Annual Report 2011

Connect *Fast*. **Full stop**

Broadband Infraco


connectivity

Connect *Fast*. **Full stop**

Annual Report 2011

Contents

Purpose of the Company

Broadband Infraco (Proprietary) Limited ("Broadband Infraco") is a State Owned Entity (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 underserviced areas.

Background to the creation of the Company

An 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

- Secondly, 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 connectivity providers have a cost structure where a large majority of costs are made up of 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 (Proprietary) Limited and Transnet Limited long-distance telecommunications infrastructure that was developed between 2002 and 2005. This infrastructure was completed and commissioned during the third half of 2007 and has since been significantly expanded by Broadband Infraco. The current reporting period marks the third full year of operations of the Broadband Infraco national long-distance network.

Vision, Mission and Values

Our Vision

- To provide affordable access to long-distance telecommunications network infrastructure and broadband telecommunications 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 underserviced areas; and to
- Ensure that bandwidth requirements for specific projects of national interests are met.

Our Core Values

- Customer satisfaction;
- Excellence;
- Innovation; and
- Integrity.

Who we are and what we stand for

Broadband Infraco, "the Company" is a State Owned Entity (SOE) that is intended to participate in those segments of the telecommunications market and value chain that impede private sector development and innovation in telecoms services and content offerings.

The Broadband Infraco business comprises two key elements, namely:

- A national long distance fibre optic network, providing high capacity telecommunication services between all major national metropolitan centres and being expanded to enable connectivity to reach identified smaller cities and rural areas; and
- An international marine cable network comprising a marine cable that is being manufactured for deployment between South Africa and the United Kingdom.

Connectivity

National Connectivity

The Broadband Infraco fibre optic network currently comprises of approximately 13 612 km fibre. The backbone network is predominantly based on scalable Dense Wavelength Division Multiplexing (DWDM) equipment, providing a number of 10 Gbit/s Lambdas channels along the majority of fibre routes. Network extensions have also been implemented to provide fibre connectivity to the boarders of the neighbouring countries of Botswana, Lesotho, Mozambique, Namibia, Swaziland and Zimbabwe. Broadband Infraco can link West Coast and East Coast international cable systems.

Plans are in place to improve the resilience and scalability of the network to accommodate the expected market demand and to meet the carrier-class expectations of the wholesale market and to extend the reach of the network to improve accessibility in urban and under serviced areas.

Container site

International Connectivity

Broadband Infraco is a Tier 1 investor in the 5.1 Terabits/s West Africa Cable System (WACS) Project. The cable will connect South Africa to the United Kingdom, with landing stations in Portugal and 12 other countries along the West Coast of Africa. WACS will provide:

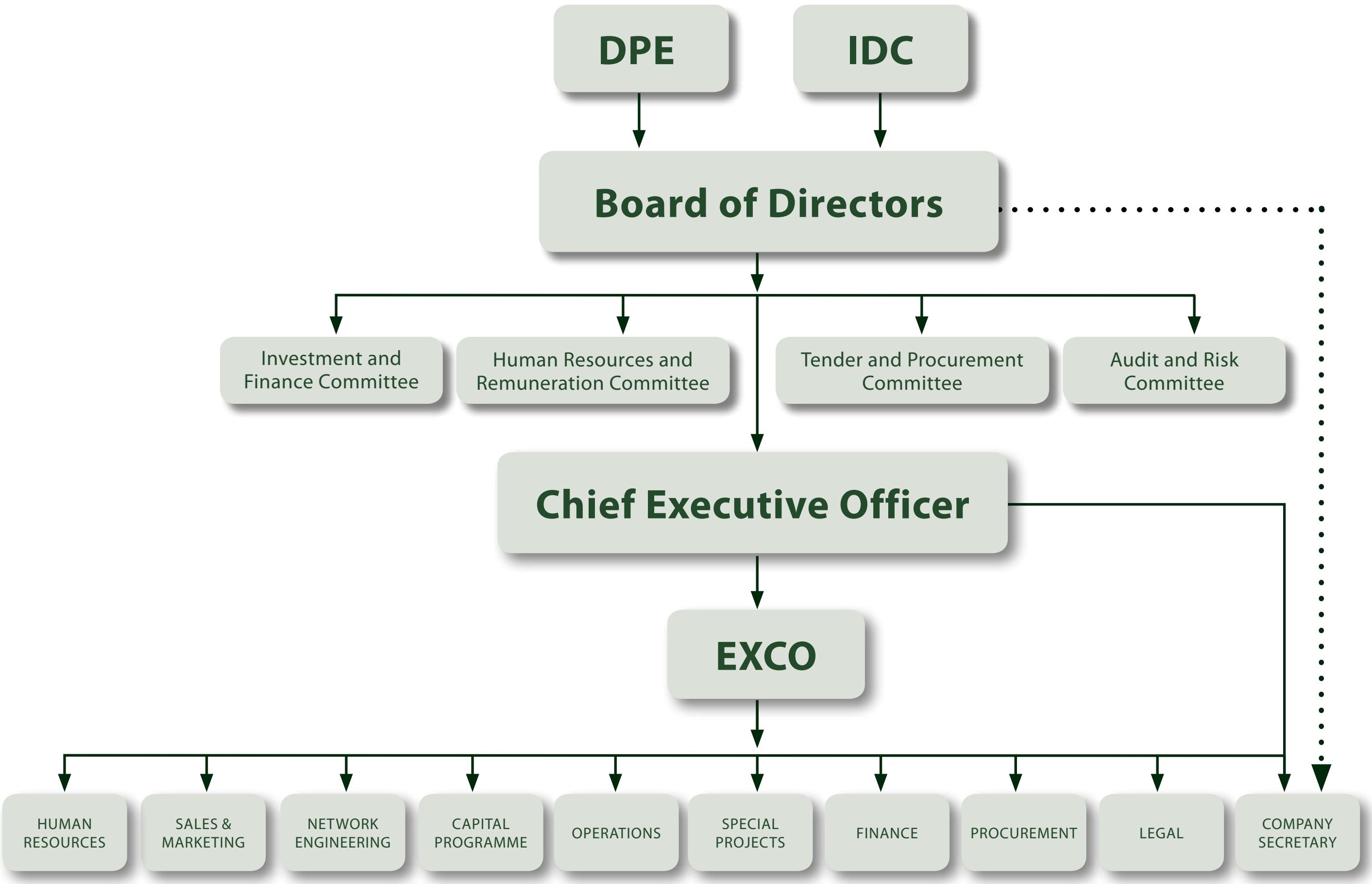
- Lower cost, sustainable and efficient international bandwidth; and
- Position South Africa for future economic growth as it will connect South Africa to key global knowledge economies such as North America and Europe.

The landing station in South Africa is in the process of being constructed at Yzerfontein and the system is expected to go live in the first quarter of 2012.

WACS cable being floated into Yzerfontein on 19 April 2011

Organisational Structure

Broadband Infraco is a State Owned Entity (SOE) which is owned by the Department of Public Enterprises (74%) and Industrial Development Corporation (26%).



Board of Directors

Current directors

Andrew Mthembu (55) South African
Chairman of the Board – Non-executive director
Board Committees: Investment and Finance, Human Resources and Remuneration

Monica Singer Saul (49) South African
Non-executive director
Board Committees: Audit and Risk, Human Resources and Remuneration, Tender and Procurement

Sydney Mabalayo (47) South African
Non-executive director
Board Committees: Investment and Finance, Tender and Procurement

Nolo Letele (61) South African
Non-executive director
Board Committees: Investment and Finance, Human Resources and Remuneration

Cornelis Groesbeek (43) South African
Non-executive director
Board Committees: Investment and Finance, Tender and Procurement, Audit and Risk

Shakeel Meer (49) South African
Non-independent
Non-executive director
Board Committees: Investment and Finance, Audit and Risk

Andrew Shaw (44) South African
Acting Chief Executive Officer


affordability

Chairman's Review

Opening remarks

During the year under review, Broadband Infraco ("the Company") achieved significant milestones in the Company's brief history as a State Owned Entity. The Company prepared for and successfully launched to the broader telecommunications market on 18 November 2010. Prior to this commercial launch, the Company only had one customer, namely Neotel (Proprietary) Limited (Neotel), in accordance with the Right of Use and Operate Agreement between Broadband Infraco and Neotel, which had been in effect since 1 December 2007.

During the course of the reporting year, the Company introduced five new open access long distance Points of Presence (POP) at Umhlanga in Kwazulu Natal (KZN), Rondebosch in Western Cape and three in Midrand, Gauteng. Furthermore, a POP was also established in Mtunzini, KZN to gain accessibility to both the EASSY and SEACOM submarine cables which land at Mtunzini, on the East Coast of South Africa. Further projects have been initiated to establish additional POPs in these regions in order to increase accessibility to international destinations for the wholesale telecommunications market in South Africa.

Broadband Infraco's other project developments include increasing the capacity and network accessibility for key public sector projects that include the Karoo Array Telescope and South African Large Telescopes (KAT/SALT); upgrade of the South African Research Network; as well as the expansion into the Northern region of South Africa, a move aimed at providing not only national long distance connectivity services but to also introduce diversity for the regional gateways into the neighbouring states of Botswana and Zimbabwe. In this regard, projects were initiated in the reporting year and are ongoing.

Broadband Infraco continued 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 5.12 Terabit capacity marine cable system that will link South Africa with twelve (12) countries on the West Coast of Africa as well as peering and interconnect points in Portugal and the United Kingdom.

The Company also commenced engagements with Sentech Limited (a fellow State Owned Entity) to identify potential synergies as well as consider underserved areas for the purpose of ensuring cost effective provisioning of connectivity to educational and health facilities in these areas.

Operational efficiency

The combined effect of deploying new assets and management's continued focus on operating efficiency and productivity improvements, are directed at achieving significant operational efficiencies, which have been either incremental or sporadic. It is absolutely crucial that we leverage off the massive capital investments we have made in the last few years to ensure quality of service to our customers.

Shareholding and Shareholders' Compact

The Government of the Republic of South Africa (as represented by the Department of Public Enterprises (DPE)) and the Industrial Development Corporation of South Africa (IDC) are Broadband Infraco's shareholders. A Shareholders' Compact which outlined the performance objectives, measures and indicators in line with National Treasury Regulations issued in terms of the Public Finance Management Act 1 of 1999 (PFMA), was developed and agreed to and signed by the DPE, IDC and Broadband Infraco for the period under review at the Annual General Meeting held on 29 July 2010.

The Shareholders' Compact does not interfere with the normal principles of company law while ensuring that the relationship between the shareholders and the Board will be preserved at all times. The Shareholders' Compact promotes good corporate governance by helping to clarify the Board and Shareholders' roles and responsibilities and ensures consensus on Broadband Infraco's mandate and key objectives. The Board continued to put measures in place to ensure that proper internal controls are in place and that Broadband Infraco is effectively managed in the best interest of all the stakeholders of the Company.

Health, Safety, Environment and Quality (HSEQ)

Consistent with its commitment to compliance, Broadband Infraco commenced with the implementation, maintenance and evaluation of the Occupational Health and Safety Management System (OHSAS 18001:2007), Environmental Management System (based on ISO 14001:2004) and the Quality Management System (ISO 9001: 2008). These efforts will continue into the next financial year until compliance certifications are attained by Broadband Infraco. Gap analysis reviews were initiated 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 reporting period 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.

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.

On 19 October 2009, ICASA issued Broadband Infraco with an I-ECNS licence. 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 licensed 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 pended the decision on the I-ECS licence application until the legal issues surrounding the Broadband Infraco licensing process had been finalised. ICASA then published its reasons for the decisions taken in relation to Broadband Infraco's application for I-ECS and I-ECNS licences early in April 2010. The notice indicated that ICASA had resolved not to grant Broadband Infraco an I-ECS licence.

I-ECS licence considerations

Broadband Infraco has developed a business model which takes new value propositions into consideration. In light of the new value propositions, Broadband Infraco is also in the process of re-establishing the need for an I-ECS licence. In particular, the creation of an African hub and providing operators in neighbouring countries with connectivity to South Africa, and to the respective undersea cables terminating in South Africa, may require an I-ECS licence.

In order to secure the African hub business, it may be necessary to secure an I-ECS licence, purely for the purposes of being able to connect to African regional operators within South Africa. Such a licence would not mean that Broadband Infraco would engage in services permitted under an I-ECS domestically, and the justification for the licence would be that it enables the revenues needed to support the universal service obligation.

Should it be determined that an I-ECS licence is required, the Company will apply for a conditional I-ECS licence (i.e. such that the licence may be issued with special conditions that will not permit Broadband Infraco to offer services in the retail market).

Our continued commitment to good corporate governance

The Company remains committed to improving its corporate governance structures and practices. Adherence to global leading practice in this area is not only imperative, but is also in the best interest of Broadband Infraco and the country. To this effect, the Company has worked towards aligning its processes and procedures in preparation for full compliance with the `implementation of the King Code of Corporate Governance (King III), as well as the Companies Act No. 71 of 2008. The new King III is already in effect and Broadband Infraco is broadly compliant with its principles. Still, Broadband Infraco remains concerned about certain provisions of King III arising mainly from the Company being state-owned. These provisions pertain, for instance to the method of remunerating independent and non-executive directors of the Company.

Broadband Infraco's continued success as a commercial entity depends on its commitment to the highest standards of corporate governance and corporate ethics. This commitment requires that the Company handles alleged governance breaches decisively and swiftly, irrespective of the levels of seniority of the individuals implicated. It is against this backdrop that the Board has supported management's disciplining and suspension of senior executives and employees of the Company.

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 that will 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 satisfactory outcomes of the Public Finance Management Act (PFMA) and Compliance audits for the reporting period are therefore pleasing in this regard.

The 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 2010/11 financial year. During the year under review, Ms S Mabaso-Koyana, Mr WT Magasa, Mr R D Smith and Mr S Maharaj resigned from the Board after year end. We wish to thank them for their contributions whilst serving as members of the Board.

With the new Companies Act of 2008 becoming effective in South Africa on 1 May 2011 and the release of the King III Report on Corporate Governance, a compliance officer was appointed in December 2010 in order to ensure that Broadband Infraco pro-actively prepares for a shift in the South African corporate governance and best practice compliance and regulatory environment. The 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.

Corporate Governance shortcomings over the 2010/2011 year

In October 2010, the internal auditors were requested by management on instruction from the Board, to investigate the Fibre Optic Cable Framework Agreement for short term engineering contracts with three bidders. These contracts were for the installation of the fibre optic cables on pre-selected routes and stations.

The investigation was finalised in November 2010 and a significant number of control weaknesses were identified as well as breaches in delegations of authority. Management, as well as the Chairpersons of the Audit and Risk Committee and the Board, were of the view that these weaknesses were material and amounted to gross negligence on the part of the responsible employees. A decision was then taken to institute a disciplinary process against the responsible managing executives and various other officials implicated in the investigation.

As part of the disciplinary process, Internal Audit was requested to lead witness evidence on the charges formulated by the Company, based on the outcome of the investigations. The disciplinary hearings were chaired by separate independent chairpersons for each case. Concurrent to the disciplinary process, both the Chairpersons of the Board and the Audit and Risk Committee further instituted a forensic investigation into this matter, which commenced on 19 January 2011. This was with the view to identify any conflicts of interest that staff members may have in respect of the service providers that were awarded contracts to install fibre optic cables and whether any staff member involved in the procurement of services and/or the implementation of the contracts, wrongfully benefitted from the service providers.

Continuous feedback in respect of this matter was provided to the Board on a number of occasions during February and March 2011. It was during these Board feedback sessions that a decision was taken to issue an interim report and start another process with the assistance of the South African Police Services (SAPS). This route was critically important given that any further efforts by the forensic investigators without the police involvement would not render any fruits, hence the decision to involve the police. The investigation was still in progress at the date of reporting.

As a result of the above cited investigation, a number of key reforms and actions were initiated in the internal control environment, such as:

- Disciplinary action against implicated Broadband Infraco employees;
- Forensic audits to determine if there had been any further irregularities associated with the fibre optic cable installation and other contracts;
- Review of the procurement policies and procedures;
- Recruitment of key personnel at Broadband Infraco;
- Training of key staff in respect of the Public Finance Management Act;
- Updating of declarations of interests of Board members and employees; and
- The development of a plan for the replacement of the existing enterprise resource planning (ERP) system used by Broadband Infraco.

Human capital matters

Broadband Infraco aims to ensure that there is long term human resources capacity and capability to meet its organisational goals. Human Capital management involves talent management and preservation of critical skills which are key to ensure that people continue to contribute towards the achievement of Broadband Infraco's mandate.

Broadband Infraco had a staff compliment of 156 permanent employees by end of March 2011. The Company, through its recruitment policies and procedures, promotes employment equity. Its racial and gender equity appointments equalled 87% and 35% respectively by year end. Permanent appointments were made in areas of Sales, Network Engineering, Capital Projects, Human Resources and Enterprise Risk Management.

Broadband Infraco recognises skills development as a priority and acknowledges that there is a growing local and international demand for scarce technical skills hence we have created a culture of learning by up-skilling our employees and managing talent with more emphasis on scarce and critical skills. A Workplace Skills Plan and Annual Training report were submitted to the Sector Education and Training Authority (SETA) in support of these skills programmes. Strides were made in the human capital development in the reporting period with regards to informal and formal training. In the 2010/11 financial year, Broadband Infraco spent 3% on skills development, exceeding the minimum 1% required by the Skills Development Levy.

The Company is also committed to the development of the youth and skills in South Africa. A Graduate Development Programme is in place to equip young graduates from previously disadvantaged backgrounds with meaningful workplace experience and realise their potential. We had eight graduates who were granted exposure in the fields of network engineering, project management and network operations and maintenance.

Market outlook

Broadband Infraco is the second national long-distance network operator in South Africa.

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 also 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.

WACS cable being pulled onto the beach at Yzerfontein on 19 April 2011

The focus of Broadband Infraco is therefore on enabling wholesale connectivity for 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 sells high capacity national long distance and international transmission services to licensed fixed and mobile network operators, internet service providers and other value added network service providers, which in turn use the capacity to expand the reach and capacities of their own networks or resell on to their customers.

Broadband Infraco is also focused on providing long distance connectivity to projects that are of national interest, and which require affordable high capacity data services.

Internationally, the landing of the SEACOM and EASSY cable systems on the East Coast has resulted in a situation where there will be a significant oversupply of international capacity even in the medium to long term. Competition between the respective cable systems, as well as between operators invested in each of the individual cable systems, will be extremely high, with further price declines likely to be significant. However, Broadband Infraco is in the unique position to be the only provider, other than Telkom, to be able to offer terrestrial connectivity between the East and West Coast cable systems.

Products and services

Broadband Infraco's product portfolio offers a number of different capacities and service levels that customers may select. 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.

The Company is currently looking at extending the product portfolio with a number of carrier co-location options at the POP, and will also be able to provide customers with ethernet services between its respective long distance points of presence in the near future.

Business development and sales

During the year under review, and as indicated in the opening remarks of this report, Broadband Infraco prepared and successfully launched to the open wholesale market on 18 November 2010. Prior to the commercial launch, the Company had only one customer, namely Neotel (Pty) Ltd (Neotel), in accordance with the Right of Use and Operate Agreement between Broadband Infraco and Neotel, which has been in effect since 1 December 2007. Since Broadband Infraco was awarded its I-ECNS licence in October 2009, the Company has been progressing a number of activities to prepare for full commercial launch and has actively been engaging with other licensed operators as prospective customers locally and internationally.

Operating results for the year

Operating revenue from the rendering of network infrastructure rental services for the year was R390.7 million (2010: R317.5 million), excluding the charge of R93.1 million (2010: R11.1 million) which was recognised in respect of 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 R390.7 million was below the total budgeted revenue of R412.8 million by R22.1 million. This variance was primarily due to budgeted incremental revenue from the external wholesale market that was not realised during the reporting period.

Expenditure increased to R505.2 million (2010: R407.4 million). The increase is mainly attributable to the cost of network operations, maintenance and repairs. Operating costs savings against the 2011 budget amount of R686.4 million was achieved mainly in the areas of staff costs, marketing expenditure, depreciation and professional service fees.

Earnings before interest, tax, depreciation and amortisation (EBITDA) for the 2011 financial year was a loss of R94.3 million (2010: loss R9.7 million). For the year under review, Broadband Infraco posted an after taxation loss of R206.9 million (2010: R28.3 million loss). The operating loss (inclusive of depreciation) for 2011 was R207.7 million (2010: R101.0 million). The actual operating loss for 2011 was better than the budgeted amounts of R273.6 million (2010: R160.0 million) and the after tax loss of R206.9 million, which includes a deferred taxation benefit of R1.3 million was lower than budget (2010: R253.9 million) as the deferred tax asset of R54.3 million was not recognised in the year under review.

At the end of the 2011 financial year, Broadband Infraco had been in operation for just over three years and therefore still reasonably early in the life cycle of the organisation. It is very typical for new start-up telecommunications entities to experience negative operating results for the first 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 R138.6 million (2010: R208.5 million) from the Department of Public Enterprises (DPE) during the financial year. This increased the Government's total equity funding contribution to an amount of R1 351.1 million (2010: R1 213.5 million), which represents an investment in Broadband Infraco of 74%. The Industrial Development Corporation (IDC) contributed funds of R48.7 million (2010: R73.3 million) bringing their total equity funding contribution to R474.7 million (2010: R426.0 million) to maintain their 26% investment in the company.

The current year's equity contributions were utilised to fund network capital expenditure and other working capital requirements of the organisation during the year. Broadband Infraco's own investments were utilised during the year under review to fund the remainder of network capital expenditure and working capital. Surplus cash is invested in market linked investments in three different financial institutions in accordance with the Company's Investment Policy. Broadband Infraco earned interest totalling R47.5 million (2010: R61.7 million) and cash utilised in operations of the Company during the reporting period was R4.5 million (2010: R50.9 million generated from operations). Cash on hand at the end of the 2011 financial year was R529.1 million (2010: R851.8 million).

Empowerment

The Broadband Infraco procurement department faced significant challenges and constraints during the financial year; primary amongst which was a lack of leadership, direction and inadequate adoption of proper procurement policies and procedures. This resulted in the departure of the previous procurement head at the end of the year. A number of other considerable challenges were faced including a marked lack of resources and systems to adequately and efficiently manage various procurement processes. As a result of the issues faced, management initiated and adopted a thorough overhaul of the department which is currently in progress. Some of the initiatives that will be embarked upon going into the future include enhancing staff skill levels, implementing best practice procurement policies and procedures, as well as improving existing procurement management systems. Since full implementation of the initiatives only began at the end of the financial period, it is envisaged that these will only begin to bear fruit during the next financial period.

Notwithstanding the challenges that were faced, as well as the lack of an effective system to capture Broad Based Black Economic Empowerment (BBBEE) spend as outlined in the Department of Trade and Industry's (DTI) Codes of Good Practice, Broadband Infraco continued to persevere by tracking Black Economic Empowerment (BEE) procurement spend manually. Broadband Infraco was expected to spend 50% on BBBEE within five years from the date of inception of the Code and 70% within the following five years. The Codes were promulgated on 5 February 2007. Broadband Infraco is still within the five year period and has exceeded the target by 38% on BBBEE spend. Off a total procurement spend of R320 million, the department achieved an overall BEE procurement spend of R280 million, which accounts for 88% of total procurement spend. Furthermore, 61% of BEE spend related to companies with a BEE level of three or higher.

The procurement department has continued with its active focus on BEE procurement and is acutely aware of the need to support black managed and owned companies. Procurement from BEE companies therefore remains an important objective for future procurement within the department.

Business process development

The Business Process Development (BPD) has developed 19 core business processes as an effective means to boost the Company's effectiveness. The processes aim at finding ways to better align Broadband Infraco's core strategy to customers' needs.

In this financial year, BPD defined and highlighted problem areas within the operational function of departments and facilitated the alignment meetings to improve efficiencies.

Business Processes management defined the Broadband Infraco metrics in terms of Key Performance Area (KPA) and measurements in terms of Key Performance Indicators (KPI). Through business process mapping and in line with Enhanced Telecommunications Operations Model (e-Tom), BPD enabled Broadband Infraco employees to engage in critical process thinking because telecommunications is fundamentally a complex, cross-departmental, technology-enabled business that create value for customers and shareholders through processes.

Enterprise risk management and business continuity

Enterprise Risk Management (ERM) is a key 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. 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. 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 programme to fully implement the determined response strategies was developed during the period under review and executed. This was done in order to ensure resilience of Broadband Infraco's business operations, providing service availability assurance to customers even under adverse conditions.

Sustainability

At present, the Health, Safety, Environment and Quality (HSEQ) Department is involved with the development and planning phases for the establishment of a Sustainability Management System based on ISO 26000 and Global Reporting Initiative (GRI) guidelines. In addition, a Sustainability Policy is being developed and will be finalised during the next financial year. Broadband Infraco is registered and will maintain membership as an Organisational Stakeholder (OS) with the GRI.

No lost time injuries or environmental incidents were reported during the 2010/11 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 retraining.

Broadband Infraco shall continuously submit reports on an annual basis as required by statutory requirements, standards and codes of practice.

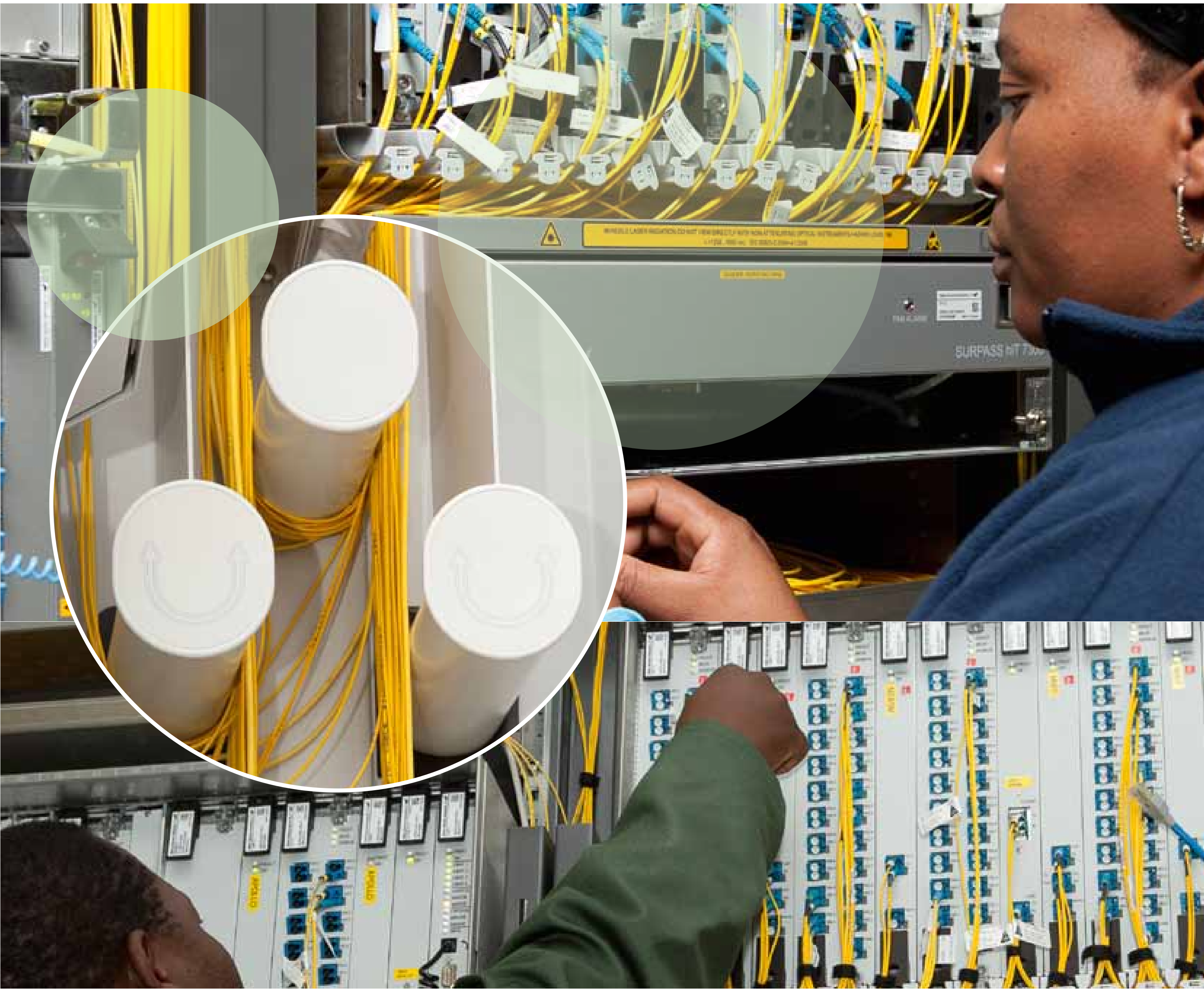
The year ahead

The broadband market is experiencing significant challenges, ranging from price declines, new competitors, new technologies, and healthy demand side growth. Furthermore, this provided expedient resolution of the ongoing national debate regarding ICASA's policy on Spectrum Licensing and Local Loop Unbundling, volume growth may accelerate on the basis of more focused investment in the access layer, which has now become the biggest obstacle in further improving broadband quality and affordability. On the supply side, from a wholesale perspective, Broadband Infraco expects the year ahead to bring additional competition into the market, with the recently announced FibreCo consortium further indicating the build of long distance fibre routes by the private sector.

On the international side, the West African Cable System (WACS) project is expected to be completed in the first quarter of 2012, and Broadband Infraco will expand it's product portfolio by also selling international connectivity services to its customers. The market for international services is likely to come under significant price pressure as a result of the level of competition added to the market through the WACS consortium members. This, in turn, is likely to further fuel demand for terrestrial national backhaul, as well as East to West Coast redundancy and connectivity into neighbouring and other South African Development Community (SADC) countries.

Broadband Infraco is actively investigating opportunities for collaboration and additional revenue streams in the physical infrastructure layer, most notably in the area of co-location facilities for operators at the Company's open access POP sites both in metro areas and in other cities/towns. This approach would eliminate the need for multiple operators to establish sites, and allow for the sharing of costs and efforts related to construction works, electric power supply, as well as cooling and security.

Broadband Infraco is in the process of engaging with multiple stakeholders in order to develop a micro telecoms partnership model for providing connectivity to under serviced areas. Broadband Infraco is currently also in the process of collaborating with the KwaZulu Natal Department of Economic Development, as well as with Sentech Limited, in order to support the long distance connectivity requirements for the provincial backbone initiative of the Department.



Broadband Infraco has identified four strategic goals and top priorities for the 2011/2012 financial year in the context of the mandate of the Company and the changing market environment described above. These are:

- Further diversifying and growing market share as well as the revenue base whilst retaining the current anchor customer;
- Support for the new growth path initiative through:
  - Continued focus on Human Capital Development and the Broadband Infraco Capital Build Program; and
  - Developing pilot projects to validate the required micro telecoms model for underserviced areas.
- SOE alignment and collaboration with Sentech Limited; and
- Achieving better Southern African regional connectivity.

Broadband Infraco will also focus on delivering on the KAT project, as the first component of the SKA (Square Kilometre Array) rollout, as a key national priority.

Conclusion

Broadband Infraco progressed during the 2010/11 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 2011/12 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's 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 2010/11 financial year. Our special thanks and appreciation to our shareholders and, in particular, the Minister of Public Enterprises and his department as well as the Industrial Development Corporation of South Africa for their ongoing support.

We thank all our stakeholders, especially customers, clients and investors for their support during the year. I also wish to thank Ms S Mabaso-Koyana, Mr W T Magasa, Mr R D Smith, and S Maharaj, who resigned from the Board, for their support during their tenures as non-executive and executive directors and for their valuable insights and contributions to the Board and the Company.

A Mthembu
Chairman of the Board

Broadband Infraco launch on 18 November 2010

Corporate Governance Report for the year ended 31 March 2011

Introduction

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

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 in the Public Sector.

The term of office of non-executive directors is a maximum of three years, which is subject to annual review at the Annual General Meeting (AGM) by the shareholders. Retiring directors are eligible for re-appointment.

Board and its sub-committee meetings are scheduled in advance and a meeting year plan is approved by the Board. Special meetings are convened as and when necessary to address specific issues that may arise. In terms of the Board Charter, those 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 are reflected on page 27.

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).

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; and
- 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 Board of Directors are of the opinion that the annual financial statements fairly present the financial position of the Company as at 31 March 2011, and the results of its operations and cash flows for the year then ended.

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 (SMF) has been developed and agreed and a Memorandum of Understanding between the Shareholders and

Broadband Infraco has been agreed and signed. The SMF, as approved in 2007 by the DPE, was tabled for consideration at the Annual General Meeting held on 28 July 2010 and was approved with minor amendments 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 the directors' accountability and responsibility. The annual review of the current delegation of authority framework will be conducted by the shareholders and 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 page 9 of the Annual Report.

Broadband Infraco has a unitary Board structure with a majority of non-executive directors. For the period under review, the Board consisted of ten directors. This included seven independent non-executive directors, one non-independent non-executive director (nominated by the IDC as a shareholder representative to the Board), and two executive directors being the Chief Executive Officer and Chief Financial Officer. The non-executive 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.

During the period under review, there were three resignations from the Board of Directors. Ms S Mabaso-Koyana (non-executive director) resigned on 19 August 2010, Mr W T Magasa (non-executive director) resigned on 4 February 2011, and Mr R D Smith (Chief Executive Officer) resigned on 14 February 2011. Subsequent to year end, Mr S Maharaj (Chief Financial Officer) resigned from the Board on 1 April 2011. Dr A Shaw was subsequently seconded to Broadband Infraco as the Acting Chief Executive Officer by the Department of Public Enterprises on 1 April 2011.

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

- the segregation of roles, responsibilities, functions and powers of the Board, shareholders, individual directors 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.

Instrument used to test fibre links

Attendance at Board meetings for the period ending 31 March 2011

	1	2	3	4	5	6	7	8	
Director	18 June 2010	1 Sep 2010	22 Oct 2010 (Special)	8 Dec 2010	28 Jan 2011 (Special)	14 Feb 2011 (Special)	24 Feb 2011	24 Mar 2011	Total
A F B Mthembu[1]	√	√	√	√	√	√	√	√	8/8
C Groesbeek	√	√	√	√	√	√	√	√	8/8
L N Letele	A	√	√	√	√	√	A	√	6/8
S T Mabalayo	√	A	√	√	√	√	√	√	7/8
R D Smith [2]	√	√	√	√	√	√	√	-	7/7
S Maharaj [3]	√	√	√	√	√	√	√	√	8/8
S Mabaso-Koyana [4]	A	√	-	-	-	-	-	-	1/2
W T Magasa [5]	A	√	√	A	√	-	-	-	3/5
S A U Meer	√	√	A	√	√	√	√	√	7/8
M J Singer Saul	√	√	A	√	√	√	√	A	6/8
A Shaw [6]								√	1/1

√ Attendance
A Absent with apology
* Teleconference
\- Resigned

1 Chairman of the Board
2 Executive director (Chief Executive Officer) Resigned: 14 February 2011
3 Executive director (Chief Financial Officer)
4 Resigned: 19 August 2010
5 Resigned: 4 February 2011
6 Acting Chief Executive Officer - Seconded 1 April 2011

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 Board re-shuffled the membership composition on the sub-committee members on 1 September 2010 in order to bring new skills and dynamics to the committees.

The sub-committees are tasked with assisting the Board in carrying out its responsibilities. Their recommendations and reports to the Board ensure 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.

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. It also considers and recommends those matters out of its delegation of authority to the Board or its sub-committees. The Board also delegates certain authority to EXCO in terms of the significance and materiality framework.

Audit and Risk Committee

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

The Committee is an important element of the Board's system of monitoring and control. All Audit and Risk Committee members have extensive experience, as well as financial risk and accounting expertise. The Chief Executive Officer and the Chief Financial Officer as well as the Risk and Assurance Manager attend the 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 audit. 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 audit are sufficiently clarified 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, recommends the appointment of the external auditors, and 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 Committee.

A report by the Chairperson of the Committee is included on page 44.

Attendance at Audit and Risk Committee meetings for the period ending 31 March 2011

	1	2	3	4	5	
Committee Member	18 May 2010	31 May 2010	6 Oct 2010	3 Dec 2010	17 Feb 2011	**Total**
M J Singer Saul [1]	√	√	√	√	√	5/5
I Kajee [2]	√	A	√	√	√	4/5
S A U Meer	A	√	√	A	A	2/5
S Mabaso-Koyana [3]	√	√	-	-	-	2/2
C Groesbeek [4]			√	√	√	3/3
T Magasa [5]			A	A	-	0/2

√ Attendance
A Absent with apology
\- Resigned

1 Chairman
2 External Committee Member
3 Resigned: 19 August 2010
4 Appointed: 1 September 2010
5 Appointed: 1 September 2010 and resigned 4 February 2011

Investment and finance committee

The Investment and Finance Committee comprises four independent non-executive directors, one non-independent non-executive director and two executive directors.

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 guides such decisions which are then approved by the Board.

A report by the Chairperson of the committee is included on page 37.

Attendance at Investment and Finance Committee meetings for the period ending 31 March 2011

Committee Member	1 29 July 2010	2 14 February 2011	Total
N Letele [1]	√	√	2/2
A F B Mthembu	√	√	2/2
C Groesbeek	√	√	2/2
S Mabalayo	√	√	2/2
S A U Meer	√	√	2/2
R D Smith [2]	√	√	2/2
S Maharaj [3]	√	√	2/2
S Mabaso-Koyana [4]	A	-	0/1

√ Attendance
A Absent with apology
\- Resigned

1 Chairman
2 Executive director (Chief Executive Officer)
3 Executive director (Chief Financial Officer)
4 Resigned: 19 August 2010

Poles being delivered to the SALT link at Sutherland

Tender and procurement committee

The Tender and Procurement Committee comprises four independent non-executive directors and two executive directors. Mr AFB Mthembu and Mr WT Magasa resigned from the committee on 1 September 2010. Mr ST Mabalayo took over as the Chairperson of the Committee on resignation of Mr WT Magasa.

The Committee assists the Board with procurement decisions and 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; and
- ensuring that the 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).

For the period under review, the Tender and Procurement Committee did not convene; however, workshops were held on 13 April 2010, 14 May 2010 and 1 September 2010 between the members of the tender and procurement committee and management in order to discuss the procurement policies and procedures, tender processes and contract management.

Feedback was provided to the Board regarding the above matters. The outcome of the workshops resulted in various recommendations to management including the review of the procurement policy and procedures by management with the assistance of external consultants. The review of the procurement policy and procedure documents are expected to be completed in the next financial and will be tabled to the Board for approval prior to implementation.

A report by the Chairperson of the committee is included on page 38.

Human resources and remuneration committee

The Human Resources and Remuneration Committee comprises three independent non-executive directors.

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 shareholders;
- 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 Shareholders;
- 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 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 executive and 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 39.

Attendance at Human Resources and Remuneration Committee meetings for the period ending 31 March 2011

	1	2	3	4	Total
Committee Member	28 April 2010	1 Sept 2010	18 Feb 2011 (Special)	21 Feb 2011 (Special)	
M J Singer Saul	√	√	√	√	4/4
A F B Mthembu	√	√	√	√	4/4
N Letele	A	A	√•	√•	2/4

1 Chairman
√ Attendance
A Absent with apology
• Attended via Teleconference

Board Evaluation and Performance

In terms of the Board Charter as well as the Shareholders' Compact, the Board is required to evaluate its performance annually. During the period under review, the Board's and sub-committees' performance and dynamics were independently evaluated and the evaluation report 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 29 July 2010 and were satisfied with the report as well as the overall performance of the Board. All of the Board members were re-appointed to the Board at the said Annual General Meeting for a three year period, subject to annual review by the Shareholders.

Directors' Remuneration

Please refer to note 23 on page 79 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 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.

A statutory review has been conducted during the period under review so as to ensure that the Board Charter and Committee terms of reference are brought in line with the provisions of the new Companies Act as well as the King III Guidelines on Corporate Governance. The said documents will be tabled for approval by the Board in the next financial year.

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 are also set out in the Act. The external auditors were satisfied with the level of compliance with regards to the PFMA during the period under review.

Training of key staff has been undertaken by an external service and the remainder of the staff will be trained on the Public Finance Management Act early in the next financial year.

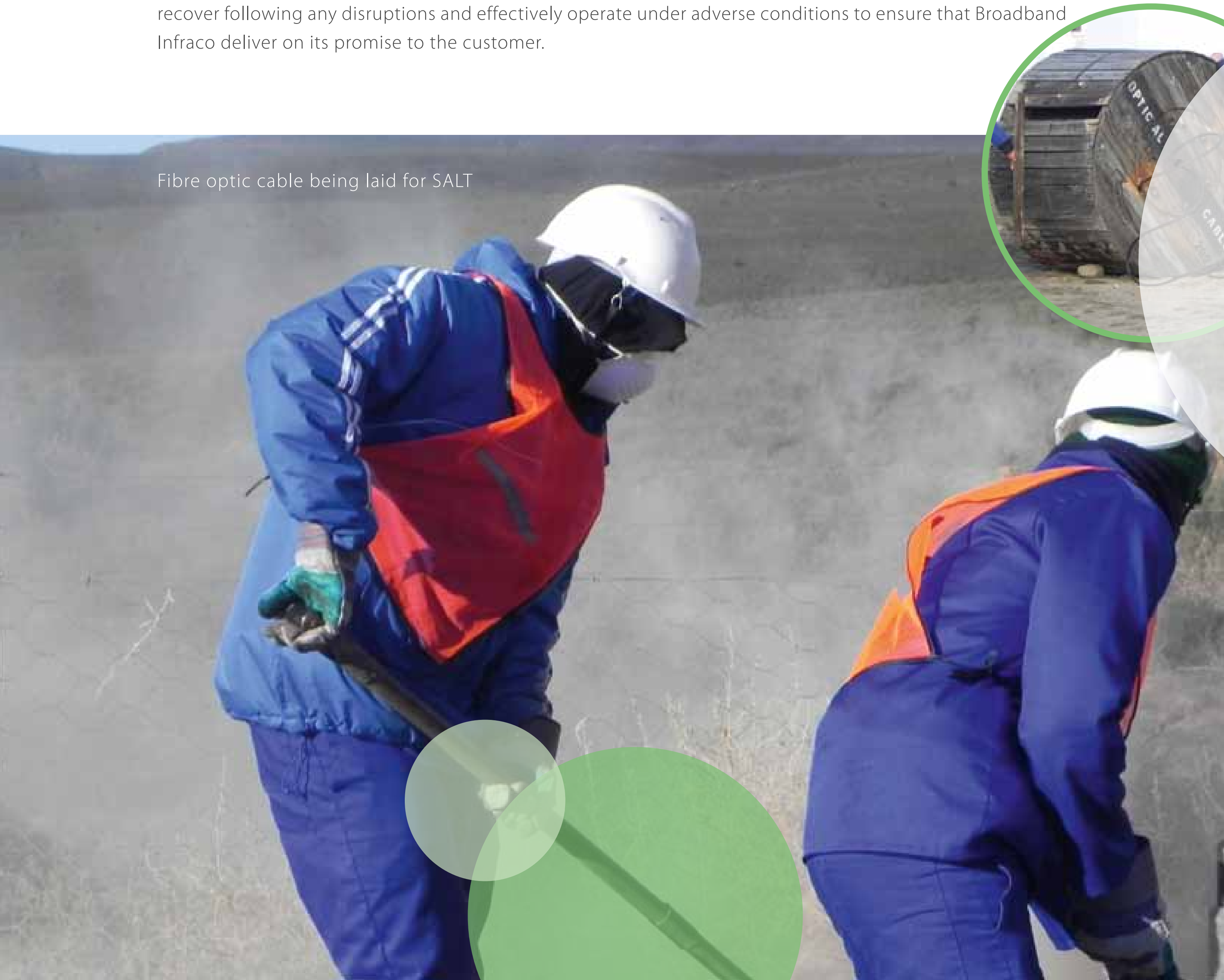
Enterprise Risk Management (ERM)

The process of ERM and standard was adopted by the organisation. The risk assessments and other supporting activities were undertaken as per adopted methodology. However, the desired outcome was not achieved from the process due to an organisational culture of managing risk that was not at an appropriate level of maturity. Therefore inadequate measures and ineffective implementation of same led to the state of internal control system breakdowns as reported by the various audits. The implementation of risk mitigation activities was very slow and the activities performed proved to be ineffective in reducing the level of risk to the required risk appetite. Focus in this regard will be renewed going forward and a culture of risk management will be entrenched.

Business Continuity Management (BCM)

The nature of the business of Broadband Infraco 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 Infraco 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 ECNS availability at an average rate of 95%.

To this end, a process to implement the Business Continuity Plan (BCP) that had been developed in the previous year has been unfolding. The disaster recovery strategies defined in the plan will ensure that business recover following any disruptions and effectively operate under adverse conditions to ensure that Broadband Infraco deliver on its promise to the customer.



Fibre optic cable being laid for SALT

Some of the following milestones have been achieved in the implementation of these plans; namely:

- The Business Processes Development led the development of the business case to enable the procurement and implementation of the infrastructure that had been identified as critical for recovery strategies. The business case was approved by the Board and a project to procure, implement and commission this infrastructure is unfolding;
- As the company grew and new staff members came on board, further training was provided to the new team members on the BCM Programme in order to ensure that they effectively discharge their duties in as far as BCM is concerned; and
- Emergency exit procedures have been developed and tested.

Fraud Prevention

Regulation 29.1.1 of the Treasury Regulations prescribed under the Public Finance Management Act, 1999 (Act No. 1 of 1999) requires Broadband Infraco to develop and implement a Fraud Prevention Plan that is reviewed annually to ensure its relevance and alignment to the fraud risks faced by the Company. The Company recognises management of the risk of fraud as a business imperative in as far as ensuring confidence in members of the public that their tax monies are used responsibly and effectively.

The Internal Audit Function of Broadband Infraco supported management's actions to combat fraud and corruption by detecting, and recommending responses to identified fraud and corruption during performance of their audit assignments and through investigation of reported allegations of fraud and corruption.

The Company continued to strengthen efforts to manage fraud risks through full implementation of its Fraud Prevention Plan. The following activities were undertaken during the year under review:

- Review and implementation of the Fraud Prevention Plan; 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 implementation of the plan was not effective as the general controls needed to support fraud prevention efforts were not adequate;
- Investigation of fraud and corruption allegations reported on the fraud hotline and through other management processes; and
- Ongoing awareness on prevention of fraud and corruption conducted.

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 is accessible by phone on 0800 212 713 or by email on ethics@inyourhands.co.za Any of the eleven official languages may be used for reporting. The line is operational 24 hours a day, seven days a week. 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, reports were received on the hotline and through other management processes. All reported matters were referred to forensic investigators for investigation.

Internal Control

The Board 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. 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.

A number of critical audit findings were identified during the course of the year, mainly in the areas of Procurement and Contract Management, Information Technology and other critical areas. All matters have received the attention of management and have either already been addressed or are on a control improvement roadmap for implementation. Progress against this roadmap is monitored by management and reported to the Audit and Risk Committee.

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 bringing 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 Deloitte for the 2010/11 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 Deloitte internal audit team has unrestricted access to all Broadband Infraco's functions, records, property and personnel. The Deloitte 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 (SPPIA), the IIA's Code of Ethics and other codes of conduct that are promulgated by applicable professional bodies, and any other corporate governance requirements.

During the 2010/11 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 internal audit 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. In line with the principles of corporate governance and as recommended by King III the team developed a Combined Assurance Model which was approved and implemented. A Quality Assurance and Improvement Programme was developed and approved for implementation in the next cycle of internal audits.

Board Committee Reports

Investment and Finance Committee Report

As Chairperson of the Investment and Finance Committee, it is my pleasure to submit the Investment and Finance committee report for 2010/11.

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 2010/11 financial year is reflected on page 29.

During the year under review, the committee reviewed and considered various issues delegated to it by the Board.

The Committee:

- Considered and recommended to the Board the approval of capital expenditure to the maximum value of R40. 6 million and operational expenditure to the maximum value of R81.2 million over a period of 3 years, as highlighted in the table below, for the implementation of Customer Access Points of Presence (POPs) in Bellville and Pinelands in the Cape Town area, Mt Edgecome in Durban and Pretoria West in Gauteng along with a new network site in Pinetown in Durban;
- Considered and recommended to the Board the approval of capital expenditure to the maximum value of R119.1 million for the:
  - Provision of an optical fibre link between De Aar and Noupoort with its associated transmission system and protection capacity;
  - Provision of an optical fibre link between Newcastle and Chivelston with its associated transmission system and protection capacity;
  - Provision of all the supplementary lambda bandwidth required across the existing network to enable the effective protection of all existing services using the newly provided network meshing links in accordance with the stipulated protection philosophy;
  - Provision of a new transmission system to enable rolling network optimisation to restore the service carrying capacity of the network to its design specification;
  - Upgrading of all the existing hiT7300 transmission element management software to version 4.25 to enable new generation photonic cross connect features; and
  - Replacement of the old generation 20 channel (MTS transmission systems between Pretoria and Durban (via Witbank and the Bellville to Port Elizabeth with new generation hiT7300 40 channel transmission systems.
- Approved capital expenditure to the maximum value of R53.4 million for the provisioning of transmission services for both the SALT (South African Large Telescope) and KAT (Karoo Array Telescope) projects.

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

Board Committee Reports (continued)

Tender and Procurement Committee

The Tender and Procurement Committee comprises of Mr ST Mabalayo, Mr C Groesbeek, Ms M Singer-Saul and Mr S Meer.

As the Chairperson of the Tender and Procurement committee, I submit that the Tender and Procurement Committee did not convene any meetings to approve procurement related projects within its delegation of authority for the period under review.

However, during the financial year, workshops were held on 13 April 2010, 14 May 2010, and 1 September 2010 between the members of the Tender and Procurement Committee and management in order to discuss the following:

- Procurement tender process and contract management;
- Tender evaluations, namely, the process for:
  - Technical evaluation;
  - Financial evaluation;
  - Commercial evaluation;
  - Bid adjudication;
  - Constitution;
  - Composition;
  - Roles and responsibilities;
  - Process for tenders above R1 million;
  - Sole supplier motivation;
  - Procurement policy review; and
  - Contract management process.

Feedback was provided to the Board regarding the above matters. The outcome of the workshops resulted in various recommendations to management including the review of the Procurement Policy and Procedures by management. The review of the procurement policy and procedure documents are expected to be completed in the next financial and will be tabled to the Board for approval prior to implementation.

A new management tool has also been developed in order to assist with capital programme investment monitoring. The capital programme department is piloting the tool and organisational wide implementation is expected in the next financial year.

S T Mabalayo
Chairperson: Tender and Procurement Committee

Board Committee Reports (continued)

Human Resources and Remuneration Committee Report

As Chairperson of the Human Resources and Remuneration Committee, it is my pleasure to submit the Human Resources and Remuneration Committee report for 2010/11.

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

The meeting attendance for 2010/11 financial year is reflected on page 32.

During the year under review, the Committee considered and approved certain matters referred to it by management or recommended to the Board various issues delegated to it by the Board. These included:

- General annual employee salary increase for the 2010/11 financial year;
- Appointment of the marketing and sales executive;
- Appointment of the chief technical officer;
- Job profiling, evaluation and grading, guaranteed total cost to company salaries and proposed salary adjustments;
- The CEO's annual salary increase; and
- Employee performance bonuses for the 2010/11 financial year.

Subsequent to the resignation of the Chief Executive Officer (CEO), Mr R D Smith, on 14 February 2011, the committee convened on 18 February 2011 and 21 February 2011 to consider the appointment of an interim CEO. Meetings were held with executive placement consultants and recommendations were made, however, the Shareholder (Department of Public Enterprises) decided that they will fill the position with a secondment from the department on an interim basis.

M J Singer Saul
Chairperson: Human Resources and Remuneration Committee

Performance Dashboard - Financial Year 2010/11

KPA	Weighting (%)	KPI	Sub-Weighting (%)	Unit	Actual	Target	Exceeded/ Achieved/ Not achieved	Comments
Strategic	40	Reduced Telecommunications Prices	20	%	10	10	Achieved	Once off 10% price reductions from the benchmark STM-1, STM-4 and STM-16 wholesale pricing levels as at 1 April 2010.
		Broadband Connectivity Available and Access	20	%	71%	100	Not achieved	Expanding the availability of broadband connectivity access to a minimum of 7 independent Broadband Infraco POPs in addition to the POPs in 11 cities (available via Neotel). Meeting the backhaul connectivity requirements of other licensed operators in previously underserviced areas in accordance with terms and conditions of Broadband Infraco ECNS license. The company achieved 5 out of the targeted 7 POPs (71%). The completion of the outstanding POPS was delayed due to the funding being approved at a very late stage (during December 2010) and thus there was insufficient time to complete further POPS. The process for approval is by nature a lengthy one and civil construction companies generally go into freeze periods during December which meant it was not possible to proceed until 2011 and this has also contributed to the delay.
Financial	25	Revenue*	5	R'mil	390.66	412	Not achieved	Revenue for the reporting period is R21.3 million lower than budget due to: • Actual revenue of R388.6 million from the Right of Use and Operate Agreement was R11million above target. • The budgeted annual revenue of R35 million for the backhaul of the SEACOM cable and other external revenue did not materialise as the deal is still under negotiation and will only be realised in the next financial year.
		EBITDA*	5	R'mil	(1,24)	(98,00)	Exceeded	Savings on manpower costs, marketing, and consulting fees, resulting in target being exceeded despite lower revenue.
		Net profit loss after tax*	10	R'mil	(83,60)	(175,00)	Exceeded	Savings on operating costs and lower depreciation charge resulting in a lower loss for the year. The target also included a taxation benefit of R 82 million, whereas the deferred tax asset was not recognised on the actual performance.
		Debt funding	5	R'mil	0	109	Achieved	No debt funding required, due to cost savings and a slower rollout on capital
Network Infrastructure, Operations, maintenance and Development	20	Actual time to restore Core Network Faults	3	hours	4,53	8	Exceeded	The restore times were exceeded on 80% of the core network faults due to implementation of fault diagnostic tools, the development of in-house regional maintenance offices and increased service centre locations by subcontractors.
			3	hours	20,68	12	Not achieved	The restore times were not achieved on 20% of the core network faults due to there being extenuating circumstances e.g. very inclement weather, multiple faults on a cable and veld fires.

Performance Dashboard - Financial Year 2010/11 (continued)

KPA	Weighting (%)	KPI	Sub-Weighting (%)	Unit	Actual	Target	Exceeded/ Achieved/ Not achieved	Comments
		Actual time to restore facilities related faults	4	hours	3,8	4	Exceeded	Facilities related fault repair times were exceeded through the deployment of in-house regional maintenance offices.
		Availability of Customer Services in accordance with Commercial Contracts	4	%	98,09	99,5	Not achieved	Customer service level availability was not met due to limited capacity for rerouting of traffic during failures.
		Time & Cost of Infrastructure Development	3	%	57%	100	Not achieved	12 out of 21 projects were delivered on time. 6 site Infrastructure projects were delayed due to difficulties experienced in sourcing of civil contractors and acquiring of customer open access premises while conditions put on certain customer project approvals were not met.
			3	%	96%	100	Not achieved	The capital expenditure was 4% below budget primarily due to equipment price erosion.
International Connectivity	10	Expenditure	5	US$ mil	38,5	39,8	Achieved	The company has incurred expenditure below the target of $39.8 million for its participation in the development of the WACS cable during FY2010/11.The target is still regarded as being achieved due to the fact that all invoiced expenditure for FY 2010/11 has been fully paid.
		Project Implementation	5	%	66,07	67	Not achieved	The cumulative % technical roll-out completion of the WACS project by 31 March 2011 had some delays in respect of marine & terrestrial permits and approvals.
Supporting the Development Objectives of South Africa	5	Skills Development	2,5	%	100%	100	Achieved	A total of 10 engineers and technicians have been trained in the scarce skills areas of Network Engineering, Project Management and Operations and Maintenance. The 10 engineers were broken down as follows: 3 engineers under Network Engineering, 3 technicians under Operations and Maintenance and 4 engineers under Project Management.
		Local Content in Capital Expenditure contracts	2,5	%	70%	26	Exceeded	Target: R165m out of a budget of R635m to be spent with local service providers. Actual: R167.7m of a total spend of R240.8m was spent with local service providers.

* Revenue is not as per IFRS accounting. R93,1 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. Unrealised foreign exchange losses of R30.2m have also not been considered in evaluating performance against the target.


innovation

Broadband Infraco (Proprietary) Limited

Annual Financial Statements for the year ended 31 March 2011

(Registration number 1989/001763/07)

Index

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

Report of the Audit and Risk Committee

To the Broadband Infraco Executive Authority

The Audit and Risk Committee was constituted by the Board during the 2008 financial year and consists of four members, two of whom are independent non-executive directors, one non-independent non-executive directors, and one member who was appointed for his financial and risk 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 and Risk Committee was guided in the execution of its role by an Audit and Risk Committee Charter which has been approved by the Accounting Authority.

In the conduct of its duties during the period under review, the Audit and Risk 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.

- Initiated internal audit reviews to investigate areas of concern and possible weaknesses in the company's system of internal controls. In response to the findings documented in these reviews, the Committee has made recommendations, and instituted actions, where deemed necessary to address these weaknesses. The committee has also been involved in the ongoing monitoring of such remedial actions as have been identified. As stated in the Corporate Governance Report, the design and operation of these controls had serious shortcomings. Every effort has been made, however to ensure the integrity of these financial statements.

- Reviewed the annual report and annual financial statements for the year ended 31 March 2011 to ensure that they present a balanced and understandable assessment of the financial position, performance and prospects of the Company.

- Evaluated whether the Company's external auditors have been contracted to render any additional services which are not part of their audit activities. Such engagements are subject to the specific prior approval of the 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 and Risk Committee has evaluated the annual financial statements of Broadband Infraco (Proprietary) Limited for the year ended 31 March 2011, the effectiveness and adequacy of the company's internal controls and any pending litigation. Except for the qualification regarding the completeness of the fruitless, wasteful and irregular expenditure identified, and the possible effects thereof, 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 and the Public Finance Management Act. 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 and Risk Committee accordingly recommended the adoption of the annual financial statements for the year ended 31 March 2011 by the Accounting Authority of Broadband Infraco (Proprietary) Limited.

MJ Singer Saul
Chairperson Audit and Risk Committee

Accounting Authority's Responsibilities and Approval

The 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 2011, and the statements of comprehensive income, changes in equity and 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 is also responsible for such internal control as the Accounting Authority determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Accounting Authority has made an assessment of the ability of the company to continue as a going concern and have no reason to believe that 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 the annual financial statements

The annual financial statements of Broadband Infraco (Proprietary) Limited, as identified in the first paragraph, were approved by the Accounting Authority on 15 June 2011 and are signed on their behalf by:

AFB Mthembu
Chairman

A Shaw
Acting 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

Independent Auditor's Report

To the members

Report on the annual financial statements

We have audited the annual financial statements of Broadband Infraco (Proprietary) Limited which comprise the accounting authority's report, the statement of the financial position as at 31 March 2011, the statements 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 50 to 89.

Accounting Authority's responsibility for the annual financial statements

The Accounting Authority, which constitutes the board of directors, is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa and in the manner required by the Companies Act of South Africa, and for such internal control as the Accounting Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 qualified audit opinion.

Basis for qualified opinion

As indicated in the Accounting Authority's Report, there were changes in structure and composition of the Accounting Authority. Consequently, the Accounting Authority is unable to confirm whether the fruitless and wasteful expenditure disclosed as R 1.9 million and irregular expenditure disclosed as R 151.1 million represent all fruitless and wasteful expenditure and irregular expenditure during the year. Accordingly, we have been unable to obtain sufficient appropriate audit evidence to support the relevant disclosures in the financial statements.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of Broadband Infraco (Proprietary) Limited at 31 March 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa and in the manner required by Companies Act of South Africa.

Independent Auditor's Report (continued)

Report on Other Legal and Regulatory Requirements

In terms of the Public Audit Act of South Africa and General Notice 1111 of 2010, issued in Government Gazette No. 33872 of 15 December 2010, we report on the following:

Predetermined objectives

We are required to undertake a limited assurance engagement on the 'Performance against the predetermined objectives' as set out on pages 40 to 41 of the Annual Report in the section headed Performance Dashboard – Financial Year 2010/11, in which the actual performance of the company for the year ended 31 March 2011 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 there are no material findings on the performance against predetermined objectives.

Compliance with laws and regulations

We are required to report on compliance with laws and regulations in accordance with the guidance contained in the applicable R3: Reporting Guide of the Auditor General. We report the following material findings below on the non-compliance with laws and regulations on the basis set out in the Guide.

Expenditure and procurement management

Section 51(1)(b)(ii) of Public Finance Management Act requires the Accounting Authority to take effective and appropriate steps to prevent irregular expenditure, fruitless and wasteful expenditure, losses resulting from criminal conduct and expenditure not complying with the operational policies of the company, which is a public entity. The company has policies and procedures in place which assist with the prevention of such expenditures and losses, facilitated by the Delegation of Authority Framework, accounting system, procurement policy and regular financial reviews. However, these policies and procedures were not always complied with during the 2010/11 financial year, and as such were not always effective.

Internal control

We considered internal control relevant to our audit of the financial statements, and the reports on predetermined objectives and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The internal control procedures regarding the monitoring and reporting of the irregular expenditure and fruitless and wasteful expenditure were not in operation during the year which has resulted in a breakdown in the reporting relating to these matters. The completeness of the amounts disclosed in the annual financial statements could not be confirmed and our opinion contained in our Report on the annual financial statements was modified accordingly.

Investigations

Investigations completed as advised to us

The Accounting Authority commissioned an investigation regarding tender and procurement irregularities. The investigation reported on a breach in delegation of authority by the Executive Committee as well as internal control deficiencies relating to procurement systems and policies. The Accounting Authority has taken disciplinary action against members of executive management involved and implemented revised system and policy management and monitoring processes.

The Accounting Authority commissioned the internal auditors to perform a conflict of interest review specific to its members. Internal audit was further commissioned to identify potential conflicts between the employee database and the supplier database. The investigations did not report any relationships not previously disclosed in the annual financial statements or findings requiring further investigation.

Independent Auditor's Report (continued)

Investigations in progress as advised to us

The Acting Chief Executive Officer commissioned an investigation to assess compliance with procurement policy and procedures based on the findings from internal audit relating to procurement and contract management audit reports. All awarded contracts/ tenders exceeding R10 million have been included in the scope of this investigation. The investigation has not been concluded at the date of finalising this report.

The Accounting Authority commissioned an investigation into alleged misconduct resulting from a breach in the tender and procurement policies, as well as the breach in the delegation of authority regarding a number of matters in the human resources department. The investigation has not been concluded at the date of finalising this report.

Other matters

Except for the matter relating to fruitless and wasteful expenditure and irregular expenditure, the matters contained in this Report are not considered to affect our opinion contained in our Report on the annual financial statements.

The supplementary information set out on page 90 does not form part of the annual financial statements and is presented as additional information. We have not audited this information and accordingly we do not express an opinion on it.

M Rattigan

KPMG Inc.
Registered Auditor
Per Maureen Rattigan
Chartered Accountant (SA)
Registered Auditor
Director
15 June 2011

KPMG Crescent
85 Empire Road
Parktown

Accounting Authority's Report

The Accounting Authority submits their report for the year ended 31 March 2011.

1. Review of activities

Main business and operations

1.1 Legal and regulatory environment

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 serviced 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.

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 licensing 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 license 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.

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 licensing phase of the business. In addition, the company commenced with the project implementation of the international marine cable connection.

Broadband Infraco (Pty) Ltd has signed the Construction and Maintenance Agreement for the West African Cable System (WACS) entitling it to 11.78% of the cable system. The WACS capital contribution of US$ 47.5 million has been paid with the remaining portion of US$ 25.3 million still payable in terms of the agreement. The system is expected to go live in the first quarter of 2012.

1.3 Customer

During the year under review the Company had three customers, namely Neotel (Pty) Ltd (Neotel), MTN Group Limited (MTN), and Liquid Telecommunications Operations South Africa Ltd (Liquid Telecoms).

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 licensed and the acquisition of telecommunications services by Neotel during the post licensing 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.

1.4 Financial results

The Company realised a net loss of R206.9 million (2010: 28.3 million) for the year under review. Revenue was slightly lower at R297.6 million (2010: R306.4 million) and the main contributor was the straight lining of revenue amounting to R93.1 million (2010: R11.1 million)

Operating costs and cost of sales of R505.2 million increased by 24% from the previous year (R407.4 million). This was mainly due to the increase in the staff compliment from 67 to 156 and the charge to depreciation and amortisation resulting from higher capital expenditure.

The Company's statement of financial position remains strong with total assets of R1 707.2 million (2010: R1 714.8 million).

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 balance sheet date;
- 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 R1 617. 7 million as at 31 March 2011;
- The company has an accumulated deficit of R 208.1 million as at 31 March 2011;
- The loans from the shareholders amounting to R1 825.8 million have been subordinated until such time as the company and the shareholders agree to repay the loans; and
- The loss after taxation was R 206.9 million compared to the prior year loss after taxation of R 28.3 million.

The Company was awarded the ECNS licence and has launched its services to the market from November 2010. This enabled the Company to enter into contracts for the Initial Right of Use and Maintenance Agreements with two new customers. The customers have prepaid the total value of the contracts and the income, reflected as deferred income in the financial statement, will be recognised over the period.

Accounting Authority's Report (continued)

2.2 Significant matters in the coming year

The Company has a number other agreements with new customers in the pipeline which are still being finalised. This will generate additional sources of revenue and cash flows which should have a positive impact on the Company's operating results.

Furthermore, the company has made an an application to the Executive Authority in terms of Section 54 (2)(d) of the Public Finance Management Act (PFMA) for the sale of Right of Agreements related to capacity on the West Africa Cable System (WACS) amounting to US$ 45 million. The additional cash flow of approximately R 300 million is expected to assist the Company in funding the capital projects for expanding the network in South Africa. However, should the sale agreements of the WACS capacity not be approved by the Executive Authority, this will accelerate the borrowing plan of the Company to fund the expected capital commitments to expand network by accessing debt facilities.

The Accounting Authority is in the process of revisiting the Corporate Plan and model and this will determine the future business strategy. This process is expected to be completed and submitted to the Executive Authority in the updated Corporate Plan for 2011/12 by 30 June 2011.

2.3 Operating

The directors and management are not aware of any factors that will negatively impact on its operations. The going concern assumption was used in preparation of the company'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.

2.4 Conclusion

The Accounting Authority concludes that the Company is a going concern.

3. Events after the reporting period

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. Subsequent to the approval of the annual financial statement, the Executive Authority did not approve the application relating to the sale of Right of Agreements related to the capacity on the West Africa Cable System.

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 R48.7 million and R138.6 million respectively, disclosed as shareholders' loans. These loans are subordinated and repayable based on mutual agreement between the shareholders and the company. Therefore, the loans are classified as equity.

5. Borrowing Limitations

In terms of the Company's articles of association, the Accounting Authority shall not have the power to incur borrowings without the prior approval of the shareholders.

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	Designation	Changes
AFB Mthembu	Chairperson	
WT Magasa **		Resigned 4 February 2011
LN Letele		
M Singer Saul *		
C Groesbeek **		
SD Mabalayo		
S Mabaso Koyana **		Resigned 19 August 2010
SAU Meer**		
Executive directors		
RD Smith	Chief Executive Officer	Resigned 14 February 2011
S Maharaj	Chief Financial Officer	Resigned 1 April 2011
A Shaw	Acting Chief Executive Officer	Appointed 1 April 2011

* Audit and Risk Committee Chairperson.
** Member of the Audit and Risk 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 2011, the company's shares are held by the State and the IDC, as 74% and 26%, respectively.

10. Compliance with relevant legislation

The Accounting Authority of the Company have complied in all material respects, with all legislation and regulations applicable to, these include among others the Companies Act, the Public Finance and Management Act (PFMA), the Treasury Regulations, International Financial Reporting Standards and the Income Tax Act except, as highlighted below.

The Company has implemented and maintained sound governance structures and processes in compliance with the requirements of the PFMA. PFMA compliance is one of the corner stone of the business that the Company manages and monitors. This monitoring function is achieved through approved policies that are PFMA, Treasury Regulations and all relevant legislation compliant and a materiality framework that has been established with the support of the Shareholder representative.

Sections 51 and 55 of the PFMA impose certain obligations on the Company relating to the prevention, identification and reporting of fruitless and wasteful expenditure; irregular expenditure; that does not comply with operational policies; losses through criminal conduct and the collection of all revenue. To comply with the PFMA's requirements, the Board has a materiality framework, which was approved by the Executive Authority, subject to certain conditions.

During the year, the Company had systems, policies and procedures in place however, these were not effective in preventing fruitless and wasteful expenditure and irregular expenditure. The systems, policies and procedures which assist with the prevention of such expenditures and losses were not complied with during the financial year and were as such not always effective.

The Company did not have a system in place for recording all fruitless and wasteful expenditure and irregular expenditure during the year. As such, the Accounting Authority is unable to confirm the completeness of the fruitless and wasteful expenditure and irregular expenditure. The Accounting Authority has disclosed all known expenditure and losses classified as fruitless and wasteful expenditure and irregular expenditure are disclosed in note 27 of the Annual Financial Statement. These relate to non-adherence to operational policies and procedures in incurring or approval of the expenditure, procurement and contract management processes of the Company.

The Accounting Authority has taken corrective action to ensure that systems, policies and procedures are adhered to and either updated to enhance the compliance and control environment. The process has been initiated from the onset when the non-compliance matters identified in the internal audit report were identified. Where appropriate, the Accounting Authority has taken disciplinary action against the management that have contravened the policies and procedures.

Statement of Financial Position at 31 March 2011

	Note(s)	2011 R	2010 R
Assets			
Non-current assets			
Equipment	2	1 136 205 047	725 598 534
Intangible assets	3	12 003 991	12 480 059
Deferred tax assets	4	-	1 324 002
		1 148 209 038	**739 402 595**
Current assets			
Trade and other receivables	6	29 804 567	123 665 074
Derivatives held for risk management	12	59 511	-
Cash and cash equivalents	7	529 102 516	851 774 208
		558 966 594	**975 439 282**
Total assets		**1 707 175 632**	**1 714 841 877**
Equity and Liabilities			
Equity			
Equity attributable to equity holders of the company			
Share capital and share premium	8	100	100
Accumulated deficit		(208 133 818)	(1 201 804)
Shareholders' loans	9	1 825 851 277	1 638 554 054
Total equity attributable to equity holders of the company		**1 617 717 559**	**1 637 352 350**
Liabilities			
Non-current liabilities			
Deferred income	10	29 366 874	-
Current liabilities			
Trade and other payables	11	26 651 860	77 489 527
Deferred income	10	3 822 351	-
Derivatives held for risk management	12	29 616 988	-
		60 091 199	**77 489 527**
Total liabilities		**89 458 073**	**77 489 527**
Total equity and liabilities		**1 707 175 632**	**1 714 841 877**

Statement of Comprehensive Income for the year ended 31 March 2011

	Note(s)	2011 R	2010 R
Revenue	13	297 559 970	306 400 000
Expenses	14	(261 149 278)	(234 819 913)
Gross profit		**36 410 692**	**71 580 087**
Operating expenses		(244 120 451)	(172 590 124)
Results from operations	15	**(207 709 759)**	**(101 010 037)**
Finance income	16	47 506 486	61 701 218
Finance costs	17	(45 404 739)	(489 100)
Loss before taxation		**(205 608 012)**	**(39 797 919)**
Income tax (expense) / credit	18	(1 324 002)	11 485 851
Loss for the year		**(206 932 014)**	**(28 312 068)**
Other comprehensive income		-	-
Total comprehensive income		**(206 932 014)**	**(28 312 068)**
Loss for the period attributable to the parent		**(206 932 014)**	**(28 312 068)**
Total comprehensive income attributable to the parent		**(206 932 014)**	**(28 312 068)**

Statement of Changes in Equity for the year ended 31 March 2011

	Share capital	Share premium	Total share capital	Accumulated deficit	Shareholders' loans	Total equity
	R	R	R	R	R	R
Balance at 1 April 2009	**1**	**99**	**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 year	**-**	**-**	**-**	**(28 312 068)**	**-**	**(28 312 068)**
Conversion of shares from 1c to R1	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)**	**-**	**-**	**281 797 298**	**281 797 298**
Total changes	**99**	**(99)**	**-**	**(28 312 068)**	**281 797 298**	**253 485 230**
Balance at 31 March 2010	**100**	**-**	**100**	**(1 201 804)**	**1 638 554 054**	**1 637 352 350**
Loss for the year	-	-	-	(206 932 014)	-	**(206 932 014)**
Total comprehensive income for the year	**-**	**-**	**-**	**(206 932 014)**	**-**	**(206 932 014)**
Shareholder loan raised from DPE	-	-	-	-	138 599 926	**138 599 926**
Shareholder loan raised from IDC	-	-	-	-	48 697 297	**48 697 297**
Transactions with owners, recorded directly in equity	**-**	**-**	**-**	**-**	**187 297 223**	**187 297 223**
Total changes	**-**	**-**	**-**	**(206 932 014)**	**187 297 223**	**(19 634 791)**
Balance at 31 March 2011	**100**	**-**	**100**	**(208 133 818)**	**1 825 851 277**	**1 617 717 559**
Note(s)	8	8	**8**		9	

Statement of Cash Flows for the year ended 31 March 2011

	Note(s)	2011 R	2010 R
Cash flows from operating activities			
Cash (used in) / generated from operations	19	(4 509 586)	50 580 933
Finance income received	20	46 330 883	52 284 370
Finance costs paid	20	(15 174 677)	(489 100)
Net cash from operating activities		**26 646 620**	**102 376 203**
Cash flows from investing activities			
Purchase of equipment	2	(535 315 412)	(243 890 888)
Purchase of intangible assets	3	(1 300 123)	(1 442 195)
Net cash from investing activities		**(536 615 535)**	**(245 333 083)**
Cash flows from financing activities			
Shareholders' loan received		187 297 223	281 797 298
Net cash from financing activities		**187 297 223**	**281 797 298**
Net (decrease) / increase in cash and cash equivalents		**(322 671 692)**	**138 840 418**
Cash and cash equivalents at the beginning of the year		851 774 208	712 933 790
Cash and cash equivalents at end of the year	7	**529 102 516**	**851 774 208**

Accounting Policies

1. Presentation of 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 (No.61 of 1973, as amended) of South Africa and the Public Finance Management Act (No.1 of 1999, as amended) of South Africa.

The financial statements were approved by the Accounting Authority on 15 June 2011.

(b) Basis of measurement

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

- Derivative 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 judgments

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.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

Residual values and useful lives of equipment
Residual values and useful lives of equipment are assessed on an annual basis. Estimates and judgments 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 reporting 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 judgment 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 judgments to the likelihood of future payment. All provisions are reviewed at each reporting date.

Accounting Policies (continued)

Impairment of trade receivables
Impairment provisions are raised against trade receivables when their collectability is considered to be doubtful, the following factors are taken into consideration:

- Age;
- Credit terms;
- Customer's current and anticipated future financial status;
- Disputes with customers; and
- Credit insurance.

There are no critical judgments made by management in the process of applying the company's accounting policies that have a significant effect on the amounts recognised in the financial statements.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these annual financial statements.

1.1 Foreign currencies

Foreign currency translation
Transactions in foreign currencies are translated to the respective functional currencies of the 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 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.

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.

Accounting Policies (continued)

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
Mobile equipment	5 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 is 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.

Work in Progress (WIP)
Work in progress 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.

1.3 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 once put into operation.

1.4 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:

Item	**Useful life**
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.

Accounting Policies (continued)

1.5 Financial instruments

Fair value determination

Non-derivative financial instruments
The Company initially recognises its loans and receivables and deposits on the date that they are originated. The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company classifies non-derivative financial assets into the loans and receivables category.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Non-derivative financial liabilities

The Company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies its non-derivative financial liabilities into the other financial liabilities category.

Other financial liabilities comprise trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Derivative financial instruments

The Company holds derivative financial instruments specifically, foreign exchange forward contracts in order to cover its foreign currency exposures.

Derivatives are recognised initially at fair value at the date the derivative contracts are entered into. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in profit or loss.

Accounting Policies (continued)

Share capital

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

Shareholders' loan
Loans made by shareholders to the Company, in substance, represent additional capital contributions by the shareholder as settlement of such loans is neither planned nor likely in the foreseeable future.

1.6 Impairment of assets

Financial assets

Non-derivative financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlates with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables
The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the company's non-financial 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 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").

Accounting Policies (continued)

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 to reduce the carrying amount of assets in the unit (group of units) on a pro rata basis.

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.

1.7 Income tax

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.

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 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.

1.8 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.

1.9 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.

Short term employee 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 reporting date. The accruals have been calculated at undiscounted amounts based on current wage and salary rates.

1.10 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.

1.11 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 reporting 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 reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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 reporting 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;
- 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.

Rental income received is recognised 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.

Accounting Policies (continued)

1.12 Finance income and costs

Finance income comprises interest income on funds invested and fair value gains on financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, fair value losses on financial assets at fair value through profit or loss and impairment losses recognised on financial assets (including impairment of trade receivables).

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

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.

Notes to the Annual Financial Statements

2. Equipment

	2011			2010		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	R	R	R	R	R	R
Mobile equipment *	3 699 711	(259 880)	3 439 831	32 720	-	32 720
Work in progress	115 601 176	-	115 601 176	80 997 387	-	80 997 387
Office equipment	8 092 683	(580 219)	7 512 464	2 897 923	(166 927)	2 730 996
IT equipment	15 806 554	(3 039 309)	12 767 245	3 794 836	(847 894)	2 946 942
Fibre optic cables	436 576 248	(98 427 923)	338 148 325	299 404 819	(64 526 768)	234 878 051
Optical transmission equipment	530 388 666	(227 988 578)	302 400 088	485 076 611	(154 211 673)	330 864 938
WACS	356 335 918	-	356 335 918	73 147 500	-	73 147 500
Total	**1 466 500 956**	**(330 295 909)**	**1 136 205 047**	**945 351 796**	**(219 753 262)**	**725 598 534**

Reconciliation of equipment - 2011

	Opening carrying value	Additions	Derecognition & Scrapping	Transfers	Depreciation	Closing carrying value
	R	R	R	R	R	R
Mobile equipment *	32 720	3 666 991	-	-	(259 880)	3 439 831
Work in progress	80 997 387	245 883 838	(12 327 642)	(198 952 407)	-	115 601 176
Office equipment	2 730 996	838 518	-	4 356 242	(413 292)	7 512 464
IT equipment	2 946 942	1 335 074	-	10 676 644	(2 191 415)	12 767 245
Fibre optic cables	234 878 051	-	-	137 171 429	(33 901 155)	338 148 325
Optical transmission equipment	330 864 938	402 573	(784 160)	46 748 092	(74 831 355)	302 400 088
WACS	73 147 500	283 188 418	-	-	-	356 335 918
Total	**725 598 534**	**535 315 412**	**(13 111 802)**	**-**	**(111 597 097)**	**1 136 205 047**

Reconciliation of equipment - 2010

	Opening carrying value	Additions	Transfers	Depreciation	Closing carrying value
	R	R	R	R	R
Mobile equipment *	-	32 720	-	-	32 720
Work in progress	36 193 009	164 206 383	(119 402 005)	-	80 997 387
Office equipment	102 246	2 792 465	-	(163 715)	2 730 996
IT equipment	566 330	3 126 504	-	(745 892)	2 946 942
Fibre optic cables	241 388 490	-	20 225 690	(26 736 129)	234 878 051
Optical transmission equipment	293 469 014	585 316	99 176 315	(62 365 707)	330 864 938
WACS	-	73 147 500	-	-	73 147 500
Total	**571 719 089**	**243 890 888**	**-**	**(90 011 443)**	**725 598 534**

* Mobile equipment was classified as office equipment in 2010; it is separately disclosed in 2011.

Notes to the Annual Financial Statements (continued)

3. Intangible assets

	2011			2010		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	R	R	R	R	R	R
Computer software	3 560 834	(1 962 483)	1 598 351	2 260 711	(810 631)	1 450 080
Servitudes	12 486 768	(2 081 128)	10 405 640	12 486 769	(1 456 790)	11 029 979
Total	**16 047 602**	**(4 043 611)**	**12 003 991**	**14 747 480**	**(2 267 421)**	**12 480 059**

Reconciliation of intangible assets - 2011

	Opening carrying value	Additions	Amortisation	Closing carrying value
	R	R	R	R
Computer software	1 450 080	1 300 123	(1 151 852)	1 598 351
Servitudes	11 029 979	-	(624 339)	10 405 640
Total	**12 480 059**	**1 300 123**	**(1 776 191)**	**12 003 991**

Reconciliation of intangible assets - 2010

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

4. Deferred tax asset

	2011 R	2010 R
Deferred tax asset	**-**	**1 324 002**
Reconciliation of deferred tax asset		
At beginning of the year	1 324 002	(10 161 849)
Movement in temporary differences	53 544 165	11 485 851
Prior year under provision	(578 702)	-
Deferred tax assets not recognised	(54 289 465)	-
At the end of the year	**-**	**1 324 002**

Deferred tax rates

The deferred tax rate applied was 28% (2010: 28%).

Recognised deferred tax assets and (liabilities)

	2011 R	2010 R
Deferred tax assets and (liabilities) are attributable to the following:		
Straight lining of lease assets	-	(26 068 000)
Straight lining of lease liabilities	385 371	424 925
Capital allowances	(19 322 366)	(19 312 930)
Prepayments	346 631	504 483
Leave pay accrual	849 626	453 316
Bonus provision	-	2 403 062
Deferred income	9 292 983	-
Unrealised foreign exchange differences	8 447 755	-
Tax losses recognised	-	42 919 146
Total	**-**	**1 324 002**

The estimated accumulated tax loss is R193.7 million. The estimated losses have not been recognised as there is uncertainty when tax losses may be utilised by the Company.

	2011 R	2010 R

5. Operating lease income receivables

The operating lease income receipts are subject to an annual escalation. 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 result, there exists a difference between revenue recognised and actual operating lease income invoiced for the year. The following table indicates the effect:

	2011 R	2010 R
Cumulative effect		
Operating lease income recognised as revenue	963 676 181	666 116 212
Less: actual operating lease income received	(963 676 181)	(573 016 212)
Operating lease income receivable	**-**	**93 100 000**
Total minimum future operating lease income		
- Not later than one year	**-**	**370 000 000**

The operating lease with Neotel expired on 31 March 2011 and is being re-negotiated but has not yet been finalised at reporting date. In the interim, a six month agreement has been signed.

6. Trade and other receivables

	2011 R	2010 R
Trade and other receivables consists of:		
Loans and receivables	**16 656 172**	**19 172 014**
- Trade receivables	13 856 981	8 317 198
- Deposits	1 683 099	1 437 968
- Interest accrued	1 116 092	9 416 848
Other receivables	**13 148 395**	**104 493 060**
- Operating lease income receivables (refer to note 5)	-	93 100 000
- Prepayments	1 420 031	1 801 726
- VAT	11 728 364	9 591 334
Total	**29 804 567**	**123 665 074**

Notes to the Annual Financial Statements (continued)

	2011 R	2010 R
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Current accounts - The Standard Bank of South Africa Limited	41 062 180	129 153 925
Short-term deposits - The Standard Bank of South Africa Limited (bearing interest at 5.45% p.a)	209 178 937	279 257 054
Short-term deposits - Nedbank Limited (bearing interest at 5.35% p.a)	166 045 604	221 565 337
Short-term deposits - First National Bank, a division of FirstRand Bank Limited (bearing interest at 5.4% p.a)	112 815 795	221 797 892
Total	**529 102 516**	**851 774 208**

The Standard Bank of South Africa Limited has secured a maximum of R62 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 26.

The Standard Bank of South Africa Limited has granted trading facilities amounting to R99.8 million and fleet management facilities of R1.0 million to the company.

8. Share capital and share premium

	2011 R	2010 R
Authorised		
1000 Ordinary shares of R1 (2010: R1) each	**1 000**	**1 000**
Issued		
100 ordinary shares of R1 (2010: R1) each	**100**	**100**

Shares are held as follows:

74 ordinary shares held by the State, represented by 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.

	2011 R	2010 R

9. Shareholders' loans

	2011 R	2010 R
Subordinated loans		
Department of Public Enterprises (DPE)	1 351 129 926	1 212 530 000
The loan has no fixed terms of repayment and no interest was charged on the balance outstanding.		
Industrial Development Corporation of South Africa (IDC)	474 721 351	426 024 054
The loan has no fixed terms of repayment and no interest was charged on the balance outstanding.		
Total	**1 825 851 277**	**1 638 554 054**

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. Deferred income

The income received in advance relates to Initial of Right Use (IRU) contracts over 10 year period.

	2011 R	2010 R
Non-current liabilities	29 366 874	-
Current liabilities	3 822 351	-
Total	**33 189 225**	**-**
Cumulative effect:		
Total income received in advance	35 581 732	-
Less: amount recognised in revenue	(2 392 507)	-
Total	**33 189 225**	**-**

11. Trade and other payables

	2011 R	2010 R
Trade and other payables consists of:		
Financial liabilities	**23 448 236**	**74 735 238**
- Trade payables	20 219 068	65 257 615
- Accrual: Unrealised foreign exchange losses	613 074	-
- Accrual: Performance bonuses	-	8 582 364
- Accrual: Audit fees	1 120 117	418 482
- Retentions	1 495 977	476 777
Other liabilities	**3 203 624**	**2 754 289**
- South African Revenue Services - PAYE	1 827 299	188 296
- Accrual: Straight lining of leases	1 376 325	2 565 993
Total	**26 651 860**	**77 489 527**

	2011 R	2010 R

12. Derivatives held for risk management

Fair value of foreign currency risk:

The Company uses foreign exchange currency contracts to manage its exposure to changes in the foreign capital commitments in the West Africa Cable System contract.

The open forward exchange contracts held at year end amounted to US $26.4 million. These contracts had a commitment value of R183.4 million at year end, giving rise to fair value foreign currency (liabilities) / assets:

	2011 R	2010 R
Foreign exchange contracts - liabilities	(29 616 988)	-
Foreign exchange contracts - assets	59 511	-
Total	**(29 557 477)**	**-**

13. Revenue

	2011 R	2010 R
Rendering of rental services	295 167 462	306 400 000
Initial right of use income	1 366 642	-
Operations and maintenance income	1 025 866	-
Total	**297 559 970**	**306 400 000**

The amount included in revenue arising from exchanges of goods or services included in revenue are as follows:

	2011 R	2010 R
Rendering of rental services	388 267 462	317 500 000
Initial right of use income	1 366 642	-
Operations and maintenance income	1 025 866	-
Rental income (straight lining of operating lease income)	(93 100 000)	(11 100 000)
Total	**297 559 970**	**306 400 000**

14. Expenses

Expenses are made up of:

	2011 R	2010 R
Managed service contract *	67 271 642	62 731 731
Co-location costs	13 286 160	588 957
Fibre lease costs	14 596 555	4 280 404
Outsource fee **	165 994 921	167 218 821
Total	**261 149 278**	**234 819 913**

* The managed service contract fee is paid to Neotel who have subcontracted Nokia Siemens. The Company is not party to the contract between Neotel and Nokia Siemens.

** The outsource fee is paid to Neotel who have subcontracted the contract to Eskom Holdings Ltd and Transnet Ltd. The Company is not a party to the contract between Neotel and Eskom Holdings Ltd and Transnet Ltd.

Notes to the Annual Financial Statements (continued)

	2011 R	2010 R

15. Results from operations

Results from operations for the year is stated after accounting for the following:

	2011 R	2010 R
Operating lease charges		
Premises		
• Contractual amounts	7 369 645	6 365 982
Equipment		
• Contractual amounts	725 207	4 324
Total	**8 094 852**	**6 370 306**

	2011 R	2010 R
Scrapping of equipment	784 160	-
Derecognition of equipment	12 327 642	-
Repairs and maintenance	2 282 273	827 857
Penalties - South African Revenue Services	955 357	518 222
Amortisation on intangible assets	1 776 191	1 252 954
Depreciation on equipment	111 597 097	90 011 443
Employee costs and directors' emoluments	68 836 612	48 730 695
Auditors remuneration - audit fees prior year under provision	308 568	533 736
Auditors remuneration - other services rendered	588 314	551 221
Auditors remuneration - audit fees current year	1 216 910	1 039 300
Internal auditors - current year	1 474 998	1 113 667

16. Finance income

	2011 R	2010 R
Finance income consists of the following:		
Interest received on bank deposits	43 708 459	61 701 218
Foreign exchange gains	3 798 027	-
Total	**47 506 486**	**61 701 218**

17. Finance costs

	2011 R	2010 R
Finance costs consists of the following:		
Foreign exchange losses	45 404 540	-
Suppliers - interest	199	163 508
South African Revenue Services - interest on late payment	-	325 592
Total	**45 404 739**	**489 100**

18. Income tax (expense) / credit

	2011 R	2010 R
Major components of the tax (expense) / credit		
Deferred		
Deferred tax expense – current year	(745 300)	11 485 851
Deferred tax expense – prior year under provision	(578 702)	-
Total	**(1 324 002)**	**11 485 851**
Reconciliation of the tax expense		
Reconciliation between accounting loss and tax expense:		
Accounting loss	205 608 012	39 797 919
Tax at the applicable tax rate of 28%	57 570 243	11 143 417
Tax effect on adjustment on taxable income		
Permanent differences	(4 026 079)	342 434
Prior year under provision	(578 702)	-
Deferred tax assets not recognised	(54 289 464)	-
Total	**(1 324 002)**	**11 485 851**

19. Cash (used in) / generated from operations

	2011 R	2010 R
Loss before taxation	(205 608 012)	(39 797 919)
Adjustments for:		
Depreciation and amortisation	113 373 288	91 264 397
Derecognition and scrapping of equipment	13 111 802	-
Finance income	(47 506 486)	(61 701 218)
Finance costs	45 404 739	489 100
Movements in provisions	-	(14 309 440)
Movement in straight lining of operating lease assets	93 100 000	11 100 000
Movement in straight lining of operating lease accrual	(1 189 668)	420 292
Deferred income	33 189 225	-
Changes in working capital:		
Trade and other receivables, excluding straight lining of lease assets and interest accrued	1 876 599	96 573 429
Trade and other payables	(49 647 999)	(33 457 708)
Unrealised foreign exchange losses included in trade and other payables	(613 074)	-
Total	**(4 509 586)**	**50 580 933**

	2011 R	2010 R
20. Finance income received / (costs paid)		
20.1 Finance income received		
Finance income per statement of comprehensive income	47 506 486	61 701 218
Interest receivable	(1 116 092)	(9 416 848)
Unrealised foreign exchange gains – derivative held for risk management	(59 511)	-
Finance income received	**46 330 883**	**52 284 370**
20.2 Finance costs paid		
Finance expense per statement of comprehensive income	(45 404 739)	(489 100)
Unrealised foreign exchange losses – derivative held for risk management	29 616 988	-
Unrealised foreign exchange losses included in trade and other payables	613 074	-
Finance costs paid	**(15 174 677)**	**(489 100)**

	2011 R	2010 R

21. 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 Industrial Development Corporation
Related parties that have the same shareholder (State)	Eskom Holdings Limited, Transnet Limited and Independent Communications Authority of South Africa

Related party transactions

	2011 R	2010 R
Loan accounts - Owing to related parties		
Department of Public Enterprises	(1 351 129 926)	(1 212 530 000)
Industrial Development Corporation of South Africa	(474 721 351)	(426 024 054)

Related party transactions

	2011 R	2010 R
Interest paid to related parties		
Transnet Ltd	150	-
Rent paid		
Eskom Holdings Ltd	-	544 981
Lease of fibre optic cables		
Eskom Holdings Ltd	8 262 725	-
Transnet Ltd	6 369 325	6 013 069
Other service contracts		
Eskom Holdings Ltd	853 635	-
Transnet Ltd	190 933	-
Co-location Lease agreement		
Transnet Ltd	2 690 083	446 319

	2011 R	2010 R
Director (Interest) (Entity)		
AFB Mthembu (2011: 0.81%, 2010: 0.83%)* (Nokia Siemens)	49 002 696	94 800 000
WT Magasa (2011:16%, 2010: 12.8%) (ZTE Corporation)	310 008	15 500 000
C Groesbeek (2011: 50%, 2010: 100%) (Scalos Investment Consulting)	913 580	1 300 000

* AFB Mthembu holds 98% (2010: 100%) of Imphandze (Pty) Ltd, this company holds 0.83% in Nokia Siemens.

	2011 R	2010 R
Licence fees paid		
Independent Communications Authority of South Africa	1 668 510	-

22. Lease commitments

	2011 R	2010 R
Operating leases		
- payable within one year	9 963 342	12 161 808
- payable within two to five years	17 345 484	21 195 044
Total	**27 308 826**	**33 356 852**

23. Director's and key management personnel compensation

	Services as	Service period in months	Basic salary	Bonuses paid	Other allowances	Total
			R	R	R	R
2011						
Non-executive directors						
AFB Mthembu	Board Chairperson	12	767 151	-	-	767 151
LN Letele	Board Member	12	302 620	-	-	302 620
WT Magasa	Board Member	10	207 511	-	-	207 511
C Groesbeek	Board Member	12	264 672	-	-	264 672
M Singer Saul	Board Member	12	337 103	-	-	337 103
S Mabaso-Koyana	Board Member	6	85 413	-	-	85 413
SD Mabalayo	Board Member	12	244 043	-	-	244 043
SAU Meer*	Board Member	12	251 287	-	-	251 287
Executive directors						
RD Smith	Chief Executive Officer	12	2 042 404	905 989	-	2 948 393
S Maharaj	Chief Financial Officer	12	1 357 428	378 001	10 800	1 746 229
Total directors emoluments			**5 859 632**	**1 283 990**	**10 800**	**7 154 422**
External committee members						
I Kajee	Audit and Risk Committee Member	12	65 822	-	-	65 822
Key management						
M Letsoalo	Business Support Executive	12	1 134 874	313 371	10 800	1 459 045
V Maharaj	Executive Special Projects	12	1 152 938	327 352	10 800	1 491 090
R Pillay	Capital Programme Executive	12	1 133 992	279 304	10 800	1 424 096
Total key management personnel			**3 421 804**	**920 027**	**32 400**	**4 374 231**
Total			**9 347 258**	**2 204 017**	**43 200**	**11 594 475**

* Paid to the Industrial Development Corporation.

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

	Services as	Service period in months	Basic salary	Bonuses paid	Other allowances	Total
			R	R	R	R
2010						
Non-executive directors						
AFB Mthembu	Board Chairperson	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	10 800	1 526 095
Total directors emoluments			**5 959 688**	**1 045 515**	**10 800**	**7 016 003**
Key management						
B Wallace**	Chief Technical Officer	11	1 025 832	184 270	9 900	1 220 002
M Letsoalo	Business Support Executive	12	1 050 809	169 176	10 800	1 230 785
V Maharaj	Executive Special Projects	12	1 072 500	178 528	10 800	1 261 828
R Pillay	Capital Programme Executive	12	945 616	144 121	10 800	1 100 537
Total key management personnel			**4 094 757**	**676 095**	**42 300**	**4 813 152**
Total			**10 054 445**	**1 721 610**	**53 100**	**11 829 155**

* Paid to the Industrial Development Corporation.

** B Wallace resigned end of February 2010.

24. Financial 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:

2011	**Loans and receivables**	**Other financial liabilities**	**Total**	**Fair value**
	R	**R**	**R**	**R**
Trade and receivables	16 656 172	-	16 656 172	16 656 172
Cash and cash equivalents	529 102 516	-	529 102 516	529 102 516
Trade and other payables	-	(23 448 236)	(23 448 236)	(23 448 236)
Total	**545 758 688**	**(23 448 236)**	**522 310 452**	**522 310 452**
2010				
Trade and receivables	19 172 014	-	19 172 014	19 172 014
Cash and cash equivalents	851 774 208	-	851 774 208	851 774 208
Trade and other payables	-	(74 735 238)	(74 735 238)	(74 735 238)
Total	**870 946 222**	**(74 735 238)**	**796 210 984**	**796 210 984**

24.1 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.

The maximum exposure to credit risk for trade receivables at the reporting date was:

	2011	**2010**
	R	**R**
By geographical area		
Domestic	13 856 981	8 317 198
By customer type		
Telecom service provider companies	13 856 981	8 317 198

24. Financial risk management (continued)

Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2011	2011	2010	2010
	R	R	R	R
Not past due	13 856 981	-	8 317 198	-

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

	2011	2010
	R	R
Balance at 1 April	-	968 492
Decrease in impairment provision	-	(968 492)
Balance at 31 March	**-**	**-**

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:

	2011	2010
	R	R
Loans and receivables	16 656 172	19 172 014
Cash and cash equivalents	529 102 516	851 774 208
Total	**545 758 688**	**870 946 222**

24.2 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company's income or value of its holdings in financial instrument. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign exchange risk

The company has taken out forward exchange contracts to the value of $ 26.9 million to manage foreign exchange exposure to the company based on future capital commitments to the West African Cable system. (Refer to note 26).

Sensitivity analysis:

A 1% strengthening of the Rand or 1% depreciation of the Rand would have (decreased)/ increased profit or loss by the amounts by the amounts shown below. The analysis assumes that all other variables remain constant.

Forward exchange contracts	2011	
	1% strengthening of the rand	1% depreciation of the rand
US Dollar	(1 787 882)	(1 770 180)

24. Financial risk management (continued)

24.3 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 investment 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:

	2011 R	2010 R
Current accounts: The Standard Bank of South Africa Limited	41 062 180	129 153 925
Investments: The Standard Bank of South Africa Limited	209 178 937	279 257 054
Investments: First National Bank, a division of FirstRand Bank Limited	166 045 604	221 797 892
Investment: Nedbank Limited	112 815 795	221 565 337
Total	**529 102 516**	**851 774 208**

Interest rate risk - Sensitivity analysis:

An increase of 50 basis points (bp) in interest rate or 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 2010.

Cash and cash equivalents	**Recognised in profit/ (loss) 2011** **R**	**Recognised in profit/ (loss) 2010** **R**
50 bp increase	2 645 513	4 258 871 *
50 bp decrease	(2 645 513)	(4 258 871) *

*The amount has been restated in line with the current year calculation, there is no impact on the annual financial statements.

24.4 Foreign exchange risk

The company operates predominantly in its functional currency of South African Rands (ZAR). Certain transactions take place in foreign currencies, primarily with respect to the US Dollar (USD). The company's main US Dollar exposure is in respect of its on going investment in the West African Cable System. The company is exposed to the risk of fluctuating exchange rates and seeks to manage this exposure with an approved policy parameters by entering into forward exchange contracts with major South African banks. Fluctuations in exchange rates, directly impacts profits/ (losses) of the Company. Foreign currency sensitivity analysis:

The following table details the Company's sensitivity to an 8% change in the ZAR/USD exchange rate. The sensitivity rate of 8% represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and commitments and adjusts their translation at the period end for an 8% change in foreign currency rates.

	Recognised in profit/ (loss) 2011 **R**	**Recognised in profit/ (loss) 2010** **R**
Weakening of ZAR against USD	14 671 783	-
Strengthening of ZAR to USD	(14 671 783)	-

24.5 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 and by continuously monitoring and forecasting cash flows.

The following are the contractual maturities of financial liabilities:

2011	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6 - 12 months**
	R	**R**	**R**	**R**
Trade and other payables	23 448 236	23 448 236	22 884 483	563 753
2010				
Trade and other payables	74 735 238	74 735 238	74 735 238	-

25. 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 licence was granted at no consideration and the Company is required to comply with the applicable licence obligations. The company is required to pay annual licence fees in addition to paying frequency spectrum fees and making contribution to the Universal Service and Access Fund. Expenditure has been incurred in relation to frequency spectrum fees and contribution to the Universal Service and Access Fund and has been recognised in statement of comprehensive income for the year.

26. Capital commitment

	2011 R	2010 R
Capital commitments		
- Approved, but not contracted	194 401 041	75 000 000
- Approved, and contracted	207 809 500	576 000 000
Total	**402 210 541**	**651 000 000**

The Company has entered into the West African Cable System (WACS) as a participant to share in 11.78% of the capacity. The revised contract value is $72.8 million (which management anticipate will be reduced, due to more participants), of which $47.5 million has been paid. The remaining portion of $25.3 million has been included in the approved and contracted capital commitment. Management have taken out fixed forward exchange contracts to the value of $26.4 million to manage the foreign exchange exposure to the Company. Management are in negotiations to sell capacity on the West African Cable System, subject to the approval from the Executive Authority as required by the PFMA.

27. Fruitless and wasteful expenditure and irregular expenditure

27.1 Irregular expenditure

Section 1 of the Public Finance Management Act, No. 1 of 1999, as amended, defines irregular expenditure as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not incurred in accordance with a requirement of any applicable legislation. The following amounts have been determined as being irregular expenditure, in terms of section 55(2)(b)(i) of the Public Finance Management Act, No. 1 of 1999, as amended. No losses have been incurred as a result of the irregular expenditure identified:

Notes to the Annual Financial Statements (continued)

27.1 Irregular Expenditure (continued)

2011	Action taken	Expenditure identified R	Amounts ratified / condoned R	Remaining irregular expenditure R
Expenditure incurred in transgression of commercial processes, policies and procedures for staff placements	Internal audit investigation and disciplinary action implemented	450 688	-	450 688
Fibre optic contracts entered into for capital projects without correct level of authorisation	Disciplinary process against employees in progress - some employees have been dismissed, while some disciplinary processes continue and we await outcome. An appropriate process has been put in place to ensure levels of authority has not been exceeded.	130 007 944	-	130 007 944
Expenditure incurred without correct authorisation / level of authorisation	Under investigation by internal audit, relevant disciplinary action to follow. Procedures have been put in place to prevent these irregularities from re-occurring.	253 342	-	253 342
Expenditure incurred outside of contract value / contract period		165 177	-	165 177
Non-compliance to policies with regard to salary increases and overtime	This incident was approved by management who is no longer in the employ of the Company.	879 613	-	879 613
Non-compliance to HR policies and procedures with regard to performance bonus payments	A Performance Management System aligned to the business has been initiated.	2 425 634	-	2 425 634
Expenditure incurred in transgression of commercial processes, policies and procedures for capital and operating expenses	Procedures and processes related to procurement have been revised and improved to effectively manage supplier contracts.	4 695 495	-	4 695 495
Expenditure incurred with suppliers whose details are not maintained in supplier database	A new database has been developed in line with procurement procedures and the process is now operating effectively.	11 172 579	-	11 172 579
Expenditure incurred without signed contract with supplier	Contract has subsequently been signed by the supplier.	1 125 600	-	1 125 600
Total expenditure		**151 176 072**	**-**	**151 176 072**

2010				
Fibre optic contracts entered into for capital projects without correct level of authorisation	Disciplinary process against employees in progress – awaiting outcome.	7 659 297	-	7 659 297
Total expenditure		**7 659 297**	**-**	**7 659 297**

Notes to the Annual Financial Statements (continued)

27.2 Material losses through fruitless and wasteful expenditures

Section 1 of the Public Finance Management Act, No. 1 of 1999, as amended, defines fruitless and wasteful expenditure as expenditure which was made in vain and would have been avoided had reasonable care been exercised. The following material losses, through fruitless and wasteful expenditure have been identified as being reportable in terms of Section 55(2)(b)(i) of the Public Finance Management Act, No. 1 of 1999, as amended, for the year under review:

2011	Action taken	Losses identified R	Losses recovered year to date R	Losses written-off R	Recovery outstanding R
Internal audit fee budget overruns attributed to delays in management responses	Systems have been implemented in order to ensure that engagements between management and internal auditors is better managed in future.	519 998	-	(519 998)	-
SARS penalty for late filing of EMP201 resulting in late release of payment	Currently engaging with SARS to recover penalties.	456 820	-	-	456 820
Costs incurred for training courses subsequently cancelled	Employee currently in a disciplinary process – awaiting outcome.	15 826	-	(15 826)	-
Overpayment of staff costs after resignation	In process of attempting to recover this from the employees who resigned.	80 000	-	(80 000)	-
Environmental restoration costs deemed unnecessary	In process of recovering costs from contractor. Procedures are in place to ensure environmental restoration costs are appropriate.	263 026	-	(263 026)	-
International travel costs incurred without benefit to the company	This expense approved by and employee no longer in the employ of the company. Procedures have been put in place to ensure that international travel is appropriate for the business of the company.	46 184	-	(46 184)	-
Penalty for late submission of IRP5 return 2009	Under investigation by internal audit, relevant disciplinary action to follow.	498 537	-	(498 537)	-
Duplicate payments to suppliers	Investigated and amounts recovered and procedures implemented to avoid future duplicate payments.	91 200	(91 200)	-	-
Total expenditure		**1 971 591**	**(91 200)**	**(1 423 571)**	**456 820**

During the year there was no control to identify and record fruitless and wasteful and irregular expenditure by the previous Accounting Authority. Accordingly, the present Accounting Authority are unable to confirm whether the fruitless and wasteful expenditure and the irregular expenditure disclosed above represents all fruitless and wasteful expenditure and irregular expenditure incurred during the year.

28. Standards and interpretations issued but not yet effective

At the date of authorisation of the financial statements of Broadband Infraco (Proprietary) Limited for the year ended 31 March 2011, the following Standards and Interpretations were in issue but not yet effective:

Standard/Interpretation		Effective date
IAS 24 (revised)	Related Party Disclosures	Annual periods beginning on or after 1 January 2011*
11 individual amendments to 6 standards	Improvements to International Financial Reporting Standards 2010	Amendments are effective for annual periods beginning on or after 1 July 2010 or for annual periods beginning on or after 1 January 2011
IFRS 1 amendment	First-time adoption of International Financial Reporting Standards	Annual periods beginning on or after 1 July 2010*
IFRS 7 amendment	Disclosures – Transfers of Financial Assets	Annual periods beginning on or after 1 July 2011*
IFRS 9	Financial Instruments	Annual periods beginning on or after 1 January 2013*
IFRS 9	Additions to IFRS 9 Financial Instruments	Annual periods beginning on or after 1 January 2013*
IFRIC 14 amendment	Prepayments of a Minimum Funding Requirement	Annual periods beginning on or after 1 January 2011*
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Annual periods beginning on or after 1 July 2010*

* All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).

IFRS 7 amendment, IFRS 9, IFRIC 14 amendment and IFRIC 19 are not applicable to the business of the entity and will therefore have no impact on future financial statements. The Accounting Authority are of the opinion that the impact of the application of the remaining Standards and Interpretations will be as follows:

IAS 24 (revised)

IAS 24 (revised) will be adopted by Broadband Infraco (Proprietary) Limited for the first time for its financial reporting period ending 31 March 2012. The standard will be applied retrospectively.

IAS 24 (revised) addresses the disclosure requirements in respect of related parties, with the main changes relating to the definition of a related party and disclosure requirements by government-related entities.

The change in the definition of a related party has resulted in a number of new related party relationships being identified.

Government-related entities

Government-related entities will have to provide the following disclosures: name of the government and nature of the relationship; nature and amount of each individually significant transaction and a qualitative or quantitative indication of the extent of other transactions that are collectively, but not individually, significant.

Notes to the Annual Financial Statements (continued)

28. Standards and interpretations but not yet effective (continued)

IFRS 9

IFRS 9 will be adopted by Broadband Infraco (Proprietary) Limited for the first time for its financial reporting period ending 31 March 2014. The standard will be applied retrospectively, subject to transitional provisions.

IFRS 9 addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39.

Under IFRS 9 there are two options in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.

Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host.

The impact on the financial statements for 31 March 2011 has not yet been estimated.

Supplementary Information

Soccer World Cup 2010 expenditure

	2011 R	2010 R
Clothing, flags and promotional items	73 899	-
Opening game spectator viewing	77 400	-
Guest motivational speaker	15 000	-
Total	**166 299**	**-**

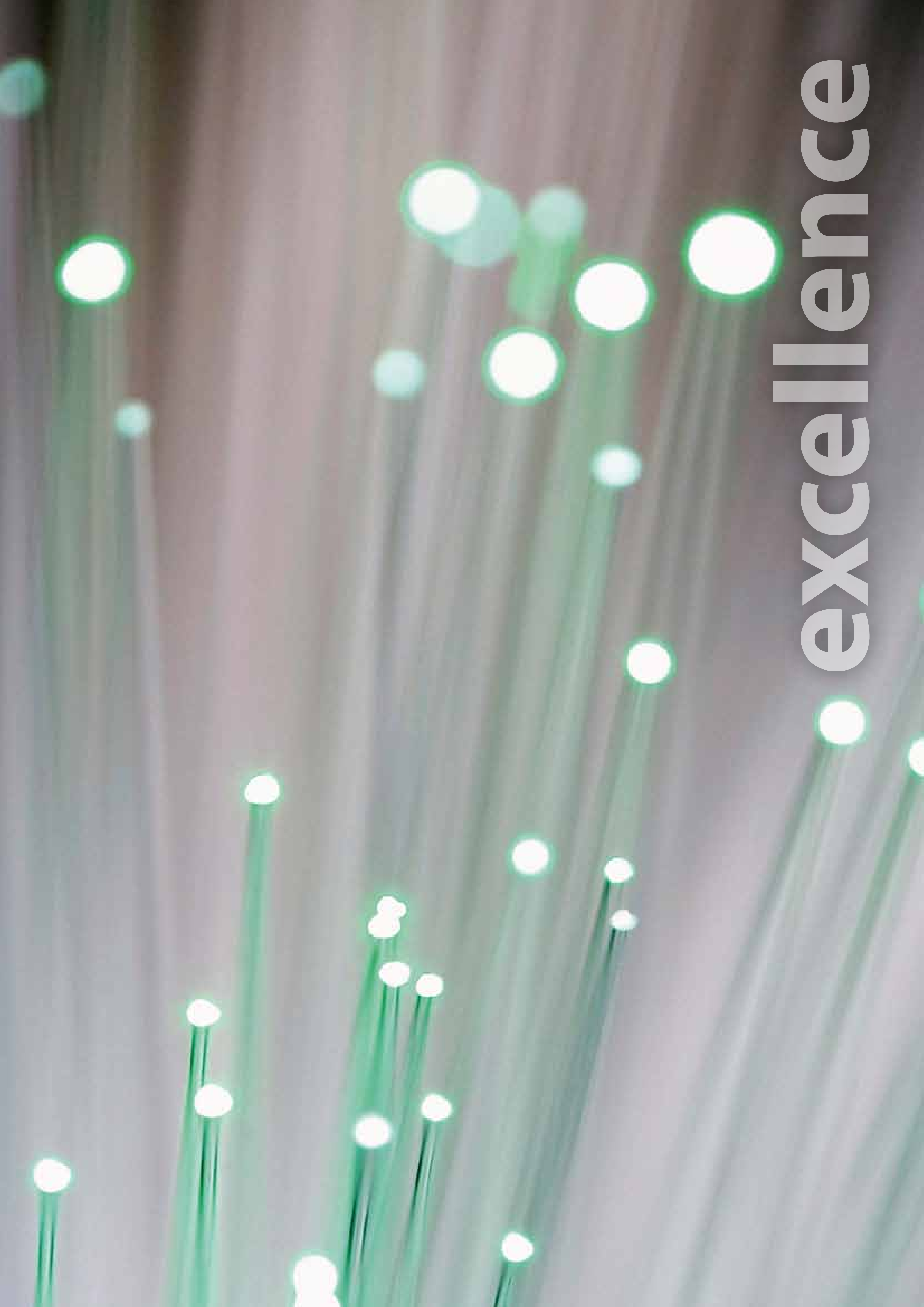
The above expenditure was incurred for Broadband Infraco employees. No expenditure was incurred in respect of customers or suppliers.

Glossary of Terms

ADM	Add/Drop Multiplexer
ASOM	Automatically Switched Optical Network
BEE	Black Economic Empowerment
BBBEE	Broad Based Black Economic Empowerment
DBSA	Development Bank of South Africa
DPE	Department of Public Enterprises
DSF	Dispersion Shifted Fibre G.653
DWDM	Dense Wavelength Division Multiplexing
ECA	Electronic Communications Act
ECNS	Communications Network Services
GbE	Gigabit Ethernet
GMPLS	Generalised Multi Protocol Label Switching
HSEQ	Health, Safety, Environment and Quality
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
KPA	Key Performance Area
KPI	Key Performance Indicator
MOU	Memorandum of Understanding
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
OEMs	Original Equipment Manufacturers
OSP	Out-Side Plant
PFE	Power Feed Equipment
PFMA	Public Finance Management Act
PGU	Power Ground Unit
POPs	Points-of-Presence

Glossary of Terms (continued)

POTS	Plain Old Telephone Service
PPE	Property, Plant and Equipment
RFPA	Ready for Provisional Acceptance
RFP	Request for Proposal
RFQ	Request for Quotation
RSA	Republic of South Africa
SALT	South African Large Telescopes
SANReN	South African National Research Network
SDH	Synchronous Digital Hierarchy
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
SSMF	Standard Single Mode Fibre G.652
TDM	Time Division Multiplexing
TMN	Telecommunications Management Network
USALs	Under Serviced Area Licensees
VANS	Value Added Network Service
VPN	Virtual Private Network
WACS	West Africa Cable System
ZAR	South African Rand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