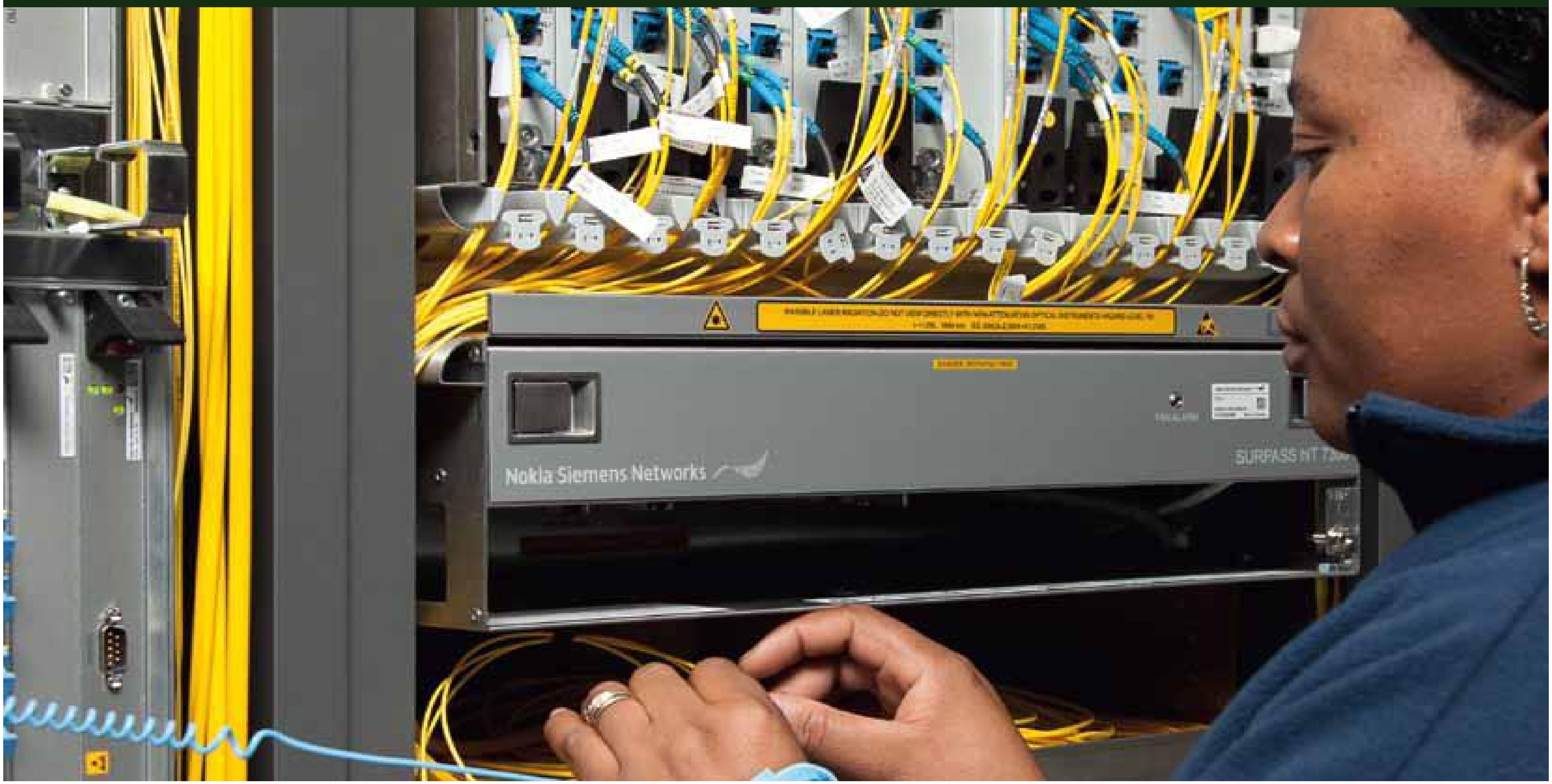
[illegible]011 Annual Report to the Portfolio Committee on Public Enterprises

Broadband Infraco

8th November 2011



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At a glance

- Performance overview
- Focus areas
- Actions taken to address governance shortcomings

co has managed to achieve a sses in FY10/11

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Milestone Achievements

- Launched to the broader telecoms market in November 2010
- 5 new open access long distance Points of Presence (PoP) in KwaZulu-Natal, Western Cape and Gauteng
- 3 customers signed on and piloting currently being conducted by all major telecom providers
- Expanded fibre optic cable footprint to ~ 13 250km

Operational Achievements

- Establishment of an in-house maintenance and operations department
- International connectivity: continued participation in WACS with a 5.12 terabit capacity
- Staff complement increased from 67 to 156

Financial Achievements

- Gross revenue before straight lining up by 23%
- Capex up by 119% to R 536.7mln
- Forex loss of R 45.4mln
- Internal control weaknesses were identified, with the majority of these now addressed

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nance overview highlights

KEY:
Better than target
Worse than target

KPA	KPI	Unit	Actual	Target	Achievement
Strategic	Reduced pricing for telecommunication services	%	65	10	
	Broadband connectivity, availability &access	%	71	100	
Financial	Revenue	R mln	391*	412	
	EBITDA	R mln	(1.24)	(98.00)	
	Net profit/loss after tax	R mln	(83.60)	(175.00)	
	Debt funding	R mln	0	109	

* = Gross value before straight lining

…k operational performance:

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Faster Network Restoration	4.53 hours to restore core network faults against a target of 8 hours
Exceeding Network Service SLA's	Network service availability requires improvement but exceeded all signed customer Service Level Agreements (SLAs)
Focus on Supplier Development	70% local content in capital expenditure roll out against a target of 26%
Faster Delivery Time	Delivery time for capital projects requires improvement

al performance: The company iculties in all areas; with measures having been put in place to address this

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ARROW KEY:

Direction:
UP = Increase over previous year
DOWN = Decrease over previous year

Colour:
GREEN = Improvement over previous year
RED = Deterioration over previous year
GREY = Cannot be determined

Item	2011 R '000	2010 R' 000	Change
Revenue*	297 560	306 400	3%
Cost of sales	261 149	234 820	11%
EBITDA	(943 364)	(9 745)	9 580%
Operating expenses	244 120	172 590	41%
Loss for the year	206 932	28 312	631%

* = Net revenue after straight lining (Gross revenue before straight lining shows an increase in revenue of 23% from 2010 to 2011)

al performance: On average have increased by 25%

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Expense Drivers	2011 R '000	2010 R' 000	Change
Outsource fee	165 995	167 219	0.7%
Managed service contracts	67 272	62 732	7%
Depreciation and amortisation *Increase in depreciation and amortisation charge is as a result of an increase in infrastructure costs (equipment) and intangibles by 56%*	113 373	91 264	24%
Personnel costs *Staff complement increased from 67 to 156* ➢ *Appointment of technicians for maintenance in the various regions; as well as an increase in NOC staff*	66 333	46 043	44%

ow position: Significant
pex was undertaken

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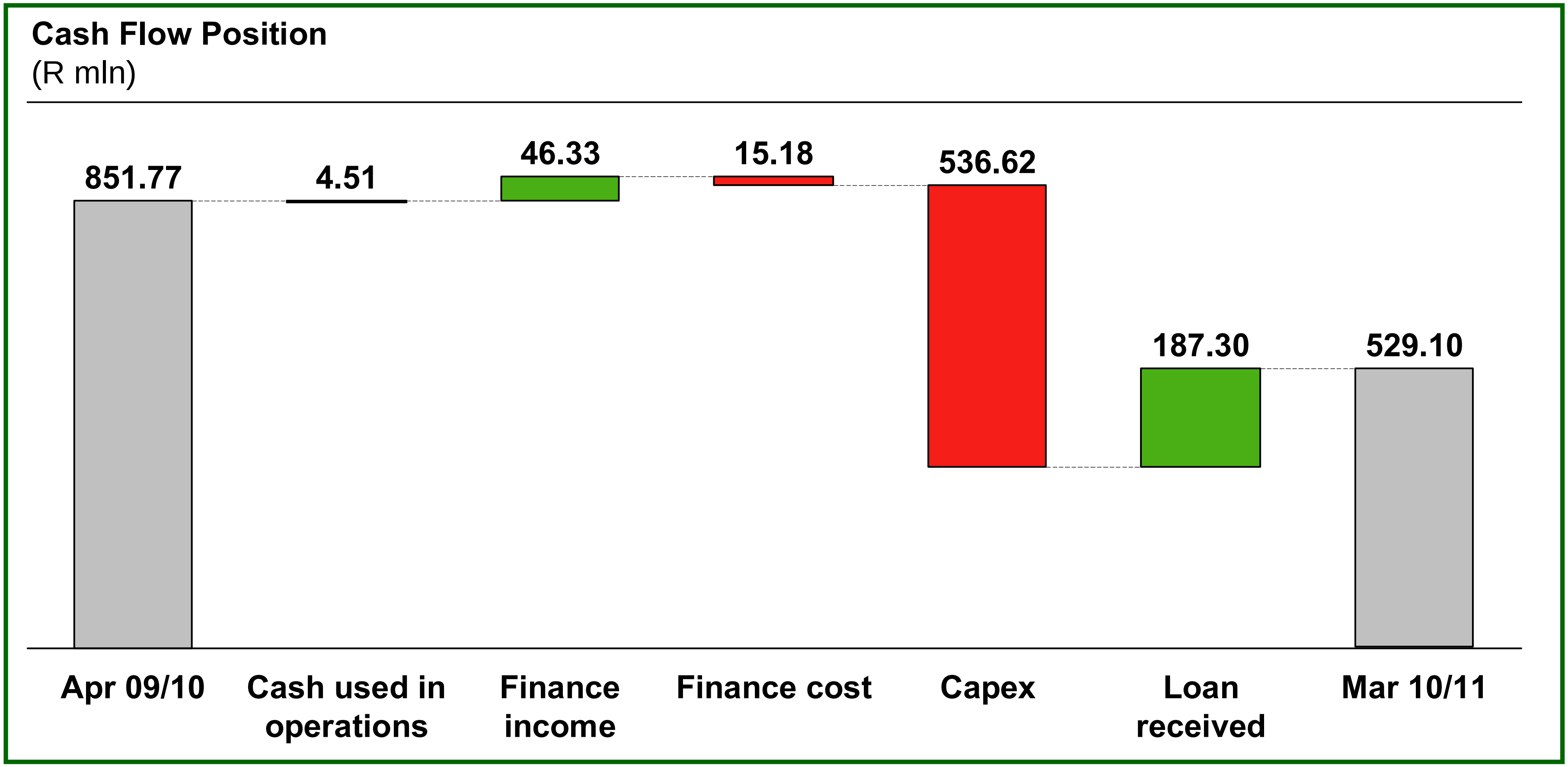

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...ed 3 primary focus areas for ...ng forward

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Financial

- Retain existing customers and attract new clients through enhanced service
- Improve EBITDA margin by focussing on improving operational efficiencies
- Enhance capital programme roll out and manage capital expenditure to revenue

Services

- Expand network, improve services and collaborate with customers in order to improve our value proposition
- Pilot projects: micro telecoms model for underserviced areas
- Achieve enhanced Southern African regional connectivity
- Alignment and collaboration with Sentech
- Introduce international services when WACS goes live in 2012

Internal Processes

- Improve compliance to the PFMA and National Treasury regulations
- Continued focus on human capital development
- Strategically re-align the organisation to the changing needs of the market

ed corporate plan provides for nhanced value propositions

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Existing

Backbone

- Expand Broadband Infracoôs existing network footprint and in doing so increase the number of POP sites
- Expand existing service offering of providing managed services on main routes
- In the future, several routes may be expanded in order to provide Dark Fibre or Lambdas

Enhanced Value Propositions

Backhaul

- To provide fibre connectivity from mobile operator switching centres and underserviced areas
- Projects to be developed either on a óco-buildôor ópaid forôbasis

Metro Presence

- To partner for integration with metro fibre networks
- To provide backbone connectivity to metros as customers
- To use metro fibre to provide a complete wholesale network solution

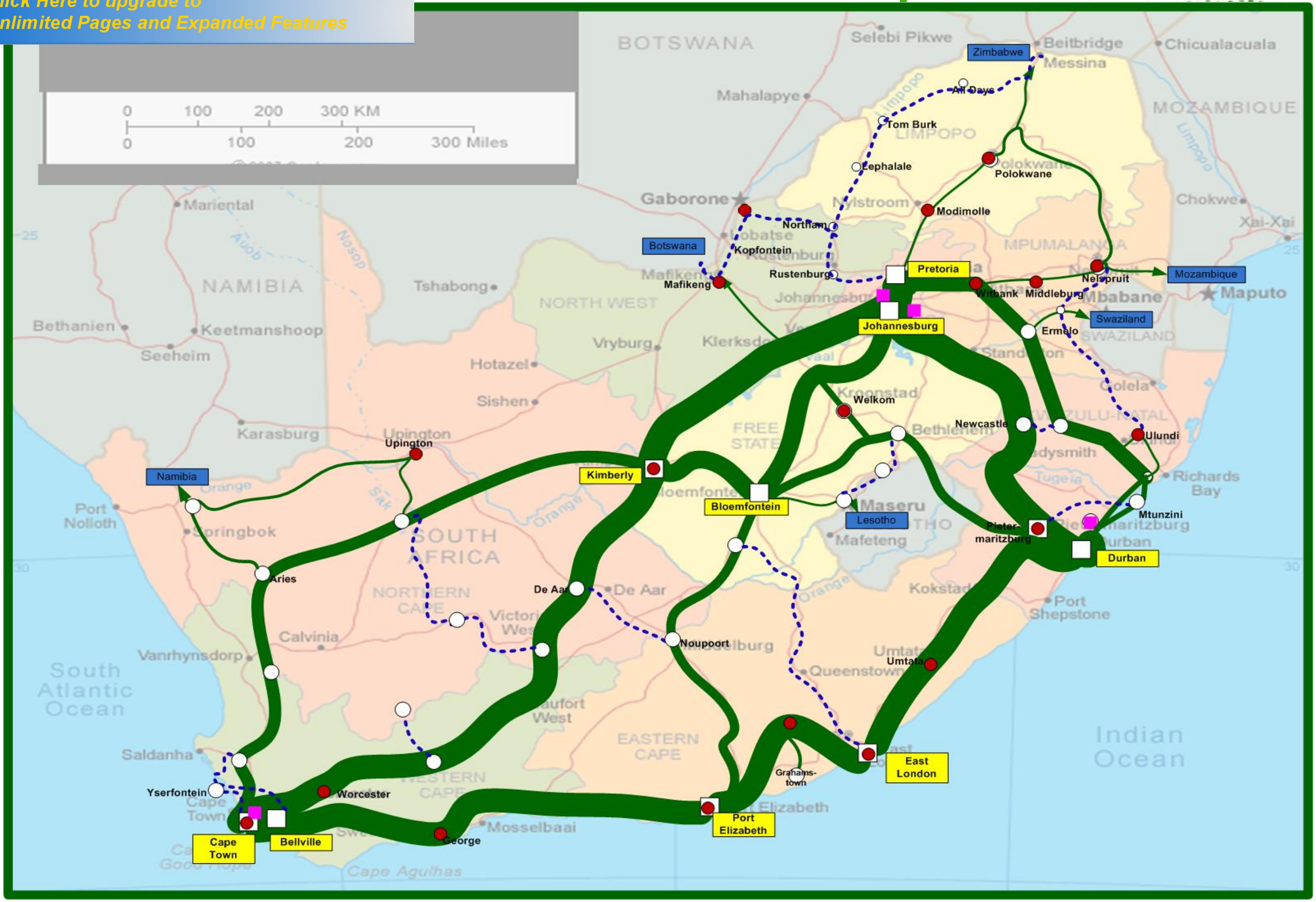
African Connectivity Hub

- To connect neighbouring African countries to South Africa and to *alternative* submarine cables for redundancy

Engineering Services

- Active collaboration on fibre construction projects
- To leverage rail and power line servitudes to maximum benefit
- Operation and maintenance services will also be provided
- Projects to be developed on a ópaid for basisôonly

structure & Roadmap



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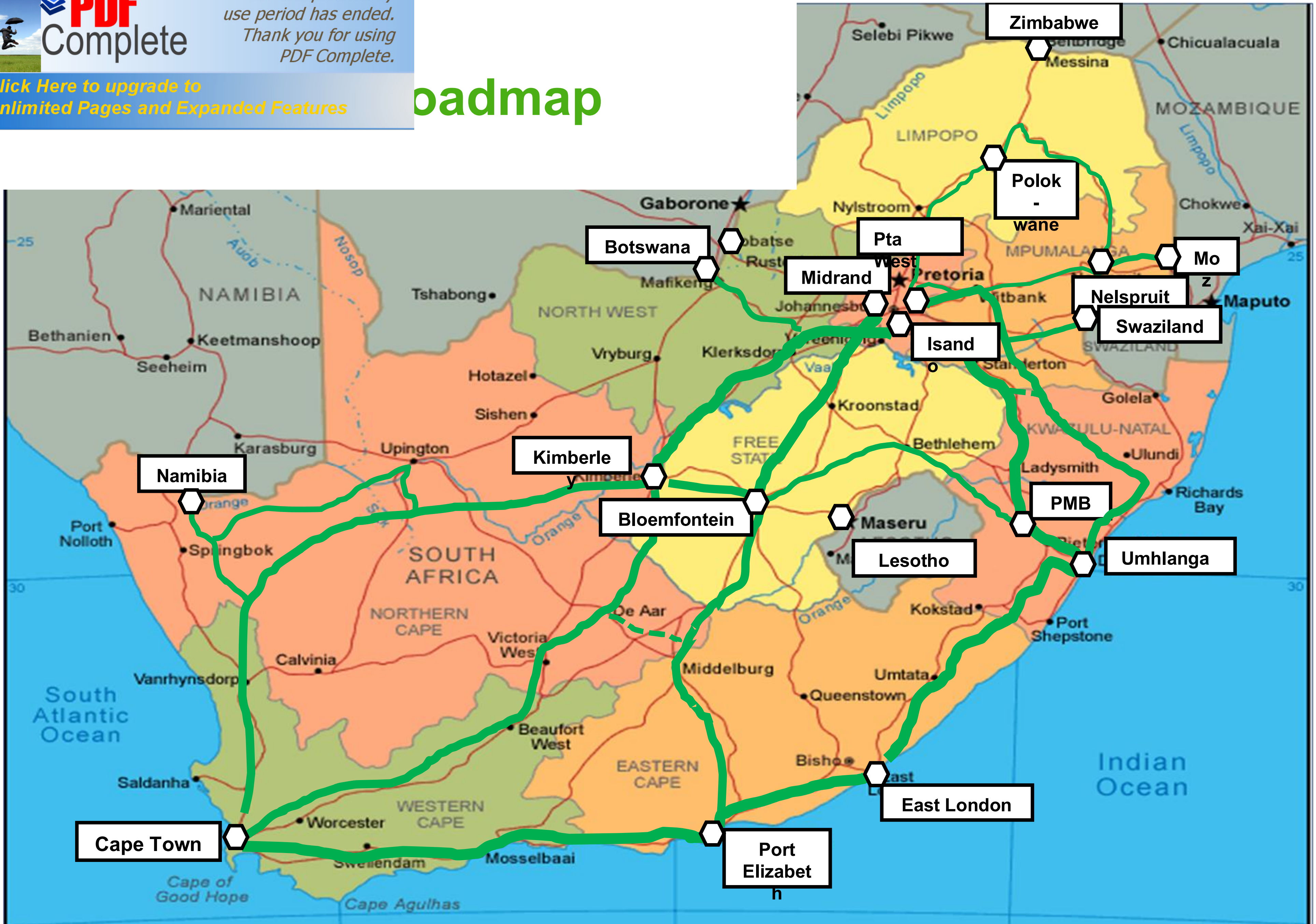
Zimbabwe
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Mo
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Nelspruit
Swaziland
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Namibia
Bloemfontein
PMB
Umhlanga
Lesotho
East London
Cape Town
Port
Elizabet
h
South Atlantic Ocean
Indian Ocean
SOUTH AFRICA

p for Open Access POPs

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Gauteng
Pretoria East
Pretoria North

KwaZulu-Natal
Pietermaritzburg
Ethekwini
Stanger
Empangeni
Ulundi
Newcastle
Ladysmith
Estcourt
Mooi River
Kokstad
Port Shepstone

Freestate
Bloemfontein
Welkom
Bethlehem

Northern Cape
Kimberly
Upington

Limpopo
Polokwane
Lephalale
Louis Trichardt
Musina
Beit Bridge

Mpumalanga
Nelspruit
Middleburg
Witbank

North West
Rustenberg
Mafikeng
Kopfontein
Ramatlabama

Eastern Cape
Port Elizabeth
East London





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- At a glance
- Performance overview
-
- **Actions taken to address governance shortcomings**

…ring the current financial …governance shortcomings – Slide 1

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Å Disciplinary action against six implicated staff of irregularities as identified by internal audit reports in respect of ó*irregular procurement practices relating to fibre optic installation contracts*ô presented to the company in November 2010.

Å As a consequence of various audits; procurement systems, processes and document control have been substantially strengthened, new supply chain policies and procedures have been developed and a framework agreement for compliance to the Construction Industry Board (CIBD) has been implemented.

Å Contract management processes have been strengthened and further improvements are underway to meet the capital project implementation recommendations made by the internal auditors.

Å All contractor payments within finance are now based on the three-way matching principle which includes purchase orders, invoices and goods receipt notes together with documented proof of investment decisions based on improved delegations of authority. The issuance of purchase orders is now also effectively regulated.

…uring the current financial …governance shortcomings – Slide 2

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- The PASTAL ERP system has been improved to align to all new governance requirements, including reprogramming as well as manual sign-off control to ensure integrity. It is now also aligned to the requirements of delegated authority now in place across the company.
- An Intranet system has been set up with all existing and draft new policies so as to ensure that staff have full access to the procedural requirements of the company.
- All Declarations of Interest within the company including those of Board, Executive and managers have been updated.
- As a result of the qualification to the 2010/11 audit no bonuses have been paid to any staff member.
- A new Corporate Plan was developed and submitted at the end of June 2011. The shareholder has subsequently approved this new plan, which identifies a number of actions to turn the company around and ensure future sustainability. These include a new set of market related value propositions, a re-assessment of the future product portfolio and an re-aligned organisation structure.

ring the current financial governance shortcomings – Slide 3

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- HR PAYE payment procedures have been improved to avoid the previous payment of penalties to SARS.
- A proper payroll claims process has been set in motion. New leave from processes are now in place and there is proper access control to the building.
- Procurement tracking and reporting tools have been created.
- IT system review procedure has been developed, effective back-ups are now available and these are also now stored off-site. IT security has been substantially improved.
- Four new executive managers have been appointed. This includes a new Chief Financial Manager, a Chief Technical Officer, an executive responsible for Governance and a head of the Capital Investment Programme.

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Thank you