

Business Plan

FY 2024 – 2028

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Executive Summary

This 2024 – 2028 Belau Submarine Cable Corporation (BSCC) Business Plan focuses on:

- Offering 100Gbps transport services on the network extension from Airai (CAP-A) to the BSCC Cable Landing Station (CLS) at Ngeremlengui (CAP-N) and ready for use at the Ngardmau CLS (CAP-O), by Q1 2024.
- completing the Port Ollei fiber extensions by December 2024.
- ongoing delivery of the second cable project (PC2), with Ready for Service expected Q2 2025. Completion of the final splice will be a focus in H2 2024.
- Consideration of the best way to support national ICT policy, particularly A 4.3, which looks to maximise the use of existing infrastructure to reduce the costs and environmental impact of FTTP network construction.
- Handover of CEO position from Robin Russell to Rhinehart Silas, effective 19th December 2023
- further refinement of operational processes and capability.
- Being able to accommodate unexpected or currently ill-defined demands for cable connectivity.

Forecast Operating Revenue for 2024 is \$3,036K (ex PGST). Forecast cash outgoing is \$4,283K (ex PGST), representing general expenses of \$1,004K, specialist operational services of \$481K and interest expense of \$1,148K, as well as principal repayments of \$1,650K. An operating cashflow of \$403k results or negative \$1,247 when including capital items.

Project capex for 2024 of \$7,434k is funded by borrowings/grant funding of \$6,074k. The shortfall of \$1,360k 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 reached 4.75% in 2023 and are forecast to stabilise before progressively decreasing from 2028.

The sale of 2 fiber-pairs on the PC2 cable system to Trans Pacific Networks (TPN) is scheduled to occur in 2024/25 with payment terms of \$2,990k (80%) payable in 2024, and \$747k (20%) in 2025, with \$0.057k pa payable for the following 15 years. Strong revenue for 2024 and 2025 result.

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 remaining funds from the \$25M loan are financing the Capacity Access Point – Airai (CAP-A) Tech Center, Westside and Eastside Fiber, and the Port Ollei extension.

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. Resilience is particularly important as PC2 Ready for Service (RFS) is now expected Q2 2025.

The business issues addressed by this Plan are:

- (a) Bringing CAP-A and the Babeldaob Fiber Loop into full service using the upgraded customer access network at 100Gbps.
- (b) Ongoing delivery of a second international fibre optic link for RoP (PC2)
- (c) Work with other parties in the RoP telecommunications market to ensure effective market performance. In particular, how the BSCC fiber assets can be best integrated to support the Fiber to the Premises (FTTP) project.
- (d) Work with relevant authorities to ensure effective disaster planning for international connectivity.
- (e) Develop BSCC capability, including staff recruitment and network resilience.
- (f) Define key operational arrangements for PC2, including ongoing management, marine maintenance, landing party agreements and Network Operations Center (NOC).
- (g) Update/review the expenditures and revenues associated with the development and operations of BSCC.

- (h) Set out the financing arrangements to underpin BSCC and its projects.
- (i) Analyse risks associated with the company's activities.

Strategic Framework

BSCC's price positioning is defined by the BSCC Act. Accordingly, BSCC operates 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 per Gbps over the long term.

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.

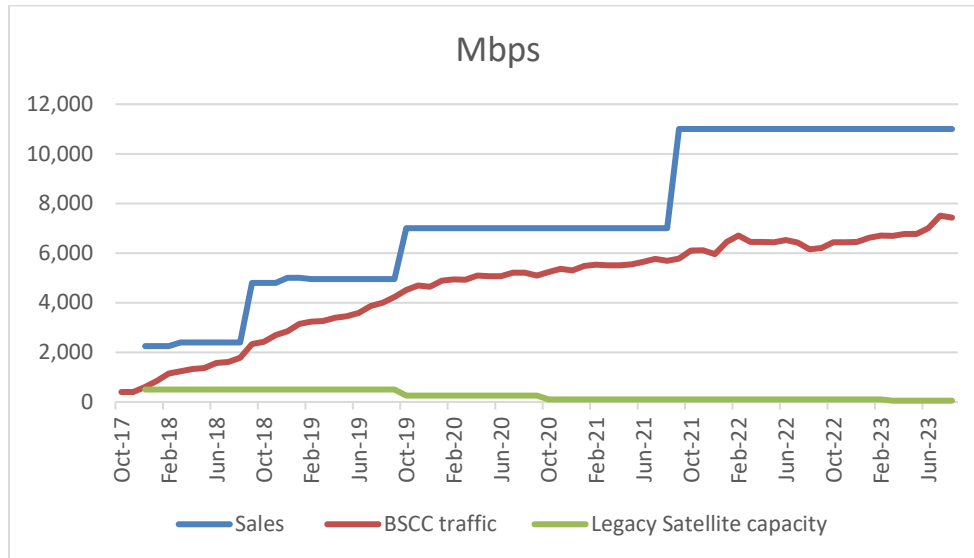
BSCC is pursuing a five-part strategy to achieve its business goals:

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.
5. Being able to accommodate unexpected or currently ill-defined demands for cable connectivity.

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, 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 significantly. Current capacity sold is 11 Gbps.



BSCC is assuming a modest improvement in revenue for FY 2024 over 2023, as the market very slowly returns to some form of normality following the COVID years and the tourism sector improves. As BSCC customers have already acquired adequate capacity to meet trading needs for the next 12 months, minimal sales are forecast in FY 2024.

Subdued rates of core revenue growth are forecast beyond 2024 of 21% in 2025 (adjusted), 17% in 2026 and 17% in 2027. 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 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 supports the National ICT Policy (Oct 2023 draft) and, in particular, is focused on how BSCC's Babeldaob fiber loop and Port Ollei fiber extension can provide a cost-effective springboard for the national FTTP project, currently in progress.

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 100 Gbps connection to CAP-N (and later to CAP-O) from CAP-A (the long-term primary access point in Airai, at the airport site) from Q4 2023.

BSCC can offer minimum space for customer equipment at the Ngeremlengui cable station, but more extensive co-location space is 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 primary connection point at CAP-A (Airai Technical Center) and 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 PC2 access in Q2 2025.

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.

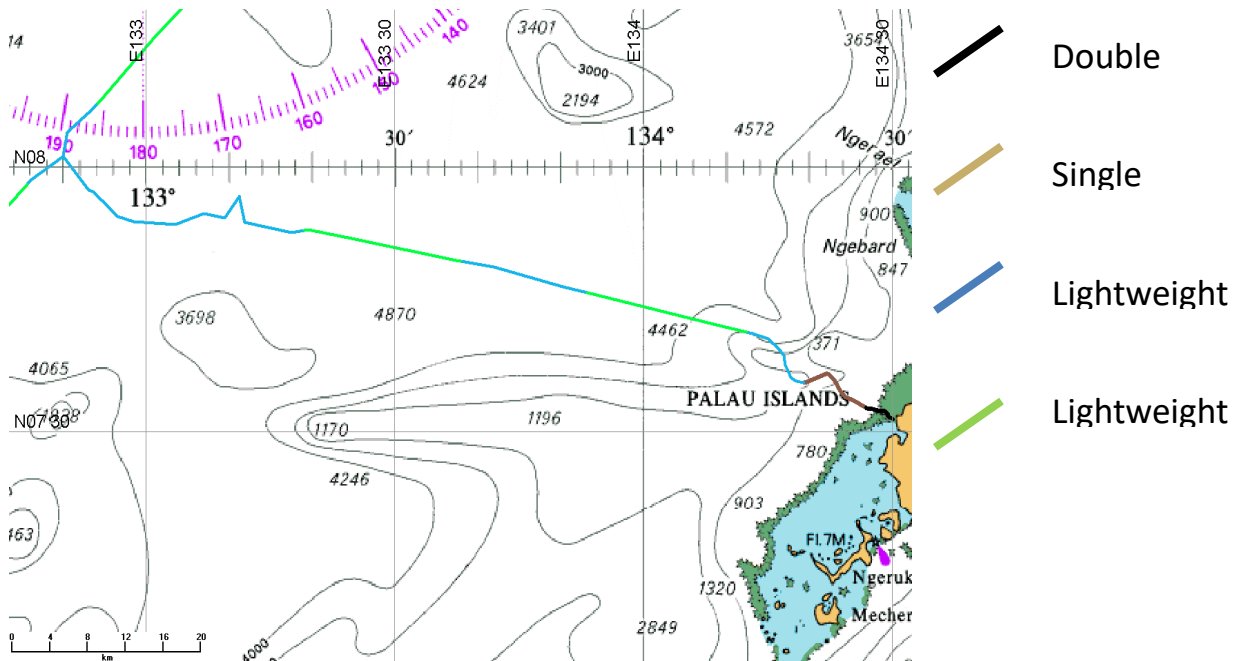
- BSCC will ensure that a process is defined to enable customers to raise and resolve concerns related to equal access and confidentiality.

A co-location product for CAP-A is available to customers.

Network

PC1

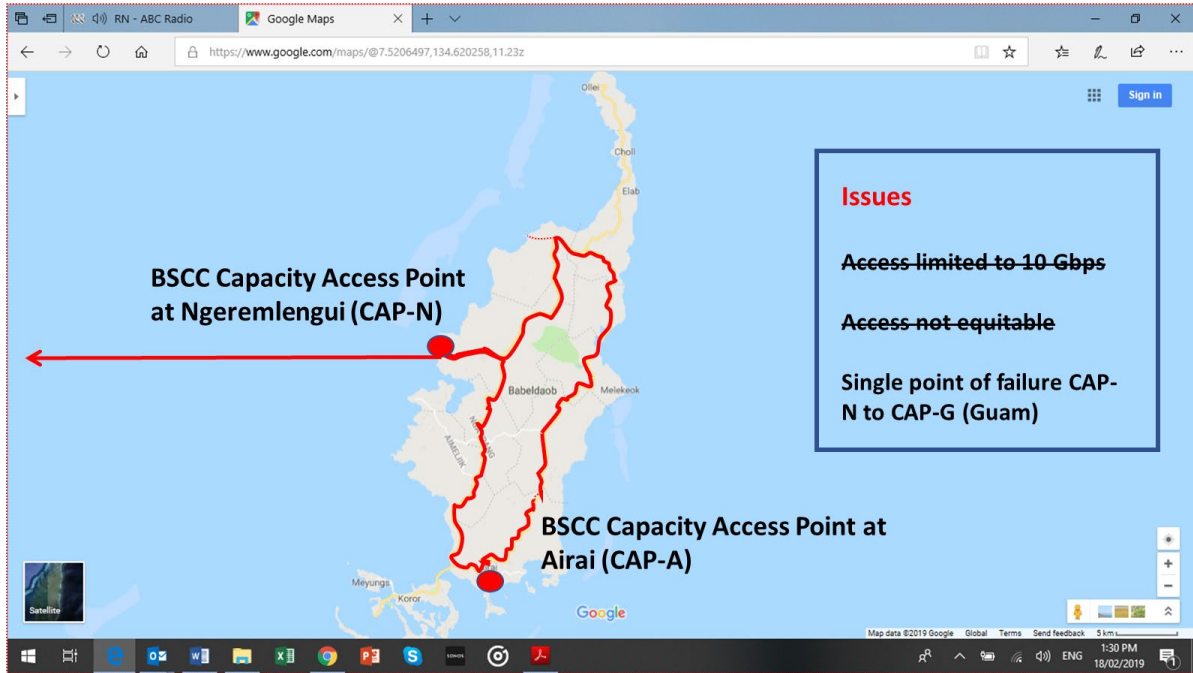
The international route is a repeatered branch connection from Ngeremlengui Cable Landing Station (CLS) to a Branching Unit on the SEA-US main trunk cable, with onward transport on SEA-US to the GTA CLS in Guam.



BSCC has completed a network extension to the Airai airport site to establish a new Capacity Access Point, CAP-A. Costs of current BSCC network development projects will 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	1.7
CAP-A Building incl fit-out	Completed October 2023	0.6
Network Extension CAP-N to CAP-A Eastside	Completed September 2023	2.6
Network Extension to Port Ollei	TBA	1.4
TOTAL		25.0

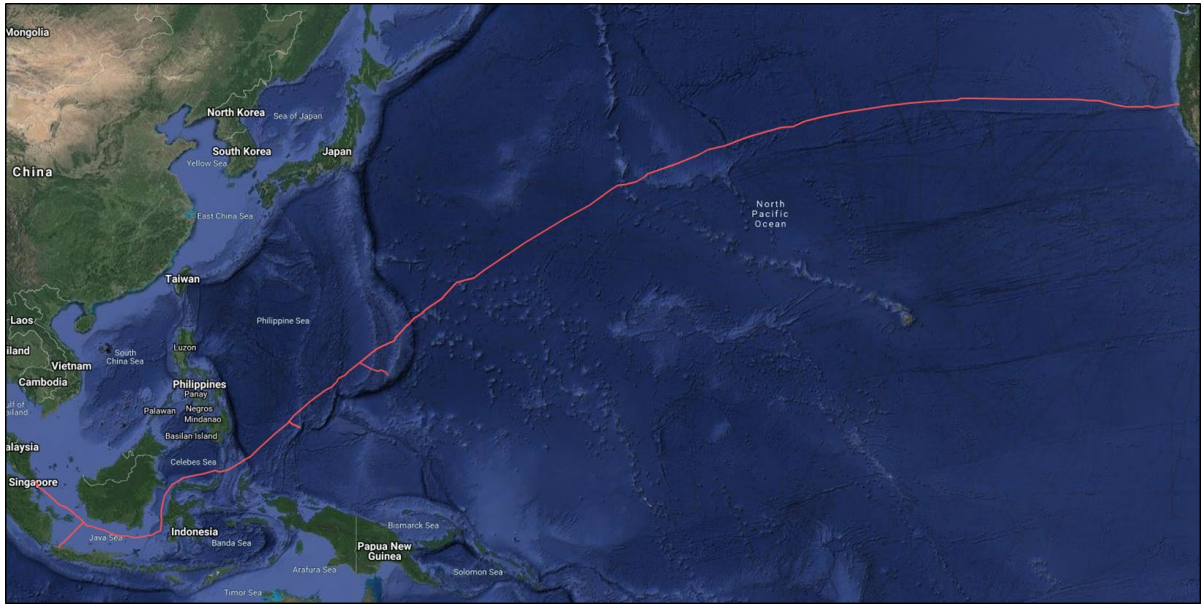
The completed network will provide a robust shared infrastructure that will enable all RSPs equal and cost-effective access to international connectivity:



However, while the Palau network topography provides a very robust access architecture, the entire BSCC submarine 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 completed. The final splice is expected to be made in calendar 2024, with Ready for Service (RFS) Q2 2025.



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.

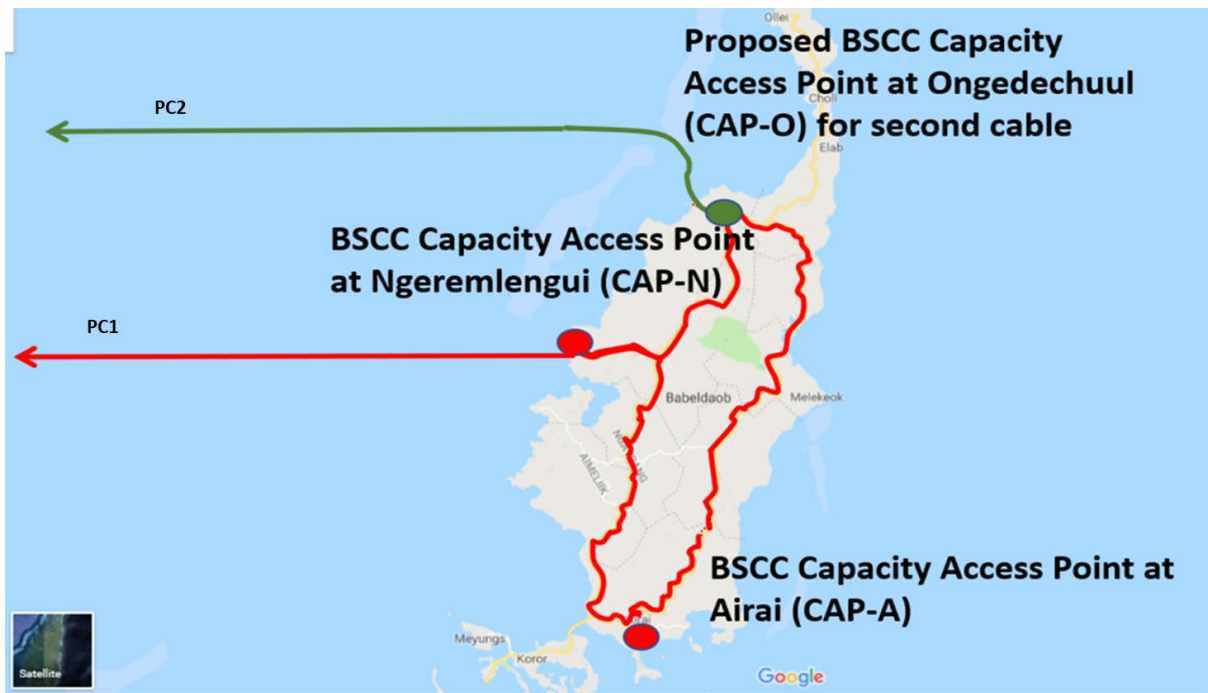
Source	Type	Amount	Total
BU Funding			
Australia Infrastructure Financing Fund for the Pacific (AIFFP)	Loan	\$1,750,000	
	Grant	\$850,000	
BSCC	Equity	\$900,000	\$3,500,000
Marine Survey Funding			
Ausaid	Grant	\$561,000	\$561,000
Full System Funding			

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
TOTAL			\$29,833,079

BSCC identified Ngardmau as a suitable landing point for PC2. An Initial Environmental Evaluation (IEE) for the project and all Palau facilities are completed. Two major activities remain, the final splice connecting the Palau system to the trunk, and 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 the PC1 submarine system 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 links between the GTA CLS and CAP-G, provided by GTA and DPAC, both Guam service providers, each currently configured at 10 Gbit/sec. Upgrade of the BSCC Guam networks to 100 Gbps has been deferred (est \$0.5M).

Currently, the core submarine network is augmented by twin Ciena 5160 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, but with upgraded Ciena 8114 network routers deployed at CAPs A, N, O and G, with a spare Ciena 8114 unit located in Guam and another in Palau. 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 around the Babeldaob fiber ring in Q4 2023.

Operations

BSCC outsources the following business functions:

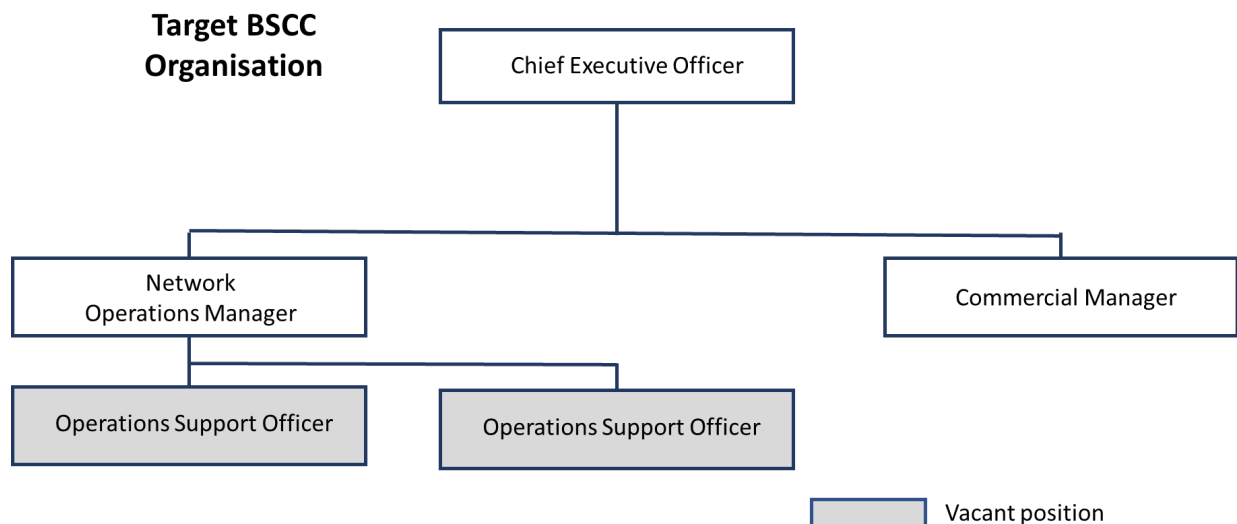
- Marine maintenance (OMS / ASN) and Guam spares storage (TE Subcom)
- Network Operations Center (NOC) management (Globe Telecom)

- Customer Service Center (CSC) management (Docomo Pacific)
- Specialist Submarine Cable engineering (PMU) support (McCann Consulting International)
- Specialist Submarine Cable strategic, operational, financial, legal and commercial support (Pacific Cable Management)
- PC1 post-warranty support (NEC)
- Guam interconnection (GTA and Docomo Pacific)
- Financial accounting (Ernst and Young)

Outsourcing has been re-shaped to accommodate the CEO transition, with Australian submarine cable specialist consultants Pacific Cable Management to provide industry knowledge and specialist skills lost when experienced submarine CEO Robin Russell hands over to current BSCC Commercial Manager Rhinehart Silas on 19th December 2023.

Organisation

The target organisation structure is:



Currently, two positions are unfilled (shaded above). When Mr Silas moves to CEO Commercial Manager will also be vacant. BSCC will recruit for the Commercial Manager part-time role in Q4 2023.

During 2024 BSCC will recruit for the other two OSO 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 0%, with 21%, 17% and 17% over the ensuing 3 years. It should be noted that historical capacity growth has averaged well in excess of these levels since PC1 commenced in 2017.
- Revenue from the TPN sale of \$3,737k payable in two initial tranches of \$1,150k in 2024 and \$2,587k in 2025, followed by \$57.5k p.a. thereafter – for 15 years
- Estimated revenue from the Port Ollei sale to PNCC - \$700k
- Year on year expense growth – 3%
- CEO remains on salary until December 2023 and is replaced by Rhinehart Silas.
- PC2 Project to be ongoing throughout 2024, with RFS currently expected for Q2 2025.
- 3 new staff – full time commercial manager from Oct 2023 and 2 operations staff from July 2024
- Base interest rate increases to 4.75% in 2024. Following a period of stabilization progressive reductions are forecast to commence in 2028.
- Cable design life 25 year

Capital Expenses (Capex)

Key remaining project expenses:

Port Ollei /DPAC	\$ 895k (ADB Funded)
PC2 Project	\$16,181k (completed Q1 2025)

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

Tax

Since January 2023 BSCC is 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. Foreign Resident WHT remains an ongoing additional cost.

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 is 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
Total Debt	\$ 15,760,242								

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 4.50%. The impact of this increase is an increase in annual interest expense of over \$1.0M p.a. – once all debt is fully drawn.

Amongst the many initiatives specified in the Draft ICT Policy for Palau (issued August 30, 2023) was a recommendation (A.7.2) to reduce costs by refinancing existing BSCC loans and obtaining additional loans. This comment was supported– and possibly driven – by report issued by consulting firm Castalia, “Refinancing BSCC’s Loans” issued in August 8, 2023.

Through its financial advisor, BSCC has researched the potential of these recommendations and rejects them outright, based on the following:

- The reports suggest that BSCC would be required to increase its prices by up to 83% as a result of increased interest rates. As the financial forecast evidences, that is not the case at all, in fact capacity prices are expected to continue reducing
- The reports do not consider capacity growth as a revenue source
- Refinancing Japanese lending \$8.0M would be a mixed benefit as 50% of this debt is locked in at 2.00% and large exit fees apply. This also assumes refinance at more attractive rates could be achieved.
- The report suggests refinance as a viable option but does not evidence any potential lenders with an appetite to refinance concessional loans at more attractive rates.

- Discussions are currently underway with ADB to identify more attractive lending options on that portion of the debt.

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.

Investments

BSCC currently has deposits amounting to \$4.3M – earning no interest from Bank of Hawaii, including Reserve Account Funding of \$835k.

BG Investment Services, based in Guam, is a Registered Investment Advisor and operates as a wholesaler of Certificate of Deposit (CD) investments on the following basis:

- All investments are in FDIC insured banks
- The maximum exposure to any one bank is \$250k (the maximum amount of FDIC insurance per deposit).

BSCC intends taking advantage of this opportunity by investing surplus cash in \$250k parcels with staggered maturity to align with cashflow needs.

Interest rates are currently around 5.20 – 5.35%, depending on the term, which could generate up to \$165k in interest each year, depending on surplus cash availability.

Outcomes

Detailed financial data are provided in an associated spreadsheet.

In summary, the FY 2024 forecast is:

	USD M
Core Revenue	3.036
Port Ollei & TPN sales	3.690
Interest/Other	0.165
PGST In	0.304
Cash In	7.195
General Expenses	1.004
Network Operating	0.481
Interest	1,148
Debt Reduction ADB	1.250
Debt Reduction PC2	<u>0.400</u>
PGST Out	<u>0.304</u>
Cash Out	4.587
Net Operating Cashflow	2.608

Debt/Grants received	6.074
Port Ollei/DPAC Capex	0.894
PC2 Capex	6.540
Other Capex	0.342
NET CASHFLOW*	0.906

*Cash balance at commencement of year \$4.872m, including Reserve Account Funds of \$836k,

** Opening balance includes prefunded Grant funding from AIFFP of \$0.85M and AIFFP/USAID funds of \$3,667k, the majority of which (\$3,313k) has already been utilised for the project (net amount included in opening balance - \$1,204k).

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. Net operating cash losses are evident until capacity sales are increased to over 20Gbps (expected in 2028). The sale of 2 PC2 fiber pairs to TPN in 2024 offsets these losses as an interim measure.

	2024	2025	2026	2027	2028	2029	2030
Net Operating Cash in	3,339,600	4,184,400	4,930,200	5,695,800	6,095,100	6,241,950	6,724,575
Operating Cash Out	1,485,573	2,086,228	2,868,267	2,903,598	3,026,706	3,117,508	3,211,033
Net Operating cash	1,854,027	2,098,172	2,061,933	2,792,202	3,068,394	3,124,442	3,513,542
Interest	1,147,550	1,535,148	1,241,737	1,117,761	985,797	868,941	790,023
Principal repayments	1,650,031	2,050,031	2,400,031	2,400,031	2,400,031	2,400,031	2,400,031
Net Cash -	943,553	1,487,007	1,579,834	725,591	317,435	144,530	323,488
√/Port Ollei sales Income	3,855,850	3,405,125	197,750	102,500	102,500	57,500	57,500
Adjusted Net Cash -	4,799,403	4,892,132	1,777,584	828,091	419,935	202,030	265,988
Cash Balance	5,220,808	6,349,748	4,469,464	3,278,573	2,459,539	1,755,059	2,086,047

The accumulated losses are well covered by forecast cash balances.

Base Model

Despite the adverse economic conditions and rising interest rates, the outlook for 2024 features:

- Operationally cash positive
- Strong reserve account funding.
- Services on the completed 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.

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. BSCC has retained Pacific Cable Management to provide ongoing specialist submarine cable support across all functions, and the CEO, Network 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 operations staff will be recruited in 2024.

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.

Risk	Impact	Probability	Mitigation Strategy
COVID-19/Pandemic Risk	high	low	A COVID-19 Plan was enacted, providing good experience with dealing with any future pandemic.
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 are being closely monitored with some debt restructure opportunities being progressed.
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.