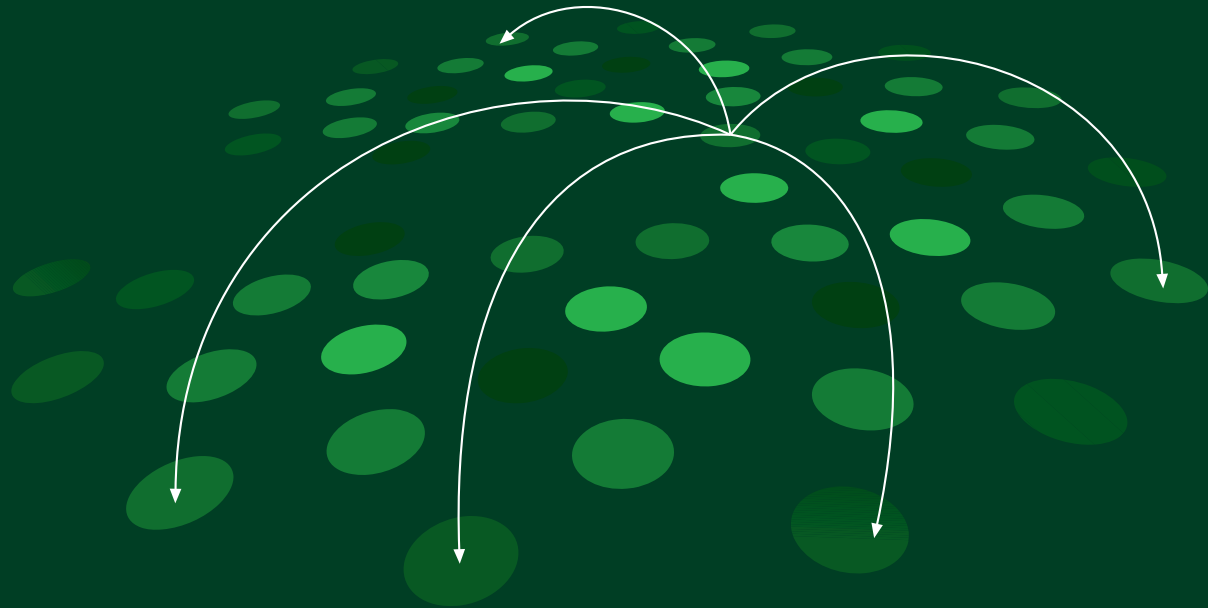


Broadband **Infraco**



Connect *Fast.* **Full stop**

Annual Report 2010

Broadband Infraco



Broadband Infraco will sell high capacity long distance transmission services to licensed fixed and mobile network operators, internet service providers and other value added network service providers, which they can either use for expanding the reach and capacities of their own networks or resell on to their customers.

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Purpose of the Company

Broadband Infraco (Proprietary) Limited (“Broadband Infraco”) is a new state owned enterprise (SOE) in the telecommunications sector, intended to improve market efficiency in the long distance connectivity segment by increasing available long distance network infrastructure and capacity to stimulate private sector development and innovation in telecommunications services and content offerings, as well as to provide long distance national and international connectivity to previously underserved areas.

Our Vision, Mission and Values

Our Vision

To provide affordable access to long-distance telecommunications network infrastructure connectivity services in South Africa.

Our Mission

To expand the availability and affordability of access to electronic communications networks and services, including but not limited to underdeveloped and underserved areas; and to ensure that bandwidth requirements for specific projects of national interests are met.

Our Core Values

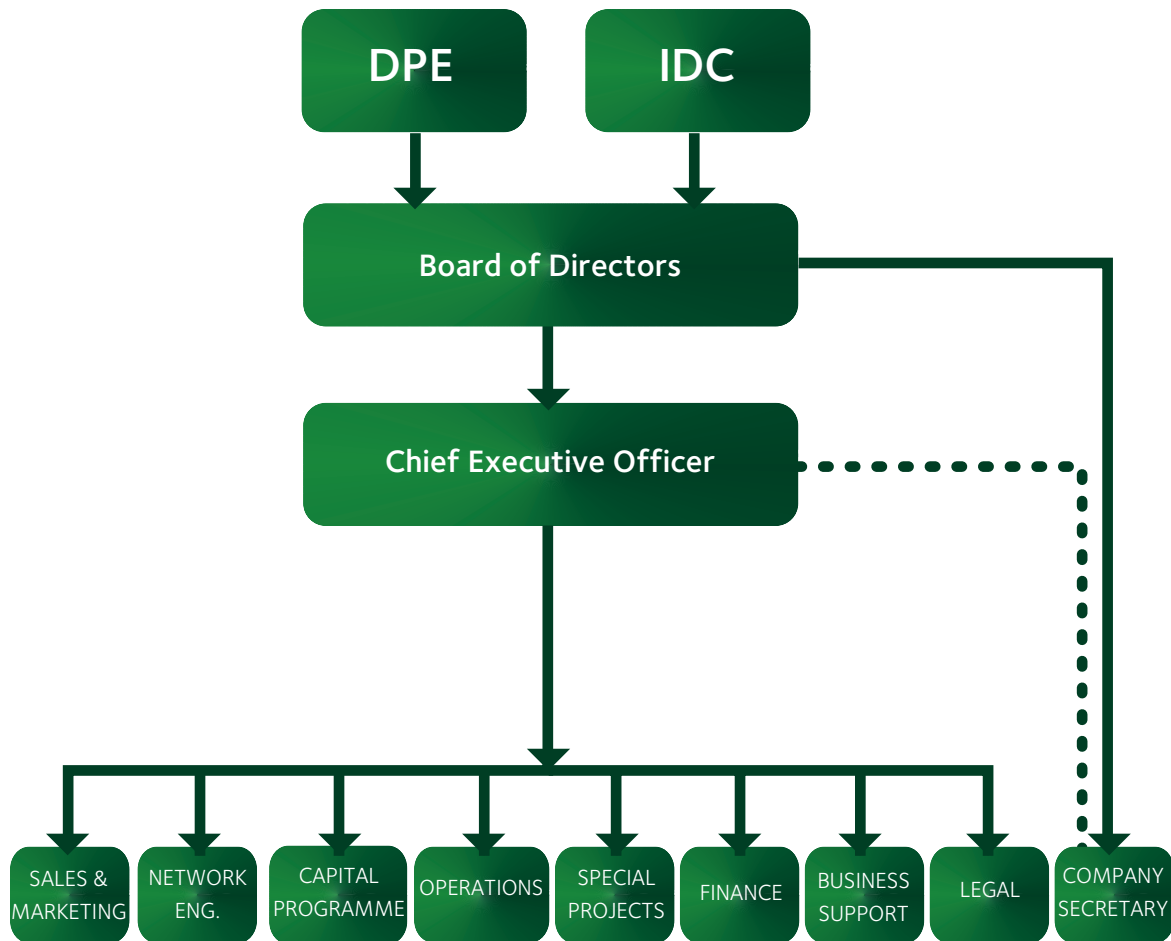
Customer satisfaction;
Excellence;
Innovation; and
Integrity.





ORGANISATIONAL STRUCTURE

Broadband Infraco is owned by the Government of the Republic of South Africa as represented by the Department of Public Enterprises (74%) and by the Industrial Development Corporation of South Africa (26%).



BOARD OF DIRECTORS



**Andrew Mthembu (54) South African
Chairman**
BSc, MSc (Construction Management)
Skills: Business Development Advisor, Commerce
Appointed to the Board: 15 February 2007
Board committees: Tender and Procurement,
Investment and Finance, Human Resources
and Remuneration



**David Smith (46) South African
Chief Executive Officer**
MBL, BEng (Electrical)
Skills: Business and Infrastructure Development
Appointed to the Board: 15 February 2007
Board committees: Investment and Finance,
Tender and Procurement



**Suren Maharaj (38) South African
Chief Financial Officer**
BCom (Hons), BCompt, CA(SA)
Skills: Chartered Accountant
Appointed to the Board: 25 August 2008
Board committees: Investment and Finance,
Tender and Procurement



**Tumi Magasa (45) South African
Non-Executive Director**
BSc, MBA (Corporate Finance)
Skills: Telecommunications Equipment Provisioning,
Business and Infrastructure Development
Appointed to the Board: 15 February 2007
Board committees: Tender and Procurement



**Monica Singer Saul (49) South African
Non-Executive Director**
BAcc, CA(SA)
Skills: Chartered Accountant
Appointed to the Board: 15 February 2007
Board committees: Audit and Risk, Human Resources and Remuneration



**Cornelis Groesbeek (42) South African
Non-Executive Director**
MSc, MBA (Technology Management)
Skills: Investment Services Advisor
Appointed to the Board: 15 February 2007
Board committees: Tender and Procurement, Investment and Finance



**Nolo Letele (60) South African
Non-Executive Director**
Honours Degree in Electronics
Skills: Business Leadership, ICT Service Provisioning
Appointed to the Board: 25 August 2008
Board committees: Tender and Procurement, Investment and Finance, Human Resources and Remuneration



**Sydney Mabalayo (46) South African
Non-Executive Director**
Skills: Electrical Engineer MBA (Wits)
Appointed to the Board: 25 August 2008
Board committees: Investment and Finance, Tender and Procurement



**Shakeel Ahmed Unus Meer (48) South African
Non-Independent Non-Executive Director**
Skills: BSc Engineering, MBL,
MDP (London Business School)
Appointed to the Board: 25 August 2008
Board committees: Audit and Risk, Investment
and Finance



**Sindiswe Mabaso-Koyana (40) South African
Non-Executive Director**
Skills: Chartered Accountant
Appointed to the Board: 25 August 2008
Board committees: Audit and Risk, Investment
and Finance



**Fahim Mohamed (34) South African
Company Secretary**

History of the Company

Analysis conducted by the Government of South Africa demonstrated two key findings with regards to broadband connectivity and the telecommunications environment in South Africa, namely:

- Firstly, that South Africa significantly lags behind its international counterparts in terms of Information Communications Technology (“ICT”) penetration as well as the rate of new technology adoption; and
- Second, that Broadband penetration relative to international benchmarks is low and significantly more expensive.

Furthermore, investigations into why broadband costs in South Africa are high compared to its international counterparts revealed that end user broadband service providers have a cost structure where a large majority of costs are made up by cost elements attributable to:

- national long-distance connectivity; and
- international marine cable connectivity.

As a result of the above study, the government resolved to retain ownership of the original Eskom Enterprises (Pty) Ltd and Transnet Limited long-distance telecommunications infrastructure that was developed between 2002 and 2005. This infrastructure was completed and commissioned during the second half of 2007 and has since been significantly expanded by Broadband Infraco. The current reporting period marks the second full year of operations of the Broadband Infraco national long-distance network.

Who we are and what we stand for

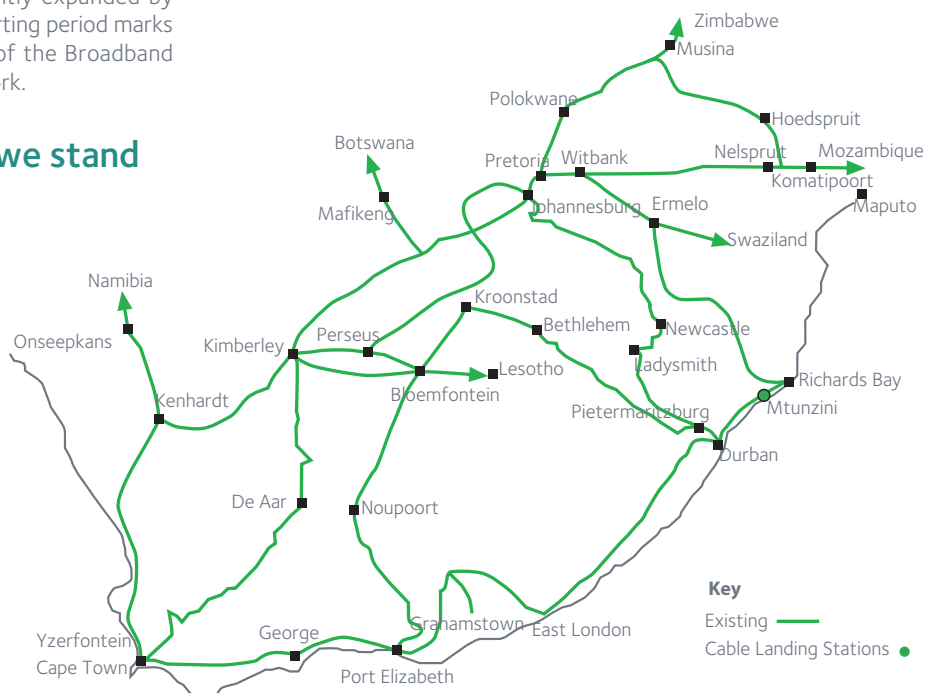
Broadband Infraco is operating within a specific strategic focus area of the telecommunications sector in South Africa. The focus is characterised at present by limited competition and relative barriers to entry because of rights of way, and high capital expenditure considerations. Broadband Infraco will not participate in those areas of the Southern African telecommunications market or value chain that are efficient and experience high levels of competition in terms of available services and pricing options.

The Broadband Infraco business comprises two key elements, namely:

- A National Long Distance fibre optic network, providing high capacity telecommunication services between all major metropolitan centres and being expanded to extend connectivity to identified smaller cities and rural areas, and;
- An International Marine Cable network comprising a marine cable that is being manufactured and that will be deployed between South Africa and the United Kingdom.

National Connectivity

The Broadband Infraco fibre optic network currently comprises of approximately 12 100 km of optical transmission routes. The backbone network utilises the latest generation Dense Wavelength Division Multiplexing (DWDM) equipment, providing a number of 2.5 Gbit/s and 10 Gbit/s capacity connections along the majority of fibre routes. Network extensions have also been implemented to provide fibre connectivity to the neighbouring countries of Botswana, Lesotho, Mozambique, Namibia, Swaziland, and Zimbabwe. Broadband Infraco is also well positioned to link west coast and east coast international cable systems.



International Connectivity

Broadband Infraco is a significant investor in the 5.1Tbits/s West Africa Cable System (WACS) Project. The cable will connect South Africa (SA) to the United Kingdom (UK), with landing stations in Portugal and along the west coast of Africa. WACS will provide:

The landing station in South Africa will be at Yzerfontein and the system is expected to go live during the third quarter of 2011.

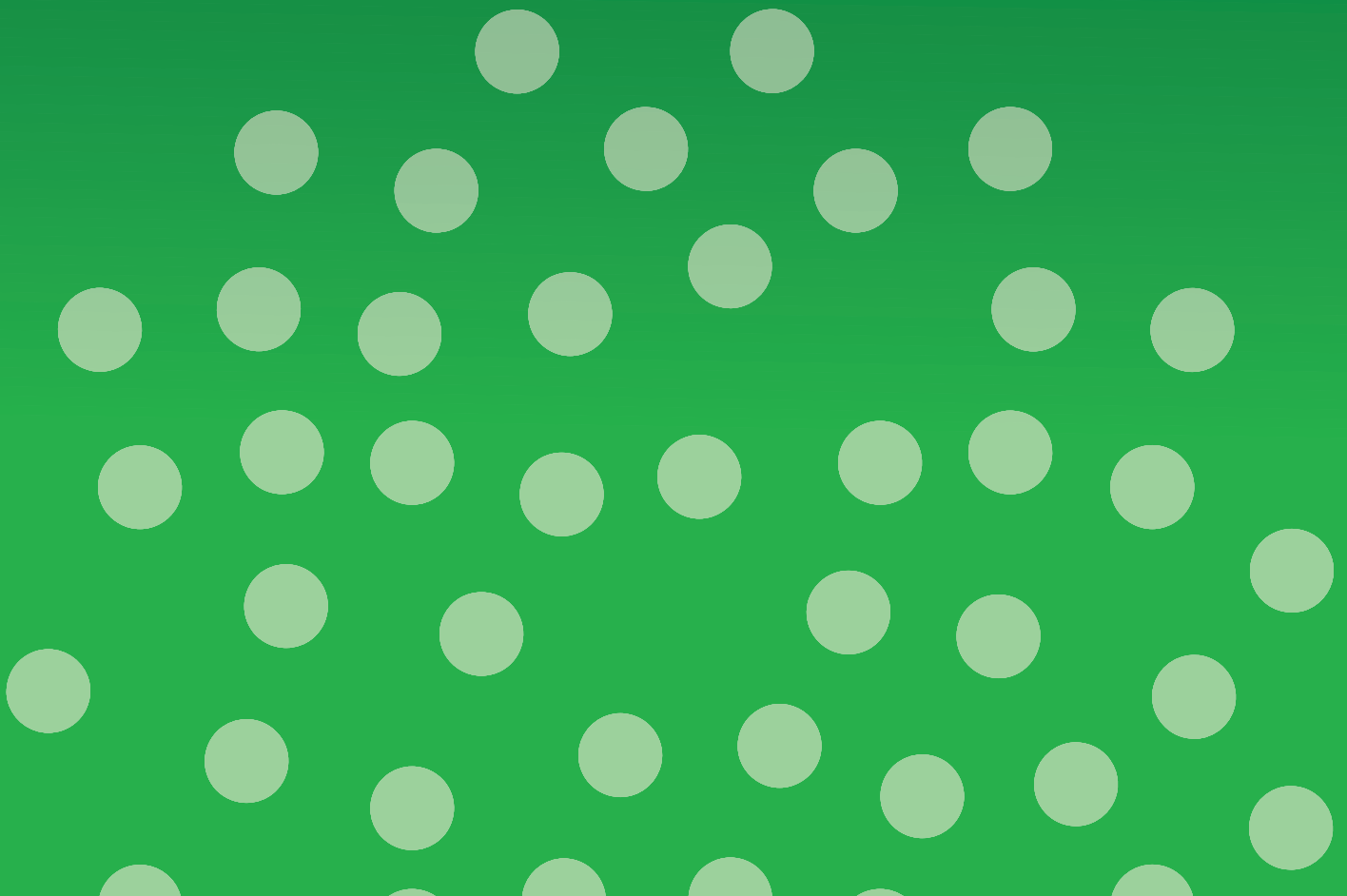
- Lower cost, sustainable and efficient international bandwidth; and
- Position SA for future economic growth as it will connect SA to key global knowledge economies of the world.



Broadband Infraco



Chairman and Chief Executive
Officer's Report



Chairman and Chief Executive Officer's Report



Opening Remarks

After twenty-eight months of operations, Broadband Infraco has made noteworthy progress in both key elements of the business namely; National and International. During the reporting period the national long distance fibre optic network has been further expanded and efforts were focused on establishing internal business operations and the ability to serve the open wholesale market.

The company also made significant progress on the international connectivity project with the conclusion of the West African Cable System (WACS) commercial agreements and system supply contracts. This has resulted in the commencement of the manufacturing and imminent installation of the new high capacity cable system between South Africa and the United Kingdom along the west coast of Africa.

Legislative and Regulatory Environment

During April 2009, Broadband Infraco submitted applications for both an Individual Electronic Communications Services (I-ECS) licence and an Individual Electronic Communications Network Services (I-ECNS) licence in terms of the Electronic Communications Act, No. 36 of 2005 (ECA) and the Ministerial Policy Directive of 6 February 2009.

The Independent Communications Authority of South Africa (ICASA) published the applications for public comment in May 2009. ICASA subsequently conducted

public hearings in respect of Broadband Infraco's licencing process at the end of June 2009. The public hearings were followed by negotiations between Broadband Infraco and ICASA on the detail of the specific terms and conditions to be included in the licences.

The Minister of Communications then issued a draft policy direction after the terms and conditions of the licences had been finalised between the parties, indicating his intention to amend the policy direction of 6 February 2009 which directed ICASA to consider and accept applications from Broadband Infraco for both the I-ECNS and I-ECS licences. The draft policy direction issued on 13 October 2009 instructed ICASA to only consider an application for an I-ECNS licence (from Broadband Infraco), and not an I-ECS licence. The Cabinet gave it's approval to the draft policy direction in April 2010.

On 19 October 2009, ICASA issued Broadband Infraco with an I-ECNS licence with substantially the same terms and conditions as those agreed upon during the negotiation process mentioned above. This was a significant milestone in the establishment of Broadband Infraco because it provided the legal framework within which the company could execute its wholesale business model, that is, to provide long distance telecommunications services to other licenced or licence exempt operators in South Africa. The I-ECNS licence issued would also empower Broadband Infraco to deliver on a significant portion of its mandate as set out in the Broadband Infraco Act, No. 33 of 2007.

At the same time in October 2009, ICASA advised that with regards to the I-ECS licence, it had pending the decision on the I-ECS licence application until the legal issues surrounding the Broadband Infraco licensing process has been finalised. ICASA then published its reasons for the decisions taken in relation to Broadband Infraco's application for an I-ECS and I-ECNS licences early in April 2010. The notice indicated that ICASA has resolved not to grant Broadband Infraco an I-ECS licence.

Broadband Infraco is not in agreement with the resolution taken with regards to the I-ECS licence application and the reasons given by ICASA. Broadband Infraco has assessed the impact of not being awarded the I-ECS licence and we wish to report that the most significant impact is in the area of ensuring connectivity services for the projects of national interest in accordance with the remaining element of the Broadband Infraco mandate. This impact will be most severe from a financial perspective in the context of the business plan for Broadband Infraco's investment in the international submarine cable project.

Broadband Infraco will continue to assess all options going forward and will work to finalise all outstanding matters relating to the I-ECS licence application during the next reporting period.

Broadband Infraco Market

Broadband Infraco is the second national long-distance network operator in South Africa and as stated above, the organisation obtained the necessary operating licence during the 2009/10 financial year to allow the company to sell services to other licenced and/or licence exempt operators in the country. Broadband Infraco has adopted a wholesale, carrier-of-carriers business model, consistent with its mandate, as the most effective way of making available the network and services to its future target market. This strategy is informed by the fact that the retail environment is well developed and efficient for distribution of services that wireless, fixed line operators and internet service providers (ISPs) currently provide to end-users. Broadband Infraco will therefore focus on enabling the overall telecommunications market through the key market players mentioned above, based on the desired requirement for affordable, high capacity long distance and international connectivity.

As a carrier-of-carriers, Broadband Infraco will sell high capacity national long-distance and international transmission services to licenced fixed and mobile network operators, internet service providers and other value added network service providers, which they can either use to expand the reach and capacities of their own networks or resell to their customers. Broadband Infraco will also focus on providing long distance connectivity to projects that are of national interest, and which require affordable high capacity data services.

The services offered by Broadband Infraco will essentially assist other licenced operators and service providers to improve their cost structure as it allows them to:

- provide national connectivity at much lower cost and negate the need to invest capital in building their own long distance networks;
- provide higher levels of service to their customers due to the addition of an alternative long distance service provider; and
- focus on their core business, such as metro fibre optic networks for metro backhaul, as well as wireless last mile services.

Other operators are also able to benefit from the economies of scale that can be achieved through the aggregation of large volumes of long distance traffic from multiple operators and service providers on the Broadband Infraco network, which will exceed what they would be able to achieve on an independent basis.

Of importance is that the wholesale market in South Africa experienced significant changes during the 2009/10 financial year. From a national long distance point of view, wholesale prices declined by approximately 73% during the reporting period and international prices have reduced by some 60% since the inception of Broadband Infraco's international connectivity project. Furthermore, international network capacity by way of submarine cables connecting South Africa to Europe and the East has also increased dramatically during the past year and will continue to do so in the near future with the addition of two new cable systems on the East and West of the African continent.

This combination of much lower prices and the potential for a large over supply of international capacity in the

short and medium-term has an important bearing on the financial sustainability of all telecommunications operators that are active in the sector. The risk exposure is even more significant for newer operators that have not yet established their presence in the market.

Broadband Infraco Products and Services

Broadband Infraco has completed the development of its product and services offering and will be ready to enter the market once a number of capital projects, designed to ensure that the company can offer carrier grade services, have been completed.

The product portfolio offers a number of different capacities and service levels that customers can choose from. Broadband Infraco services are based upon the provision of high capacity managed bandwidth from point-of-presence (POP) to POP located within its national long distance fibre optic cable network.

Services on offer are available in the following bandwidths:

- STM-1 or 155 Megabits per second (Mbit/s)
- STM-4 or 622 Mbit/s
- STM-16 or 2.5 Gigabits per second (Gbit/s)
- STM-64 or 10 Gbit/s

Various payment terms and contract periods are also available to best suit customer needs. Services can also be acquired on a leased circuit or Indefeasible Right of Use (IRU) basis. Leased circuits offer customers more flexibility in that they can be taken over shorter periods than an Indefeasible Right of Use (IRU) and the cost is spread over the lease period, avoiding the normal upfront capital expense of a typical IRU. Broadband Infraco offers leased circuits on a 1, 3, or 5 year basis. An IRU is equivalent to "part ownership" of or, unfettered access to a portion of the cable for its remaining lifetime (typically 10 years) and is particularly suited to larger operators with long term bandwidth requirements.

The company will also be able to provide customers with Ethernet services between its respective long distance POP in the near future.

Business Development and Sales

Broadband Infraco has devised a business development strategy and has appointed a number of key account managers who have actively been engaging with other licenced operators as prospective customers locally and internationally. Demand for Broadband Infraco services appears to be higher than projected in the initial phases of the business plan, which is a very positive sign. The company expects to conclude a number of sales transactions as soon as the network commercialisation process has been completed during the next financial year.

During the year under review the company was preparing for launch to the open wholesale market and hence still only had one customer, namely Neotel (Pty) Ltd, in accordance with the Right of Use and Operate Agreement between Broadband Infraco and Neotel, which has been in effect since 1 December 2007. Neotel has continued to grow market share in South Africa by making use of the Broadband Infraco's national long distance network during the third year of the commercial agreement between the two parties.

Since Broadband Infraco was awarded its I-ECNS licence in October 2009, the sales function of the organisation has been progressing a number of activities in order to prepare for full commercial launch. These sales activities include:

- Negotiating a new 'Wholesale Capacity' agreement with Neotel which will be based on delivering managed telecommunications connectivity services to defined service level agreements rather than just leasing infrastructure as per the initial period in the current Right of Use and Operate Agreement. This contract is expected to be for a longer term and will supersede the Right of Use and Operate Agreement which terminates at the end of the 2010/11 reporting period;
- Engaging the market to develop relationships with potential new customers and refine the product set and pricing. Sales relationships are now in place with the majority of licenced and licence exempt entities in South Africa that would procure wholesale services;
- Building a 'Sales Pipeline Management Tool' to track and monitor customer relationships, leads and opportunities. This tool will also be used in the future to develop revenue targets for the business;

- Preparing contractual documentation for sales contracts with new customers in the future; and
- Building and developing the sales team to be able to secure new business and manage service delivery on multiple accounts.

The response from the market to the forthcoming launch and the products and services to be offered by Broadband Infraco has been very encouraging.

Business Review

National Long Distance Infrastructure

Network Development

Capital investment in network infrastructure development during the 2009/10 financial year was primarily driven by the following objectives:

- Expansion of the network capacity and footprint
- Improved network performance and service availability;
- The establishment of network operation capability; and
- Life extension and refurbishment of older generation plant and equipment.

The optical transmission capacity of the Broadband Infraco network was expanded by 75% during the reporting period to meet the increased capacity requirements of Neotel and to provide the necessary capacity for direct Broadband Infraco sales to the external wholesale market. Furthermore, interconnects to Namibia, Zimbabwe and Swaziland were successfully completed, requiring the installation of an additional 420 kilometers of fibre optic network and associated long distance repeater stations.

Five new open access long distance points-of-presence (POPs) were identified (three in Gauteng, one in Durban and one in Cape Town). These POPs are currently being commissioned. These facilities will give Broadband Infraco much improved access to the wholesale market at these

strategic access sites.

The engineering team has also completed the design for the establishment of an Internet Protocol (IP) and Multi-Protocol Label Switched (MPLS) compliant core network that will significantly augment the long distance bandwidth capability of the existing optical transmission network.

The new Network Operations Centre (NOC) facility which is currently being built at the Woodmead Head Office was specified and designed along with an upgraded network element management capability and its associated disaster recovery capability.

Broadband Infraco has also researched Operational Support Systems (OSS) and Business Support Systems (BSS) required for the effective operations of a best practice, TeleManagement Forum compliant, wholesale telecommunications network. This puts Broadband Infraco in a favourable position to source a fit for purpose and competitive OSS/BSS solution during the new year.

With the conclusion of a transmission network equipment framework agreement, the first phase of a rolling network optimisation program was undertaken to replace the end-of-life 20 channel Dense Wavelength Division Multiplexing (DWDM) system from Gauteng through to Bloemfontein. This section of the network was replaced with a new generation 40 channel DWDM system. These network optimisation projects will not only provide additional capacity for Broadband Infraco but also provide urgently needed spares in support of the remaining legacy DWDM network elements.

Projects were also initiated for the upgrade of the Environmental Alarm System (EAS) equipment at many stations to give more reliable visibility of the facilities, power and other environmental conditions at all sites to the NOC.

In summary, the Broadband Infraco national network infrastructure now comprises of 12 125 kilometres of optical transmission links and 140 long distance sites, with regional connectivity to six neighbouring states.

Network Operations and Maintenance

As was the case during the previous reporting period, the main operation and maintenance of the network was achieved through outsourcing arrangements during the reporting period. The primary service providers were:

- Neotel for the overall management of the operations and maintenance activities;
- Nokia Siemens Network for the 24 x 7 x 365 operations of the network; and
- Eskom Telecommunications and Transnet Freight Rail Services for the fibre and equipment maintenance and repairs contracts.

Work is continuing on the identification of critical optical fibre cable sections in conjunction with the fibre cable maintenance organisations, and of fibre cable sections with recurring faults in order to raise projects and alternative strategies to improve network availability. In order to improve the performance of the network a number of enhancement strategies have been implemented. These include the approval of projects for the automatic switching of the network, re-routing of fibre cables away from high risk areas and the reinstallation of fibre cable sections that have structural defects.

Broadband Infraco's internal operational capability was bolstered by a number of key initiatives and capital projects in the past year. These included:

- New sites and container facilities which were catered for along the Transnet Freight Rail (TFR) routes from Johannesburg to Cape Town. Site infrastructure along the TFR route in the Northern (Limpopo) Ring from Gauteng through Polokwane and Hoedspret, Nelspruit and Welkom was also initiated. This will significantly improve access to the Broadband Infraco equipment and sites for the maintenance and operations personnel;
- Optical test equipment which was sourced to provide the new Broadband Infraco operations and maintenance teams at the remote sites with the necessary tools to conformance test new and repaired optical cable infrastructure and equipment; and

- Negotiating with Neotel to 'in-source' the operations and maintenance of the whole Broadband Infraco National Long Distance Network, which should be complete in the second quarter of 2010.

Operational and service excellence are key objectives of the company and although significant improvements in these areas have been achieved, the overall availability of network elements still has to be further improved to meet the required carrier class service levels in the future.

The Development of International Connectivity

As described in the previous annual report of 2008/09, Broadband Infraco continues to participate in the West Africa Cable System (WACS) project in accordance with the international connectivity element of its mandate. WACS is a high capacity marine cable system that will link countries in Southern Africa, Western Africa and Europe, with up to 5.12 terabits per second of international bandwidth. Planned landing points include South Africa, Namibia, Angola, the Democratic Republic of the Congo (DRC), the Republic of Congo, Cameroon, Nigeria, Togo, Ghana, Côte d'Ivoire, Cape Verde, Canary Islands, Portugal, and the United Kingdom.

The year under review commenced on a positive note with the signing of the Construction and Maintenance Agreement (C&MA) on the 8th April 2009. The C&MA is the framework that governs the commercial relationship between WACS consortium members. The C&MA was signed by Angola Telecom, Broadband Infraco, Cable and Wireless, Sotelco, MTN, Telecom Namibia, Portugal Telecom, Tata Communications, Telkom SA, Togo Telecom and Vodacom. The contract for the supply of the cable system was signed on the same day with Alcatel-Lucent Submarine Networks following an extensive competitive tender process. The supply contract came into force on the 25 May 2009 after consortium members provided payment securities to the supplier.

Governance structures were immediately established for the execution and management of the cable system as per the C&MA, led by the WACS Management Committee (MC), which comprised of nominated representatives from each consortium party. The inaugural meeting of the MC resulted in the creation of

the sub-committees of the MC, namely the Procurement Group (PG), the Finance and Commercial sub-committee, the Assignment, Routing and Restoration (AR&R) sub-committee, and the Operations and Maintenance sub-committee and the Investment and Agreement sub-committee. We are proud to report that Broadband Infraco representatives were elected as chairpersons of the PG and the AR&R sub-committees. In addition, Broadband Infraco has representatives that participate in each of the other WACS sub-committees.

Landing parties have been selected from those parties who indicated their preference to land the cable. The parties have agreed to operate landing stations on a cost recovery basis, with parties operating landing stations mandated to give access to other parties in the project, on an open access basis. Due to regulatory difficulties with the landing of the cable in the DRC an additional party, Office Congolais des Postes et Telecommunications (OCPT), signed an amendment to the C&MA to join the project as an investor and also as the landing party for the DRC. The effect of OCPT's inclusion in WACS was the dilution of each party's investment level in WACS, with Broadband Infraco's stake reducing from the original 12% to 11.4% together with a marginal impact on the allocated capacity in the cable system.

The project is being actively managed and significant progress has been made in the supply of the cable system. Activities on the critical path of the project include licensing, permitting, land acquisition and the construction of cable stations. Marine surveys for the routing of the cable were completed during the reporting period. Manufacture of the undersea fibre optic cable and related optical and electronic transmission equipment is on schedule. The main marine cable laying activities are scheduled to commence in August 2010 and the cable system is expected to be ready for service during the third quarter of 2011.

Operating Results for the Year

Operating revenue from the rendering of network infrastructure rental services for the year was R317.5 million (2009: R227 million), excluding the charge of R11.1 million (2009: R46.7 million) which has been accrued to recognise the straight-lining of operating

lease income over the period of the lease agreement with Neotel in terms of IAS 17. The operating revenue for the year of R317.5 million was below the total budgeted revenue of R334 million by R16.5 million. This variance was primarily due to budgeted incremental revenue from the South African Research Network and the wholesale market that was not realised during the reporting period.

Broadband Infraco has implemented a new asset management process and system which entailed the identification, tagging and valuation of all network infrastructure elements and other company assets. The outcome of this significant effort has been to correctly recognise the value and categorisation of assets purchased during a prior financial year. As a result, the total value of Broadband Infraco's fixed assets has increased by R7.2 million. It has therefore been necessary for the company to restate some of the 2007/08 financial year results in the areas of fixed assets and closing reserves.

Expenditure increased to R407.4 million (2009: R372.8 million). The increase is mainly attributable to the cost of network operations, maintenance and repairs. Operating costs savings against the 2010 budget amount of R429.4 million were achieved mainly in the areas of staff costs, marketing expenditure and professional service fees.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") for the 2009/10 financial year was R-9.7 million (2009: R53.1 million). For the year under review, Broadband Infraco posted an after taxation loss of R28.3 million (2009: R0.1 million profit). The operating loss (inclusive of depreciation) for 2010 was R101 million (2009: R46.3 million). The actual operating loss and after taxation loss for 2010 were both significantly better than the budgeted amounts of R160.0 million (2009: R181.5 million) and R253.9 million (2009: R208.5 million) respectively.

At the end of the 2009/10 financial year, Broadband Infraco had been in operation for just over two years and it is therefore still reasonably early in the life cycle of the organisation. It is very typical for new startup telecommunications entities to experience negative operating results for the first 3 to 5 years of operations.

We are therefore satisfied with the financial performance of the company for the period under review because the financial results achieved are ahead of the annual budget and the projections provided for in the 3 year business plan.

Funding

Broadband Infraco received funding of R208 million (2009: R377 million) from the Department of Public Enterprises during the financial year. This increased the government's total equity funding contribution to an amount of R1,213 million (2009: R1,004 million), which represents a shareholding in Broadband Infraco of 74%. The Industrial Development Corporation ("IDC") of South Africa contributed funds of R73 million (2009: R353 million) bringing their total equity to R426 million to retain their 26% shareholding in the company.

Approximately 87% percent of the current year's equity contributed was used to fund network capital expenditure and other working capital requirements of the organisation during the year. The remainder of the funding contributed was invested in market linked investments in three different financial institutions in accordance with the company's Investment Policy. Broadband Infraco earned interest totaling R61.7 million (2009: R55.3 million) and cash generated from operations of the company during the reporting period was R50.6 million (2009: -R2.7 million). Cash on hand at the end of the 2009/10 financial year was R851.8 million (2009: R712.9 million).

Broadband Infraco had sufficient funding to meet all of its capital and operating expenditure obligations during the reporting period and therefore did not raise any short-term or long-term debt during the 2009/10 financial year. It is envisaged that the company will be required to secure debt funding of approximately R145 million during the next reporting period to fund the ongoing investment in national and international infrastructure.

Corporate Governance and Compliance

Ongoing progress has been made at Broadband Infraco in relation to establishing and implementing business processes, organisational controls and governance practices. The focus on sound corporate governance

principles is an imperative to underpin the sustainable success of Broadband Infraco. Broadband Infraco acknowledges the importance of complying with all relevant legal and regulatory requirements as well as best practice in this regard and for these reasons the organisation will continue to apply the necessary resources to ensure compliance across all functionalities in the company. The more than satisfactory outcomes of the Public Finance Management Act (PFMA) and Compliance audits for the reporting period are therefore pleasing in this regard.

The company has employed corporate governance processes and internal controls for its business activities, most notably in the areas of procurement, capital programme implementation, finance and asset management, enterprise risk management, company secretariat, compliance, and internal and external audit.

The Board of Directors ("board") was actively involved in charting the strategic direction for the organisation, significant network infrastructure investment decision-making and in the enterprise risk management processes of the entity. The board also provided effective oversight of the activities and operations of the company during the 2009/10 financial year. Four sub-committees of the board, namely; Audit and Risk, Investment and Finance, Tender and Procurement, and HR and Remuneration continued to be fully operational during the financial year. During the year under review, Ms M Mohlala resigned from the board to take up her new role as the Director General of the Department of Communications. We wish to thank her for her invaluable contributions whilst a member of the board and wish her every success in her new role.

With the new Companies Act of 2008 becoming effective in South Africa in 2010 and the release of the King III Report on Corporate Governance, Broadband Infraco is pro-actively preparing for a shift in the South African corporate governance and best practice regulatory environment. Board members have been trained and have engaged with subject matter experts on both the new Companies Act and King III Report. Executive management and employees undergo training on an ongoing basis to familiarise themselves on the impacts and implications of the new legislation for themselves and for Broadband Infraco.

We are satisfied that best corporate governance practices were applied by the board of Broadband Infraco and the company during the reporting period. More detailed information on this aspect of the business is included in the Corporate Governance report set out on pages 18 to 25 of this annual report.

Empowerment

Broadband Infraco has adopted and implemented the necessary commercial processes to ensure that the company complies with Broad Based Black Economic Empowerment (B-BBEE) requirements for the procurement of goods and services for the organisation.

Broadband Infraco's spending with companies meeting the necessary level 1 to level 4 B-BBEE contributor requirements was as follows for the financial year ending 31 March 2010:

- Level 1: R 1,513,778 (0.6%)
- Level 2: R 17,238,825 (6.7%)
- Level 3: R156,602,137 (60.7%)
- Level 4: R 77,622,091 (30.1%)

As a subset of the above, Broadband Infraco's Competitive Suppliers Development Program amounted to R37,339,576 (14.5%) in the form of initial upfront payments (of between 10% and 20% of total contract values), as well as suppliers benefitting from shorter payment cycles.

In summary, Broadband Infraco spending with companies meeting the minimum B-BBEE requirements was R252.9 million for the 2009/10 financial year, constituting 98.1% of the total procurement spent during the reporting period.

Staff Matters

At the end of the 2009/10 financial year, Broadband Infraco had a staff compliment of 76 (2009: 37). Appointments were made in the functional areas of marketing, sales and business development, network engineering, project management and site implementation, finance, human resources, commercial procurement, legal counsel, enterprise risk management, business process development, and other business support functions such as health, safety and the environment.

Broadband Infraco promotes employment equity through its recruitment policies and procedures and racial equity and gender equity appointments equalled 79% and 46% respectively by year end. The company developed and submitted its Employment Equity Plan with clear targets to the Department of Labour in January 2010 in line with its commitment to achieving a diverse workforce within the organisation that is representative of the country's demographics.

The ongoing recruitment of the necessary human resources required for Broadband Infraco business operations in the future continues to gain momentum and it is planned to double the staff compliment during 2010/11. In addition, outsourcing contracts with original equipment manufacturers and external service providers ensured that the necessary skills and expertise were available to operate and expand the network infrastructure.

Broadband Infraco is creating a culture of learning by continuously defining and updating its capabilities, creating a cycle of improvement by up-skilling its employees and managing talent with more emphasis on scarce or critical skills. A Workplace Skills Plan and Annual Training Report were submitted to the Sector Education Training Authority ("SETA") in support of these skills programmes. In addition, pleasing human capital development results were achieved during the reporting period with regards to the completion of tertiary and post graduate studies. During the 2009/10 financial year, Broadband Infraco spent 4% of payroll on skills development, thereby exceeding the minimum 1% required by the Skills Development Levy Act.

Furthermore, Broadband Infraco is committed to the development of the youth and skills in South Africa. Eight graduates from previously disadvantaged backgrounds were granted an opportunity to gain meaningful workplace experience and unlock their potential. As part of a two year internship programme, graduates were granted exposure in the fields of network engineering, project management and network operations and maintenance.

Enterprise Risk Management and Business Continuity

Enterprise Risk Management (ERM) is a critical cornerstone of good corporate governance and essential for the achievement of Broadband Infraco's business

objectives. The starting point for the company's ERM policy implementation is an ERM framework that respects the needs and aspirations of all with whom Broadband Infraco has relationships. To this end, all risks, strategic and operational, that could prevent Broadband Infraco from reaching its business objectives were identified, proactively managed and continually reported on. Information technology tools to assist the organisation in this regard were implemented during the 2009/10 financial year.

In the year under review, Broadband Infraco documented and implemented a comprehensive Business Continuity Plan (BCP) that includes a Disaster Recovery Plan (DRP) for the network infrastructure and the new Network Operations Centre (NOC). This was done in order to counteract interruptions to business activities and to protect or mitigate critical business processes from the effects of major failures. The DRP also outlined activities to ensure timely resumption of services following disasters. A program to fully implement the determined response strategies will continue to be developed and executed during the next financial year. This will ensure resilience of Broadband Infraco's business operations, providing service availability assurance to customers even under adverse conditions.

Focus on Health, Safety, Environment and Quality (HSEQ)

Broadband Infraco commenced with the implementation of the Occupational Health and Safety Management System (OHSAS 18001:2007), an Environmental Management System (based on ISO 14001:2004) and a Quality Management System (ISO 9001: 2008) during the past year. These efforts will continue during the 2010/11 financial year until compliance certifications are attainment by Broadband Infraco. Gap analysis audits are being conducted in each of the three areas to prepare the organisation for final compliance evaluations.

The HSEQ functions in the company continued to support the network infrastructure expansion programme during the 2009/10 financial year with the development of HSEQ specifications, supplier and contractor HSEQ competency evaluations, the preparation and audit of environmental management plans, assisting during the process of servitude and site acquisition and access and, land owner stakeholder management. No lost time injuries or environmental incidents were

reported during the 2009/10 financial period. All HSEQ training planned for the reporting period was fully implemented and will continue as and when new employees are employed or require additional training.

The Year Ahead

Broadband Infraco has identified six top national priorities for the 2010/2011 financial year.

- **Establishing Network Operations Capability:** Broadband Infraco will conclude the process of in-sourcing network operations capabilities, which had previously been outsourced to Neotel as part of the Right of Use Agreement. The company is also establishing and rolling out its own Network Operations Centre and field operations and network maintenance functions, in order to achieve enhanced control over network quality.
- **Execution of the Commercial Launch Program:** Broadband Infraco will finalise all preparations for commercial launch in the third quarter of 2010, including service testing, brand and marketing campaigns, personnel training, as well as the sales and customer support environments and processes. The company is aiming to provide its customers with an excellent customer experience.
- **Diversification of the Broadband Infraco Customer Base:** Broadband Infraco is focused on diversifying its customer base, currently still limited to Neotel, whilst retaining Neotel as a key customer. The company will drive its sales and business development initiatives to engage with customers to in order to build up an order book in advance of commercial launch. The company has also tendered for the Karoo Array Telescope (KAT)/Meerkat network program as part of the initial phases of the Square Karoo Array (SKA) telescope project and is currently awaiting the outcome of the bidding process.
- **Staffing and Human Capital Development:** Broadband Infraco will continue to work with the best recruitment agencies in South Africa in order to identify and recruit talented individuals for a number of new key positions. Thirty nine additional permanent staff have already been appointed since the beginning of the new financial year. The company is also undertaking several initiatives to ensure the retention of key personnel, which will be critical during the early stages of market entry.
- **Network Build Programme Execution:** Broadband Infraco is driving an extensive capital build program,

which includes the establishment of new independent points-of-presence (POPs), not only in Johannesburg, Cape Town and Durban, but also in other commercial centres around the country. These POPs are to be in close proximity of access points to the networks of other licenced operators, such as co-location facilities or data centers. Broadband Infraco will also initiate several capital projects that are designed to ensure that the network is capable of delivering carrier grade data service, as well as initiatives that are focused on minimising downtimes through business and operational support systems.

- Development of a Framework and Business Model for Providing Long-distance Backhaul Services to Underserved Areas: In consultation with the Underserved Area Licencee (USAL) Forum and a number of licenced USALs, Broadband Infraco will work on finalising a partnership framework designed to enable the provision of end user services to underserved areas. The company is focused on creating a business model capable of creating sustainable partnership options to leverage the Broadband Infraco long distance network. Partners will typically include USALs or ECS licenced operators capable of providing voice, messaging and internet access solutions via combinations of fixed or mobile access layer technologies. Partnerships will also be investigated with local communities, schools, hospitals and clinics, or government institutions.

Ongoing development of the Broadband Infraco international business unit and ongoing participation in the WACS project development will be key to realising the objectives of the company's international connectivity mandate. Furthermore, due to the fiercely competitive nature of the international connectivity sales arena, Broadband Infraco has appointed resources to actively pursue significant block capacity sales to prospective customers.

Conclusion

Broadband Infraco progressed during the 2009/10 financial year with the most important results being achieved in the branding, sales pipeline, product and service definition, network development, financial performance and controls, recruitment and corporate governance areas of the business.

The 2010/11 financial reporting period will be an important year in the growth of the organisation during which we will enter the wholesale market from an open access point of view and continue to develop and establish the Broadband Infraco brand in the South African telecommunications sector.

The company is vigilant of the changes occurring in the national and international wholesale markets both from an oversupply of capacity and price reduction perspective and is aware of the challenges facing Broadband Infraco when it comes to ongoing financial sustainability. With the strategic initiatives that are planned for the current financial year, Broadband Infraco believes it will be well positioned to deliver on its mandate and support the government objective of lower costs for long distance telecommunication services in South Africa.

Our strategic goal remains for Broadband Infraco to become the wholesale supplier and service provider of choice for our existing and future customer's national and international long distance connectivity needs.

Appreciation

We would like to thank the board members, committee participants, management and staff for the contribution that each has made to Broadband Infraco during the 2009/10 financial year. Our thanks and appreciation to all our stakeholders and, in particular, the Minister of Public Enterprises and her department as well as and the Industrial Development Corporation of South Africa for their ongoing support.



A F B MTHEMBU

Chairman of the Board



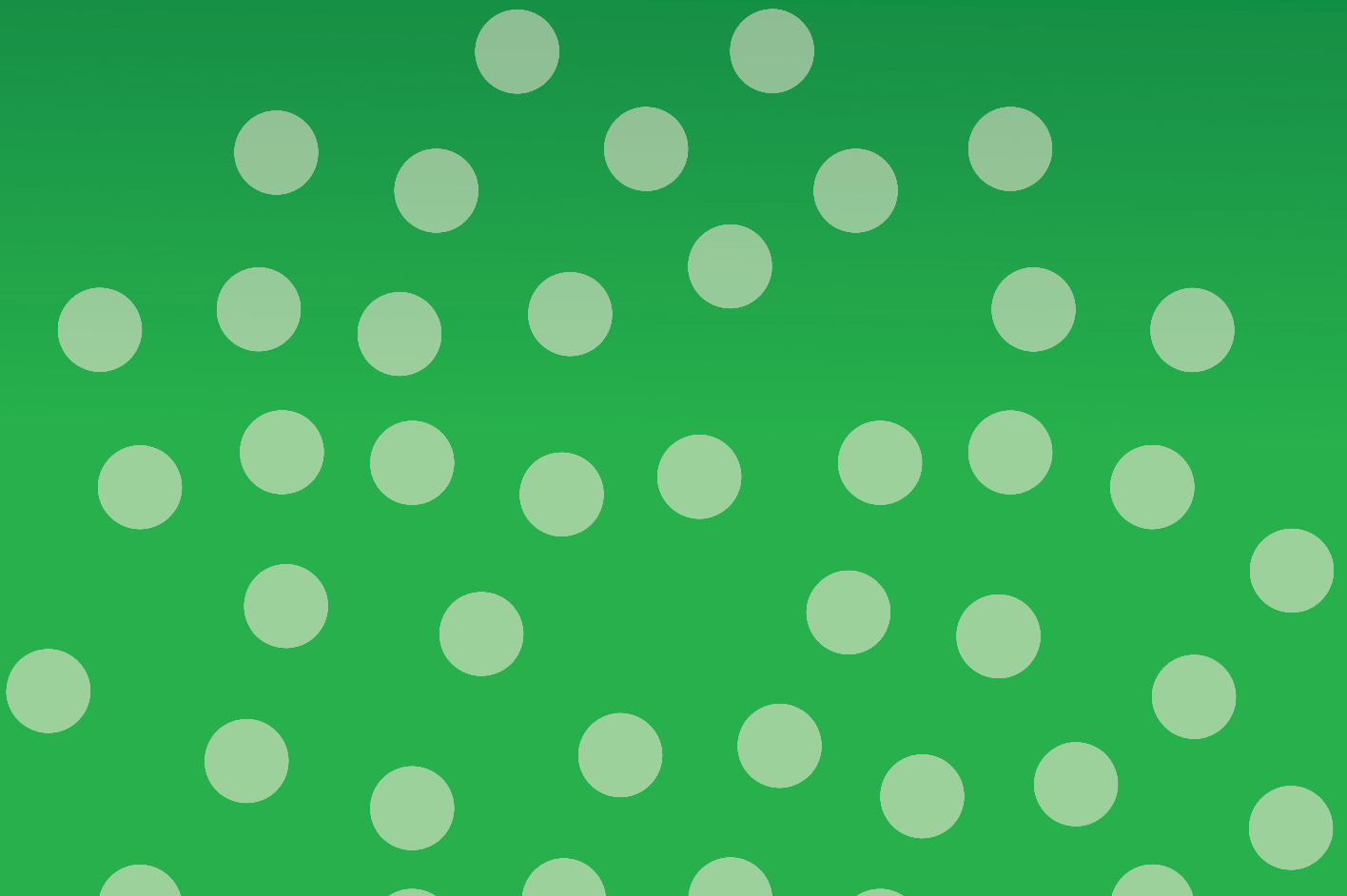
R D SMITH

Chief Executive Officer

Broadband Infraco



Corporate Governance Report
for the year ended 31 March 2010



Corporate Governance Report for the year ended 31 March 2010

Introduction

This report sets out the key governance principles adopted by the directors in governing Broadband Infraco.

The Board of Directors are drawn from diverse backgrounds and reflect a wide range of business leadership experience and professional skills that are viewed as invaluable to the organisation. The term of office of non-executive directors is a maximum of three years. Retiring directors will be eligible for re-appointment at the Annual General Meeting.

In terms of the Board Charter, directors or external committee members may use teleconference facilities to participate in meetings and they are counted as having attended the meeting. The attendance of members at board meetings is reflected on page 20.

The board endorses the principles of accountability, integrity and transparency underlying the Code of Corporate Practices and Conduct as contained in the King Report on Corporate Governance for South Africa, 2002 (the "King II Report 2002") and also endorses the principles contained in the Protocol on Corporate Governance for State Owned Enterprises.

Sound corporate governance and processes are being applied by Broadband Infraco on an ongoing basis. They are regularly reviewed and adapted to accommodate internal corporate developments and take into consideration the rapidly changing environment which presents new and complex challenges. The company is accordingly subject to ongoing disclosure, corporate governance and other legislative requirements such as those statutory duties and responsibilities imposed by the Companies Act and augmented by the Public Finance Management Act (PFMA), 1 of 1999.

The board views corporate governance as integral to good performance. Broadband Infraco's systems and processes are regularly reviewed to ensure that compliance is monitored in this regard. The board is responsible for the ongoing direction setting and assessment of the company's activities relating to:

- Strategy and business plans;
- Reviews of management performance against objectives, which include:
 - Policy objectives;
 - delegation of powers to board committees;
 - responsibilities and Terms of Reference of board committees; and
 - level of authority of board committees.

In preparing the annual financial statements, the company has used appropriate accounting policies supported by reasonable and prudent judgements and estimates, and has complied with all applicable standards. The directors are of the opinion that the annual financial statements fairly present the financial position of the company as at 31 March 2010, and the results of its operations and cash flows for the year then ended.

The board has functioned as a collective whole since August 2008 and an independent board evaluation for the period under review was conducted and presented to the shareholders. The Shareholders considered the report at the Annual General Meeting held on 14 July 2009 and were satisfied with the outcome of the board evaluation.

Shareholding and Shareholder's Compact

The Government of the Republic of South Africa (as represented by the Department of Public Enterprises (DPE) and the Industrial Development Corporation (IDC) of South Africa are Broadband Infraco's Shareholders. A Shareholder's Compact which outlined the performance objectives, measures and indicators in line with National Treasury Regulations issued in terms of the Public Finance Management Act (PFMA), was developed and agreed to between the DPE, IDC and Broadband Infraco for the period under review.

The Shareholder's Compact does not interfere with the normal principles of company law and the relationship between the shareholder's and the board will be preserved. The Shareholder's Compact promotes good corporate governance by helping to clarify the board and Shareholder's roles and responsibilities and ensures consensus on Broadband Infraco's mandate and key

objectives. The board will continue to ensure that proper internal controls are in place and the Broadband Infraco is effectively managed.

Delegation of Authority

In terms of Sections 54(2) and 55(2) of the PFMA, Broadband Infraco must develop and agree a framework of acceptable levels of materiality and significance with the shareholders. A Significance and Materiality Framework has been developed and agreed and a Memorandum of Understanding between the shareholders and Broadband Infraco has been signed. The Significance and Materiality Framework as approved in 2007, was tabled for review at the Annual General Meeting held on 14 July 2009 and was duly approved by the Shareholders.

The board has the authority to lead, control, manage and conduct the business of Broadband Infraco, including the authority to delegate. Its aim is to ensure that the company becomes and remains a sustainable and viable business of global stature. Its responsibilities are facilitated by a well developed structure of board committees and a comprehensive delegation of authority framework. This framework assists decision making without diluting director accountability and responsibility. The annual review of the current delegation of authority framework will be conducted by the board during the next financial year.

Governing Bodies

Board of Directors and Executive Directors

The details of board of directors and executive directors appear on pages 3 to 5 of the annual report.

The company has a unitary board structure comprising seven independent non-executive directors, one non-independent non-executive director and two executive directors. Ms M Mohlala resigned from the board on 15 September 2009. The directors, appointed by the Minister of Public Enterprises and Industrial Development Corporation (IDC) respectively, bring a wide range of experience and professional skills to the board.

The board has adopted a Board Charter which provides a concise overview of:

- the segregation of roles, responsibilities, functions and powers of the board, shareholders, individual directors, officers and executives of the company;
- the terms of reference of the board committees;
- matters reserved for final decision making or pre-approval by the board; and
- the policies and practices of the board for such matters as corporate governance, declarations of conflicts of interests, board meeting documentation and procedures, and the nomination, induction, training and evaluation of directors and members of the board and its sub-committees.

Within the powers conferred upon the board by the articles of association, the board has determined its main function and responsibility of adding significant value to the company by:

- retaining full and effective control over the company;
- determining the strategies and strategic objectives of the company;
- determining and setting the tone of the company's values, including the code of ethics which covers the principles of ethical business practices; bringing independent, informed and effective judgement to bear on material decisions of the company;
- satisfying itself that the company is governed effectively in accordance with corporate governance best practice, including risk management and internal control systems; and
- monitoring implementation by board committees and executive management of the board's strategies, decisions, values, policies by a structured approach to reporting risk management and auditing.

The directors are appointed for a period of three years and are re-appointed at each annual general meeting by the Shareholders.

Attendance at board meetings for the period ending 31 March 2010

	1	2	3	4	
Director	19 May 2009	18 June 2009	28 Oct 2009	08 Dec 2009	Total
A F B Mthembu ¹	✓	•	✓	•	2/4
C Groesbeek	✓	✓	✓	✓	4/4
L N Letele	•	✓	✓	✓*	3/4
S T Mabalayo	✓	✓	✓	✓	4/4
S Mabaso-Koyana	✓	✓	•	•	2/4
W T Magasa	✓	✓	✓	✓	4/4
S A U Meer	•	•	✓	✓	2/4
M J Singer Saul	•	✓	✓	✓*	3/4
R D Smith ²	✓	✓	✓	✓	4/4
S Maharaj ³	✓	✓	✓	✓	4/4
M Mohlala ⁴	✓	•	-	-	1/2

- ✓ Attended
 • Absent with apology
 * Teleconference
 - Resigned

- 1 Chairman of the Board
 2 Executive Director (Chief Executive Officer)
 3 Executive Director (Chief Financial Officer)
 4 Resigned: 15 September 2009

Board Committees

The board has established four permanent committees to assist in the execution of its responsibilities. These committees are the Audit and Risk Committee, Tender and Procurement Committee, Investment and Finance Committee, and the Human Resources and Remuneration Committee.

The committees are tasked with assisting the board in carrying out its responsibilities. Their recommendations and ongoing reports to the board ensures transparency and full disclosure of committee and business related activities. Each committee operates within approved terms of references that set out the composition, role, responsibilities, delegated authority and the requirements for convening meetings.

Committee meeting agendas, documentation and minutes are made available to all members of the board on request. Sub-committees may also be formed on an ad hoc basis to deal with specific matters.

The executive management committee (EXCO) is not a sub-committee of the board but meets on a regular basis to deal with issues of operational importance and recommends matters of strategic importance to the board or its sub-committees for consideration and approval. The board also delegates certain authority to EXCO in terms of the significance and materiality framework. Regular reports of decisions taken by EXCO are submitted to the board.

Audit and Risk Committee

The Audit and Risk Committee comprises two independent non-executive directors and one non-independent non-executive director together with Mr I Kaje, an external committee member who brings additional expertise to the committee.

The Audit and Risk Committee is an important element of the board's system of monitoring and control. All

Audit and Risk Committee members have extensive experience and financial and accounting expertise. The Chief Executive Officer and the Chief Financial Officer as well as the Risk and Assurance Manager attend Audit and Risk Committee meetings by invitation.

The committee monitors and ensures that internal control is maintained to protect Broadband Infraco's interests and assets. The committee also reviews the annual financial statements, the quarterly reports submitted to the shareholders, any other financial information to be made public, and any accounting concerns raised by internal and external auditors. It assists the board in relation to the reporting of financial information, the appropriate application and amendment of accounting policies and the identification and management of risk.

The committee ensures that an effective internal audit function is in place and that the roles and functions of the external and internal auditors are sufficiently clear and co-ordinated to provide an objective overview of the operational effectiveness of the company's systems of internal control, risk management, governance and reporting. The committee also has to assess the performance of the internal audit function, and the adequacy of available internal audit resources and governs external audit.

The Audit and Risk Committee approves the internal audit plan, the external auditors engagement letter and terms and the nature and scope and the audit fee. The internal audit charter, internal audit plan and internal audit conclusions are similarly reviewed and approved by the Audit and Risk Committee.

A report by the Chairperson of the committee is included on page 29.

Attendance at Audit and Risk Committee meetings for the period ending 31 March 2010

	1	2	3	4	
Committee Member	04 June 2009	07 Aug 2009	19 Oct 2009	01 Feb 2010	Total
M J Singer Saul ¹	✓	✓	✓	✓	4/4
I Kajee ²	✓	✓	✓	✓	4/4
S A U Meer	✓	✓	✓	✓	4/4
S Mabaso-Koyana	•	✓	•	•	1/4

- ✓ Attended
- Absent with apology

- 1 Chairperson
- 2 External Committee Member

Investment and Finance Committee

The Investment and Finance Committee comprises five independent non-executive directors, one non-independent non-executive director, and two executive directors. Ms S Mabaso-Koyana resigned from the committee on 14 October 2009.

The committee reviews the investment strategy and makes recommendations to the board. It evaluates and approves business cases for new ventures and projects, approves criteria and guidelines for investments and approves investments within its delegated authority.

Those investments outside of the committee's delegated authority are recommended to the board for approval.

The committee also monitors and oversees the financial health of Broadband Infraco, including the review of budgets and financial business plans. Investment decisions are made within a framework of policies that guide such decisions and which are approved by the board.

A report by the Chairperson of the committee is included on page 31.

Attendance at Investment and Finance Committee meetings for the period ending 31 March 2010

	1	2	3	
Committee Member	25 May 2009	14 Oct 2009	30 Nov 2009	TOTAL
N Letele ¹	✓	✓	✓	3/3
A F B Mthembu	✓	✓	✓	2/3
C Groesbeek	✓	✓	✓	3/3
S Mabaso-Koyana ²	•	^	^	0/1
S Mabalayo	✓	✓	✓	3/3
S A U Meer	•	•	✓	1/3
R D Smith ³	✓	✓	✓	3/3
S Maharaj ⁴	•	✓	•	1/3

- ✓ Attended
- Absent with apology
- ^ Resigned from the committee

- 1 Chairperson
- 2 Executive Director (Chief Executive Officer)
- 3 Executive Director (Chief Financial Officer)
- 4 Resigned: 14 October 2009

Tender and Procurement Committee

The Tender and Procurement Committee comprises six independent non-executive directors and two executive directors. Ms M Mohlala resigned from the Committee on 15 September 2009.

The Tender and Procurement Committee assists the board with procurement decisions, approves procurement policies, within its delegated authority.

With regards to tenders and contracts, the committee is responsible for:

- formulation of and maintaining procurement policies and processes that are fair, equitable, transparent, competitive, cost effective and subject to legislation regulating tender and procurement processes;

- making recommendations to the board in respect of tenders and contracts exceeding its delegated authority;
- ensuring that the Infraco procurement system, and associated policies and processes, are fair, transparent, competitive and cost effective, and adhered to; and
- promoting the objectives of Broad Based Black Economic Empowerment (BBBEE) and Competitive Supplier Development Plan (CSDP).

A report by the Chairperson of the committee is included on page 32.

Attendance at Tender and Procurement Committee meetings for the period ending 31 March 2010

	1	TOTAL
Committee Member	04 March 2010	
W T Magasa ¹	✓R	1/1
N Letele	✓	1/1
C Groesbeek	✓	1/1
A F B Mthembu	✓R	1/1
S T Mabalayo	✓	1/1
R D Smith ²	✓	1/1
S Maharaj ³	✓	1/1

- ✓ Attended
- Absence with apology
- * Teleconference
- R Recused
- ^ Resigned

- 1 Chairman
- 2 Executive Director (Chief Executive Officer)
- 3 Executive Director (Chief Financial Officer)

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee comprises three independent non-executive directors. Ms M Mohlala resigned from the committee on 15 September 2009.

The committee assists the board to enhance business performance through guiding and influencing key human resources policies and strategies, monitoring compliance with the Employment Equity Act, guiding strategies to achieve equity in Broadband Infraco, approving the principles regarding the reward and incentive schemes.

In consultation with the board:

- the committee recommends the remuneration policy for executive and non-executive directors for approval by the shareholder;
- determines and approves the individual remuneration packages, benefits, bonuses, incentive schemes, and adjustments to such packages of all executives of the company, within the framework approved by the shareholder;
- evaluates the effectiveness of the executive remuneration policy and considers, if necessary, independent surveys;
- determines any criteria necessary to measure the performance of executive directors of the company in discharging their functions and responsibilities.

- makes recommendations to the Shareholders on matters pertaining to remuneration and other emoluments of executive and non-executive board members;
- makes recommendations to the board on matters pertaining to appointments, removals, and resignations of executive and non-executive directors; and
- regularly reviews the board structure, size and composition, and make recommendations to the board with regard to any adjustments that are deemed necessary.

The committee is also responsible for identifying and nominating candidates for the approval of the Shareholders to fill board vacancies as and when they arise, as well as put in place plans for succession, in particular for the Chairperson and Chief Executive Officer, subject to the approval of the Shareholders; ensures that the process of appointing executives is credible and transparent; and recommends executive appointments for approval of the board.

A report by the Chairperson of the committee is included on page 33.

Attendance at Human Resources and Remuneration Committee meetings for the period ending 31 March 2010

Committee Member	1 24 August 2009	TOTAL
M J Singer Saul ¹	✓	1/1
A F B Mthembu	✓	1/1
N Letele	✓*	1/1
M Mohlala	•	0/1

- ✓ Attended
- Absent with apology
- * Teleconference

1 Chairman

Board Evaluation and Performance

In terms of the Board Charter as well as the Shareholder's Compact, the board is required to evaluate its performance annually. During the period under review, the board was independently evaluated and the report of such evaluation was submitted to the Shareholders' for consideration. The Shareholders' discussed the report as well as the results of the board evaluation at the Annual General Meeting held on 14 July 2009 and were satisfied with the report as well as the overall performance of the board.

Directors' remuneration

Please refer to note 22 on page 72 to the annual financial statements for details of directors remuneration.

Company Secretarial Function

Directors have unrestricted access to the advice and services of the Company Secretary. Directors may seek independent professional advice, at the company's expense, should they deem this necessary.

The Company Secretary monitors and reports on the company's compliance with the Public Finance Management Act (PFMA), Companies Act, the King Code on Corporate Governance, Protocol on Corporate Governance in the Public Sector, and any other relevant and applicable legislation.

Public Finance Management Act, 1 of 1999 (PFMA)

The board is the accounting authority in terms of the PFMA and Broadband Infraco is listed as a Schedule 2 public entity. The PFMA regulates financial management and governance practices and requirements. Broadband Infraco ensures that all directors and employees are aware of the provisions of the PFMA through regular training programmes. Directors comply with their fiduciary duties as set out in the PFMA. The board's responsibilities and fiduciary duties are also set out in the Act.

Standing Committee on Public Accounts (SCOPA)

The mandate of the Standing Committee on Public Accounts in South Africa is drawn from Section 55 and 114 of the Constitution, which states that legislatures are expected to hold all Organs of State accountable. This means that the work of a Public Accounts Committee is not limited to all institutions audited by the Auditor-General, but also to entities that receive public money, or that are authorised to receive money for public purposes.

In terms of the Public Finance Management Act (No. 1 of 1999, as amended), the executive must submit its annual report to Parliament by 30 September each year for scrutiny by parliament and by the SCOPA. Broadband Infraco has complied in this regard and hereby submits that it, nor any person in its employ, has been called to account at any time on any public matter within its sphere.

Risk and Assurance

Enterprise Risk Management

Broadband Infracore considers Enterprise Risk Management (ERM) to be pivotal to good corporate governance and critical to the achievement of its business objectives.

The board of Broadband Infracore is accountable for the system of risk management and internal control, which it reviews each quarter for effectiveness. The board is also accountable for establishing and maintaining appropriate risk and control policies and communicating these throughout the company. During the financial year, the approved ERM Policy and Framework were revised in order to address areas of improvement and shortcomings highlighted through the internal audit reviews and to align them with current developments in the ERM discipline.

Risks at both strategic and operational levels have been identified and assessed during the financial year. The progress of risk mitigation plans were monitored, documented and reported on a quarterly basis throughout the performance cycle. The efficacy of the risk mitigation plans resulted in a significant reduction of the residual level of risks associated with achieving strategic priorities.

Insurable risks to which the company is exposed were identified and appropriate insurance cover was purchased and maintained throughout the year.

Business Continuity Management

The nature of the business of Broadband Infracore requires that its products and services be available virtually 99.9% of the time to its customers. Furthermore, as an Electronic Communications Network Services (ECNS) licensee, Broadband Infracore is bound by the Minimum Standards for End User and Service Charters in terms of the Regulations of the Electronic Communications Act. Among other requirements, the Regulations require that licensees maintain ECN service availability at an average rate of 95%.

The myriad of strategic and operational risks that threaten the availability and continuity of services call for a systematic and methodical manner in which these risks are mitigated.

A Business Continuity Plan (BCP) has been developed in order to mitigate the effects of critical business disruption risks to ensure that the company can continue to operate even in the event of a disaster.

Fraud Risk Management

Broadband Infracore has developed and implemented a Fraud Prevention Plan.

The company has a zero tolerance approach to fraud, corruption and other economic crimes. The company recognises management of fraud risk as a business imperative and the fact that effective fraud risk management will improve the control environment and enhance the Company's operational performance and reputation. Fraud risk management is critical to the provision of sustained cost effective broadband services to the organisation's wholesale customers.

As required by Regulation 29.1.1 of the Treasury Regulations issued in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999), Broadband Infracore continued to strengthen efforts to manage fraud risks through full implementation of its Fraud Prevention Plan. During the 2009/10 financial year, the Fraud Prevention Plan was reviewed for adequacy, in keeping with the changes in the global and local business environments as well as business changes within the company.

The board and management are responsible for setting the "tone at the top" and ensuring that institutional support is established at the highest levels for ethical and responsible business practices. The board has delegated principal oversight for fraud and corruption risk management to the Audit and Risk Committee, which is tasked with, among other things:

- reviewing and discussing issues raised during the entity's fraud and corruption risk assessments;
- reviewing and discussing with the internal and external auditors findings on the quality of the organisation's anti-fraud programs and controls; and
- establishing procedures for the receipt and treatment of questions or concerns regarding questionable accounting or auditing matters.

The Internal Audit Function of Broadband Infraco is a key participant in anti-fraud activities, supporting management's approach to preventing, detecting, and responding to fraud and corruption. The function is responsible for:

- planning and conducting the evaluation of design and operating effectiveness of antifraud controls;
- assisting in the organisation's fraud risk assessment and helping draw conclusions as to appropriate mitigation strategies; and
- reporting to the Audit and Risk Committee on internal control assessments, audits, investigations, and related activities.

Whistle-Blowing

Any known or suspected acts of fraud and corruption are reported to management or anonymously on Tip-Offs Anonymous, the company's independent toll-free hotline. The hotline, accessible on 0800 212 713 or by email on ethics@inyourhands.co.za, was in place and fully operational 24 hours a day, seven days a week throughout the reporting period.

Any of the eleven official languages may be used for reporting. Protection of whistle-blowers is provided in accordance with the Protected Disclosure Act 26 of 2000.

Various initiatives were undertaken throughout the year to heighten awareness of the hotline both internally and externally.

In the year under review, the reports received on the hotline were all acted upon and closed.

Internal Control

The board of Broadband Infraco is responsible for establishing a system of internal control and regularly reviewing its effectiveness and relevance.

The control environment enhances the tone of risk management and provides the necessary discipline and

structure. It is the foundation for all other components of risk management and internal control. The control environment includes factors such as the integrity, ethical values, organisational culture, competence of people, management's philosophy and operating style, delegation of authority and responsibility, the way in which people are organised and developed as well as the intention and direction provided by the board.

Broadband Infraco has developed a framework of internal control that is in line with its business environment. The organisation's system of internal, financial and operational controls are designed to provide reasonable assurance regarding the integrity and reliability of the annual financial statements to adequately safeguard assets against material losses, to ensure proper authorisation and recording of transactions, to minimise operating risks and disruptions. The current systems support the identification and management of risks affecting the organisation and are continuously reviewed as circumstances change and new risk emerge.

Internal Audit

The Internal Audit function in Broadband Infraco is a value adding, independent and objective assurance and consulting function, designed to add value to and improve the organisation's operations. Its mandate is to give an independent assessment of reliability of financial reporting, validate control systems and give an oversight of management and overall business activities brings a systematic, disciplined approach to the evaluation and improvement of the effectiveness of enterprise risk management, internal controls and corporate governance processes.

The internal audit function has been outsourced to PricewaterhouseCoopers (PwC) for the 2009/10 financial year and reports functionally to the chairperson of the Audit and Risk Committee and administratively to the Risk and Assurance Manager, with direct access to the Chief Executive Officer. In carrying out its duties, the PwC internal audit team has unrestricted access to all Broadband Infraco's functions, records, property and personnel.

The PwC internal audit team conducts audit work, or any other task, in accordance with the internal auditing standards set by the globally recognised Institute of Internal Auditing (IIA). This requires compliance with the Standards for Professional Practice of Internal Auditing (SPPPIA), in particular, the codes of conduct and ethics that are promulgated from time to time by relevant professional bodies, and any other corporate governance initiatives.

During the 2009/10 financial year, Internal Audit conducted a number of compliance, financial, operational, governance and informational technology audits. The activities for the function were based on the results of risk assessments, which are continuously updated so as to identify, not only residual or existing risks, but also emerging risks. The internal audit reviews conducted focussed on both internal control design and operating effectiveness for the specific focus areas reviewed. Where control inadequacies and/or inefficiencies were identified, these were reported to management. The team developed recommendations for improvement to those controls which were either inadequate or ineffective during the period and management have formulated action plans to adequately address and correct these deficiencies and to mitigate the risk exposures.



Audit and Risk Committee report for the financial year ended 31 March 2010

Report of the Audit and Risk Committee in terms of regulation 27.1 of the Public Finance Management Act, 1 of 1999, as amended.

As Chairperson of the Audit and Risk committee of the board, it is my pleasure to submit the Audit and Risk Committee report for 2009/10.

The committee is committed to the principles of integrity, transparency and accountability. The committee's terms of reference was approved by the board in the previous financial year and is subject to annual review. The committee is an important element of the board's system of internal control. The overall objective of this committee is to assist the board of directors in the discharge of its duties relating to corporate accountability.

The committee also assists the board with the governing of risk management in accordance with corporate governance requirements. The principle objectives of the committee in this regards are:

- Providing the board with assurance that significant business risks are systematically identified, assessed and reduced to acceptable levels; and
- Making risk identification and risk management an integral part of the daily activities of every employee in the organisation.

The meeting attendance for the 2009/10 financial year is reflected on page 22. In addition, the Chief Executive Officer, Chief Financial Officer and other members of management, as appropriate, and representatives from the external and internal auditors attend meetings by invitation.

During the year under review, the committee has reviewed and considered various issues delegated to it by the board. These included:

- Corporate Plan for Broadband Infraco;
- Approval of the Internal Audit Charter;
- The company's internal control and risk management systems, including the implementation of the accounting system;
- Establishment of an internal audit function;
- The approval of the Internal Audit Plan for 2009/10;
- Appointment of internal and external auditors;
- Insurance cover;
- Financial reporting systems and controls;
- Public Finance Management Act compliance review;
- Approval of management accounts and quarterly reports for submission to the Shareholders;
- Approval of the Risk Management Policy, Risk Management Strategy and Framework, Fraud and Corruption Prevention Policy, Fraud and Corruption Response Plan, Whistle Blowing Policy, Fraud hotline;
- Risk identification, mitigation, and management; and
- Approval of risk appetite and tolerance thresholds for Broadband Infraco.

Work has also commenced on developing a Sustainability Reporting Framework and finalisation of the framework and reporting measure is envisaged to be completed during the next financial year.

The Audit and Risk Committee is also pleased to present its report on the annual financial statements of the company for the year ended 31 March 2010. The report of the Audit and Risk Committee in relation to the Annual Financial Statements is presented on page 37.

The Audit and Risk Committee is satisfied that the financial statements are based on appropriate accounting policies, generally acceptable accounting practice, and are supported by reasonable and prudent judgements and estimates.

The Audit and Risk Committee recommended therefore, at their meeting held on 31 May 2010, that the board of directors adopt the annual report including the annual financial statements for the period ending 31 March 2010.

The Audit and Risk Committee has no reason to believe that the external auditors have not at all times acted with unimpaired independence during the audit of the annual financial statements.



M J SINGER SAUL

Chairperson: Audit and Risk Committee



Investment and Finance Committee report for the financial year ended 31 March 2010

As Chairperson of the Investment and Finance Committee, it is my pleasure to submit the Investment and Finance committee report for 2009/10.

The overall objective of the committee is to assist the board in relation to investment strategies, new projects, criteria and guidelines for investments, budgets and financial business plans.

The meeting attendance for 2009/10 financial year is reflected on page 22 above.

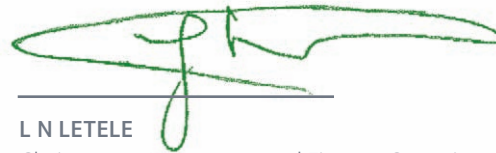
During the year under review, the committee reviewed and considered various issues delegated to it by the board. These included the following approvals:

- Mtunzini Interconnect: This project provides for the establishment of a Point-of-Presence site at Mtunzini to provide interconnection to the SEACOM Cable Landing Station, and the future EASSY cable systems.
- Network 10 Gbit/s Overlay: Upgrading of existing network capacity in order to provide an additional 10Gbits/s capacity for the provisioning of services generated by new business sales, as well as an additional 10Gbits/s capacity overlay to provide spare capacity for enabling Automated Switching.
- Establishment of NOC: The establishment of Network Operations Centre (NOC), at the new Broadband Infraco building in Woodmead, under the control of Broadband Infraco as part of the preparations for commercial launch of services to customers.
- Implementation of Broadband Infraco Owned Equipment Accommodation: This project provides for new facilities on sites where buildings, electrical supply and air conditioning were previously shared with Transnet Freight Rail (TFR). This will allow Broadband Infraco to improve network reliability and performance, as well as faster turnaround times in the event of faults occurring on these sites.
- Union-Louterwater – Melkhout Fibre Optic Cable

Route: These sections of the fibre network are prone to regular service failure and are to be refurbished with an alternative fibre cable technology. This will greatly improve the backbone network availability statistics.

- Internet Protocol (IP) Core Pilot: To cater for entering the commercial wholesale market and the market migration of time domain services towards Ethernet and IP, allowance has been made for the implementation of core IP Switches at Gauteng, Durban and Cape Town.
- Long Distance Points of Presence: This project provides for the provision of independent long distance Points of Presence (POP) infrastructure and fibre routes between the major POP sites for commercial launch.

The committee monitors the capital investments and the capital expansion programme, and feedback is provided to the board on an ongoing basis.



L N LETELE
Chairperson: Investment and Finance Committee

Tender and Procurement Committee report for the financial year ended 31 March 2010

As Chairperson of the Tender and Procurement committee, it is my pleasure to submit the Tender and Procurement Committee report for 2009/10.

The overall objective of the committee is to assist the board in relation to procurement decisions, procurement policies and tenders and contracts.

The meeting attendance for 2009/10 financial year is reflected on page 23 above.

During the year under review, the committee reviewed and considered various issues within its delegation of authority. This included the approval of the provision of secure sites and facilities Points of Presence (POP), and the Internet Protocol (IP) Core Network.



W T MAGASA

Chairperson: Tender and Procurement Committee



Human Resources and Remuneration Committee report for the financial year ended 31 March 2010

As Chairperson of the Human Resources and Remuneration Committee, it is my pleasure to submit the Human Resources and Remuneration Committee report for 2009/10 .

The overall objective of the Committee is to assist the board in relation to human resources policies and strategies.

The meeting attendance for 2009/10 financial year is reflected on page 24.

During the year under review, the Committee reviewed and considered various issues delegated to it by the board. These included:

- The remuneration strategy for non-executive directors;
- The CEO's annual salary increase; and
- Employee performance bonuses for the 2009/10 financial year.

A Job Grading and Salary benchmarking exercise commenced during the year under review and the exercise is expected to be completed early in the next financial year.

Work has also commenced on developing a Succession Plan for key employees and finalisation and approval of the plan is envisaged to be completed during the next financial year.



M J SINGER SAUL

Chairperson:
Human Resources and Remuneration Committee

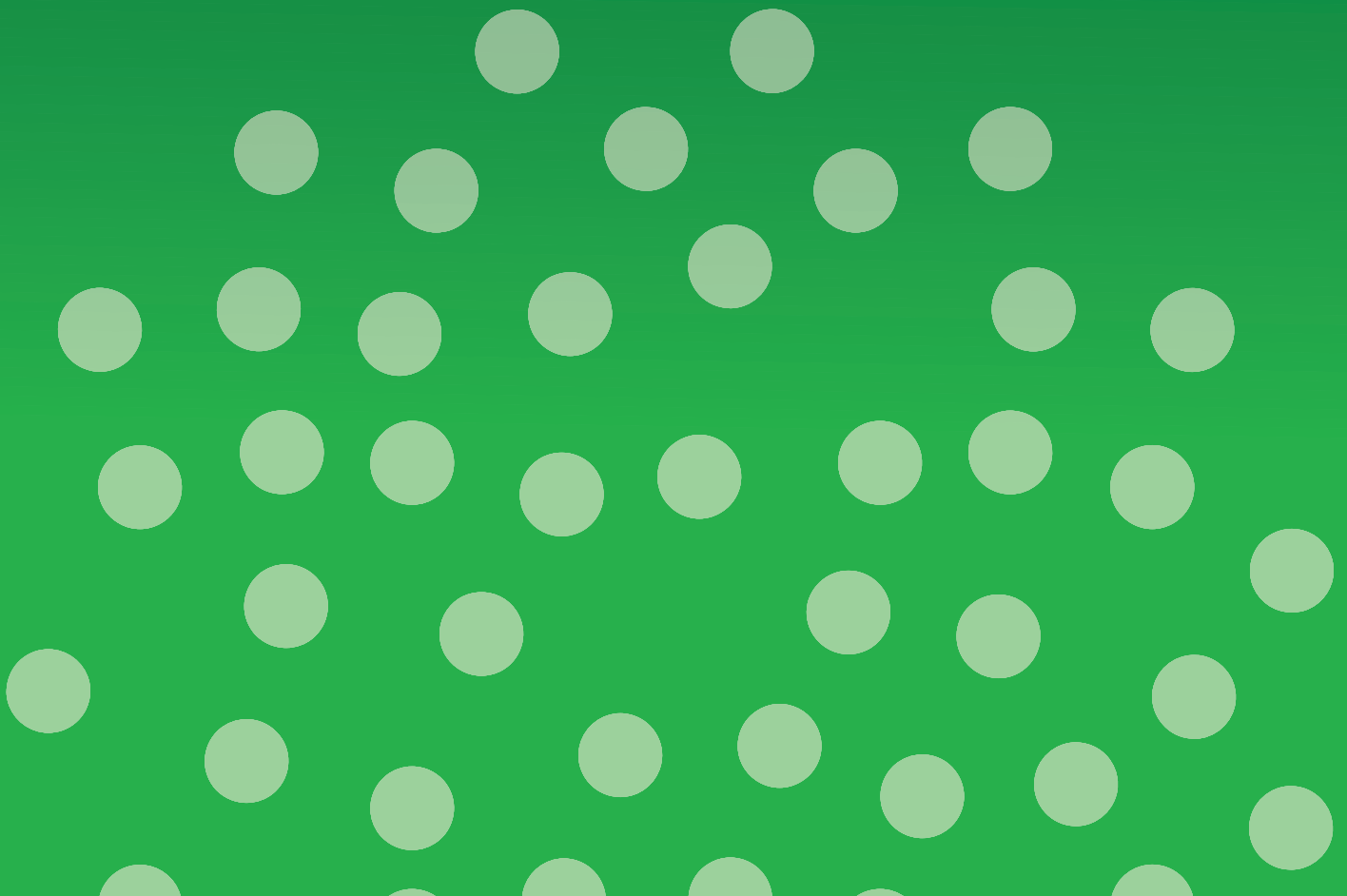
Broadband Infraco Performance Dashboard - FY 2009/10

KPA	KPA Weighting (%)	KPI	KPI Weighting (%)	Unit	Actual	Target	Exceeded / Achieved / Not Achieved	Comment
Strategic	40	Reduced Telecommunications Prices	25%	%	73	60	Exceeded	Price reductions of 73% have exceeded the KPI of a once off 60% of price reduction from the wholesale STM-1 pricing as measured against the 2008 Pricing Benchmark.
		Broadband Connectivity	15%	%	76	100	Not Achieved	Broadband Infraco has successfully expanded the availability of broadband connectivity to POPs in 11 cities (available via Neotel), as well as the ability to provide backhaul connectivity to USALS in 5 (five) previously underserved areas. The company has not yet completed a minimum of 5 (five) Broadband Infraco independent POPs. The company therefore achieved 16 out of the targetted 21 POPs (76%).
Financial	30	Revenue	5%	R'mil	317.50	334.00	Not Achieved	Revenue for the reporting period was R16.5 million lower than budget because of the following : - Actual revenue from Neotel of R317.5 million from the Right of Use and Operate Agreement was greater than budget of R288 million. • Budgeted annual revenue of R21 million from Neotel for the backhaul of the SEACOM cable did not materialise as the deal is currently under negotiation and will only be realised in the next financial year. • Budgeted revenue of R8 million from the DST project did not materialise as Telkom won the SANREN bid. • Budgeted other external market revenue of R17 million did not materialise owing to the delay in the licencing of the organisation. Revenue is based on cash and not as per IFRS accounting, R11,1 million of operating lease income was deducted from revenue in terms of IAS 17, but not taken into consideration when evaluating performance against the target.
		EBITDA	10%	R'mil	(9.75)	(95.38)	Exceeded	Operating cost savings were achieved, mainly in the areas of staff costs, marketing expenditure and professional fees. (EBITDA = operating loss of R 101.01 million plus depreciation and amortisation of R91.3 million)
		Net Profit/Loss	10%	R'mil	(28.30)	216.67)	Exceeded	
		Debt Funding	5%	R'mil	0	0	Achieved	The term sheet for the R650 million senior debt facility was concluded and approved in terms of the PFMA. Broadband Infraco did not draw-down any debt against the loan facility because no additional funding was required during FY 2009/10.
Operations, Customer and Capital programme	30	Actual time to restore Core Network Faults	5%	hours	5.65	8	Exceeded	The restore times were exceeded on 80% of the core network faults due to the implementation of fault diagnostic equipment and the increase in service centre locations by the maintenance subcontractors.
		hours		33.80	10	Not Achieved	The restore times were not achieved on 20% of the core network faults generally due to complex faults with multiple faults being experienced on a cable, or faults requiring the deployment of long distances of temporary cable.	
		Actual time to restore facilities related faults	5%	hours	3.40	4	Exceeded	Facilities related fault repair times were exceeded due to the deployment of more service centres by the maintenance contractors.
		Availability of Network at Customer Service Level Agreement	5%	%	98.76	99.50	Not Achieved	Customer service level availability was not met due to there being multiple simultaneous faults on the network and limited capacity for rerouting of traffic during failures.
		Increased Customer Base	5%	%	12	12	Achieved	The company's total national revenue for the financial period indicates 12% of market share if measured against the long distance market size estimate of R2,698m stated in the Corporate Plan for the 2008/2009 financial period.
		Percentage of Projects put into Commercial Operations against approved plan	5%	%	69	100	Not Achieved	Twelve out of nineteen projects were delivered on time. Three fibre infrastructure projects were delayed due to difficulties in attaining approval to construct and two site infrastructure projects were approved late in the year after the award of the ECNS licence.
		Project Cost Variance against approved budget	5%	%	(13)	5	Not Achieved	The capital expenditure on projects completed was 13% below budget primarily due to savings on equipment purchased.

Broadband Infraco



Annual financial statements
for the year ended 31 March 2010



GENERAL INFORMATION

Registered office and business address	Country Club Estate Building 9 21 Woodlands Drive Woodmead 2146
Postal address	Postnet Suite 321 Private Bag X26 Sunninghill 2157
Bankers	Standard Bank
External Auditors	KPMG Inc.
Company Secretary	F Mohamed
Company registration number	1989/001763/07

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The reports and statements set out below comprise the annual financial statements presented to the members:

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REPORT OF THE AUDIT COMMITTEE

To the Broadband Infraco Executive Authority

The Audit Committee was constituted by the Board during the 2008 financial year and consists of 4 members, three of whom are independent non-executive directors and one who was appointed for their financial expertise. The Committee was chaired by an independent, non-executive director. The Executive Directors, as well as the outsourced internal audit and external audit representatives were invitees to the Committee.

The Audit Committee was guided in the execution of its role by an Audit Committee Charter which has been approved by the Board of Directors.

In the conduct of its duties during the period under review, the Audit Committee has, inter alia:

- Reviewed any accounting and auditing concerns identified as a result of the internal or external audits and considered any significant transactions not directly related to the company's normal business as the Committee, in its discretion, deemed appropriate.
- Reviewed the annual report and annual financial statements for the year ended 31 March 2010 to ensure that they present a balanced and understandable assessment of the financial position, performance and prospects of Broadband Infraco (Proprietary) Limited.
- Where the company's external auditors are contracted to render any additional services which are not part of their audit activities, this is subject to the specific prior approval of the Audit committee. This Committee confirms that to the best of its knowledge, the external auditors have not been involved in any assignment that may impair their independence.

The Audit Committee has evaluated the annual financial statements of Broadband Infraco (Proprietary) Limited for the year ended 31 March 2010, the effectiveness and adequacy of the company's internal controls and any pending litigation. The Committee is of the opinion that the annual financial statements as presented, comply in all material respects with the relevant provisions of the Companies Act, No 61 of 1973, and the Public Finance Management Act, 5 No 1 of 1999. The Committee is also of the opinion that these financial statements as presented comply with International Financial Reporting Standards; that they fairly present the results of the operations, cash flows and financial position of the company and that the adoption of the "going concern" premise in the preparation of the financial statements is appropriate. The Audit Committee accordingly has pleasure in recommending the adoption of the financial statements of the company for the year ended 31 March 2010.



On behalf of the Broadband Infraco Audit and Risk Committee
MJ Singer Saul

18 June 2010

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the members on the Financial Statements of Broadband Infraco (Proprietary) Limited for the year ended 31 March 2010

Report on the Financial Statements

We have audited the annual financial statements of Broadband Infraco (Proprietary) ("Broadband Infraco") Limited which comprise the accounting authority's report, the statement of financial position at 31 March 2010, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which contain a summary of significant accounting policies and other explanatory notes, as set out on pages 40 to 78.

Accounting Authority's Responsibility for the Financial Statements

The Accounting Authority, who constitute the board of directors for Broadband Infraco, are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act of South Africa and the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor's judgement, 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 auditor considers 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.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Broadband Infraco at 31 March 2010 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act of South Africa and the Companies Act of South Africa.

Report on Other Legal and Regulatory Requirements

In terms of the Public Audit Act of South Africa and General Notice 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009, we include below our findings on the report on performance against predetermined objectives, compliance with laws and regulations and internal control.

Report on Performance Against Predetermined Objectives

We are required by the Auditor-General to undertake a limited assurance engagement on the 'Performance against the shareholder compact', as set out on page 34 of the Annual Report in the section headed Broadband Infraco Performance Dashboard -FY2009/10, in which the actual performance of the company for the year ended 31 March 2010 is compared with target key performance indicators (predetermined objectives), and report thereon to those charged with governance. In this Report we are required to report our findings from our engagement relating to non-compliance with regulatory requirements, where the reported information was inadequately presented or not received timeously, and where we have evaluated reported information to be not useful or reliable. We report that we have no significant findings.

Compliance with Laws and Regulations

Our audit of the financial statements, described in our Report on the Financial Statements, did not reveal any material non-compliance with laws and regulations relating to financial matters, financial management and related matters, as required by the Public Finance Management Act of South Africa (which includes the relevant National Treasury Regulations) and the Companies Act of South Africa.

Internal Control

We considered internal control relevant to our audit of the financial statements, and the report on performance against predetermined objectives and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported in this Report are limited to the deficiencies identified during our audit. Our opinion on the financial statements, as expressed in our Report on the Financial Statements, is unmodified.

KPMG Inc.
Registered Auditor



Per M Rattigan
Chartered Accountant (SA)
Registered Auditor
Director
18 June 2010

KPMG Crescent, 85 Empire Road, Parktown

ACCOUNTING AUTHORITY'S RESPONSIBILITIES AND APPROVAL

The company's Accounting Authority is responsible for the preparation and fair presentation of the annual financial statements of Broadband Infraco (Proprietary) Limited comprising the statement of financial position at 31 March 2010, and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the accounting authority's report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa and the Public Finance Management Act of South Africa.

The accounting authority's responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The accounting authority's responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The accounting authority has made an assessment of the company's ability to continue as a going concern and there is no reason to believe the business will not be a going concern in the year ahead.

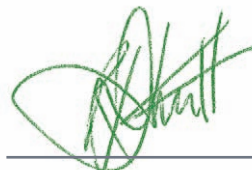
The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of annual financial statements

The annual financial statements were approved by the Accounting Authority on 18 June 2010 and are signed on its behalf by:



AFB Mthembu
Chairman



RD Smith
Chief Executive Officer

STATEMENT BY COMPANY SECRETARY

In terms of section 268G(d) of the Companies Act, 61 of 1973, I certify that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.



F Mohamed
Company Secretary

18 June 2010

ACCOUNTING AUTHORITY'S REPORT

The accounting authority submits their report for the year ended 31 March 2010.

1. Review of activities

Main business and operations

1.1 Legal and regulatory environment

Broadband Infraco Act:

The Broadband Infraco Act, No 33 of 2007, was published on 8 January 2008 and came into effect on 1 February 2008. The Act primarily provides for:

- the establishment of a new State Owned Enterprise, namely Broadband Infraco (Pty) Limited;
- the transfer of shares, loan accounts, liabilities and guarantees in Broadband Infraco (Pty) Ltd from Eskom Enterprises (Pty) Ltd to the State; and
- the transfer of the Full Services Network long distance assets from Eskom Enterprises (Pty) Ltd and Transnet Limited to Broadband Infraco (Pty) Ltd.

In accordance with the Act, the main objects and powers of Broadband Infraco (Pty) Ltd are:

- to expand the availability and affordability of access to electronic communications, including but not limited to, underdeveloped and under services areas, in accordance with the Electronic Communications Act and commensurate with international best practice and pricing, through the provision of:
 - (a) electronic communications network services; and
 - (b) electronic communications services.

Broadband Infraco licencing:

The Electronic Communications Amendment Act, No 36 of 2005, was published on 8 January 2008 and came into effect on 2 February 2008. The Amendment provides for:

- Encouraging investment, including strategic infrastructure investment, and innovation in the ICT sector; and for
- The Minister of Communications, after obtaining Cabinet approval, to issue a policy direction to:
 - * initiate and facilitate intervention by government to ensure strategic ICT infrastructure investment; and
 - * provide for a framework for the licencing of a public entity (with state ownership of more than 25%) by the Independent Communication Authority of South Africa (ICASA).

On 29 June 2009, ICASA conducted public hearings in respect of Broadband Infraco's application for an Electronic Communications Network Service (ECNS) licence and an Electronic Communications Services (ECS) licence. Following a process of negotiations of licence terms and conditions, on 19 October 2009, ICASA issued Broadband Infraco with an Electronic Communications Network Services ("ECNS") licence. The licence was issued on substantially the same terms and conditions as those agreed upon during the negotiation process.

With regard to the ECS licence, on 7 April 2010 ICASA published a notice indicating that it had resolved not to grant Broadband Infraco an ECS licence. Broadband Infraco is currently reviewing the reasons advanced by ICASA for this decision and assessing the impact of this ICASA decision on the business.

1.2 Main business and operations during the year under review

To give effect to the requirements of the Broadband Infraco Act, the business of the company comprises two key elements, namely:

- The establishment of a national long distance fibre optic network; and
- The establishment of an international marine cable network being deployed between South Africa and the United Kingdom.

The main activity of the company during the year under review was the expansion of the national long distance network and operational preparation for the post licencing phase of the business. In addition, the company commenced with the project implementation of the international marine cable connection.

On 8 April 2009, Broadband Infraco (Pty) Ltd signed the Construction and Maintenance Agreement for the West African Cable System entitling it to 11.78% of the cable system.

1.3 Customer

During the year under review the company had one customer, namely Neotel (Pty) Ltd "Neotel".

The Right of Use and Operate Agreement between Broadband Infraco and Neotel came into effect on 1 December 2007. The Agreement provides for:

- The right of use of Broadband Infraco's long distance network infrastructure by Neotel before Broadband Infraco was licenced and the acquisition of telecommunications services by Neotel during the post licencing phase for a total period of forty eight months;
- The immediate outsourcing arrangements for Broadband Infraco's real time operations and maintenance activities; and
- The requirements for the ongoing expansion and upgrade of Broadband Infraco's long distance infrastructure to meet Neotel's business development needs.

Furthermore, the Agreement envisages that Broadband Infraco will continue to receive revenue from Neotel for the remaining period until 31 March 2011. Management are negotiating the new agreement with Neotel.

1.4 Financial results

Loss of the company for the year ended 31 March 2010 amounted to R 28,312,068 (2009: R101,312 profit), after taxation credit of R 11,485,851 (2009: charge of R 915,827). Revenue earned was R 306,400,000 (2009: R 273,688,844) and operating and other expenses amounted to R 407,410,037 (2009: R 372,794,231).

The operating results and state of affairs of the company are set out in the accompanying annual financial statements.

1.5 Basis of preparation of financial information

The annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Companies Act of South Africa and the Public Finance Management Act of South Africa.

2. Going Concern

Under the going concern assumption, an entity is ordinarily viewed as continuing in business:

- for the foreseeable future, which should be at least, but not limited to, twelve months from the date of approval of the financial statements;
- with neither the intention nor the necessity of liquidation;
- ceasing trading; or
- seeking protection from creditors pursuant to laws and regulations.

In evaluating the going concern assumption the following factors were considered:

2.1 Financial

- Total assets exceed total liabilities by R 1,637,352,350 as at 31 March 2010.
- Broadband Infraco has an accumulated deficit of R 1,201,804 as at 31 March 2010;
- The loss after taxation for 2010 totalled R 28,312,068 compared to a profit after taxation of R 101,312 the previous year.

A substantial part of revenue will be derived from Neotel in terms of the Right of Use and Operate Agreement, the agreement expires on 31 March 2011. Management are in negotiations to renew the lease agreement post this period.

Besides the above mentioned factors, Broadband Infraco was awarded the ECNS licence and is planning to officially launch and increase the customer base. There are initiatives to generate additional sources of revenue which will have a positive impact on the company's profitability.

2.2 Operating

The company is not aware of any factors that will negatively impact its operations. The going concern assumption was used in the preparation of Broadband Infraco's Annual Financial Statements.

Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

2.3 Conclusion

The Accounting Authority concluded that Broadband Infraco (Pty) Ltd is a going concern.

3. Post Balance Sheet Events

The accounting authority is not aware of any matter or circumstance arising since the end of the financial year that would impact the reported results.

4. Authorised and Issued Share Capital

Broadband Infraco issued 26 ordinary shares to the Industrial Development Corporation of South Africa (IDC) and 74 ordinary shares are held by the State, represented by the Department of Public Enterprises (DPE).

For the year under review, the IDC and the DPE contributed additional funding of R 73,267,298 and R 208,530,000 respectively, disclosed as shareholders' loans.

5. Borrowing Limitations

In terms of the company's articles of association, accounting authority shall not have the power to incur borrowings without the prior approval of the shareholders. The Minister of Public Enterprises has approved a borrowing facility with the Development Bank of South Africa for R650 million. The facility has not yet been utilised and will only be used when required by the company.

6. Dividends

No dividends were declared or paid during the year under review.

7. Directors

The accounting authority is represented by the board of directors, in terms of the Public Finance Management Act of South Africa. The directors of the company during the year and to the date of this report are as follows:

Non-executive directors

AFB Mthembu	Chairperson	Changes
WT Magasa		
LN Letele		
M Singer Saul*		
C Groesbeek		
SD Mabalayo		
SAU Meer**		
M Mohlala		Resigned 15 September 2009
S Mabaso Koyana**		

Executive directors

RD Smith	Chief Executive Officer
S Maharaj	Chief Financial Officer

* Audit Committee Chairperson.

** Member of the Audit Committee

8. Company Secretary

The secretary of the company is F Mohamed.

The company secretary's business and postal addresses are as follows:

Business address

Country Club Estate
Building 9
21 Woodlands Drive
Woodmead
2146

Postal address

Postnet Suite 321
Private Bag X26
Sunninghill
2157

9. Shareholding

As at 31 March 2010, the company's shares are held by the State and the IDC, as 74% and 26%, respectively.

10. External Auditors

KPMG Inc. will continue in office in accordance with section 270(2) of the Companies Act.

11. Statutory information in terms of the Public Finance Management Act

In terms of S55(2)(b) of the Public Finance Management Act of South Africa (PFMA), the annual report and financial statements of the company are required to include particulars of any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year.

Irregular or fruitless and wasteful expenditure

For the year under review, Broadband Infraco paid R518 222 and R 325 592 to the South African Revenue Services for penalties and interest, respectively. These amounts related to periods prior to 2008, when the company was in the process of setting up its systems and finance department. This is deemed to be fruitless and wasteful expenditure.

Losses through criminal conduct

No material losses through criminal conduct or network asset vandalism or theft were incurred.

During the year under review, the company fully complied with all of the requirements of the PFMA and Treasury Regulations issued in terms of the PFMA. No significant instances of non compliances were reported by the independent external auditors.

Broadband Infraco (Proprietary) Limited

(Registration number 1989/001763/07)

Annual Financial Statements for the year ended 31 March 2010

Statement of Financial Position at 31 March 2010

	Note(s)	2010 R	2009 R Restated	2008 R Restated
Assets				
Non-current assets				
Equipment	2	725,598,534	571,719,089*	581,851,671*
Intangible assets	3	12,480,059	12,290,817*	12,263,946*
Deferred tax asset	4	1,324,002	-	-
		739,402,595	584,009,906	594,115,617
Current assets				
Trade and other receivables	6	123,665,074	221,921,654	147,569,359
Fixed term deposit – Eskom Holdings Limited		-	-	542,352,924
Cash and cash equivalents	7	851,774,208	712,933,790	51,019,316
		975,439,282	934,855,444	740,941,599
Total assets		1,714,841,877	1,518,865,350	1,335,057,216
Equity and Liabilities				
Equity				
Equity attributable to equity holders of parent				
Share capital and share premium	8	100	100	-
(Accumulated deficit)/retained income		(1,201,804)	27,110,264*	27,008,952*
Shareholders' loans	9	1,638,554,054	1,356,756,756	627,000,000
		1,637,352,350	1,383,867,120	654,008,952
Liabilities				
Non-current liabilities				
Deferred tax liability	4	-	10,161,849	9,246,022
Current liabilities				
Trade and other payables	11	77,489,527	110,526,941	671,802,242
Provisions	10	-	14,309,440	-
		77,489,527	124,836,381	671,802,242
Total liabilities		77,489,527	134,998,230	681,048,264
Total equity and liabilities		1,714,841,877	1,518,865,350	1,335,057,216

*Amounts restated. Refer to note 2 for disclosure on the prior year restatement.

In accordance with IAS 1- Presentation of Financial Statements, the Statement of Financial Position for 2008 has been presented and only notes to the annual financial statements related to the restatement have been presented in the financial statements.

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Statement of Comprehensive Income

	Note(s)	2010 R	2009 R
Revenue	12	306,400,000	273,688,844
Expenses	13	(234,819,913)	(70,187,138)
Gross profit		71,580,087	203,501,706
Other income	27	-	52,759,710
Operating expenses		(172,590,124)	(302,607,093)
Results from operations	14	(101,010,037)	(46,345,677)
Finance income	15,19	61,701,218	55,311,267
Finance expense	16	(489,100)	(7,948,451)
(Loss) profit before tax		(39,797,919)	1,017,139
Income tax credit (expense)	17	11,485,851	(915,827)
(Loss) profit for the year		(28,312,068)	101,312

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Statement of Changes in Equity

	Share capital		Share premium	Total share capital		(Accumulated deficit)/ Retained income	Shareholders' loans		Total equity
	R	R		R	R		R	R	
Balance, as previously stated at 1 April 2008	-	-	-	-	-	19,778,442	627,000,000	646,778,442	
Prior year adjustment, refer to note 2	-	-	-	-	-	7,230,510	-	7,230,510	
Restated balance at 1 April 2008	-	-	-	-	-	27,008,952	627,000,000	654,008,952	
Profit for the year	-	-	-	-	-	101,312	-	101,312	
Total comprehensive income for the period	-	-	-	-	-	101,312	-	101,312	
Issue of shares	1	99	99	100	100	-	-	100	
Shareholder loan raised from DPE	-	-	-	-	-	-	377,000,000	377,000,000	
Shareholder loan raised from IDC	-	-	-	-	-	-	352,756,756	352,756,756	
Transactions with owners, recorded directly in equity	1	99	99	100	100	-	729,756,756	729,756,856	
Total changes	1	99	99	100	100	101,312	729,756,756	729,858,168	
Balance at 1 April 2009	1	99	99	100	100	27,110,264	1,356,756,756	1,383,867,120	
Loss for the year	-	-	-	-	-	(28,312,068)	-	(28,312,068)	
Total comprehensive income for the period	-	-	-	-	-	(28,312,068)	-	(28,312,068)	
Conversion of shares from 1c to R1	99	(99)	(99)	-	-	-	-	-	
Shareholder loan raised from DPE	-	-	-	-	-	-	208,530,000	208,530,000	
Shareholder loan raised from IDC	-	-	-	-	-	-	73,267,298	73,267,298	
Transactions with owners, recorded directly in equity	99	(99)	(99)	-	-	-	281,797,298	281,797,298	
Total changes	99	(99)	(99)	-	-	(28,312,068)	281,797,298	253,485,230	
Balance at 31 March 2010	100	8	8	100	8	(1,201,804)	1,638,554,054	1,637,352,350	
Note(s)									

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Statement of Cash Flows

	Note(s)	2010 R	2009 R
Cash flows from operating activities			
Cash generated from (used in) operations	18	50,580,933	(2,716,425)
Interest received	19	52,284,370	50,542,863
Interest paid	19	(489,100)	(1,728,617)
Net cash from operating activities		102,376,203	46,097,821
Cash flows from investing activities			
Purchase of equipment	2	(243,890,888)	(88,509,044)
Purchase of other intangible assets	3	(1,442,195)	(818,516)
Proceeds from fixed term deposit		-	542,352,924
Net cash used in investing activities		(245,333,083)	453,025,364
Cash flows from financing activities			
Proceeds on share issue	8	-	100
Loan - Eskom Enterprises		-	(566,965,567)
Shareholders' loans received		281,797,298	729,756,756
Net cash from financing activities		281,797,298	162,791,289
Total cash movement for the year		138,840,418	661,914,474
Cash and cash equivalents at the beginning of the year		712,933,790	51,019,316
Total cash and cash equivalents at end of the year	7	851,774,208	712,933,790

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Annual Financial Statements for the year ended 31 March 2010

Accounting Policies

1. Presentation of Annual Financial Statements

Reporting entity

Broadband Infraco (Proprietary) Limited (the "Company") is a company domiciled in South Africa. The address of the Company's registered office is Country Club Estate, Building 9, 21 Woodlands Drive, Woodmead, 2146. The Company is primarily involved in the establishment of a national long distance fibre optic network and the establishment of an international marine cable network to be deployed between South African and the United Kingdom.

Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa and the Public Finance Management Act of South Africa.

The financial statements were approved by the Accounting Authority on 18 June 2010.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Certain financial instruments are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in South African Rands, which is the Company's functional currency. All financial information presented are in South African Rands.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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Accounting Policies (continued)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following areas:

Residual values and useful lives of equipment

Residual values and useful lives of equipment are assessed on an annual basis. Estimates and judgements in this regard are based on historical experience and expectations of the manner in which assets are to be used, together with expected proceeds likely to be realised when assets are disposed of at the end of their useful lives. Such expectations could change over time and therefore impact both depreciation charges and carrying values of equipment in future.

Provisions

Best estimates, being the amount the company would rationally pay to settle the obligation, are recognised as provision at the balance sheet date. Risks, uncertainties and future events, such as changes in law and technology, are taken into account by management in determining the best estimate.

The establishment and review of the provisions requires significant judgement by management as to whether or not there is probable obligation and as to whether or not a reliable estimate can be made of the amount of the obligation, which requires judgements to the likelihood of future payment. All provisions are reviewed at each balance sheet date.

Presentation of financial statements

The company applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result the company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on the loss for the year.

Critical accounting estimates, judgments and key assumptions

(a) Estimated impairment of assets

The company tests whether assets have suffered any impairment. The recoverable amounts of cash generating units have been determined based on value in use calculations. Estimates are based on management's interpretation of market forecasts.

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Accounting Policies (continued)

(b) Trade and other receivables

Impairment provisions are raised against trade receivables when their collectability is considered to be doubtful. In determining whether a particular debtor could be considered to be doubtful, the following factors are taken into consideration:

- Age;
- Credit terms;
- Customers' current and anticipated future financial status;
- Disputes with the customer; and
- Credit insurance.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these annual financial statements, except as explained in note 1(e), which addresses changes in accounting policies.

Certain comparative amounts have been restated to conform with the current year's presentation (refer to Note 2). In addition, the comparative statement of financial position has been re-presented for the prior year and year preceding the prior year to comply with IAS 1 – Presentation of Financial Statements (2007), and only notes that have been restated have been presented for the year preceding the prior year.

1.1 Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

1.2 Equipment

Recognition and measurement

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset

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Accounting Policies (continued)

to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised to the specific assets until the asset is brought into use.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of equipment and are recognised net within "other income" in profit or loss.

Subsequent costs

The cost of replacing part of an item of equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day to day servicing of equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of equipment.

The estimated useful lives for the current and comparative periods are as follows:

Item	Average useful life
Optical transmission equipment:	
• Site infrastructure	20 years
• Long distance and operation centre equipment	10 years
• Operational and network management equipment	5 years
Fibre optic cables	15 years
Office equipment	10 years
IT equipment	3 years
WACS Jointly controlled asset	15 years

The residual value and the useful life of each asset are reviewed at each financial period end. The depreciation method of equipment is also reviewed at each financial period end. Each part of an item of equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

A gain or loss arising from the derecognition of an item of equipment is included in profit or loss when the item is derecognised. The gain or loss arising from derecognition of an item of equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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Accounting Policies (continued)

Work in progress

Work in progress (WIP) refers to the network under construction. WIP is recorded at the cost price at the stage of completion and transferred to equipment once the asset is put into operation.

Jointly controlled assets West African Cable System (WACS)

"Jointly controlled assets" arise from an arrangement which is a joint venture carried on with assets that are jointly controlled, whether or not jointly controlled, but not through a separate entity. The company includes its share of the jointly controlled assets, liabilities and expenses that it has incurred and any income from the sales or use of the company's share of the output of the jointly controlled assets.

The jointly controlled asset is classified as equipment and will be depreciated in line with the useful life.

1.3 Intangible Assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the costs of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year end. The amortisation periods over the current estimated useful life are as follows:

Computer software	2 years
Servitudes	20 years

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

1.4 Financial Instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Recognition

Non derivative financial instruments are recognised initially at fair value, for instruments not at fair value through profit or loss, plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, fixed deposits and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Shareholders' loan

Shareholders' loans are classified as equity if the loan repayments are based on the company and shareholders having to mutually agree to the repayment terms. The shareholders' loan will be reclassified to debt if repayment terms are mutually agreed between the company and shareholders.

1.5 Tax

Current tax assets and liabilities

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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Accounting Policies (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

1.6 Leases

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

1.7 Impairment of Assets

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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Accounting Policies (continued)

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the company's non-financial assets and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from the continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of the cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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Accounting Policies (continued)

1.8 Employee Benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The accruals for employee entitlements to wages, incentives, salaries and annual leave represent the amount which the Company has a present obligation to pay as a result of employees' services provided to the balance sheet date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates

1.9 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.10 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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Accounting Policies (continued)

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at balance sheet date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
 - to the extent that it is probable that they will result in revenue; and
 - they are capable of being reliably measured.

1.11 Rental income

Rental income received from the use of the Infraco Network for the purpose of Neotel providing ECNS, is recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

1.12 Finance Income and Expenses

Finance expenses that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use.

The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other finance expenses are recognised as an expense in the period in which they are incurred.

Interest is recognised, in profit or loss, using the effective interest rate method.

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Accounting Policies (continued)

1.13 Offset

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or settle on a net basis, all related financial effects are offset.

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Notes to the Annual Financial Statements

2. Equipment

	Cost	2010 Accumulated depreciation	Carrying value	Cost	2009 Restated Accumulated depreciation	Carrying value
	R	R	R	R	R	R
Optical transmission equipment	485,076,611	(154,211,673)	330,864,938	385,314,980	(91,845,966)	293,469,014
Fibre optic cables	299,404,819	(64,526,768)	234,878,051	279,179,129	(37,790,639)	241,388,490
Computer equipment	3,794,836	(847,894)	2,946,942	668,332	(102,002)	566,330
Office equipment	2,930,643	(166,927)	2,763,716	105,458	(3,212)	102,246
Work in progress	80,997,387	-	80,997,387	36,193,009	-	36,193,009
WACS	73,147,500	-	73,147,500	-	-	-
Total	945,351,796	(219,753,262)	725,598,534	701,460,908	(129,741,819)	571,719,089

	Cost	2008 Restated Accumulated depreciation	Carrying value
	R	R	R
Optical transmission equipment	293,077,016	(21,844,011)	271,233,005
Fibre optic cables	258,268,989	(9,256,182)	249,012,807
Work in progress	61,605,859	-	61,605,859
Total	612,951,864	(31,100,193)	581,851,671

Reconciliation of equipment – 2010

	Opening carrying value	Additions	Transfers	Depreciation	Closing carrying value
	R	R	R	R	R
Optical transmission equipment	293,469,014	585,316	99,176,315	(62,365,707)	330,864,938
Fibre optic cables	241,388,490	-	20,225,690	(26,736,129)	234,878,051
Computer equipment	566,330	3,126,504	-	(745,892)	2,946,942
Office equipment	102,246	2,825,185	-	(163,715)	2,763,716
Work in progress	36,193,009	164,206,383	(119,402,005)	-	80,997,387
West African Cable System – jointly controlled asset	-	73,147,500	-	-	73,147,500
	571,719,089	243,890,888		(90,011,443)	725,598,534

Reconciliation of equipment – 2009 Restated

	Restated, Opening carrying value	Additions	Transfers	Depreciation	Restated, Closing carrying value
	R	R	R	R	R
Optical transmission equipment	271,233,005	1,207,350	91,030,614	(70,001,955)	293,469,014*
Fibre optic cables	249,012,807	-	20,910,140	(28,534,457)	241,388,490
Computer equipment	-	668,332	-	(102,002)	566,330
Office equipment	-	105,458	-	(3,212)	102,246
Work in progress	61,605,859	86,527,904	(111,940,754)	-	36,193,009*
	581,851,671	88,509,044		(98,641,626)	571,719,089

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2. Equipment (continued)

Reconciliation of equipment – 2008 Restated

	Opening carrying value	Additions	Restatement of errors 2.3	Re- classification 2.1 & 2.2	Depreciation	Restated, Closing carrying value
	R	R	R	R	R	R
Optical transmission equipment	-	310,660,916	1,006,106	(18,590,006)	(21,844,011)	271,233,005*
Fibre optic cables	-	258,268,989	-	-	(9,256,182)	249,012,807
Work in progress	6,303,745	42,974,473	6,224,404	6,103,237	-	61,605,859*
	6,303,745	611,904,378	7,230,510	(12,486,769)	(31,100,193)	581,851,671

*Restatement of the prior year

2.1 Equipment - reclassification of servitudes to intangible assets

In the prior year, servitudes of with cost of R 12,486,769 and accumulated depreciation of R 891 294, were reflected as optical transmission equipment. The servitudes should have been classified as intangible assets in accordance with IAS 38 - Intangible Assets, as the servitudes represent a right to access properties which meets the definition of an intangible asset. The intangible assets cost increased by R 12 486 769 and accumulated amortisation by R 891 294. In 2008, the effect would have been an increase in intangible assets cost of R 12 486 769 and accumulated amortisation by R 222 823. There was no impact on the profit or loss for either year.

2.2 Equipment - reclassification of spares to work in progress

In 2008, the spares amounting R 6,103,237 was incorrectly classified as optical transmission equipment. The spares have been reclassified as work in progress. There was no impact on the profit or loss for either year.

2.3 Equipment - equipment and spares incorrectly written off as repairs and maintenance

In 2008, spares amounting to R6 224 404 and equipment amounting to R 1 006 106 was incorrectly recognised as repairs and maintenances and expensed in the statement of comprehensive income, thus overstating the repairs and maintenance by R 7 230 510 and understating the equipment by R 7 230 510. The items were capitalised, thus the equipment has increased by R 7,230,510 and retained income has also increased by R 7,230,510.

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3. Intangible Assets

	Cost	2010 Accumulated amortisation	Carrying value	Cost	2009 Accumulated amortisation	Carrying value
	R	R	R	R	R	R
Servitudes	12,486,769	(1,456,790)	11,029,979	12,486,769	(891,294)	11,595,475*
Computer software	2,260,711	(810,631)	1,450,080	818,516	(123,174)	695,342
Total	14,747,480	(2,267,421)	12,480,059	13,305,285	(1,014,468)	12,290,817

	Cost	2008 Accumulated amortisation	Carrying value
	R	R	R
Servitudes	12,486,769	(222,823)	12,263,946*

Reconciliation of intangible assets – 2010

	Opening carrying value	Additions	Amortisation	Closing carrying value
	R	R	R	R
Servitudes	11,595,476	-	(565,497)	11,029,979
Computer software	695,342	1,442,195	(687,457)	1,450,080
	12,290,818	1,442,195	(1,252,954)	12,480,059

Reconciliation of intangible assets – 2009

	Restated, Opening carrying value	Additions	Amortisation	Restated Closing carrying value
	R	R	R	R
Servitudes	12,263,946	-	(668,471)	11,595,475*
Computer software	-	818,516	(123,174)	695,342
	12,263,946	818,516	(791,645)	12,290,817

Reconciliation of intangible assets – 2008

	Opening carrying value	Re- classification 2.1	Amortisation	Restated Closing carrying value
	R	R	R	R
Servitudes	-	12,486,769	(222,823)	12,263,946*

* Amounts restated. Refer to note 2.1 for disclosure on the prior year restatement.

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	2010 R	2009 R
4. Deferred tax asset		
Deferred tax asset (liability)		
Deferred tax asset (liability)	1,324,002	(10,161,849)
Reconciliation of deferred tax asset (liability)		
At beginning of the year	(10,161,849)	(9,246,022)
Movement in temporary differences	11,485,851	(915,827)
At the end of the year	1,324,002	(10,161,849)
Deferred tax rates		
The deferred tax rate applied was 28%.		
Recognised deferred tax assets and (liabilities)		
Deferred tax assets and (liabilities) are attributable to the following:		
Straight lining of lease assets	(26,068,000)	(29,176,000)
Straight lining of lease liability	424,925	307,244
Capital allowances	(19,312,930)	(2,023,425)
Tax loss carry forwards	42,919,146	20,087,012
Prepayments	504,483	62,816
Leave pay provision	453,316	312,264
Credit note provision	-	268,240
Bonus provision	2,403,062	-
	1,324,002	(10,161,849)

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	2010 R	2009 R
5. Operating lease income receivable		
The operating lease income receipts are subject to an escalation rate of 10% per year. Operating lease income is recognised as revenue in terms of IAS 17 Leases which requires the straight lining of the total operating lease income over the period of the lease agreement. As a result, there exists a difference between revenue recognised and actual operating lease income invoiced for the year. The following table indicates the effect:		
Cumulative effect:		
Operating lease income recognised as revenue	666,116,212	389,216,212
Less: actual operating lease income received	(573,016,212)	(285,016,212)
Operating lease income receivable	93,100,000	104,200,000
Total minimum future operating lease income		
- Not later than one year	370,000,000	288,000,000
- Later than one year but not later than five years	-	370,000,000
	370,000,000	658,000,000
6. Trade and other receivables		
Trade receivables - Neotel (Pty) Ltd	8,317,198	74,151,154
Provision for credit notes	-	(968,492)
Prepayments	1,801,726	224,342
Deposits	1,437,968	1,190,479
VAT	9,591,334	38,355,767
Operating lease income receivable (refer to note 5)	93,100,000	104,200,000
Interest accrued	9,416,848	4,768,404
	123,665,074	221,921,654
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Current accounts	129,153,925	38,118,762
Short-term deposits - Standard Bank (Bearing interest at 6% - 7.15% p.a)	279,257,054	260,582,982
Short-term deposits - Nedbank (Bearing interest at 6.95% - 7.15% p.a)	221,565,337	207,273,088
Short term deposits - First National Bank (Bearing interest at 7.05% - 7.15% p.a)	221,797,892	206,958,958
	851,774,208	712,933,790

Standard bank has secured a maximum of R120 million cash under a pledge and cession in the entering into the forward exchange contracts which are specifically taken out to cover the forward exchange exposure relating the West African Cable System capital commitments, refer to note 25.

The open forward exchange contracts held at year end amounting to \$65 million, these contracts had no value at year end as they were entered into on the same date as the year end.

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	2010 R	2009 R
8. Share capital		
Authorised		
1 000 Ordinary shares of R1 (2009: R0.01) each	1 000	10
Issued		
100 ordinary shares of R1 (2009: R0.01) each	100	1
100 shares issues at a share premium of 99c each	-	99
	100	100
Shares are held as follows:		
<ul style="list-style-type: none"> • 74 ordinary shares held by the State, represented by the Department of Public Enterprises; and • 26 ordinary shares held by the Industrial Development Corporation of South Africa. 		
Unissued shares are controlled by the Accounting Authority.		
Shares were originally valued at R0.01 although share certificates were issued which valued the shares at R1. The difference was previously recorded as a share premium. This has since been corrected as share capital.		
9. Shareholders' loans		
Subordinated loans:		
Department of Public Enterprises The loan has no fixed terms of repayment and no interest was charged on the balance outstanding.	1,212,530,000	1,004,000,000
Industrial Development Corporation of South Africa The loan has no fixed terms of repayment and no interest was charged on the balance outstanding.	426,024,054	352,756,756
	1,638,554,054	1,356,756,756
The shareholders' loan agreement states that the loan may be repaid subject to the availability of funds from time to time, however this is based on a mutual agreement between the shareholders and the company. Consequently, the loans are classified as equity.		
10. Provisions		
Provisions consist of the following:		
Provision for expenses paid by Eskom Enterprises (Pty) Ltd	-	14,309,440

The provision was fully utilised during the year to pay Eskom Enterprises, no excess was released to the statement of comprehensive income.

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	2010 R	2009 R
11. Trade and other payables		
Trade payables	77,489,527	110,526,941
Trade and other payables consist of the following:		
Trade payables	60,301,545	90,522,038
SARS – PAYE	188,296	737,873
Eskom Enterprises (Pty) Ltd - interest payable	-	6,219,834
Accrual: Transtel	4,956,070	725,417
Accrual: Nokia Siemens Network	476,777	3,650,142
Accrual: Audit fees	418,482	1,105,497
Accrual: Performance bonuses	8,582,364	5,420,440
Accrual: Straight lining of leases	2,565,993	2,145,700
	77,489,527	110,526,941
12. Revenue		
Rendering of rental services	306,400,000	273,688,844
The amount included in revenue arising from exchanges of goods or services included in revenue are as follows:		
Rendering of rental services	317,500,000	227,000,000
Rental income (straight lining of operating lease income) (refer to note 5)	(11,100,000)	49,900,000
Fair value of receivables	-	(3,211,156)
	306,400,000	273,688,844
13. Expenses		
Expenses are made up of:		
Managed service contract	62,731,731	32,247,707
Bandwidth lease costs	-	15,424,322
Co-location costs	588,957	181,322
Fibre lease costs	4,280,404	5,763,714
Neotel outsource fee	167,218,821	16,443,157
Generator lease	-	126,916
	234,819,913	70,187,138

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	2010 R	2009 R
14. Results from operations		
Results from operations for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Contractual amounts	6,365,982	1,112,749
Equipment		
• Contractual amounts	4,324	46,011
	6,370,306	1,158,760
Maintenance and repairs recovered – Neotel (Pty) Ltd	-	(52,759,710)
Repairs and maintenance*	827,857	149,193,127
Penalties – South African Revenue Services	518,222	-
Depreciation on equipment	90,011,443	98,641,626
Amortisation on intangible assets	1,252,954	791,645
Employee costs and directors emoluments	48,730,695	23,962,049
Audit fees – internal	1,113,667	506,743
Auditors remuneration – audit fee prior year under provision	533,736	-
Auditors remuneration – for other services rendered	551,221	-
Auditors remuneration – audit fee current year	1,039,300	747,582
* In the current year, repair and maintenance was outsourced to Neotel directly, refer to note 13.		
15. Finance income		
Interest received on bank deposits	61,701,218	52,273,738
Deemed interest on trade receivables	-	3,037,529
	61,701,218	55,311,267
16. Finance expense		
Suppliers – Interest	163,508	-
Eskom Enterprises (Pty) Limited – interest	-	7,948,451
South African Revenue Services – interest on late payment	325,592	-
	489,100	7,948,451
17. Income tax (credit) expense		
Major components of the tax (credit) expense		
Deferred		
Deferred tax expense	(11,485,851)	915,827
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting loss	(39,797,919)	1,017,139
Tax at the applicable tax rate of 28%	(11,143,417)	284,799
Tax effect of adjustments on taxable income		
Permanent differences	(342,433)	631,028
	(11,485,851)	915,827

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	2010 R	2009 R
18. Cash generated from (used in) operations		
(Loss) profit before taxation	(39,797,919)	1,017,139
Adjustments for:		
Depreciation and amortisation	91,264,397	99,433,270
Interest received	(61,701,218)	(55,311,267)
Finance expense	489,100	7,948,451
Movements in straight lining of operating lease assets	11,100,000	(49,900,000)
Movements in straight lining of operating lease accrual	420,292	2,145,700
Movements in provisions	(14,309,440)	14,309,440
Changes in working capital:		
Trade and other receivables	96,573,429	(19,683,891)
Trade and other payables	(33,457,708)	(2,675,267)
	50,580,933	(2,716,425)
19. Interest received / paid		
19.1 Interest received		
Interest received per statement of comprehensive income	61,701,218	55,311,267
Interest receivable	(9,416,848)	(4,768,404)
Interest received	52,284,370	50,542,863
19.2 Interest paid		
Finance expense per statement of comprehensive income	(489,100)	(7,948,451)
Interest payable	-	6,219,834
Interest paid	(489,100)	(1,728,617)

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	2010 R	2009 R
20. Related parties		
Relationships		
Ultimate holding company	The State, represented by the Department of Public Enterprises	
Shareholder with significant influence	The State, represented by the Department of Public Enterprises and the Industrial Development Corporation	
Related parties that have the same shareholder (State)	Eskom Limited and Transnet Limited	
Related party balances		
Loan accounts - Owning (to) by related parties		
Department of Public Enterprises	(1,212,530,000)	(1,004,000,000)
Industrial Development Corporation of South Africa	(426,024,054)	(352,756,756)
Other Financial liabilities		
Eskom Enterprises (Pty) Ltd	-	(20,529,275)
The amount owed represented set up costs incurred by Eskom on behalf of Broadband Infraco during the company's start up period		
Related party transactions		
Interest paid to related parties		
Eskom Enterprises (Pty) Ltd	-	7,948,451
Rent paid to related parties		
Eskom Holdings Ltd	544,981	686,136
Lease of fibre optic cables		
Transnet Ltd	6,013,069	4,817,006
Bandwidth Lease - Service Agreement		
Transnet Ltd	-	15,517,308
Co-location Lease Agreement		
Transnet Ltd	446,319	181,322
Directors		
The company entered into contractual arrangements with entities in which the directors either have a direct or indirect interest during the year:		
Director (Interest) (Entity)		
AFB Mthembu (0.83%)* (Nokia Siemens)	94,800,000	-
WT Magasa (12.8%) (ZTE Corporation)	15,500,000	-
C Groesbeek (100%) (Scalos Investment Consulting)	1,300,000	-
* AFB Mthembu holds 100% of Imphandze (Pty) Ltd, this company holds 0.83% in Nokia Siemens.		

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	2010 R	2009 R
21. Lease commitments		
Operating leases		
– payable within one year	12,161,808	10,616,851
– payable within two to five years	21,195,044	32,839,671
– payable after five years	-	-
Total	33,356,852	43,456,522

22. Directors' and key management personnel compensation

Year ended 31 March 2010	Services as	Service period in months	Basic salary R	Bonuses and commissions paid R	Expenses, other allowances R	Total R	
Non-executive directors							
	AFB Mthembu	Board member	12	790,299	-	790,299	
	LN Letele	Board member	12	302,620	-	302,620	
	WT Magasa	Board member	12	210,029	-	210,029	
	C Groesbeek	Board member	12	231,761	-	231,761	
	M Singer-Saul	Board member	12	313,956	-	313,956	
	S Mabaso-Koyana	Board member	12	239,714	-	239,714	
	SD Mabalayo	Board member	12	231,761	-	231,761	
	SAU Meer *	Board member	12	251,287	-	251,287	
	M Mohlala	Board member	6	115,881	-	115,881	
Executive directors							
	RD Smith	Chief Executive Officer	12	1,989,000	813,600	2,802,600	
	S Maharaj	Chief Financial Officer	12	1,283,380	231,915	1,526,095	
Key management							
	Bruce Wallace **	Chief Technical Officer	11	1,025,832	184,270	1,220,002	
	Maite Letsoalo	Business Support Executive	12	1,050,809	169,176	1,230,785	
	Vishen Maharaj	Executive Special Projects	12	1,072,500	178,528	1,261,828	
	Rama Pillay	Capital Programme Executive	12	945,616	144,121	1,100,537	
				10,054,445	1,721,610	53,100	11,825,155

* Paid to the Industrial Development Corporation of South Africa

** Bruce Wallace resigned end of February 2010

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22. Directors' and key management personnel compensation (continued)

Year ended 31 March 2009	Services as	Service period in months	Basic salary R	Bonuses and commissions paid R	Expenses, other allowances R	Total R
Non-executive directors						
	AFB Mthembu	Board member	12	729,058	-	729,058
	LN Letele	Board member	12	279,170	-	279,170
	WT Magasa	Board member	12	254,475	-	254,475
	C Groesbeek	Board member	12	213,802	-	213,802
	M Singer-Saul	Board member	12	289,627	-	289,627
	S Mabaso-Koyana	Board member	12	115,908	-	115,908
	SD Mabalayo	Board member	12	106,901	-	106,901
	SAU Meer *	Board member	12	115,908	-	115,908
	M Mohlala	Board member	12	106,901	-	106,901
Executive directors						
	RD Smith	Chief Executive Officer	4	600,000	-	600,000
	S Maharaj	Chief Financial Officer	9	878,112	-	882,612
Key management						
	Bruce Wallace	Chief Technical Officer	8	681,333	-	685,833
	Maite Letsoalo	Business Support Executive	8	632,541	-	637,041
	Vishen Maharaj	Executive Special Projects	7	568,750	-	573,250
	Rama Pillay	Capital Programme Executive	8	562,866	-	567,366
			6,135,352	-	22,500	6,157,852

* Paid to the Industrial Development Corporation of South Africa

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23. Risk Management

The accounting authority has overall responsibility for the establishment and oversight of Broadband Infraco's risk management framework. The accounting authority has established the audit and risk committee, which is responsible for developing and monitoring the risk management policies. The committee reports regularly to the accounting authority on its activities.

Broadband Infraco's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

Accounting classification and fair values:

2010

Assets	Loans & receivables R	Other amortised cost R	Total R	Fair value R
Current assets				
Trade and receivables*	19,172,014	-	19,172,014	19,172,014
Cash & cash equivalents	851,774,208	-	851,774,208	851,774,208
	<u>870,946,222</u>	<u>-</u>	<u>870,946,222</u>	<u>870,946,222</u>
Liabilities				
Current liabilities**				
Trade and other payables	74,735,238	-	74,735,238	74,735,238

Management have assessed the fair value hierarchy of the above mentioned financial instruments and noted it to be a level 3 fair value hierarchy.

2009

Assets	Loans & receivables R	Other amortised cost R	Total R	Fair value R
Current assets				
Trade and receivables*	79,141,545	-	79,141,545	79,141,545
Cash & cash equivalents	712,993,790	-	712,993,790	712,993,790
	<u>792,075,335</u>	<u>-</u>	<u>792,075,335</u>	<u>792,075,335</u>
Liabilities				
Current liabilities**				
Trade and other payables	107,643,369	-	107,643,369	107,643,369

Management have assessed the fair value hierarchy of the above mentioned financial instruments and noted it to be a level 3 fair value hierarchy.

* Excluding prepayment, SARS receivables and the straight lining of leases

** Excluding SARS payable and the straight lining of leases

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Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's trade receivables and cash and cash equivalents. During the year under review the company had one customer, namely Neotel (Pty) Ltd.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region and customer type was:

	2010 R	2009 R
Neotel (Pty) Ltd	8,317,198	74,151,154

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2010 R	Impairment 2010 R	Gross 2009 R	Impairment 2009 R
Not past due				
Past due 0 – 30 days	8,317,198	-	74,151,154	968,492
Past due 31 – 60 days	-	-	-	-
Past due more than 60 days	-	-	-	-
Total	8,317,198	-	74,151,154	968,492

The movement of the allowance for impairment in respect of trade receivables during the year was as follows:

	2010 R	2009 R
Balance at 1 April	968,492	-
Increase (decrease) in impairment provision	(968,492)	968,492
Balance at 31 March	-	968,492

A credit note was issued during the year and the provision was reversed. In the previous year, there was a dispute with Neotel in respect of the mark up charged by Broadband Infraco on the Eskom maintenance expenses recovered from Neotel.

Exposure to credit risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2010 R	2009 R
Loans and receivables	19,172,014	79,141,545
Cash and cash equivalents	851,774,208	712,933,790
	870,946,222	792,075,335

The maximum exposure to credit risk for trade receivables at the reporting date were domestic.

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Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates, commodity prices and interest rates.

Interest rate risk:

Financial assets and liabilities that are sensitive to interest rate risk are cash and cash equivalents, and loans receivable/payable. Interest received/paid on investments and loans are linked to the prime interest rate. The company policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on profit/(loss).

At year end, financial instruments exposed to interest rate risk were as follows:

- Loan from Eskom Enterprises (Pty) Ltd	-	(20,529,275)
- Standard Bank current accounts	129,153,925	38,118,762
- Investment: Standard Bank	279,257,054	260,582,982
- Investment: FNB	221,797,892	206,958,958
- Investment: Nedbank	221,565,337	207,273,088
Total	851,774,208	692,404,515

Interest rate risk – Sensitivity Analysis:

An increase of 50 basis points (bp) in interest rate or a decrease of 50 bp at the reporting date would have increased (decreased) profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009:

	Recognised in profit / (loss) 2010	Recognised in profit / (loss) 2009
Cash and cash equivalents:		
50bp increase	308,506	3,564,669
50bp decrease	(308,506)	(3,564,669)

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Liquidity risk

Liquidity risk is the risk that the company will not have sufficient financial resources to meet its obligations when they fall due. The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through the ongoing review of future commitments and credit facilities.

The following are the contractual maturities of financial liabilities:

	Carrying Amount R	Contractual Cash flows R	6 months or less R	6 - 12 years R	2 - 5 years R	More than 5 years R
2010						
<i>Non-derivative financial liabilities</i>						
Trade and other payables	74,735,238	74,735,238	74,735,238	-	-	-
2009						
<i>Non-derivative financial liabilities</i>						
Trade and other payables	107,643,369	107,643,369	107,643,369	-	-	-

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	2010 R	2009 R
24. Licence agreements		
The Company was granted an Individual Electronic Communications Network Service Licence by Independent Communications Authority of South Africa ("ICASA") for the provision of Electronic Communications Network Services on 19 October 2009.		
The licence area for all of the licences above is the Republic of South Africa. The licences were granted at no consideration and the Company is required to comply with the applicable regulations as amended from time to time. The company is required to pay Annual Licence Fees, Universal Services Fees and Frequency Spectrum Fees. Expenditure has been incurred on the licence and has been recognised in the statement of comprehensive income for the year.		
25. Capital commitment		
Capital commitments		
– Approved, but not contracted	75,000,000	85,000,000
– Approved, and contracted	576,000,000	210,000,000
	651,000,000	295,000,000
The company has entered into the West African Cable System as a participant to share in 11.78% of the capacity. The contract value is \$90 million (which management anticipate will be reduced, due to more participants), of which the first draw down of \$9 million has been paid. Thus the remaining contractual value is \$81 million. Management have taken out fixed forward exchange contracts to the value of \$65 million to manage the foreign exchange exposure to the company. These contracts were signed on 31 March 2010 and thus have no mark to market value at year end. Management are in negotiations to sell excess capacity on the West African Cable System.		
26. Standards and interpretations issued but not yet effective		
There are new or revised Accounting Standards and Interpretations in issue that are not yet effective. These include the following Standards and Interpretations that are applicable to the business of the entity and may have an impact on future financial statements:		
<ul style="list-style-type: none"> • IAS 24 (revised) – Related Party Disclosures • 15 individual amendments to 12 standards – Improvements to International Financial Reporting Standards 2009 • IFRS 9 – Financial Instruments 		
The company will adopt the changes to the revised standards effective in the affected period.		
27. Other income		
Recovery of repairs and maintenance from Neotel	–	52,759,710

GLOSSARY OF TERMS

ADM	Add/Drop Multiplexer
ADSS	All Di-electric Self Supporting
ASOM	Automatically Switched Optical Network
ATM	Asynchronous Transfer Mode
AWCC	Africa West Coast Cable
BAFO	Best and Final Offer
BEE	Black Economic Empowerment
BBBEE	Broad Based Black Economic Empowerment
BOM	Bill of Material
BU	Branching Unit
CGT	Capital Gains Tax
CIF	Coming into Force
DAH	Double Armour Heavy
DBSA	Development Bank of South Africa
DCN	Digital Telecommunications Network
DDU	Delivered Duties Unpaid
DLS	Digital Line Section
DOC	Department of Communications
DPE	Department of Public Enterprises
DSF	Dispersion Shifted Fibre G.653
DST	Department of Science and Technology
DWDM	Dense Wavelength Division Multiplexing
ECA	Electronic Communications Act
ECNS	Communications Network Services
EE	Eskom Enterprises
ETSI	European Telecommunications Standardisation Institute
ESCON	Enterprise Systems Connection
FEC	Forward Error Correction
FICON	Fibre Connectivity
FOC	Fibre Optic Cable
FSN	Full Services Network
GbE	Gigabit Ethernet
GMPLS	Generalised Multi Protocol Label Switching
ICASA	Independent Communications Authority of South Africa

ICT	Information Communication Technology
I-ECNS	Individual Electronic Communications Network Services
I-ECS	Individual Electronic Communications Services
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
IP	Internet Protocol
ITU	International Telecommunication Union
KPA	Key Performance Area
KPI	Key Performance Indicator
MC	Maintenance Controller
MOU	Memorandum of Understanding
MPLS	Multi-Protocol Label Switching
MTS	Multiwavelength Transport System
LD	Long-Distance
NMS	Network Management System
NT	National Treasury
NED	Non Executive Director
NOC	Network Operations Centre
NPV	Net Present Value
NZDSF	Non-Zero Dispersion Shifted Fibre G.655
OADM	Optical Add/Drop Multiplexer
OCU	Optical Channel Unit
OEMs	Original Equipment Manufacturers
OSP	Out-Side Plant
PFE	Power Feed Equipment
PFMA	Public Finance Management Act
PGU	Power Ground Unit
POP	Points-of-Presence
POTS	Plain Old Telephone Service
POW	Plan of Work
PPE	Property, Plant and Equipment
RA	Rock Armour
RFPA	Ready for Provisional Acceptance
RFP	Request for Proposal

RFQ	Request for Quotation
RSA	Republic of South Africa
SANReN	South African National Research Network
SDH	Synchronous Digital Hierarchy
SHE	Safety, Health and Environment
SIE	SDH Interface Equipment
SITA	State Information Technology Agency
SKA	Square Kilometre Array
SLTE	Submarine Line Terminating Equipment
SNO	Second Network Operator
SOE	State Owned Enterprise
SONET	Synchronous Optical Network
SPV	Special Purpose Vehicle
SSMF	Standard Single Mode Fibre G.652
TDM	Time Division Multiplexing
TENET	Tertiary Education Network
TFR	Transnet Freight Rail
TMN	Telecommunications Management Network
USALs	Under Serviced Area Licencees
VANS	Value Added Network Service
VPN	Virtual Private Network
WACC	Weighted Average Cost of Capital
WACS	West Africa Cable System
WTTR	Regenerative Transponder
ZAR	South African Rand

GENERAL COMPANY INFORMATION

Registered Office and Business Address

Country Club Estate
Building Number 09
No. 21 Woodlands Drive
Woodmead
Sandton
2146

Postal address:
Postnet Suite 321
Private Bag X26
Sunninghill
2157

Company Secretary
Fahim Mohamed
(Office) +2711 235 1600
(Fax) +2786 687 4273

Company Registration Number
1989/001763/07

Website
www.infraco.co.za

Bankers
Standard Bank

External Auditors
KPMG Inc. (on behalf of the Auditor General)
Registered Auditor
Chartered Accountants (SA)

