

PT BATAM BINTAN TELEKOMUNIKASI

**FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020 AND
FOR THE YEAR THEN ENDED
AND INDEPENDENT AUDITORS' REPORT**

(RUPIAH CURRENCY)

**PT BATAM BINTAN TELEKOMUNIKASI
FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2020 AND
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Telekomunikasi

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**BOARD OF DIRECTORS' STATEMENT
REGARDING THE RESPONSIBILITY FOR THE FINANCIAL STATEMENTS OF
PT BATAM BINTAN TELEKOMUNIKASI (THE "COMPANY")
AS OF DECEMBER 31, 2020 AND FOR THE YEAR THEN ENDED**

We, the undersigned:

1. Name : S.A. Habibie
Office Address : Jl. Markisa - Batamindo Industrial Park - Muka Kuning - Batam
Address of Domicile : Jl. Prapanca Buntu No. 51 A - Cipete Utara
Kebayoran Baru - Jakarta
Telephone : 0816 802 811
Position : President Director
2. Name : Kuky Permana Kumalaputra
Office Address : Jl. Markisa - Batamindo Industrial Park - Muka Kuning - Batam
Address of Domicile : Komp. Kedoya Garden Raya No. 5
Kedoya Selatan - Kebon Jeruk - Jakarta
Telephone : 0811 169 137
Position : Director

Declared that:

1. We are responsible for the preparation and presentation of the financial statements of the Company;
2. The financial statements of the Company have been prepared and presented in accordance with Indonesian Financial Accounting Standards;
3. a) All information in the financial statements of the Company have been disclosed in a complete and truthful manner;
b) The financial statements of the Company do not contain false material information or facts, nor do they omit information or material facts and;
4. We are responsible for the internal control systems of the Company.

This statement is made truthfully.

For and on behalf of the Board of Directors,
April 8, 2021


S.A. Habibie Kuky Permana Kumalaputra
President Director Director

PT. BATAM BINTAN TELEKOMUNIKASI

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Kosasih, Nurdiyaman, Mulyadi, Tjahjo & Rekan

Registered Public Accountants No. 854/KM.1/2015

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Independent Auditors' Report

Report No. 00247/2.1051/AU.1/06/0016-1/1/IV/2021

The Shareholders, Boards of Commissioners and Directors
PT BATAM BINTAN TELEKOMUNIKASI

We have audited the accompanying financial statements of PT Batam Bintan Telekomunikasi (the "Company"), which comprise the statement of financial position as of December 31, 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of such financial statements in accordance with Indonesian Financial Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on such financial statements based on our audit. We conducted our audit in accordance with Standards on Auditing established by the Indonesian Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether such financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PT Batam Bintan Telekomunikasi as of December 31, 2020, and its financial performance and cash flows for the year then ended, in accordance with Indonesian Financial Accounting Standards.

KOSASIH, NURDIYAMAN, MULYADI, TJAHJO & REKAN



Fendri Sutejo
Public Accountant License No. AP. 0016

April 8, 2021

PT BATAM BINTAN TELEKOMUNIKASI
STATEMENT OF FINANCIAL POSITION
As of December 31, 2020
(Expressed in Thousands of Rupiah, Unless Otherwise Stated)

| | Notes | 2020 | 2019 |
|--|-------|-------------------|-------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash on hand and in banks | 5 | 12,674,006 | 10,137,418 |
| Accounts receivable | | | |
| Trade, net | 4,6 | 4,810,812 | 4,969,515 |
| Others | 7 | 7,665,479 | 4,961,988 |
| Short-term time deposits | 8 | 5,000,000 | 5,000,000 |
| Inventories, net | 9,10 | 2,250,463 | 2,966,079 |
| Prepaid expenses | | 317,266 | 173,442 |
| TOTAL CURRENT ASSETS | | 32,718,026 | 28,208,442 |
| NON-CURRENT ASSETS | | | |
| Prepaid expense non-current | | 70,833 | 80,833 |
| Fixed assets, net | 9 | 36,079,090 | 36,117,599 |
| Right-of-use assets, net | 11 | 8,628,493 | 10,686,204 |
| Intangible assets, net | | 89,864 | 123,367 |
| Refundable deposits | | 494,967 | 481,700 |
| Deferred tax asset, net | 15 | 1,242,927 | 1,041,158 |
| Estimated claim for tax refund | 15 | 350,629 | 1,436,222 |
| Other non-current assets | | 85,481 | 147,813 |
| TOTAL NON-CURRENT ASSETS | | 47,042,284 | 50,114,896 |
| TOTAL ASSETS | | 79,760,310 | 78,323,338 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable | 4 | | |
| Trade | 12 | 1,839,744 | 1,208,299 |
| Others | 13 | 1,520,011 | 3,570,149 |
| Accrued liabilities | 14 | 4,485,386 | 4,495,584 |
| Contract liabilities - current | 18,20 | 796,466 | 1,132,616 |
| Taxes payable | 15 | 550,578 | 193,600 |
| Current maturity of lease liabilities | 11 | 840,808 | 1,302,710 |
| TOTAL CURRENT LIABILITIES | | 10,032,993 | 11,902,958 |
| Contract liabilities - non-current | 18,20 | 902,247 | 1,318,050 |
| Lease liabilities - net of current maturities | 11 | 7,582,697 | 9,311,188 |
| Employee benefits liabilities | 21 | 8,819,192 | 6,938,847 |
| TOTAL NON-CURRENT LIABILITIES | | 17,304,136 | 17,568,085 |
| TOTAL LIABILITIES | | 27,337,129 | 29,471,043 |
| EQUITY | | | |
| Share capital - Rp2,350 par value per share (full amount) | | | |
| Authorized, issued and fully paid - 5,000,000 shares (full amount) | 16 | 11,750,000 | 11,750,000 |
| Retained earnings | | | |
| Appropriated for general reserve | | 4,815,435 | 4,815,435 |
| Unappropriated | | 35,857,746 | 32,286,860 |
| TOTAL EQUITY | | 52,423,181 | 48,852,295 |
| TOTAL LIABILITIES AND EQUITY | | 79,760,310 | 78,323,338 |

The accompanying notes to the financial statements form an integral part of these financial statements.

PT BATAM BINTAN TELEKOMUNIKASI
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the Year Ended December 31, 2020
(Expressed in Thousands of Rupiah, Unless Otherwise Stated)

| | Notes | 2020 | 2019 |
|--|-------|--------------------|--------------------|
| NET OPERATING REVENUES | 18,20 | 31,021,289 | 26,660,928 |
| OPERATING EXPENSES | 19 | | |
| Operations, maintenance and telecommunication services | | 25,566,864 | 22,716,189 |
| General and administrative | | 8,776,105 | 10,036,794 |
| Total Operating Expenses | | 34,342,969 | 32,752,983 |
| OPERATING LOSS | | (3,321,680) | (6,092,055) |
| OTHER INCOME (EXPENSES) | | | |
| Rental income | 20 | 5,935,072 | 6,120,362 |
| Internet sharing income, net | 20 | 1,896,965 | 2,552,949 |
| Basic service income | 20 | 1,143,532 | 1,259,037 |
| Interest income | | 427,156 | 583,180 |
| Interest expense | 11 | (888,796) | (721,848) |
| Miscellaneous, net | | (231,803) | (239,179) |
| Other Income, Net | | 8,282,126 | 9,554,501 |
| INCOME BEFORE INCOME TAX BENEFIT (EXPENSE) | | 4,960,446 | 3,462,446 |
| INCOME TAX BENEFIT (EXPENSE) | 15 | | |
| Current | | (895,154) | (455,108) |
| Deferred | | 171,964 | 274,101 |
| Income Tax Expense, Net | | (723,190) | (181,007) |
| INCOME FOR THE YEAR | | 4,237,256 | 3,281,439 |
| OTHER COMPREHENSIVE LOSS | | | |
| Item that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of employee benefits liabilities | 21 | (696,175) | (1,164,837) |
| Related income tax benefit | 15 | 29,805 | 291,209 |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX | | (666,370) | (873,628) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 3,570,886 | 2,407,811 |

The accompanying notes to the financial statements form an integral part of these financial statements.

PT BATAM BINTAN TELEKOMUNIKASI
STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2020
(Expressed in Thousands of Rupiah, Unless Otherwise Stated)

| | Note | Share Capital Issued and Fully Paid | Retained Earnings | | Total Equity |
|--|------|---|-------------------------------------|-------------------|-------------------|
| | | | Appropriated for General Reserve | Unappropriated | |
| Balance as of January 1, 2019 | | 11,750,000 | 4,815,435 | 38,993,659 | 55,559,094 |
| Income for the year | | - | - | 3,281,439 | 3,281,439 |
| Other comprehensive loss | | - | - | (873,628) | (873,628) |
| Total comprehensive income for the year | | - | - | 2,407,811 | 2,407,811 |
| Cash dividends | 17 | - | - | (9,114,610) | (9,114,610) |
| Balance as of December 31, 2019 | | 11,750,000 | 4,815,435 | 32,286,860 | 48,852,295 |
| Income for the year | | - | - | 4,237,256 | 4,237,256 |
| Other comprehensive loss | | - | - | (666,370) | (666,370) |
| Total comprehensive income for the year | | - | - | 3,570,886 | 3,570,886 |
| Balance as of December 31, 2020 | | 11,750,000 | 4,815,435 | 35,857,746 | 52,423,181 |

The accompanying notes to the financial statements form an integral part of these financial statements.

PT BATAM BINTAN TELEKOMUNIKASI
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2020
(Expressed in Thousands of Rupiah, Unless Otherwise Stated)

| | Notes | 2020 | 2019 |
|---|-------|--------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before income tax benefit (expense) for the year | | 4,960,446 | 3,462,446 |
| Adjustments to reconcile income before income tax benefit (expense) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 19 | 8,656,364 | 7,922,651 |
| Employee benefits expense | 21 | 1,239,771 | 991,729 |
| Interest expense | 11 | 888,796 | 721,848 |
| Provision for impairment of trade receivables | 6 | 498,791 | 177,968 |
| Inventories written-off | | 246,000 | - |
| Claim for tax refund written-off | | 233,675 | - |
| Loss (gain) on sale of fixed assets | | 13,476 | (36,447) |
| Gain on termination of lease | 11 | (47,360) | - |
| Trade receivables written-off | | - | 526,384 |
| Provision for inventory obsolescence | | - | 113,671 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | | (3,043,579) | (3,502,932) |
| Inventories | | (2,424,058) | (1,252,347) |
| Prepaid expenses | | (71,492) | 9,091 |
| Prepaid tax | | - | 29,246 |
| Refundable deposits | | (13,267) | (46,301) |
| Accounts payable | | (1,418,693) | 1,528,797 |
| Contract liabilities | | (751,953) | 218,390 |
| Accrued liabilities | | (89,252) | 514,817 |
| Taxes payable | | (59,277) | (32,332) |
| Receipt of claim for tax refund | | 851,918 | - |
| Corporate income tax paid | | (478,899) | (864,035) |
| Payment for employee benefits | 21 | (55,601) | (14,282) |
| Net cash provided by operating activities | | 9,135,806 | 10,468,362 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of fixed assets | | 511 | 81,700 |
| Acquisitions of fixed assets | | (4,585,465) | (8,100,360) |
| Increase in intangible asset | | - | (59,578) |
| Increase in other non-current assets | | - | (49,612) |
| Net cash used in investing activities | | (4,584,954) | (8,127,850) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Payments of lease liabilities | | (1,204,522) | (719,180) |
| Payments of lease interest expense | 26 | (809,742) | (620,861) |
| Cash dividends | 17 | - | (9,114,610) |
| Net cash used in financing activities | | (2,014,264) | (10,454,651) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT | | 2,536,588 | (8,114,139) |
| CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR | | 10,137,418 | 18,251,557 |
| CASH AND CASH EQUIVALENT AT END OF YEAR | 5 | 12,674,006 | 10,137,418 |

The accompanying notes to the financial statements form an integral part of these financial statements.

PT BATAM BINTAN TELEKOMUNIKASI
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 2020 and for the Year Then Ended
(Expressed in Thousands of Rupiah, Unless Otherwise Stated)

1. GENERAL

a. The Company's Establishment and General Information

PT Batam Bintan Telekomunikasi (the "Company") was established on June 15, 1996 based on Notarial Deed No. 179 of Drs. Trisasono, S.H. The Deed of Establishment was approved by the Ministry of Justice in its Decision Letter No. C2-9279.HT.01.01.TH'96 dated October 1, 1996. The Company obtained its operating license from the Ministry of Tourism, Post and Telecommunication based on its Decision Letter No. KM.47/HK.501/MPPT-96 dated June 17, 1996. The Company's Articles of Association has been amended from time to time, most recently by Notarial Deed No. 10 of Dr. Yudo Diharjo Lantanea, SH, dated August 27, 2020 concerning the amendment of Article 3 of Company's Articles of Association to conform with the Standard Classification under the Regulation of Head of Indonesian Central Agency on Statistics No.19 Year 2017. The latest amendment was approved by the Ministry of Law and Human Rights in its Decision Letter No. AHU-0059018.AH.01.02.TAHUN 2020 dated August 28, 2020.

In accordance with Article 3 of the Company's Articles of Association, the Company's objective is to engaged in wireline telecommunication services covering Batamindo Industrial Park (BIP) located in Batam Island, Bintan Beach International Resort (BBIR) and Bintan Industrial Estate (BIE) located in Bintan Island. Currently, the Company also provide telephone interconnection service through Voice Over Internet Protocol (VOIP) technology covering national area. As of December 31, 2020 and 2019, the Company telephone interconnection service covers Jakarta, Tangerang, Balikpapan, Batam, Bintan, Bogor, Serang, Pontianak, Makassar, Bandung, Cirebon, Semarang, Surabaya, Denpasar, Pekanbaru, Palembang, Medan, Manado, Jayapura, Yogyakarta and Aceh.

On March 4, 2013, the Company obtained Internet Service Provider (ISP) License from Ministry of Communication and Information to provide internet services based on its Decision Letter No. 95 dated March 4, 2013.

The Company is domiciled in Batam Island and its head office is located in Jalan Markisa, Mukakuning, Batam Island.

The Company commenced its commercial operations in 1997.

b. Boards of Commissioners and Directors, and Employees

As of December 31, 2020 and 2019, the composition of the Company's Boards of Commissioners and Directors was as follows:

Board of Commissioners

- | | |
|---------------------------|--------------------------|
| 1. Bastian Sembiring | - President Commissioner |
| 2. Djoko Leksono Sugiarto | - Commissioner |
| 3. Choo Kok Kiong | - Commissioner |

Board of Directors

- | | |
|--------------------------------|----------------------|
| 1. S.A. Habibie | - President Director |
| 2. Kuky Permana Kumalaputra | - Director |
| 3. Gianto Gunara | - Director |
| 4. Eugene Cho Park | - Director |

As of December 31, 2020 and 2019, the Company had a total of 29 and 29 permanent employees (unaudited), respectively.

c. Completion of the Financial Statements

The management of the Company is responsible for the preparation and presentation of these financial statements that were completed and authorized for issue on April 8, 2021.

PT BATAM BINTAN TELEKOMUNIKASI
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 2020 and for the Year Then Ended
(Expressed in Thousands of Rupiah, Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation of the Financial Statements

The financial statements have been prepared and presented in accordance with Indonesian Financial Accounting Standards ("SAK"), which comprise the Statement of Financial Accounting Standards ("PSAK") and Interpretations of Financial Accounting Standards ("ISAK") issued by the Financial Accounting Standards Board of the Indonesian Institute of Accountants ("DSAK").

The Company elected to present one single statement of profit or loss and other comprehensive income and disclosed critical accounting judgments and key sources of estimation uncertainty in Note 3 and capital management in Note 23.

The accounting policies adopted in the preparation of the financial statements are consistent with those made in the preparation of the Company's financial statements for the year ended December 31, 2019, except for the adoption of several new and amended SAKs effective January 1, 2020 as disclosed in this Note.

The financial statements, except for the statement of cash flows, have been prepared on the accrual basis using the historical cost concept of accounting, except for certain accounts which are measured on the basis described in the related accounting policies of each account.

The statement of cash flows, which have been prepared using the indirect method, present cash receipts and payments classified into operating, investing and financing activities.

The reporting currency used in the preparation of the financial statements is Indonesian Rupiah, which is the functional currency of the Company.

b. Financial instruments

The Company adopted PSAK No. 71, "Financial Instruments" (PSAK 71) effective beginning January 1, 2020. PSAK 71 replaces the provisions of PSAK No. 55 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The amendments require debt instruments to be measured either at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL"). Classification of debt instruments, depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets or both. If a debt instrument is held to collect contractual cash flows, it is measured at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are measured at FVTOCI. Financial assets are measured at FVTPL if they do not meet the criterion of FVTOCI or amortized cost.

The assessment of the business model and whether the financial assets meet the SPPI requirements was made as of 1 January 2020, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2020.

The Company's debt instruments have contractual cash flows that are solely payments of principal and interest. The Company holds its current financial assets to collect contractual cash flows, and accordingly measured at amortized cost when it applies PSAK 71.

PSAK 71 requires all equity instruments to be carried at FVTPL, unless an entity chooses on initial recognition, to present fair value changes in other comprehensive income.

PT BATAM BINTAN TELEKOMUNIKASI
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 2020 and for the Year Then Ended
(Expressed in Thousands of Rupiah, Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

PSAK 71 requires the Company to record expected credit losses ("ECL") on all of its financial assets measured at amortized cost or FVTOCI and financial guarantees. The Company previously recorded impairment based on the incurred loss model when there is objective evidence that financial asset is impaired.

Based on the assessment of the Company's business model as of the date of initial application, January 1, 2020, cash on hand and in banks, account receivables - trade and others, short-term time deposits and refundable deposits, which previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These financial assets are now classified and measured as financial instruments at amortized cost. The change of the classification of the Company's financial assets do not result in changes in their measurement.

There are no changes in the classification and measurement for the Company's financial liabilities. All of the Company's financial liabilities are classified and measured at amortized cost.

The adoption of PSAK 71 also changed the Company's accounting for impairment losses for financial assets by replacing PSAK 55's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. PSAK 71 was applied retrospectively as of January 1, 2020, but with no restatement of comparative prior year's information. The adoption of PSAK 71 has no material impact on the amounts reported on January 1, 2021 or previous financial periods.

Classification

From January 1, 2020

The Company classifies financial instruments into financial assets and financial liabilities. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial Assets

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL").

The Company's financial assets consist of cash on hand and in banks, account receivable - trade and others, short-term time deposits and refundable deposits classified as financial assets at amortized cost. The Company has no financial assets measured at fair value through profit or loss and other comprehensive income.

(ii) Financial Liabilities

The Company classifies its financial liabilities as: (i) financial liabilities at FVTPL or (ii) financial liabilities measured at amortized cost.

The Company's financial liabilities consist of account payable - trade and others, accrued liabilities and lease liabilities classified as financial liabilities at amortized cost. The Company has no financial liabilities measured at fair value through profit or loss.

PT BATAM BINTAN TELEKOMUNIKASI
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 2020 and for the Year Then Ended
(Expressed in Thousands of Rupiah, Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Classification (continued)

Before January 1, 2020

(i) Financial Assets

Financial assets within the scope of PSAK No. 55 are classified as (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity investments, or (iv) available for sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates the designation of such assets at each financial year end.

The Company's financial assets include cash on hand and in banks, account receivable - trade and others, short-term time deposits and refundable deposits which are classified as loans and receivables.

(ii) Financial Liabilities

Financial liabilities within the scope of PSAK No. 55 are classified as (i) financial liabilities at fair value through profit or loss, (ii) financial liabilities measured at amortized cost, or (iii) as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

The Company's financial liabilities consist of accounts payable - trade and others, accrued liabilities and lease liabilities classified as financial liabilities measured at amortized cost.

Recognition and Measurement

From January 1, 2020

(i) Financial Assets

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component of for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transactions costs. Trade receivables that do not contain a significant financing component or which the Company has applied the practical expedient are measured at the transaction price determined under PSAK No. 72.

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

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to buy or sell the asset.

PT BATAM BINTAN TELEKOMUNIKASI
NOTES TO THE FINANCIAL STATEMENTS
As of December 31, 2020 and for the Year Then Ended
(Expressed in Thousands of Rupiah, Unless Otherwise Stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Recognition and Measurement (continued)

From January 1, 2020 (continued)

(i) Financial Assets (continued)

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not fulfilled with SPPI testing are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss. The Company has no financial asset under this category as of December 31, 2020.

- Financial assets at amortized cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The Company's financial assets under this category consist of cash on hand and in banks, accounts receivable - trade and other, short-term time deposits and refundable deposits.

- Financial assets at FVTOCI with recycling of cumulative gains and losses (debt instruments)

The Company measures debt instruments at FVTOCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Recognition and Measurement (continued)

From January 1, 2020 (continued)

(i) Financial Assets (continued)

- Financial assets at FVTOCI with recycling of cumulative gains and losses (debt instruments) (continued)

For debt instruments at FVTOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognized in the statement of profit or loss and computed in the same manner as for financial assets measured at amortized cost. The remaining fair value changes are recognized in other comprehensive income (OCI). Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to profit or loss. The Company has no financial asset under this category as of December 31, 2020.

- Financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at FVTOCI when they meet the definition of equity under PSAK 71 and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognized as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the investment, in which case such gains are recorded in OCI. Equity instruments designated at FVTOCI are not subject to impairment assessment. The Company has no equity investment classified under this category as of December 31, 2020.

(ii) Financial Liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss or financial liabilities at amortized cost. The Company determines the classification of their financial liabilities at initial recognition.

Issued financial instruments or their components, which are not classified as financial liabilities at FVTPL are classified as other financial liabilities, where the substance of the contractual arrangements results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

The measurement of financial liabilities depends on their classification as follows:

- Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Recognition and Measurement (continued)

From January 1, 2020 (continued)

(ii) Financial Liabilities (continued)

- Financial liabilities at fair value through profit or loss (continued)

Financial liabilities designated upon initial recognition at FVTPL are designated at the initial date of recognition, and only if the criteria in PSAK 71 are satisfied. The Company has no financial liability measured at FVTPL.

- Financial liabilities at amortized cost

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at cost using the EIR method. Gains and losses are recognized in the statement of profit or loss and OCI when the liabilities are derecognized as well as through the amortization process using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and other borrowings. The Company's financial liabilities under this category consist of accounts payable - trade and other, accrued liabilities and lease liabilities.

Before January 1, 2020

(i) Financial Assets

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The subsequent measurement of financial assets depends on their classification.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the assets.

- a. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivative assets are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in profit or loss.

Financial assets held for trading, other than derivatives, are evaluated, to determine whether the intention to sell them in the near term is still appropriate. When an entity is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, an entity may elect to reclassify these financial assets in rare circumstances.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Recognition and Measurement (continued)

Before January 1, 2020 (continued)

(i) Financial Assets (continued)

a. Financial assets at fair value through profit or loss (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value in statements of financial position. Any gains or losses arising from changes in fair value of the financial assets are recognized in profit or loss.

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortized cost using the effective interest rate method.

Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

c. Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when an entity has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment.

Subsequent to initial recognition, held to maturity investments uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

d. Available for sale financial assets

Available for sale financial assets include equity and debt securities, which are non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories.

After initial measurement, available for sale financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the fair value reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to profit or loss in finance costs and removed from the fair value reserve.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Recognition and Measurement (continued)

Before January 1, 2020 (continued)

(i) Financial Assets (continued)

d. Available for sale financial assets (continued)

An entity evaluates its available for sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When an entity is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, an entity may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and an entity has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available for sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Investments in unlisted equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are also classified as available for sale, measured at cost less impairment.

Dividends on available for sale equity instruments, if any, are recognized in profit or loss when an entity's right to receive the dividends are established.

(ii) Financial liabilities

Financial liabilities are recognized initially at fair value and, in the case of financial liabilities measured at amortized cost, inclusive of directly attributable transaction costs.

a. Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured, subsequent to initial recognition, at amortized cost using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within "Interest Expense" in profit or loss. Gains and losses are recognized in profit or loss when the financial liabilities are derecognized as well as through the amortization process.

b. Financial liabilities measured at profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities classified as held for trading. A financial liability is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term and for which there is evidence of a recent actual pattern of short-term profit taking.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Recognition and Measurement (continued)

Before January 1, 2020 (continued)

(ii) Financial liabilities (continued)

b. Financial liabilities measured at profit or loss (continued)

Financial liabilities at fair value through profit or loss are measured at fair value in the statement of financial position. Any gains or losses arising from changes in fair value of the financial liabilities are recognized in the profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair values of financial instruments that are actively traded in organized financial markets, if any, are determined by reference to quoted market bid or ask prices at the close of business at the end of the reporting period.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models.

When the fair value of the financial instruments not traded in an active market cannot be reliably determined, such financial assets are recognized and measured at their carrying amounts.

Amortized cost of financial instruments

Amortized cost is computed using the effective interest rate method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

From January 1, 2020

The Company recognizes an allowance for expected credit losses ("ECL") for all debt instruments not held at FVTPL. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Impairment of financial assets (continued)

From January 1, 2020 (continued)

ECL are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECL. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when, among others, contractual payments are 1 year past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. Trade receivables is written off when there is low possibility of recovering the contractual cash flow, after all collection efforts have been done and have been fully provided for allowance.

Before January 1, 2020

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Impairment of financial assets (continued)

Before January 1, 2020 (continued)

Financial assets carried at amortized cost (continued)

If there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

When the asset becomes uncollectible, the carrying amount of the financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

If, in a subsequent period, the amount of the impairment loss decreases and the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

Subsequent recoveries of previously written off receivables, if in the current period, are credited to the allowance accounts, but if after the reporting period, are credited to other operating income.

Derecognition

Before January 1, 2020

(i) Financial Assets

A financial asset, or where applicable a part of a financial asset or part of a group of similar financial assets, is derecognized when:

- a. the contractual rights to receive cash flows from the financial asset have expired; or
- b. the Company has transferred its contractual rights to receive cash flows from the financial asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement and either (i) has transferred substantially all the risks and rewards of the financial asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Financial Instruments (continued)

Derecognition (continued)

Before January 1, 2020 (continued)

(i) Financial Assets (continued)

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of (i) the consideration received, including any new asset obtained less any new liability assumed; and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized to profit or loss.

(ii) Financial Liabilities

A financial liability is derecognized when the obligation specified in the contract is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

c. Cash on Hand and in Banks and Short-Term Time Deposits

Cash on hand and in banks consist of cash on hand and in banks which are not pledged as collateral or restricted in use.

Time deposits with maturities more than three months but not more than one year are classified as "Short-Term Time Deposits" in the statement of financial position.

d. Transactions with Related Parties

A related party is a person or entity that is related to the Company:

- a. A person or a close member of that person's family is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or,
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- b. An entity is related to the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the Company.
 - (vi) the entity is controlled or jointly controlled by a person identified in a).
 - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the entity or to the parent of the entity.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Transactions with Related Parties (continued)

All significant transactions and balances with related parties are disclosed in the notes to the financial statements.

e. Foreign Currency Transactions and Balances

Transactions involving foreign currencies are recorded in the functional currency at the rates of exchange prevailing at the time the transactions are made. At the statement of financial position date, monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the prevailing exchange rates at such date and the resulting gains or losses are credited or charged to current year operations.

As of December 31, 2020 and 2019, the middle rates of exchange of Bank Indonesia (in full Rupiah amounts) used were Rp14,105 and Rp13,901 to US\$1, respectively, and Rp10,644.09 and Rp10,320.74 to Sin\$1, respectively.

f. Inventories

Inventories consist of components and modules, which are subsequently expensed or transferred to fixed assets upon use. Components and modules represent modem, network equipment and other spare parts. Components and modules are transferred to the appropriate fixed assets account when they are used in providing the internet services to the customer. Inventories also include cables and magnetic tape which are expensed upon usage. The costs of inventories comprise of the purchase price, taxes, transport and other costs directly attributable to their acquisition. Cost is determined using first-in, first-out method. Allowance for inventories obsolescence is provided based on the periodic review of the condition of the inventories, if any.

g. Prepaid Expenses

Prepaid expenses are charged to operations over the period benefited.

h. Fixed Assets

The Company has chosen the cost model as a measurement of its fixed assets accounting policy.

Land are stated at cost and not amortized as the management is of the opinion that it is highly probable the titles of land rights can be renewed/extended upon expiration.

Fixed assets, except for land, are stated at cost less accumulated depreciation and impairment losses, if any. Such cost includes the cost of replacing part of the fixed assets when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the fixed assets as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs that do not meet the recognition criteria are recognized in the statement of profit or loss and other comprehensive income as incurred.

Depreciation is computed using the straight-line method over the estimated useful life of the assets, as follows:

| | <u>Years</u> |
|-----------------------------|--------------|
| Telecommunication equipment | 10 |
| Building | 8 |
| Leasehold improvement | 8 |
| Motor vehicles | 5 |
| Furniture and fixtures | 3 |

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Fixed Assets (continued)

An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss and other comprehensive income in the year the asset is derecognized.

The residual values, useful life and methods of depreciation of fixed assets are reviewed and adjusted prospectively if appropriate, at each financial year end.

Construction in progress is presented as part of "Fixed Assets" and is stated at cost. The accumulated cost of the asset constructed is transferred to the appropriate fixed assets account when the construction is completed and the asset is ready for its intended use. Assets under construction are not depreciated as they are not yet available for use.

Assets are stated at the estimated recoverable amount whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Impairment in asset values, if any, is recognized as a loss in the statement of profit or loss and other comprehensive income.

i. Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible asset are carried at cost less any accumulated amortization and any accumulated impairment losses, if any.

Customer Care Billing System (CCBS) is an intangible asset acquired with a definite useful life, which is used by the Company in the revenue billing process. These costs are amortized using the straight-line method over the estimated useful lives of 4 (four) years.

Internet service provider license is an intangible asset acquired with indefinite useful life and not amortized, which represent cost related to the acquisition of internet service provider license which is used in the Company's operating activity.

The amortization period and the amortization method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as change in accounting estimates. The amortization expense on intangible asset with definite life is recognized in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognized in the statement of profit or loss and other comprehensive income when the asset is derecognized.

j. Impairment of Non-Financial Assets

The Company assesses at each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

Impairment losses are recognized in the current year's profit or loss, unless non-financial assets carried at revalued amounts.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Impairment of Non-Financial Assets (continued)

An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount of a non-financial asset. An impairment loss is only reversed to the extent that the non-financial asset's carrying amount does not exceed the recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss of non-financial assets has been recognized. Reversal of an impairment loss is recognized in the profit or loss.

k. Provisions

Provisions are recognized when the Company has a present obligation (legal and constructive) where, 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 reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

l. Employee Benefits

The Company recognized unfunded employee benefits liabilities in accordance with Labor Law No. 13/2003 dated March 25, 2003 (the "Law").

Under PSAK No. 24, the calculation of estimated employee benefits expense and liabilities under the Law is determined using the "Projected Unit Credit" valuation method.

Remeasurement on net defined benefit liability (asset), which recognized as other comprehensive income, consists of:

- i. Actuarial gain and losses;
- ii. Return on program asset, excluding the amount included in liabilities (asset) net interest;
- iii. Every changes in asset ceiling, excluding the amount included in liabilities (asset) net interest.

Remeasurement on net defined benefit liabilities (asset), which recognized as other comprehensive income will not be reclassified subsequently to profit or loss in the next period.

Actuarial gain and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in year in which they arise.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs.

m. Leases

The Company as a lessee

At the inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Leases (continued)

The Company as a lessee (continued)

To assess whether a contract conveys the right to control the use of an identified asset, the Company shall assess whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has the substantive substitution right, then the asset is not identified;
- The Company has the right to obtain substantially all the economic benefit from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the identified asset. The Company has this right when it has decision-making rights that are most relevant to change how and what purpose the asset is used. In certain circumstances where all the decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset if either:
 - i. The Company has the right to operate the asset; or
 - ii. The Company designed the asset in a way that predetermines how and for what purpose the asset will be used.

At the inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprise the initial amount of the lease liability adjusted for any lease payment made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

After commencement date, right-of-use asset is measured using cost model. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Leases (continued)

The Company as a lessee (continued)

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

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

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company present "Right-of-Use Asset" and "Lease Liability" in the statement of financial position.

Short-term lease

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Company recognizes the leases payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease modification

The Company account for a lease modification as a separate lease if both:

- the modification increase the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increase by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustment to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the Company:

- remeasure and allocate the consideration in the modified contract;
- determine the lease term of the modified lease;
- remeasure the lease liability by discounting the revised lease payments using a revised discount rate on the basis of the remaining lease term and the remaining lease payment with a corresponding adjustment to the right-of-use assets. The revised discount rate is determined as the Company's incremental borrowing rate at the effective date of modification;
- decrease the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease modifications that decrease the scope of the lease. The Company recognize in profit or loss relating to the partial or full termination of the lease; and
- make a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company as a lessor

When the Company acts as a lessor, it shall classify each of its leases as either an operating lease or a finance lease.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Leases (continued)

The Company as a lessor (continued)

To classify each lease, the Company makes an overall assessment of whether the lease transfer substantially all of the risk and rewards incidental to ownership of the underlying asset. If this the case, than the lease is classified as finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease term is for the major part of the economic life of the asset.

Under an operating lease, the Company shall present assets subject to operating lease in its statement of financial position according to the nature of the asset. Initial direct cost incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents, if any, are recognized as revenue in the periods in which they are earned. Lease income from operating leases shall be recognized as income on a straight-line basis over the lease term.

n. Revenue and Expense Recognition

Revenue is recognized when the Company satisfies a performance obligation by extending a service to the customers, which is when the customers obtain control of the goods or derived benefits from the usage of the service. A performance obligation may be satisfied at a point in time or over time. If a performance obligation is satisfied over time, the revenue is recognized based on the percentage of completion reflecting the progress towards complete satisfaction of that performance obligation. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. Expenses are recognized when incurred by using accrual basis.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from customer. If the customer pays consideration before the Company transfers good or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

o. Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in other comprehensive income.

Current Tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used as a basis for computation are those that have been enacted or substantively enacted as at the reporting dates.

Amendments to taxation obligations are recorded when a tax assessment letter is received or, if appealed against, when the results of the appeal are determined.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Income Tax (continued)

Deferred Tax

Deferred tax is provided using the liability method on temporary differences at the reporting dates between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting dates.

Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences and accumulated fiscal losses to the extent that it is probable that taxable income will be available in future years against which the deductible temporary differences and accumulated fiscal losses can be utilized.

Deferred tax assets and liabilities are recognized in respect of taxable temporary differences associated with investments in subsidiaries and associates, 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.

The carrying amount of deferred tax asset is reviewed at each reporting date and adjusted based on availability of future taxable income.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the reporting date. Changes in the carrying amount of deferred tax assets and liabilities due to a change in tax rates are charged to current year operations, except to the extent that they relate to items previously charged or credited to equity.

p. Event After Reporting Period

Any post period-end events that need adjustments and provide additional information about the Company's position at the reporting date (adjusting event) are reflected in the financial statements, if any.

Any post period-end events that is not an adjusting event is disclosed in the noted to the financial statements when material.

q. New Accounting Standards

New and amendments on accounting standards and new interpretation issued and effective for the financial year beginning January 1, 2020 and June 1, 2020 which do not have a material impact to the financial statements of the Company are as follows:

- PSAK No. 71, "Financial Instruments";
- PSAK No. 72, "Revenue from Contracts with Customers";
- PSAK No. 73, "Leases";
- PSAK No. 62 (Revised 2017), "Insurance Contracts: Applying PSAK No. 71 Financial Instruments with PSAK No. 62 Insurance Contracts";
- PSAK No. 15 (Revised 2017), "Investments in Associates and Joint Ventures Long-term Interests in Associates and Joint Ventures";
- PSAK No. 71 (Revised 2017), "Financial Instruments: Prepayment Features with Negative Compensation";
- Amendments to PSAK No. 1, "Presentation of Financial Statements: Definition of Material" and Amendments to PSAK No. 25, "Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material";
- ISAK No. 35, "Presentation of Non-Profit Oriented Entity Financial Statements";
- PSAK No. 1 (Annual Improvement 2019), "Presentation of Financial Statements";
- PSAK No. 73 (Amendment 2020), "Leases: Covid-19-related Rent Concessions";

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. New Accounting Standards (continued)

- PSAK No. 102, "Murabahah Accounting";
- ISAK No. 101, "Recognition of Murabahah Unearned Revenue without Significant Risk Related to Inventory Ownership";
- ISAK No. 102, "Impairment of Murabahah Receivable";
- Amendments to PSAK No. 71, PSAK No. 55 and PSAK No. 60 regarding "Interest Rate Benchmark Reform".

New standards, amendments and interpretations issued but not yet effective for the financial year beginning January 1, 2020 that may have certain impact on the Company's financial statements are as follows:

Effective on or after January 1, 2021:

- PSAK No. 112, "Accounting for Endowments";
- Amendments to PSAK No. 22, "Business Combinations";
- Amendments to PSAK No. 55, PSAK No. 60, PSAK No. 62, PSAK No. 71, and PSAK No. 73 regarding "Interest Rate Benchmark Reform Phase 2".

Effective on or after January 1, 2022:

- Amendments to PSAK No. 22, "Business Combinations: References to the Conceptual Framework";
- Amendments to PSAK No. 57, "Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts-Cost of Fulfilling the Contracts";
- 2020 Annual Improvements to PSAK No. 69, "Agriculture", PSAK No. 71, "Financial Instruments", and PSAK No. 73, "Leases".

Effective on or after January 1, 2023:

- Amendment to PSAK No. 1, "Presentation of Financial Statements: Classification of Liabilities as Current or Non-current".

Effective on or after January 1, 2025:

- PSAK No. 74, "Insurance Contract".

The Company is assessing the impact of these new and revised accounting standards and new interpretations to the Company's financial statements.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Company's financial statements, in conformity with Indonesian Financial Accounting Standards, requires management to make judgments, estimates and assumptions that affect the reported amounts herein, and the disclosures, at the end of the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset and liability affected in future periods.

Judgments

The following judgments are made by management in the process of applying the Company's accounting policies that have the most significant effects on the amounts recognized in the financial statements:

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3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Judgments (continued)

Classification of Financial Assets and Liabilities

The Company determines the classifications of certain assets and liabilities as financial assets and financial liabilities by judging if they meet the definition set forth in PSAK No. 71 (from January 1, 2020) and PSAK No. 55 (Revised 2014) (Before January 1, 2020). Accordingly, the financial assets and financial liabilities are accounted for in accordance with the Company's accounting policies disclosed in Note 2b.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model. The Company determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Company monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Provision for expected credit losses (ECL)

PSAK No. 71 requires inclusion of information about past events, current conditions and forecasts of future economic conditions. The estimates of changes in expected credit losses should reflect, and be directionally consistent with, changes in related observable data from period to period. The calculation of ECL requires estimation of forward-looking Probability of Default (PD), Loss Given Default (LGD), Exposure At Default (EAD) and Macro-Economic Variables (MEV).

Probability of Default (PD)

PD is the probability that a consumer will default in which happened at certain time. PD used in PSAK No. 71 is PD point in time which represent PD at a certain economy condition. PD is calculated until next 12 months after reporting period (12-month PD), is used to calculate ECL from assets categorized as Stage 1, while PD calculated during the lifetime of assets (Lifetime PD), is used to calculate ECL from assets categorized as Stage 2 and Stage 3.

Loss Given Default (LGD)

LGD is the loss that is expected to arise on default consumer, incorporating the impact of relevant forward looking economic assumptions, which represents the difference between the contractual cash flows due and those that the Company expects to receive. Usually, LGD was presented as percentage to Expected at Default (EAD). The Company estimates LGD based on the historical recovery of default consumer by considering the payment received and the recovery of any collateral of financial assets, taking into account forward looking economic assumptions (if relevant).

Exposure At Default (EAD)

The expected statement of financial position exposure at the time of default, taking into account the cash flow profile of financial assets during the life time of the financial assets. This incorporates the impact of repayments, both principal and interest.

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3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Judgments (continued)

Provision for expected credit losses (ECL) (continued)

Macro-Economic Variables (MEV)

MEV is one of main component in determining the expected economy condition in the future. MEV is used as factor to perform adjustment on PD and LGD related to impact of change of economy condition in the future.

Further details of ECL allowance for impairment of trade receivables are disclosed in Note 6.

Leases

Determining whether an arrangement is or contains a lease requires careful judgement to assess whether the arrangement conveys a right to obtain substantially all the economic benefits from use of the asset throughout the period of use and right to direct the use of the asset, even if the right is not explicitly specified in the arrangement.

Incremental borrowing rate

Since the Company could not readily determine the implicit rate, management use the Company's incremental borrowing rate as a discount rate. There are a number factors to consider in determining an incremental borrowing rate, many of which need judgement in order to be able to reliably quantify any necessary adjustments to arrive at the final discount rates, in determining incremental borrowing rate, the Company considers the following main factors: the Company's corporate credit risk, the lease term, the lease payment term, the economic environment, the time at which the lease is entered into, and the currency in which the lease payments are denominated.

Lease term

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Company.

Going Concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis. Details related to this matter are disclosed in Note 24.

Estimations and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

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3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimations and Assumptions (continued)

Employee Benefits

The determination of the Company's cost for employee benefits liabilities is dependent on its selection of certain assumptions used by the independent actuaries in calculating such amounts. Those assumptions include among others, discount rates, future annual salary increase, annual employee turn-over rate, disability rate, retirement age and mortality rate. Actual results that differ from the Company's assumptions are recognized immediately in the profit or loss as and when they occurred. While the Company believes that its assumptions are reasonable and appropriate, significant differences in the Company's actual experiences or significant changes in the Company's assumptions may materially affect its estimated liabilities for pension and employees' benefits and net employee benefits expense. Further details are disclosed in Notes 21 and 21.

Depreciation and Estimated Useful Lives of Fixed Assets and Intangible Assets

The costs of fixed assets and intangible assets are depreciated on a straight-line method over their estimated useful lives. Management estimates the useful lives of these fixed assets and intangible assets to be within 3 to 10 years. These are common life expectancies applied in the industries where the Company conducts its businesses. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, and therefore future depreciation charges could be revised. Further details are disclosed in Notes 2h, 2i, and 10.

Valuation of Financial Instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value are determined using verifiable objective evidences, the amount of changes in fair values would differ if the Company utilized different valuation methodology. Any changes in fair values of these financial assets and liabilities would affect directly the Company's profit or loss and other comprehensive income. Further details are disclosed in Notes 2b and 22.

Income Tax

Significant judgment is involved in determining the provision for corporate income tax. There are certain transactions and computation for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for expected corporate income tax issues based on estimates of whether additional corporate income tax will be due.

4. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

The Company, in its regular conduct of business, has engaged in the following transactions with related parties principally related with:

- the use of facilities/utilities in Batamindo Industrial Park (BIP), Bintan Industrial Estate (BIE) and Bintan Beach International Resort (BBIR);
- revenue sharing related to the operation of telecommunication services and systems at BIE and BBIR (Note 20);
- provide telecommunication and internet services in BIP, BIE and BBIR areas (Note 20). Total telecommunication and internet revenues from related parties were about 7.42% and 8.54% of the total operating revenues (before interconnection expenses) in 2020 and 2019, respectively;
- rental of office building and area for the Company's infrastructure facilities in BIP (Note 20);
- revenue sharing and other compensation related to the delivery and operation of the Company's telephone service in the national area (outside Riau Islands) by PT Persada Nusantara Telekomunikasi (Note 20).

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4. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

The details of accounts with related parties are as follows:

| | 2020 | 2019 |
|---|------------------|------------------|
| <u>Accounts Receivable - Trade (Note 6)</u> | | |
| PT Batamindo Investment Cakrawala | 431,284 | 43,965 |
| PT Buana Mega Wisata | 362,061 | 393,523 |
| PT Bintan Resort Cakrawala | 128,128 | 85,517 |
| PT Bintan Inti Industrial Estate | 58,577 | 13,964 |
| PT Taman Indah | 27,846 | 87,704 |
| Bintan Resort Ferries Pte. Ltd. | 8,009 | - |
| PT Batamindo Executive Village | 3,009 | 3,009 |
| PT Surya Bangun Pertiwi | 307 | 293 |
| PT Indomobil Bintan Corpora | 148 | 837 |
| Total | 1,019,369 | 628,812 |
| <u>Accounts Payable - Trade (Note 12)</u> | | |
| PT Bintan Resort Cakrawala | 250,317 | 32,785 |
| PT Batamindo Investment Cakrawala | 139,592 | 105,494 |
| PT Bintan Inti Industrial Estate | 48,471 | 46,504 |
| PT Batamindo Executive Village | - | 4,117 |
| Total | 438,380 | 188,900 |
| <u>Accounts Payable - Others (Note 13)</u> | | |
| PT Batamindo Investment Cakrawala | 80,483 | 84,481 |
| PT Bintan Inti Industrial Estate | 4,651 | 186 |
| Total | 85,134 | 84,667 |
| <u>Accrued Revenue Sharing (Note 14)</u> | | |
| PT Persada Nusantara Telekomunikasi | 1,563,077 | 1,543,518 |
| PT Bintan Inti Industrial Estate | 65,619 | 45,973 |
| PT Bintan Resort Cakrawala | - | 218,522 |
| Total | 1,628,696 | 1,808,013 |

The relationship and the nature of accounts/transactions between the Company and the above related parties are as follows:

| Company | Relationship | Nature of Accounts/Transactions |
|-------------------------------------|-----------------------------|--|
| PT Batamindo Investment Cakrawala | Controlling shareholder | Accounts receivable, payable, revenues and expenses |
| PT Bintan Inti Industrial Estate | Entity under common control | Accounts receivable, payable, accrued revenue sharing, revenues and expenses |
| PT Batamindo Executive Village | Entity under common control | Accounts receivable, payable, revenues and expenses |
| PT Bintan Resort Cakrawala | Entity under common control | Accounts receivable, payable, accrued revenue sharing, revenues and expenses |
| Bintan Resort Ferries Pte Ltd | Entity under common control | Account receivable |
| PT Buana Mega Wisata | Entity under common control | Accounts receivable and revenues |
| PT Taman Indah | Entity under common control | Accounts receivable and revenues |
| PT Surya Bangun Pertiwi | Entity under common control | Accounts receivable and revenues |
| PT Indomobil Bintan Corpora | Entity under common control | Accounts receivable and revenues |
| PT Persada Nusantara Telekomunikasi | Affiliated entity | Accrued revenue sharing and expenses |

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5. CASH ON HAND AND IN BANKS

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Cash on hand | 110,794 | 110,794 |
| Cash in banks - third parties | | |
| PT Bank Central Asia Tbk. | 6,321,005 | 2,636,145 |
| PT Bank Mandiri (Persero) Tbk. | 5,124,819 | 6,267,320 |
| PT Bank Negara Indonesia (Persero) Tbk. | 764,500 | 531,580 |
| The Hongkong and Shanghai Banking Corporation Ltd. | 351,488 | 591,579 |
| PT Bank Permata Tbk. | 1,400 | - |
| Sub-total | 12,563,212 | 10,026,624 |
| Total | 12,674,006 | 10,137,418 |

6. ACCOUNTS RECEIVABLE - TRADE

Trade receivables mainly represent outstanding telephone and internet service billings which have not been paid by the customers as follows:

| | 2020 | 2019 |
|--|------------------|------------------|
| Related parties (Note 4) | 1,019,369 | 628,812 |
| Third parties | 4,290,234 | 4,518,671 |
| Less: allowance for impairment of accounts | (498,791) | (177,968) |
| Net | 4,810,812 | 4,969,515 |

The changes in the allowance for impairment based on ECL are as follows:

| | 2020 | 2019 |
|-------------------------------|----------------|----------------|
| Beginning balance | 177,968 | 36,643 |
| Provisions during the year | 498,791 | 177,968 |
| Trade receivables written-off | (167,247) | (36,643) |
| Recovery during the year | (10,721) | - |
| Ending balance | 498,791 | 177,968 |

The management of the Company is of the opinion that the allowance for impairment is adequate to cover any possible losses arising from the non-collection of trade receivables accounts.

7. ACCOUNTS RECEIVABLE - OTHERS

As of December 31, 2020 and 2019, this account mainly represents outstanding internet sharing and rental of telecommunication equipment billings which have not yet been paid by the customers, third parties, amounting to Rp7,665,479 and Rp4,961,988, respectively.

The management of the Company is of the opinion that all receivables are fully collectible, therefore, allowance for impairment of other receivables is not required.

8. SHORT-TERM TIME DEPOSITS

| | 2020 | 2019 |
|----------------------------------|-----------|-----------|
| PT Bank Muamalat Tbk. (Muamalat) | 5,000,000 | 5,000,000 |

Time deposits placed in Muamalat are denominated in Rupiah and have maturities of six months and earn annual interest rates of 6.2% and 7.75% in 2020 and 2019, respectively.

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10. FIXED ASSETS (continued)

Depreciation charged to operations amounted to Rp7,503,661 and Rp6,773,723 for the years ended December 31, 2020 and 2019, respectively.

The additions to cost of fixed assets in 2020 and 2019 include reclassification from inventories component and modules amounting to Rp2,893,674 and Rp1,405,062, respectively (Note 9).

As of December 31, 2020 and 2019, the Company has land under Hak Guna Bangunan (HGB) certificate located in Air Raja Komp. Bintan Center Blok C No.6, Bintan Island. The HGB will expire in June 22, 2035. The management of the Company is of the opinion that the HGB can be renewed/extended upon expiry.

As of December 31, 2020, fixed assets are covered by insurance against losses by fire and other risks under blanket policies for Sin\$1,023,267 and Rp2,227,300,000 in which the Company's management opinion, is adequate to cover possible losses arising from such risks.

Based on the assessment of the management, there are no events or changes in circumstances which may indicate impairment in the value of the Company's fixed assets as of December 31, 2020 and 2019.

11. LEASE TRANSACTIONS

Right-of-Use (ROU) assets

| | Telecommunication site space and other premises | |
|---|--|-------------------|
| | 2020 | 2019 |
| <u>Costs</u> | | |
| As of January 1 | 11,808,958 | 10,559,015 |
| Additions | - | 1,249,943 |
| Deductions | (1,100,857) | - |
| As of December 31 | 10,708,101 | 11,808,958 |
| <u>Accumulated depreciation</u> | | |
| As of January 1 | 1,122,754 | - |
| Additions | 1,119,200 | 1,122,754 |
| Deductions | (162,346) | - |
| As of December 31 | 2,079,608 | 1,122,754 |
| Carrying value as of December 31 | 8,628,493 | 10,686,204 |

Depreciation charged to operations amounted to Rp1,119,200 and Rp1,122,754 for the years ended December 31, 2020 and 2019, respectively.

Lease liabilities

| | 2020 | 2019 |
|-----------------------|-------------|-------------|
| Year 1 | 1,577,877 | 2,288,359 |
| Year 2 | 2,083,867 | 1,721,168 |
| Year 3 | 1,513,867 | 2,250,067 |
| Year 4 | 1,483,867 | 1,680,067 |
| Year 5 | 1,598,867 | 1,650,066 |
| Year 6 and onwards | 3,930,862 | 6,282,330 |
| Total minimum payment | 12,189,207 | 15,872,057 |

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11. LEASE TRANSACTIONS (continued)

Lease liabilities (continued)

| | 2020 | 2019 |
|--|------------------|------------------|
| Less unrecognized interest | 3,765,702 | 5,258,159 |
| Total lease liabilities | 8,423,505 | 10,613,898 |
| Current maturity of lease liabilities | 840,808 | 1,302,710 |
| Lease liabilities net of current maturities | 7,582,697 | 9,311,188 |

The Company's incremental borrowing rate are ranging from 9% to 10% based on the portfolio of the lease.

Deductions of ROU assets in 2020 incurred from changes in lease terms and price of the leased assets. The difference between the carrying value of ROU assets and lease liabilities on the date of such changes amounted to Rp47,360 and was recorded as part of "Other Income - Miscellaneous" in the statement of profit or loss and other comprehensive income.

Interest expense on lease liabilities for the year ended December 31, 2020 and 2019, amounting Rp888,796 and Rp721,848, respectively, were recorded as part of interest expense in the statement of profit or loss and other comprehensive income.

12. ACCOUNTS PAYABLE - TRADE

| | 2020 | 2019 |
|--------------------------|------------------|------------------|
| Related parties (Note 4) | 438,380 | 188,900 |
| Third parties | 1,401,364 | 1,019,399 |
| Total | 1,839,744 | 1,208,299 |

13. ACCOUNTS PAYABLE - OTHERS

| | 2020 | 2019 |
|--------------------------|------------------|------------------|
| Related parties (Note 4) | 85,134 | 84,667 |
| Third parties | 1,434,877 | 3,485,482 |
| Total | 1,520,011 | 3,570,149 |

14. ACCRUED LIABILITIES

This account consists of accrued liabilities for:

| | 2020 | 2019 |
|--|------------------|------------------|
| Revenue sharing | 1,896,966 | 1,808,013 |
| Operator cost | 798,215 | 1,124,730 |
| Telecommunication infrastructures and utilities | 754,747 | 645,595 |
| Universal Services Obligation (USO) and Telecommunication Service Concession Fees | 575,225 | 496,442 |
| Professional fees | 248,190 | 208,880 |
| Lease interest | 79,054 | 100,987 |
| Others | 132,989 | 110,937 |
| Total | 4,485,386 | 4,495,584 |

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15. TAXATION

Taxes payable:

| | 2020 | 2019 |
|----------------------|----------------|----------------|
| Income taxes | | |
| Article 4(2) - Final | 16,606 | 26,577 |
| Article 21 | 43,603 | 108,247 |
| Article 23 | 36,939 | 14,999 |
| Article 25 | 2,199 | 22,570 |
| Article 29 | 436,626 | - |
| Value Added Tax | 14,605 | 21,207 |
| Total | 550,578 | 193,600 |

Reconciliation between income before income tax benefit (expense), as shown in the statement of profit or loss and other comprehensive income, and estimated taxable income for the years ended December 31, 2020 and 2019 is as follows:

| | 2020 | 2019 |
|---|------------------|------------------|
| Income before income tax benefit (expense) per statement of profit or loss and other comprehensive income | 4,960,446 | 3,462,446 |
| Less: income net of related expenses already Subjected to final tax | (3,227,543) | (3,870,286) |
| Income (loss) not subjected to final tax | 1,732,903 | (407,840) |
| Temporary differences | 1,353,821 | 1,096,402 |
| Permanent differences | 1,206,466 | 1,238,525 |
| Estimated taxable income | 4,293,190 | 1,927,087 |

The computation of current income tax expense and estimated income tax payable is as follows:

| | 2020 | 2019 |
|---|------------------|----------------|
| Current income tax expense | (895,154) | (455,108) |
| Less prepayments of income tax - Articles 23 and 25 | 458,528 | 805,737 |
| Estimated claim for tax refund (income tax payable - Article 29) | (436,626) | 350,629 |

Estimated claims for tax refund for fiscal year:

| | 2020 | 2019 |
|-----------------------------------|----------------|------------------|
| 2019 | 350,629 | 350,629 |
| 2018 | - | 1,085,593 |
| Total claim for tax refund | 350,629 | 1,436,222 |

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15. TAXATION (continued)

Based on Law No. 36 Year 2008 article 31E stated that "The domestic taxpayer company with gross revenues less than Rp50 billion will obtain tax facility in the form of tax rate reduction of 50% from the applicable tax rate of the taxable income for part of gross revenues until Rp4.8 billion. The Company has decided to use this tax facility in calculating its current tax expense for 2020 and 2019.

The deferred tax asset (liability) of the Company for the years ended December 31, 2020 and 2019, are as follows:

| | Beginning Balance Jan 1, 2020 | Credited (Charged) to Profit or Loss | Effect on Changes of Tax Rate Credited (Charged) to Profit or Loss | Credited to Other Comprehensive Income | Effect on Changes of Tax Rate Charged to Other Comprehensive Income | Ending Balance Dec. 31, 2020 |
|--------------------------------|----------------------------------|--|---|---|---|------------------------------------|
| Employee benefits | 1,734,713 | 236,834 | (237,513) | 139,235 | (109,430) | 1,763,839 |
| Lease transactions | 47,895 | 61,075 | (9,579) | - | - | 99,391 |
| Depreciation of fixed assets | (741,450) | (27,144) | 148,291 | - | - | (620,303) |
| Deferred tax asset, net | 1,041,158 | 270,765 | (98,801) | 139,235 | (109,430) | 1,242,927 |

| | Beginning Balance Jan 1, 2019 | Credited (Charged) to Profit or Loss | Credited to Other Comprehensive Income | Ending Balance Dec. 31, 2019 |
|--------------------------------|-------------------------------------|--|---|------------------------------------|
| Employee benefits | 1,199,142 | 244,362 | 291,209 | 1,734,713 |
| Lease transactions | - | 47,895 | - | 47,895 |
| Depreciation of fixed assets | (723,294) | (18,156) | - | (741,450) |
| Deferred tax asset, net | 475,848 | 274,101 | 291,209 | 1,041,158 |

The reconciliation between the income tax expense calculated using the applicable tax rates on the income before income tax benefit (expense) as shown in the statements of profit or loss and other comprehensive income for the years ended December 31, 2020 and 2019, are as follows:

| | 2020 | 2019 |
|--|------------------|------------------|
| Income before income tax benefit (expense) | 4,960,446 | 3,462,446 |
| Tax expense based on applicable tax rate of (2020: 22% and 2019: 25%) | (1,091,298) | (865,612) |
| Tax effect on: | | |
| Income net of related expenses already subject to final tax | 710,060 | 967,572 |
| Reduction on tax rates (Article 31E) | 49,347 | 26,664 |
| Tax effects on the permanent differences | (265,422) | (309,631) |
| Effect on changes in tax rates | (125,877) | - |
| Income tax expense, net per statements of profit or loss and other comprehensive income | (723,190) | (181,007) |

On March 31, 2020, as part of the economic stimulus protection against the impact of Covid-19, the government of the Republic of Indonesia announced Government Regulation in Lieu of Acts ("Perpu") No. 1 Year 2020 regarding State Financial Policy and Financial System Stability for Handling of Corona Virus Disease-19 (Covid-19) Pandemic and/or in Order to Counter Threats which are Dangerous to National Economy and/or Financial System Stability. Perpu No. 1 which has been legalized into Law No. 2 Year 2020, regulates, among others, a decrease in the corporate tax rate as follows:

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15. TAXATION (continued)

- For fiscal years 2020 and 2021: from 25% to 22%;
- Starting fiscal year 2022: from 22% to 20%;
- Domestic public listed companies that fulfill certain additional criteria will be eligible for a tax rate which is lower by 3% from the abovementioned tax rates.

The decrease in tax rates resulted in decrease of the amounts of current and deferred taxes recognized as of December 31, 2020. The effect of change in tax rates, are credited or charged to 2020's profit or loss and other comprehensive income.

On April 28, 2020, the Company received Overpayment Tax Assessment Letters (SKPLB) on claim for tax refund for fiscal year 2018 from the Directorate General of Taxation (DGT) totaling Rp851,918. The difference between the amount refunded and the amount of claim for tax recorded by the Company amounting to Rp233,675 was written-off and charged to the current year profit or loss. In addition, the Company also received Underpayment Tax Assessment Letters (SKPKB) on income tax articles 4(2), 21 and 23 for fiscal year 2018 from DGT amounted to Rp19,087. On August 10, 2020, the Company has paid the SKPKB amounting Rp19,087, which was charged to the current year profit or loss.

16. SHARE CAPITAL

The composition of the Company's shareholders as of December 31, 2020 and 2019 are as follows:

| Shareholders | Number of Shares Issued and Fully Paid (Full Amount) | Percentage of Ownership | Amount |
|-----------------------------------|---|----------------------------|-------------------|
| PT Batamindo Investment Cakrawala | 4,750,000 | 95% | 11,162,500 |
| PT Telekomunikasi Indonesia Tbk. | 250,000 | 5% | 587,500 |
| Total | 5,000,000 | 100% | 11,750,000 |

17. CASH DIVIDENDS

During the Company's Annual General Meeting of Shareholders held on April 24, 2019, the Company's shareholders ratified the declaration of cash dividends amounting to Rp9,114,610.

18. NET OPERATING REVENUES

This account mainly represents operating revenues after deduction of operator's and partner's cost (internet and interconnection expenses) paid to the providers and partners under internet service and interconnection agreements based on revenue sharing arrangement (Note 20). The operating revenues represent the Company's share of revenues from the following:

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Internet services | 12,156,443 | 11,809,565 |
| Leased circuit | 5,611,268 | 4,438,118 |
| Monthly subscription charges | 5,850,480 | 4,386,813 |
| Local, domestic and international interconnection usage | 1,828,278 | 1,661,099 |
| Others | 5,574,820 | 4,365,333 |
| Total | 31,021,289 | 26,660,928 |

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18. NET OPERATING REVENUES (continued)

Liabilities related to contract with customers:

| | 2020 | 2019 |
|-----------------------------|---------|-----------|
| <u>Contract liabilities</u> | | |
| Current | 796,466 | 1,132,616 |
| Non-current | 902,247 | 1,318,050 |

Contract liabilities relate primarily to:

- Rental consideration received from customers; and
- Unearned rental revenue arising from contract with customers.

The contract liabilities are recognized as rental income when the Company fulfills its performance obligation under the contract with the customers. The significant change in the contract liabilities during the year is as follow:

| | 2020 | 2019 |
|--|-----------|---------|
| Rental revenue recognized in the current year that was included in contract liabilities at the beginning of the year | 1,132,616 | 944,341 |

19. OPERATING EXPENSES

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Operations, maintenance and telecommunication services | | |
| Depreciation and amortization | 8,656,364 | 7,922,651 |
| Revenue sharing (Notes 4 and 20) | 7,048,089 | 5,490,732 |
| Rental building and infrastructures facilities areas (Note 20) | 3,650,648 | 3,069,844 |
| Salaries and welfare | 2,586,376 | 2,502,775 |
| Water and electricity | 2,195,982 | 2,570,089 |
| License fee | 677,342 | 610,264 |
| Repairs and maintenance | 381,272 | 311,475 |
| Miscellaneous | 370,791 | 238,359 |
| Sub-total | 25,566,864 | 22,716,189 |
| General and administrative | | |
| Salaries and employee benefits | 6,522,679 | 6,406,532 |
| Professional fees | 365,339 | 1,087,687 |
| Bad debt expense | 498,791 | 667,709 |
| Marketing and advertisement | 190,096 | 283,012 |
| Repairs and maintenance of vehicles | 238,822 | 234,549 |
| Traveling | 26,951 | 154,825 |
| Others | 933,427 | 1,202,480 |
| Sub-total | 8,776,105 | 10,036,794 |
| Total | 34,342,969 | 32,752,983 |

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20. SIGNIFICANT AGREEMENTS

- a. On December 19, 2007, the Company entered into an interconnection agreement with PT Telekomunikasi Indonesia Tbk. (TELKOM), a shareholder, whereby both parties agreed to make an interconnection between the Company's PSTN and TELKOM's PSTN at the mutually agreed rates and conditions as stipulated in the agreement. The agreement has been amended for several time. The latest amendment was on May 17, 2016, whereby, the term of the agreement become automatically renewable every year based on agreement by both parties. The Company's share in interconnection revenues were recorded as part of net operating revenues in the statement of profit or loss and other comprehensive income.
- b. On January 29, 1997, the Company entered into an agreement with PT Telekomunikasi Indonesia Tbk. - Regional Division I (TELKOM DIVRE - I) regarding the use of various telecommunication infrastructures facilities and services owned by TELKOM DIVRE - I at the mutually agreed rates and conditions as stipulated in the agreement. The agreement has been amended from time to time. As of the date of authorization for issue of this financial statements, this agreement has not been terminated. Rental expenses charged to operations were recorded as part of operating expenses in the statement of profit or loss and other comprehensive income.
- c. On December 14, 2001, the Company entered into an agreement with TELKOM, regarding the provider and marketing of TELKOM Save services with VOIP (Voice over Internet Protocol) base to customers in the Company's telecommunication service area, at the mutually agreed rates and conditions as stipulated in the agreement. The agreement is automatically renewable every year if there are no objection from the parties. The Company's share in interconnection revenues were recorded as part of net operating revenues in the statement of profit or loss and other comprehensive income.
- d. On December 19, 2007, the Company entered into an interconnection agreement with PT Indosat Tbk. (Indosat) whereby both parties agreed to make interconnection between the Company's PSTN and Indosat's PSTN at the mutually agreed rates and conditions as stipulated in the agreement. The agreement is automatically renewable every year if there is no party's intention to change or terminate the agreement. The Company's share in interconnection revenues were recorded as part of net operating revenues in the statement of profit or loss and other comprehensive income.
- e. On August 22, 2005, the Company entered into an agreement with Indosat regarding the provider, service and marketing of VOIP services base to customers in the Company's telecommunication service area, at the mutually agreed rates and conditions as stipulated in the agreement. The agreement is automatically renewable every year if there is no objection from the parties. The Company's share in interconnection revenues were recorded as part of net operating revenues in the statement of profit or loss and other comprehensive income.
- f. On December 2, 1996, the Company entered into an operational agreement with Indosat regarding a dedicated circuit services provided to customers in the Company's telecommunication service area covering Batamindo Industrial Park, Bintan Beach International Resort and Bintan Industrial Estate in the form of marketing, service, operational and maintenance of telecommunication systems at the agreed rates and conditions as stipulated in the agreement. The agreement is automatically renewable every year if there is no objection from the parties. The Company's internet sharing income were recorded as part of other income in the statement of profit or loss and other comprehensive income.
- g. On April 22, 2002, the Company entered into a formal agreement for the operation of telecommunication systems at Bintan Industrial Estate (BIE) with PT Bintan Inti Industrial Estate (BIIE) and Bintan Beach International Resort (BBIR) with PT Bintan Resort Cakrawala (BRC), related parties, to cover the previous arrangement since July 1, 1997. The agreement is valid for 10 (ten) years up to June 30, 2007. Upon the expiry of the term, this agreement shall be automatically renewed for another 5 (five) years and shall continue to be automatically renewed for

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20. SIGNIFICANT AGREEMENTS (continued)

the same term of years, except if terminated by either party. Under the agreement, the Company agrees to operate fixed line telecommunications system at BIE and BBIR, administration of the billing and collection of revenue, process the application and connection of new subscriber lines and maintenance only of the telecommunication aspects of BIIE and BRC's telecommunication systems equipment, cabling and radio links and the gateway facilities, and bear the costs of maintaining and operating the telecommunication aspects. The net revenues after deduction of operator's costs collected by the Company at BIE and BBIR shall be divided equally 50% each for BIIE and BRC, respectively. The BIIE's and BRC's net revenue sharing were recorded as part of operating expenses in the statement of profit or loss and other comprehensive income (Note 19) and the related payables to BIIE and BRC were recorded as part of account payable - trade (Note 12) and accrued liabilities (Note 14).

- h. On December 17, 2015, the Company entered into a rental agreement with PT Batamindo Investment Cakrawala (BIC), the parent entity, regarding the use of land owned by BIC for the Company's office building at Batamindo Industrial Park (BIP), Muka Kuning, Batam, with the agreed rental rate, service charge, terms and conditions as stated in the agreement. This agreement has been renewed for another 3 years until December 31, 2021.
- i. On January 1, 2016 and December 11, 2015, the Company entered into two rental agreements with BIC, regarding the use of land owned by BIC for the Company's telecommunication towers area at BIP, with the agreed rate, terms and conditions as stated in the agreements. These agreements valid for 10 (ten) years and 3 (three) years, respectively. The second agreement has been extended until December 31, 2021.
- j. On December 28, 2016, the Company entered into a joint operation agreement of fixed line telephony services with PT Persada Nusantara Telekomunikasi (PNT), a related party, with the purpose of delivering the Company's telephone service in the national service area (outside Riau islands). Based on the agreement, the Company is responsible, among others, for all the costs incurred on the construction, installation, operation, development and maintenance of IP Multimedia Subsystem (IMS) and Point of Interconnection (POI) and also the link between IMS-POI, while PNT is responsible for all the costs incurred on providing, operation, maintenance and development of all infrastructures of link metro from IMS to Point of Presence (POP) and POP to the customer. PNT is also responsible for the marketing and operational activity of the Company's fixed telephone service in the national area (outside Riau Islands) such as to install new, connect, disconnect, mutation and change the telephone number for the customer. On September 28, 2017, the Company and PNT entered into another agreement to add more services by PNT in delivering the Company's telephone service to the customer, which comprise of basic services and additional services. Basic services include the integration, sale of special telephone number (*nomor cantik*), while additional service services include sale, service and maintenance of telephone devices to the customer. On November 29, 2017, the Company and PNT entered into additional agreement related for connecting the Company's POI with the others license operator (OLO) and managing the design and configuration of infrastructure of the Company's fixed telephone network. All these agreements are valid for 5 (five) years starting from the date of each agreement. The Company has the right to collect and recognize all fixed telephone revenue and other related services from the customers and the Company shall pay compensation and revenue share to PNT with amount and terms as stated in those agreements. The Company's interconnection revenue from the customers arose from those agreements and cost of PNT's revenue shares were recorded as part of net operating revenues, while income from additional services were recorded as part of other income in the statement of profit or loss and other comprehensive income.

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20. SIGNIFICANT AGREEMENTS (continued)

- k. On May 2, 2017, the Company entered into a fixed telephone line services agreement with PT Atlasat Solusindo (AS), whereby, AS will provide telecommunication services to the Company at the AS' service area at the mutually agreed rates, revenue share and other terms and conditions as stated in the agreement. The telecommunication services provided by AS comprise of providing access to the AS' telecommunication network and infrastructures, delivery of the Company's telephone and interconnection product (OFON) to the end user (customer) in the respective area and other related supporting services. The latest amendment was on December 12, 2018 and valid for 2 (two) years starting from the date of the amendment. The agreement is automatically renewable for the following years if there are no objection from the parties. The Company's interconnection revenue from the customers connected through AS' network and infrastructures and cost of AS' revenue share were recorded as part of net operating revenues in the statement of profit or loss and other comprehensive income.
- l. On November 18, 2020, the Company entered into agreements with TELKOMSEL regarding the use of the Company's various telecommunication infrastructures and supporting facilities by TELKOMSEL to operate its telecommunication services in the Company's operational area, at the agreed rates and conditions as stipulated in the agreement. These agreements valid until various dates in years 2021 and are renewable upon written agreements by both parties. Rental income credited to operations were recorded as part of other income in the statement of profit or loss and other comprehensive income.
- m. The Company entered into agreements with several companies (Lessees) regarding the use of the Company's various telecommunication infrastructures and supporting facilities by the Lessees to operate their telecommunication services in the Company's operational area, at the agreed rates and conditions as stipulated in the agreements. Rental income credited to operations were recorded as part of other income in the statement of profit or loss and other comprehensive income and rental payments received in advance from the lessees were recorded as part of contract liabilities in the statement of financial position.

The summary of these agreements are as follows:

| Name of Lessee | Date of agreement | Period of agreement |
|---|-------------------|---|
| PT Telekomunikasi Seluler Tbk. | May 10, 1999 | 5 years but automatically renewable if there is no party's intention to change or terminate the agreement |
| PT XL Axiata Tbk. (formerly PT Excelcomindo Pratama Tbk.) | November 14, 2000 | 5 years but automatically renewable if there is no party's intention to change or terminate the agreement |
| PT Indosat Tbk. | February 7, 2005 | 5 years but automatically renewable if there is no party's intention to change or terminate the agreement |
| PT Telekomunikasi Indonesia Tbk. | December 9, 2005 | 3 years, latest amendment was on April 20, 2018, agreement valid until April 20, 2021 |
| PT Smartfren Telecom Tbk | December 6, 2011 | 5 years, latest amendment was on December 12, 2016, agreement valid until October 3, 2021 |
| PT Hutchison CP Telecommunications | March 16, 2016 | 5 years, renewal agreement is still in process |
| PT Hutchison CP Telecommunications | October 30, 2017 | 5 years |
| PT Tower Bersama | October 14, 2019 | 10 years |

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20. SIGNIFICANT AGREEMENTS (continued)

- n. The Company entered into a telecommunication service agreement with several companies (Providers), whereby, these Providers will provide telecommunication services to the Company in the respective Providers' service area at the mutually agreed rates, revenue shares and other term and conditions as stated in the agreement. The telecommunication services provided by Providers comprise of providing access to the Providers' telecommunication network and infrastructures, delivery of the Company's telephone and interconnection product (OFON) to the end user (customer) in the respective area and other related supporting services. The Company's interconnection revenue from the customers connected through the Providers' network and infrastructures and cost of revenue share were recorded as part of net operating revenues in the statement of profit or loss and other comprehensive income.

The summary of these agreements are as follows:

| Name of Provider | Date of agreement | Period of service | Service area |
|------------------------------|-------------------|-------------------|---|
| PT Neticiti Persada | August 15, 2016 | 5 years | Alam Sutera, Suvarna Sutera, Cikupa, etc. |
| PT Tower Bersama | October 29, 2018 | 3 years | MCC Gatot Subroto, Icon Mall Gresik, Trans Studio Mall Bali, etc. |
| PT Jembatan Citra Nusantara | December 12, 2018 | 5 years | Yogyakarta, Solo and Semarang |
| PT Power Telecom | February 12, 2019 | 5 years | Yogyakarta, Solo, Jakarta, Bogor, Depok, Bandung, etc. |
| PT Fastel Sarana Indonesia | May 24, 2019 | 5 years | Podomoro City, TSM Bintaro, Transpark Cibubur |
| PT Ciptakom Media Nusa | July 12, 2019 | 3 years | Mall Citra Raya Tangerang, Tokopedia Care Tower, Citra Tower Kemayoran |
| PT Supra Primatama Nusantara | January 21, 2020 | 5 years | Cibis 9, Apartment La Vie, Eccos Mall Bali, Wisma Sudirman 78, Summarecon Bekasi, Wang Plaza, Intermark Tower BSD, South Hill Apartment |

21. EMPLOYEE BENEFITS LIABILITIES

The Company provides benefits for its employees who achieve the retirement age at 55 years based on the provisions of the Labor Law No.13/2003. The benefits are unfunded. The following tables summarize the components of employee benefits expense recognized in the statement of profit or loss and other comprehensive income and amounts recognized in the statement of financial position for the employee benefits liabilities as determined by an independent actuary (PT Dayamandiri Dharmakonsilindo) in its reports dated December 30, 2020 for year 2020 and January 9, 2020 for year 2019.

a. Employee benefits expense

| | 2020 | 2019 |
|----------------------------------|------------------|----------------|
| Current service cost | 623,080 | 547,096 |
| Interest cost | 561,090 | 439,813 |
| Excess Payment | 55,601 | 4,820 |
| Employee benefits expense | 1,239,771 | 991,729 |

b. Employee benefits liabilities

| | 2020 | 2019 |
|--|-----------|-----------|
| Present value of defined benefits obligation | 8.819.192 | 6,938,847 |

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21. EMPLOYEE BENEFITS LIABILITIES (continued)

- c. Movements of the employee benefits liabilities for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|--|------------------|------------------|
| Beginning balance | 6,938,847 | 4,796,563 |
| Current year employee benefits expense | 1,239,771 | 991,729 |
| Actuarial loss (gain) recognized in other comprehensive loss | 696,175 | 1,164,837 |
| Excess payment | (55,601) | (4,820) |
| Actual benefit payment | - | (9,462) |
| Ending balance | 8,819,192 | 6,938,847 |

- d. Movements in the present value of defined benefit obligation for the years ended December 31, 2020 and 2019 are as follows:

| | 2020 | 2019 |
|--|------------------|------------------|
| Beginning balance | 6,938,847 | 4,796,563 |
| Current service cost | 623,080 | 547,096 |
| Interest cost | 561,090 | 439,813 |
| Effect of changes in actuarial assumptions | 875,030 | 1,097,035 |
| Actuarial loss on obligation | (178,855) | 67,802 |
| Actual benefit payment | - | (9,462) |
| Ending balance | 8,819,192 | 6,938,847 |

The principal assumptions used in determining employee benefits liabilities as of December 31, 2020 and 2019 are as follows:

| | |
|-------------------------|---|
| Discount rates | : 7.15% per year in 2020 and 8.10% per year in 2019 |
| Annual salary increases | : 12.5% per year |
| Mortality rate | : TMI 2019 in 2020 and TMI 2011 in 2019 |
| Retirement age | : 55 years old |
| Turnover rates | : 5% at age 25 reducing linearly to 0% at age 45 and thereafter |
| Disability rate | : 10% of the mortality rate |

The management of the Company has reviewed the assumptions used and agreed that these assumptions are adequate. Management believes that the liability for employee benefits is sufficient to cover the Company's liability for its employee benefits.

Sensitivity analysis for discount rate risk

As of December 31, 2020, if the discount rate is higher by 1 percent with all other variables held constant, the present value of defined benefits obligation would have been Rp972,823 lower, while if the discount rate is lower by 1 percent, the present value of defined benefits obligation would have been Rp1,138,632 higher.

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21. EMPLOYEE BENEFITS LIABILITIES (continued)

Sensitivity analysis for salary increase rate risk

As of December 31, 2020, if the salary increase rate is higher by 1 percent with all other variables held constant, the present value of defined benefits obligation would have been Rp1,103,330 higher, while if the salary increase rate is lower by 1 percent, the present value of defined benefits obligation would have been Rp967,255 lower.

Expected maturity analysis of undiscounted defined benefit obligation as of December 31, 2020 is as follows:

| | 2020 |
|-------------------|-------------------|
| Up to 2 years | 70,356 |
| 2 years - 5 years | 591,459 |
| More than 5 years | 19,007,264 |
| Total | 19,669,079 |

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date.

Fair value are categorized into different levels of hierarchy based on the inputs used in the valuation technique, as follows:

1. quoted prices (unadjusted) in active markets for identical asset or liability (level 1);
2. inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
3. inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table sets out the carrying values and estimated fair values of the Company's financial instruments as of December 31, 2020 and 2019.

| | 2020 | |
|---|-----------------------|-------------------|
| | Carrying value | Fair value |
| Financial Assets | | |
| Cash on hand and in banks | 12,674,006 | 12,674,006 |
| Accounts receivable - trade | 4,810,812 | 4,810,812 |
| Accounts receivable - others | 7,665,479 | 7,665,479 |
| Short-term time deposits | 5,000,000 | 5,000,000 |
| Refundable deposits | 494,967 | 494,967 |
| Total | 30,645,264 | 30,645,264 |
| Financial Liabilities | | |
| Accounts payable - trade | 1,839,744 | 1,839,744 |
| Accounts payable - others | 1,520,011 | 1,520,011 |
| Accrued liabilities | 4,485,386 | 4,485,386 |
| Current maturities of lease liabilities | 840,808 | 840,808 |
| Lease liabilities - net of current maturities | 7,582,697 | 7,582,697 |
| Total | 16,268,646 | 16,268,646 |

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22. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

| | 2019 | |
|---|-------------------|-------------------|
| | Carrying value | Fair value |
| Financial Assets | | |
| Cash on hand and in banks | 10,137,418 | 10,137,418 |
| Accounts receivable - trade | 4,969,515 | 4,969,515 |
| Accounts receivable - others | 4,961,988 | 4,961,988 |
| Short-term time deposits | 5,000,000 | 5,000,000 |
| Refundable deposits | 481,700 | 481,700 |
| Total | 25,550,621 | 25,550,621 |
| Financial Liabilities | | |
| Accounts payable - trade | 1,208,299 | 1,208,299 |
| Accounts payable - others | 3,570,149 | 3,570,149 |
| Accrued liabilities | 4,495,584 | 4,495,584 |
| Current maturities of lease liabilities | 1,302,710 | 1,302,710 |
| Lease liabilities - net of current maturities | 9,311,188 | 9,311,188 |
| Total | 19,887,930 | 19,887,930 |

The fair value of cash on hand and in banks, short-term time deposits, accounts receivables - trade and others, accounts payables - trade and others, and accrued liabilities approximate their carrying values due to their short-term nature. Refundable deposit are not stated at quote market price and whose fair value cannot be reliably measured without incurring excessive costs, are carried at their nominal amounts less any impairment losses. It is not practical to estimate the fair value of refundable deposits because there is no fixed repayment terms although it is not expected to be settled within 12 (twelve) months after the statements of financial position date. The fair values of current maturity of lease liabilities and lease liabilities - net of current maturity are measured at amortized cost using effective interest rate method, thus their carrying values approximate their fair values.

23. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

Financial Risk Management

The Company defines financial risk as the possibility of losses or profits foregone, which may be caused by internal or external factors which might have negative potential impact to the achievement of the Company's objectives.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. The Company's overall risk management objectives are to effectively manage these risks and minimize potential adverse effects on its financial performance:

a. Credit risk

Credit risk is the risk that a customer or other counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company has in place credit policies and procedures to ensure the ongoing credit evaluation and active account monitoring. The Company manages credit risk exposed from its cash in banks and short-term time deposits by monitoring bank's reputation and credit rating.

The Company's exposure to credit risk arise from default of customers, with maximum exposure equal to the carrying amount of these instruments. As of statement of financial position date, there was no concentration of credit risk.

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23. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (continued)

Financial Risk Management (continued)

b. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash on hand and in banks to support business activities on timely basis. In general, funding to settle due obligations are obtained from collection of revenues and collection of receivables from customers and through the use of other borrowings, if necessary.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual payments.

| | 2020 | | | Total |
|---------------------|------------------|------------------|-------------------|-------------------|
| | Within 1 year | 1 to 2 years | More than 2 years | |
| Accounts payable | 3,359,755 | - | - | 3,359,755 |
| Accrued liabilities | 4,485,386 | - | - | 4,485,386 |
| Lease liabilities | 840,808 | 1,245,560 | 6,337,137 | 8,423,505 |
| Total | 8,685,949 | 1,245,560 | 6,337,137 | 16,268,646 |

c. Interest rate risk

The Company exposures to market risk for changes in interest rates relates primarily to their long-term bank loan and interest-bearing assets. The Company's policies are to obtain the most favorable interest rates available without increasing its foreign currency exposure.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates the impact on statement of profit or loss and other comprehensive income of a defined interest rate shift.

Capital Management

The Company aims to achieve an optimal capital structure in pursuit of its business objectives, which include maintaining healthy capital ratios and maximizing shareholders value.

Management monitors capital using several financial leverage measurements such as debt to equity ratio.

24. ECONOMIC ENVIRONMENT UNCERTAINTY

Economic Environment Uncertainty

On March 11, 2020, the World Health Organization ("WHO") declared the outbreak of corona virus ("Covid-19") as a global pandemic. This Covid-19 outbreak has caused global and domestic economic slowdown, which in turn affected the operations of the Company, its customers and vendors. While disruption is expected to be temporary, there is considerable uncertainty around the extent of the impact of Covid-19 on the Company's operations and financial performance. The extent of such impact will depend on certain future development which cannot be predicted at this moment, including the duration of the spread of the outbreak, economic and social measures that are being taken by the government authorities to handle Covid-19 threat, and the impact of such factors to the Company's employees, customers and vendors. The management is closely monitoring the Company's operations, liquidity and resources, and is actively working to minimize the current and future impact of this unprecedented situation. These financial statements do not include any adjustment that might result from the outcome of the aforementioned uncertainty.

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25. EVENTS AFTER REPORTING PERIOD

Government Regulation No. 35 Year 2021

On February 2, 2021, the Government promulgated and enforced Government Regulation Number 35 Year 2021 (PP 35/2021) to implement the provisions of Article 81 and Article 185 (b) of Law No. 11/2020 concerning Job Creation (Cipta Kerja), which aims to create the widest possible employment opportunities for the Indonesian people evenly, in order to fulfill a decent living. PP 35/2021 regulates the work agreement for a certain time (non-permanent employees), outsourcing, working time, rest time and termination of employment, which can affect the minimum benefits that must be paid to employees.

The Company is still assessing the impact of the implementation of PP 35/2021 on the Company's financial statements.

26. SUPPLEMENTARY INFORMATION FOR STATEMENT OF CASH FLOWS

| | 2020 | 2019 |
|---|-----------|------------|
| <u>Significant non-cash investing activities</u> | | |
| Additions of right-of-use assets through lease liabilities | 214,884 | 10,083,135 |
| Reclassification of prepaid expenses to right-of-use assets | - | 475,880 |
| <u>Significant non-cash financing activities</u> | | |
| Deduction of lease liabilities from lease termination | 1,200,755 | - |