension CAP-N to CAP-A Westside	Completed June 2020	1.3
CAP-A Building incl fit-out	January 2022	0.8
Network Extension CAP-N to CAP-A Eastside	January 2022	2.4
Network Extension to Port Ollei	September 2022	1.1
Optical routers for CAP-A, CAP-N and CAP-O	September 2022	0.5
<b>TOTAL</b>		<b>24.8</b>

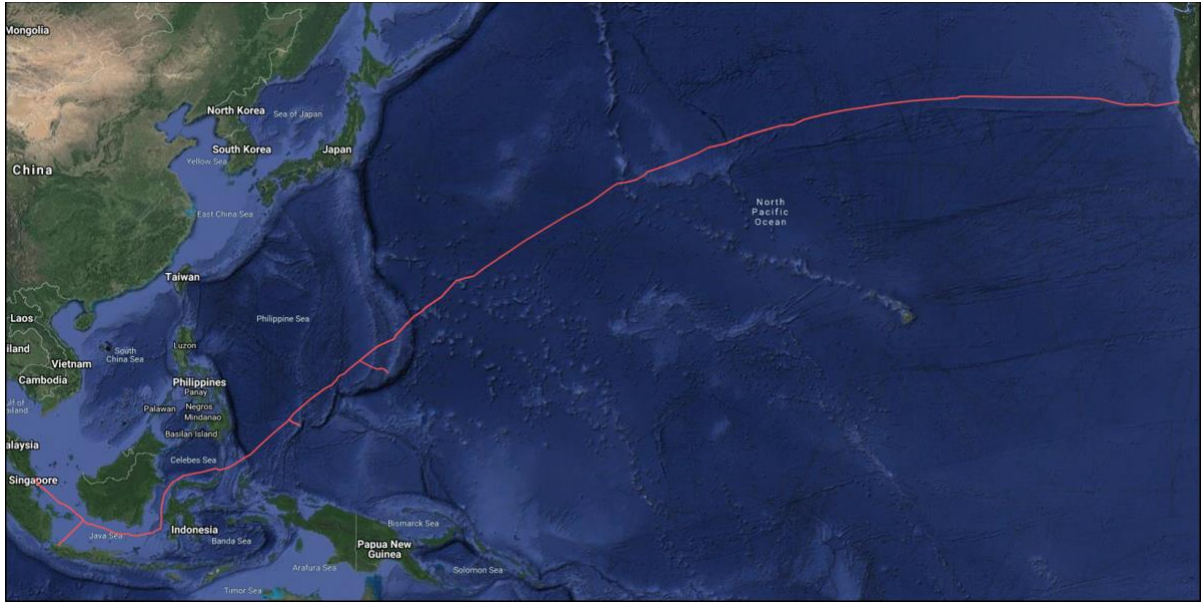
The completed network will provide a robust shared infrastructure that will enable all RSPs equal and cost-effective access to international connectivity:



However, while the Palau network topography provides a very robust access architecture, the entire BSCC link from CAP-N to CAP-G represents a single point of failure. Further, the ever-widening gap between capacity in use (the orange line on the graph in the marketing section above) and satellite capacity available in the event of an outage (the grey line) indicates the growing vulnerability of economic and social activity in Palau to a service interruption on BSCC.

## PC2

To provide an alternate connection to mitigate this risk, BSCC is pursuing construction of a second cable link for Palau (PC2), with the support of government and the RSPs. BSCC has identified a new cable proposed for Singapore to USA, passing within 130 km of RoP, which has incorporated a Palau Branching Unit (BU) into their design. The Palau BU is now installed, and development of the Palau system is well advanced.



BSCC has arranged loans from Japan Bank for International Cooperation (JBIC), Sumitomo Mitsui Banking Corporation (SMBC) and the Export Finance Australia (EFA). Together with grant funding from AUSAID, Australian Infrastructure Financing Facility for the Pacific (AIFFP) and USAID, a robust and favourable financing structure is in place.

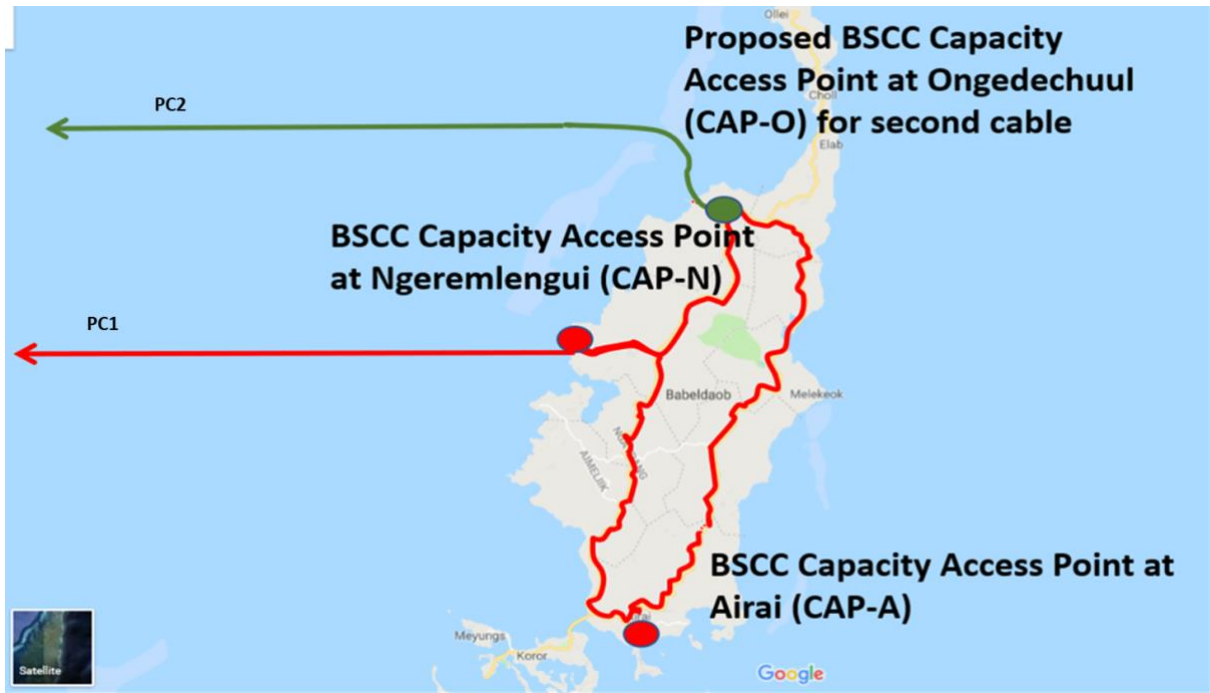
Source	Type	Amount	Total
<b>BU Funding</b>			
Australia Infrastructure Financing Fund for the Pacific (AIFFP)	Loan	\$1,750,000	
	Grant	\$850,000	
BSCC	Equity	\$900,000	\$3,500,000
<b>Marine Survey Funding</b>			
Ausaid	Grant	\$561,000	\$561,000
<b>Full System Funding</b>			

AIFFP	Loan	\$6,007,985	
	Grant	\$667,094	
Japan Bank for International Cooperation (JBIC)	Loan	\$4,000,000	
Sumitomo Mitsui Banking Corporation (SMBC)	Loan	\$4,000,000	
US Compact Agreement	Grant	\$7,000,000	
BSCC	Equity	\$297,000	
US AID	Grant	\$3,800,000	\$25,772,079
<b>TOTAL</b>			<b>\$29,833,079</b>

BSCC has identified Ngardmau as a suitable landing point for PC2. An Initial Environmental Evaluation (IEE) for the project has been completed, the land-based facilities are well advanced, and all Palau facilities are expected to be completed by Q1 2023, except Submarine Line Terminal Equipment (SLTE), where the supplier has not yet been selected.

Sensitivity analysis indicates the proposal is robust financially, and independent economic analysis indicates it offers significant economic benefit to Palau.

The target network topology is:



## Technology

The network technology deployed for BSCCnet is identical to that used for the main SEA-US cable, based on the latest available commercial technology, utilising 100 Gbit / sec wavelengths, supplied by NEC.

BSCC has currently lit one of five 100 Gbit/sec wavelengths over which it holds an IRU with Globe Telecom of Philippines. The link between the GTA CLS and CAP-G, provided by GTA of Guam, is currently configured at 10 Gbit/sec. This potential bottleneck and single point of failure was addressed by provision of a diverse Guam link in 2022. The BSCC Palau and Guam networks will be upgraded to 100 Gbps in late 2023.

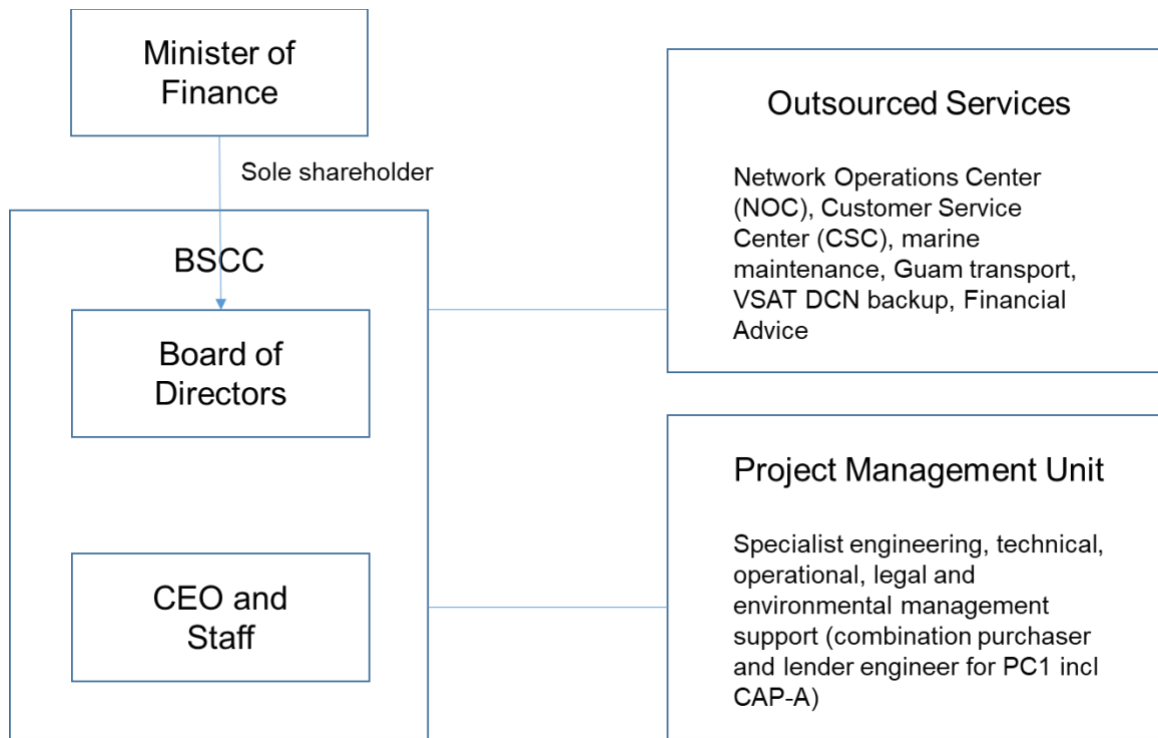
Currently, the core submarine network is augmented by twin Ciena network routers in both CAP-N and CAP-G, to facilitate resilient and flexible management of customer access. The same standard interface will be available to BSCC's RSP customers at CAP-A.

BSCC can support up to 10 x 10 Gbit/sec on current network configuration. The BSCC Ciena routers will be augmented (CAP-O and CAP-A) and upgraded (CAP-N and CAP-G) to support 100 Gbps transmission in Q4 2023. BSCC is considering a CAP-N submarine network upgrade to 2 x 100 Gbps to facilitate customer migration.

## Operations

BSCC outsources the following business functions:

- Marine maintenance (currently Subcom; OMS / ASN from 2023) and Guam spares storage (TE Subcom)
- Network Operations Center (NOC) management (Globe Telecom)
- Customer Service Center (CSC) management (Docomo Pacific)
- Engineering and Commercial Support (McCann Consulting International)
- Guam interconnection (GTA and Docomo Pacific)
- Diesel generator and air-conditioning maintenance (Surangel)
- Fiber maintenance (G&C Construction)
- Financial accounting (nem and Deloitte)
- Legal (McCann Consulting International)



The only issue on to be resolved in outsourced operation is that current contracts with TE Subcom for marine maintenance expire (as they do for every member of the South Pacific Marine Maintenance Agreement (SPMMA)). Subcom has declined to make an offer for extension (though they did agree to a one-year extension to allow SPMMA members to find an alternative). SPMMA members, especially the larger owners, are currently establishing a new arrangement. BSCC expects the cost per km to increase and has budgeted accordingly.

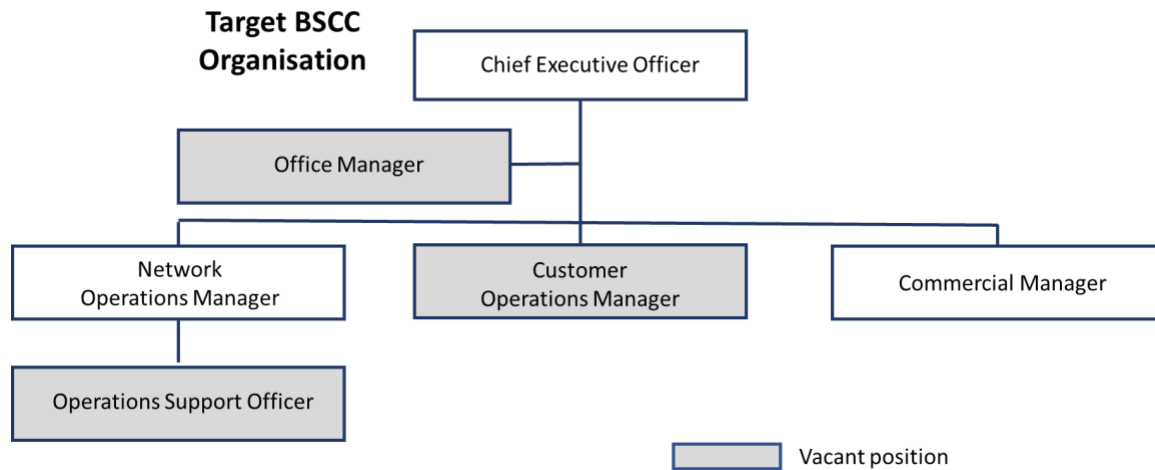
A meeting of the SPMMA members is scheduled for January 2023 in Hawaii to formally agree on a new arrangement.

With the PC1 network coming out of warranty in December 2022, ongoing support from NEC is included in the plan, at \$71K pa. BSCC is seeking a more cost-effective solution through cooperation with Globe Telecom, who are a SEA-US West owner as well as providing NOC services to BSCC.

## Organisation

The target organisation structure is:





Currently, three positions are unfilled (shaded above).

During 2023 BSCC will recruit for all three vacant positions as we move towards full operational capability.

## Finance

### Key Parameters

Key assumptions underpinning the financial analysis are:

- Subdued capacity growth in 2023 of 1%, with 20%, 25% and 32% over the ensuing 3 years.
- Revenue from the TPN sale of \$3,250k in 2024 and \$50k p.a. thereafter – for 15 years
- Year on year expense growth – 3%
- CEO remains until Sept 2024 – on current salary and replaced by Rhinehart Silas with handover to commence in Sept 2023.
- PC2 Project to be ongoing throughout 2023, with RFS currently expected for Q3 2024.
- 3 new staff – part time office manager from Oct 2022 and 2 operations staff from September 2023
- Base interest rate increases from 2.93% (currently) to 4.68% in 2024. Following a period of stabilization progressive reductions are forecast to commence in 2028.
- BPT commences in 2023. No tax payable until at least 2028 – depending on outcome of depreciation negotiations.
- PGST commences in 2023. No cashflow impact is forecast
- Cable design life 25 year

## Capital Expenses (Capex)

Key remaining project expenses:

Port Ollei /DPAC	\$ 1,800,000 (ADB Funded)
PC2 Project	\$16,258,987 (completed Jan 2024)

PC2 Project to be funded by a debt consortium including JBIC and the Australian Infrastructure Financing Facility for the Pacific (AIFFP) – refer above.

## Tax

From January 2023 BSCC will be included in the Palau Goods and Services Tax (PGST) and Palau Business Tax (PBT) regimes. Since PGST is a pass-through for a 100% wholesaler like BSCC and we expect to make nominal losses through 2028, the financial impact on BSCC across this Business Plan period is expected to be minimal.

BSCC will make a formal submission to the Director of Tax on the PBT depreciation schedules, which are not well-matched to BSCC assets like submarine plant (design life of 25 years).

## Equity

The Minister of Finance holds the only share, in accordance with the BSCC Act.

## Debt

This plan assumes BSCC draws down the full \$25M of available funding for Cap A (East & West loop and Port Ollei/DPAC)

The PC2 project will be consortium funded. The debt terms are attractive (excludes grant funding) The following table shows the rates as they applied at commencement of the project:

Debt Terms - PC2									
Lender	Total Amount	Term	Grace Period	Interest rate	Assume	Margin	All up	Commitment	Approval Fee
AIFFP - BU Debt (Tranche 1)	\$ 1,750,000	10 years	15 years	US SWAP	1.75%	0.50%	2.25%	0%	\$100,000
AIFFP Full System debt (Tranche 2)	\$ 6,010,242	20 years	10 years	US SWAP	1.34%	0.80%	2.14%	0%	\$100,000
JBIC	\$ 4,000,000	10 Year	Nil	CIRR	1.63%	1.30%	2.93%	0.25%	0%
SMBC	\$ 4,000,000	10 Year	Nil	LIBOR	0.16%	1.30%	1.46%	0.25%	\$ 100,000
<b>Total Debt</b>	<b>\$ 15,760,242</b>								

Since then, the following has transpired:

- LIBOR ceases to be a viable rate determining mechanism and has been replaced by SOFR (Secured Overnight Financing Rate). An amendment to the JBIC Loan Agreement specifies this change and a similar amendment from ADB is expected.
- Interest rates have climbed from 0.16% (LIBOR shown above) to current rates of circa 3.00%. The impact of this increase is an increase in annual interest expense of around \$1.0M p.a. – once all debt is fully drawn.

## Dividends

In accordance with the BSCC Act, no dividends are expected to be paid. Operating surpluses, after full debt service and funding of the Debt Service Reserve Account (DSRA) and Marine

Maintenance Reserve Account (MMRA), are reflected in price reductions, effectively a general dividend.

## Outcomes

Detailed financial data are provided in an associated spreadsheet.

In summary, the FY 2023 (excluding PGST) forecast is:

	USD M
Revenue	2.880
General Expenses	0.936
Network Operating	0.471
Interest	0.778
Debt Reduction ADB	1.221
Debt Reduction PC2	0.400
<b>Net Operating Cashflow</b>	<b>-0.926</b>
Debt/Grants received	6.911
Port Ollei/DPAC Capex	1.800
PC2 Capex	6.567
Other Capex	0.342
<b>NET CASHFLOW*</b>	<b>-2.724</b>

\*Cash balance at commencement of year \$4.975m. Reserve Account Funds of \$835k are held,

\*\* Opening balance includes prefunded Grant funding from AIFFP of \$0.85M and AIFFP/USAID funds of \$3,667k, the majority of which (\$3,128k) has already been utilised for the project (net amount included in opening balance - \$1,389k).

## Forward cashflow

BSCC is a non-profit entity and aims to supply the market with the most cost-effective price of capacity possible. This is a challenge during a rising interest rate environment – with such high debt levels - particularly as significant capacity price reductions had been provided to the market just prior to the commencement of interest rate hikes.

The following shows the operating cash position for the next 6-years. As evidenced net operating cash losses are evident until capacity sales are increased to over 20Gbps (expected in 2028). The sale of the 2 fiber pairs to TPN in 2024 offsets these losses as an interim measure.

## BSCC Business Plan 2023 - 2027

	2023	2024	2025	2026	2027	2028	2029
Net Operating Cash in	2,880,000	3,384,000	4,488,000	4,920,000	5,004,000	6,174,000	6,207,000
Operating Cash Out	1,407,333	1,592,764	2,013,618	2,040,403	2,137,615	2,201,744	2,267,796
<b>Net Operating cash</b>	<b>1,472,667</b>	<b>1,791,236</b>	<b>2,474,382</b>	<b>2,879,597</b>	<b>2,866,385</b>	<b>3,972,256</b>	<b>3,939,204</b>
Interest	777,603	1,360,000	1,112,790	1,006,568	915,514	796,361	710,958
Principal repayments	1,621,241	2,021,241	2,371,241	2,371,241	2,371,241	2,371,241	2,371,241
<b>Net Cash</b>	<b>- 926,177</b>	<b>- 1,590,005</b>	<b>- 1,009,649</b>	<b>- 498,212</b>	<b>- 420,370</b>	<b>804,655</b>	<b>857,005</b>
TPN Income	100	3,250,000	50,000	50,000	50,000	50,000	50,000
<b>Adjusted Net Cash</b>	<b>- 926,277</b>	<b>- 4,840,005</b>	<b>- 1,059,649</b>	<b>- 548,212</b>	<b>- 470,370</b>	<b>754,655</b>	<b>807,005</b>
<b>Cash Balance</b>	<b>2,251,555</b>	<b>3,165,147</b>	<b>1,955,498</b>	<b>1,257,287</b>	<b>636,917</b>	<b>1,241,571</b>	<b>2,322,003</b>

The accumulated losses are well covered by forecast cash balances.

### Base Model

Despite the adverse economic conditions and rising interest rates, the outlook for 2023 features:

- Operationally cash positive
- Strong reserve account funding.
- Completion of the Cap A/Port Ollei/DPAC projects
- Good progress with the PC2 project
- Healthy cash reserves (excluding prepaid grant funding)

### Risk Analysis

Refer to Risk Matrix following for a risk assessment and mitigation strategy.

The main categories of risk faced by BSCC are:

- Technological Risk
- Operational & Environmental Risk
- Financial Risk
- Sovereign Risk
- Regulatory Risk
- Resourcing Risk
- Project Management Risk

## Technological Risk

As BSCC is now fully operational, technology risk is now restricted to the operational support arrangement in place and the yet to be completed Cap A and PC2 projects.

Technological risks are offset by factors including:

- ✓ Reliance on proven industry specialists for all outsourced arrangements (e.g. NOC)
- ✓ Use of appropriate and proven technologies.
- ✓ Selection of an optimal cable route on the seabed using proven marine survey technologies.
- ✓ Turn-key supplier NEC for PC2, a long-time industry heavyweight with a well-established track record.
- ✓ Professionally managed procurement and acceptance testing to ensure compliance with specifications.
- ✓ Availability of spares for the lifetime of the system.
- ✓ Supplier guarantees.

## Operational & Environmental Risk

COVID-19 Plans have been enacted and are being adhered to. BSCC has continued service uninterrupted since 2020 despite key staff contracting the virus.

Environmental Management Plans have been established and are adhered to, including for PC2. Port Ollei extension Environmental Quality Protection Board (EQPB) submission is in preparation at the time of writing.

BSCC has entered into the South Pacific Marine Maintenance Agreement which provides marine maintenance services of an available cable ship (Reliance) and spares storage, which provides proper insurance in the event of a cable break. A high-quality replacement for the current arrangement is well advanced.

BSCC has established a Maintenance Reserve Account with a progressively increasing balance, planned to peak at \$2M.

BSCC also mitigates operating risk by contracting the experienced carriers, Globe Telecom and Docomo Pacific, to provide Network Operating Center and Customer Service Center services which including network administration and customer service and assurance management.

## Financial Risk

BSCC remains cashflow positive from an operational perspective, despite the economic impact of COVID-19

While project finance risk features in the PC2 project, BSCC has already proven its ability to properly manage the finances of large projects with the initial project being completed on-budget and the Cap A project also running on budget.

External finance support is relied upon from nem Australasia Pty Ltd (operational and project finance support), Deloitte (Accounting) and Burger, Comer, Magliari (audit).

### **Sovereign Risk**

Sovereign Risk exposure is considered low.

### **Regulatory Risk**

A regulatory framework is being rolled out for RoP.

BSCC continues to work cooperatively with the industry and government to encourage development along the lines envisaged in the TAP papers.

## **Currency Risk (including Transferability and Convertibility Risk)**

Currently all outgoings and earnings are USD.

## **Resourcing Risk**

As a small company with only three core staff, BSCC is unable to replace personnel from within its own resources. The CEO, local Project Management Unit (PMU) presence and the Operations Manager and Commercial Manager can provide backup for each other for short term absences and temporary support can be engaged eg while recruitment is undertaken for permanent replacements or BSCC staff are unavailable. Additional staff will be recruited in 2023.

## **Project Management Risk**

Project management continuity is ensured by contracting McCann Consulting International (MCI) as PMU. MCI has been instrumental in driving all projects to completion. This arrangement continues with the PC2 project.

## **Timing Risk**

BSCC has all financing, technical and commercial arrangements to the point where we are well in advance of any timetable that might be imposed by our prospective PC2 partner.

<b>Risk</b>	<b>Impact</b>	<b>Probability</b>	<b>Mitigation Strategy</b>
COVID-19 Risk	high	very high	COVID-19 Plan enacted. Close contact maintained with all customers and flexibility provided regarding payment terms as a means of ensuring their survival. Close liaison with Government departments to manage project implications, with back-up plans established and enacted as necessary.
Construction delays	medium	low	PC2 contracts place construction risk with suppliers. Adequate liquidated damages provisions are in place. BSCC facilities for PC2 will be completed as required by the installation schedule dictated by NEC. Port Ollei Fiber contract is in force.
Construction delays (force majeure)	medium	low	Self-insure, with adequate contingencies.
Environmental damage	low	low	IEE completed. IEE for CAP-A, Eastside Fiber and CAP-A completed. Port Ollei pending
Sovereign risk	medium	low	No action.
Regulation	high	high	Active participation in market change to promote demand growth through TAP.
Technology	high	low	BSCC uses established, well understood technologies. Suppliers with well-established track records are used, offering industry standard warranty periods. Comprehensive acceptance regime applied before acceptance.
Financing	high	medium	PC2 project funding now locked in. Interest rate movements will be closely monitored.
Project Management	high	low	BSCC has contracted capable, experienced consultants to support financing, technical and legal functions.
Timing	low	low	BSCC has all financing, technical and commercial arrangements to the point where we are well in advance of any timetable that might be imposed by our prospective PC2 partner.