

ANNUAL
REPORT | **2012**

Connect. **Growth, UNLOCKED.**

Broadband Infraco - Long Distance Network

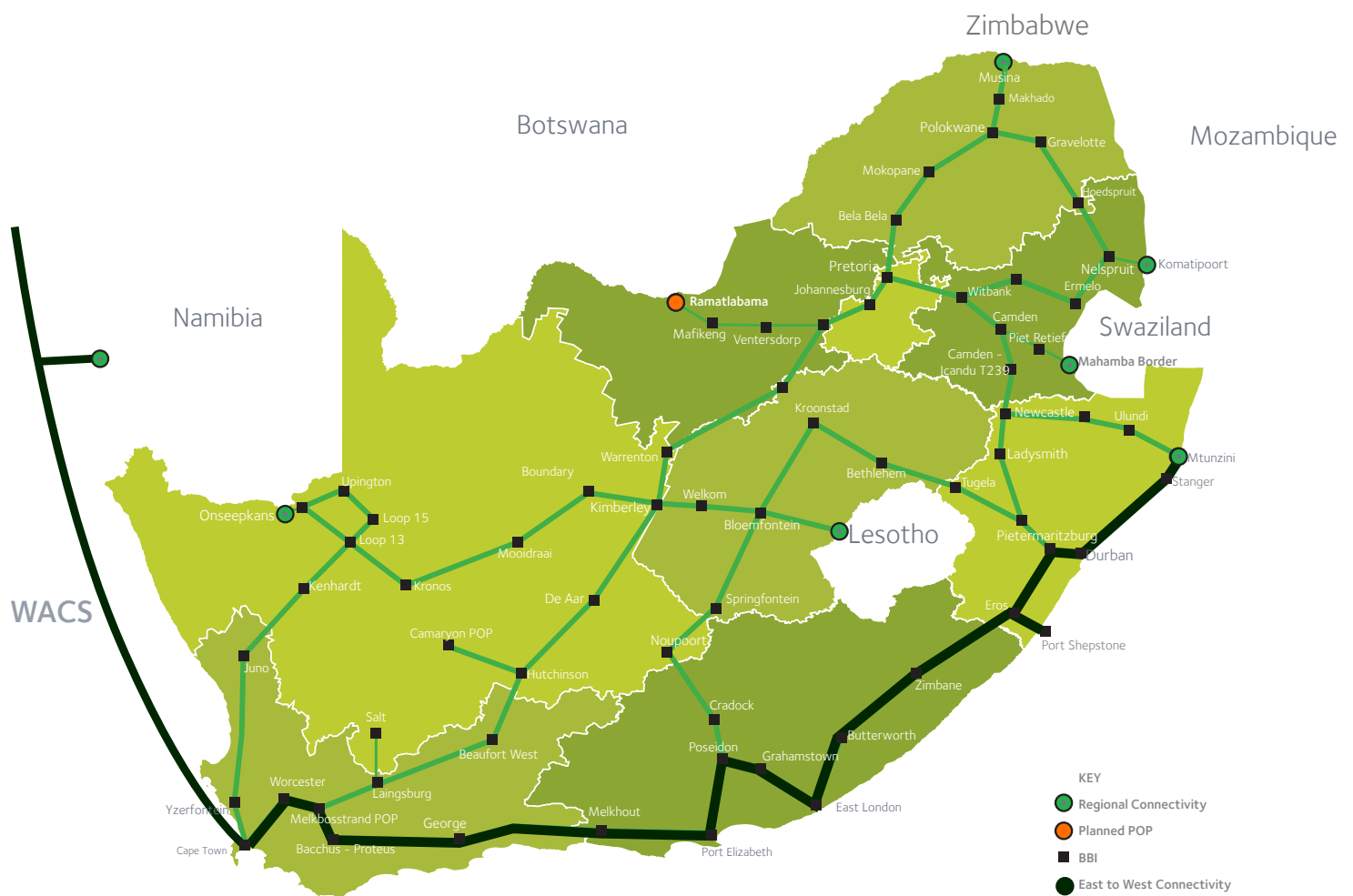




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COMPANY OVERVIEW

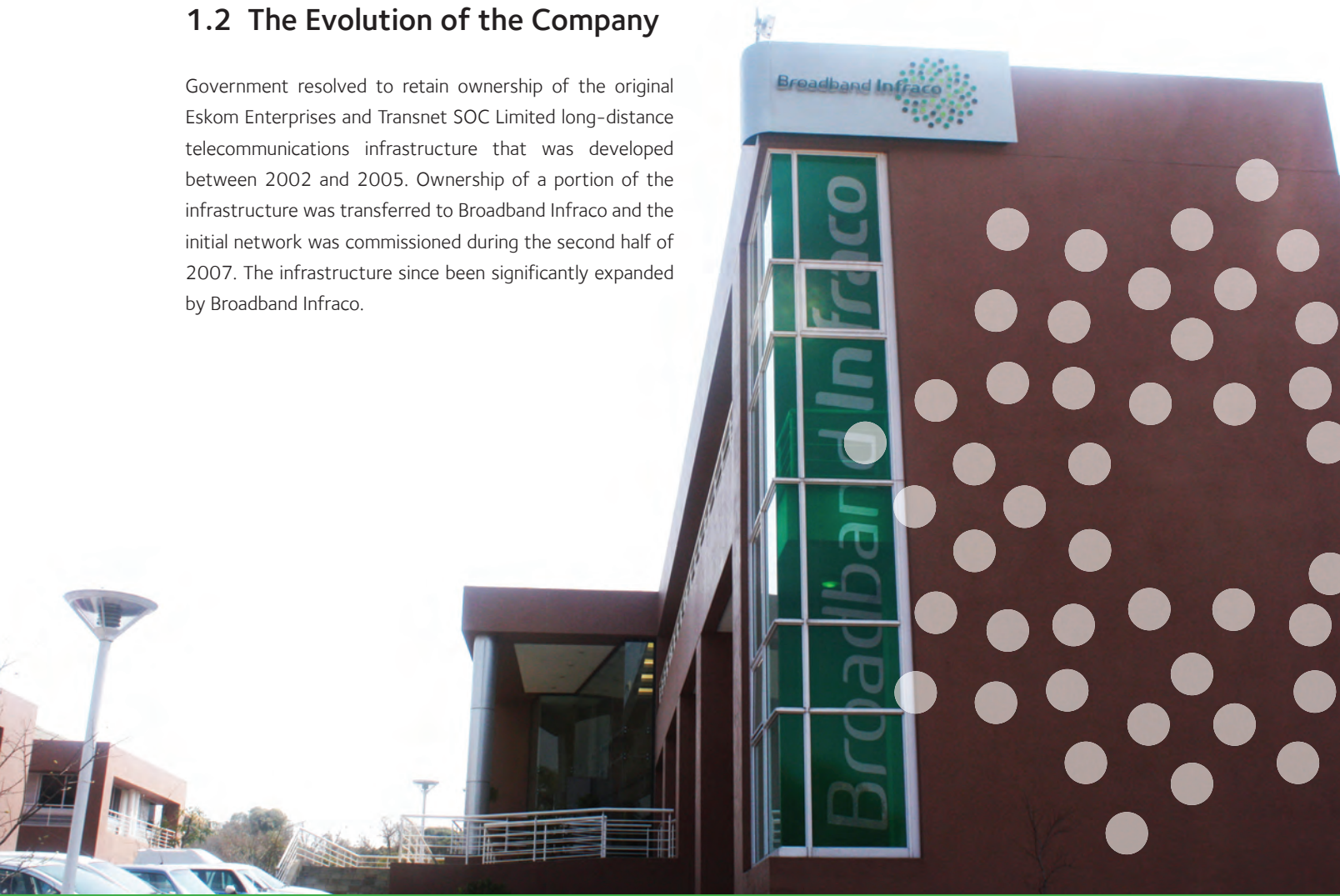
1. NATURE OF THE BUSINESS

1.1 Background

Broadband Infraco SOC Limited ("Broadband Infraco") is a state owned company ("SOC") 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 under-served areas.

1.2 The Evolution of the Company

Government resolved to retain ownership of the original Eskom Enterprises and Transnet SOC Limited long-distance telecommunications infrastructure that was developed between 2002 and 2005. Ownership of a portion of the infrastructure was transferred to Broadband Infraco and the initial network was commissioned during the second half of 2007. The infrastructure since been significantly expanded by Broadband Infraco.



SECTION 1 COMPANY OVERVIEW



Broadband Infraco Evolution

The evolution of the company from initiation to the present day is shown below:

2008/09

- "Right of Use and Operate Agreement" signed between Broadband Infraco and Neotel.
- Network expansion to supply SITA contract.
- Promulgation of the "Broadband Infraco Act 33 of 2007".
- Initial Investment in WACS undersea cable.

2009/10

- Significant expansion to ensure network availability, resiliency and reliability.
- ICASA issues Broadband Infraco with ECNS licence.

2010/11

- Five Point of Presence (POP) sites established in the major metropolitan areas.
- Launch of Broadband Infraco as a commercial telecommunications 'wholesale carrier of carriers' service provider. New customer relationships increased.

2011/12

- ROU with Neotel expires.
- Improved marketing proposition developed focus on large TELCO'S & government. In-sourcing of network operating system, operations and maintenance thus enabling significant control and visibility over the network.
- Southern African Large Telescope (SALT) and Karoo Array Telescope (KAT) project with customer service to support project of national interest.



1.3 Our Mandate

Broadband Infraco's legislative mandate is set out in the Broadband Infraco Act No. 33 of 2007 (the "Act"). The main objectives as set out in the Act are to expand the availability and affordability of access to electronic communications, including but not limited to underdeveloped and under-served areas, in accordance with the Electronic Communications Act and commensurate with international best practice and pricing, through the provision of electronic communications network services and electronic communications services.

In addition, Broadband Infraco must comply with the Public Finance Management Act of 1999, as amended (the "PFMA"), the National Treasury Regulations issued in terms of the Public Finance Management Act, the Companies Act No. 71 of 2008, as amended and other laws that govern the financial affairs, stability and soundness of the financial system and manage the budget preparation process, enforce transparency and effective management in respect of revenue and expenditure, assets and liabilities, of the Company.

1.4 Accountability and Reporting

Broadband Infraco reports on its activities and performance to the shareholders, namely, the Minister of Public Enterprises in his capacity as shareholder representative on behalf of the government of the Republic of South Africa, and to the Industrial Development Corporation of South Africa. The Company's main accountability instruments are the Corporate Plan, Annual Report, Quarterly Reports and any other information that may be requested from time to time. Annual Report is tabled annually to Parliament in compliance with the requirements of the PFMA and the Treasury Regulations.

1.5 Services

At the core of Broadband Infraco's value proposition is a product that is either Time Division Multiplex (TDM) based (STM1-64) or Internet Protocol based. The service level is informed by factors such as quality, reliability, mean time to respond and mean time to repair (MTTR). A core part of the value proposition is the network operations centre which is available 24/7/365 supported by provision of a 24-hour maintenance call-out support service. Broadband Infraco's ability to plan and design networks is critical to the ability to execute on customer requirements.





1.6 Highlights and Challenges

Highlights

Positive cash of R52.8 million generated from operations.

Unqualified audit–Stability achieved since last year’s qualified audit opinion, with internal restructuring to align to market needs and governance now complete. A new executive leadership layer is in place and thoroughly revised internal controls have been implemented, with evidence of much improved alignment across the business.

Managed service revenues continue to grow with an increase in the number of customers from 3 in 2010/11 to 7 in 2011/12. Existing customers show ongoing commitment through signing additional Indefeasible Right of Use (IRU) agreements. The South African Development Communities (SADC) customer base is expanding with service take up to Namibia and Zimbabwe. Collaboration with Sentech continues to develop, with 10 open access Points of Presence (POPs) delivered in KwaZulu–Natal. National backhaul infrastructure successfully delivered to support Southern African Large Telescope (SALT) and Karoo Array Telescope (KAT) as projects of national interest.

Network integrity continues to improve and exceed the service level agreements of all customers. The Company has successfully in-sourced network operations and expanded maintenance activities to twelve sites across South Africa. 110 Points of Presence (POPs) have been established nationally with 55 of these in under-served areas.

Segment commissioning of the West Africa Cable System (WACS) was completed in March 2012, with interconnection to the terrestrial network on track for completion in early 2012/13.

Challenges

Margin Depression affecting the telecommunications industry.

Fixed-cost structure to maintain the network.

Slow implementation of projects due to extenuating circumstances and challenges within the business.

Whilst Broadband Infraco acknowledges the highlights and challenges experienced during the financial year, measures have been put in place to address these challenges. A drive to grow revenue whilst maintaining efficient cost structures is ongoing. To date, Broadband Infraco has been able to increase its customer base including providing services to major cellular operators.



1.7 Key Business Elements

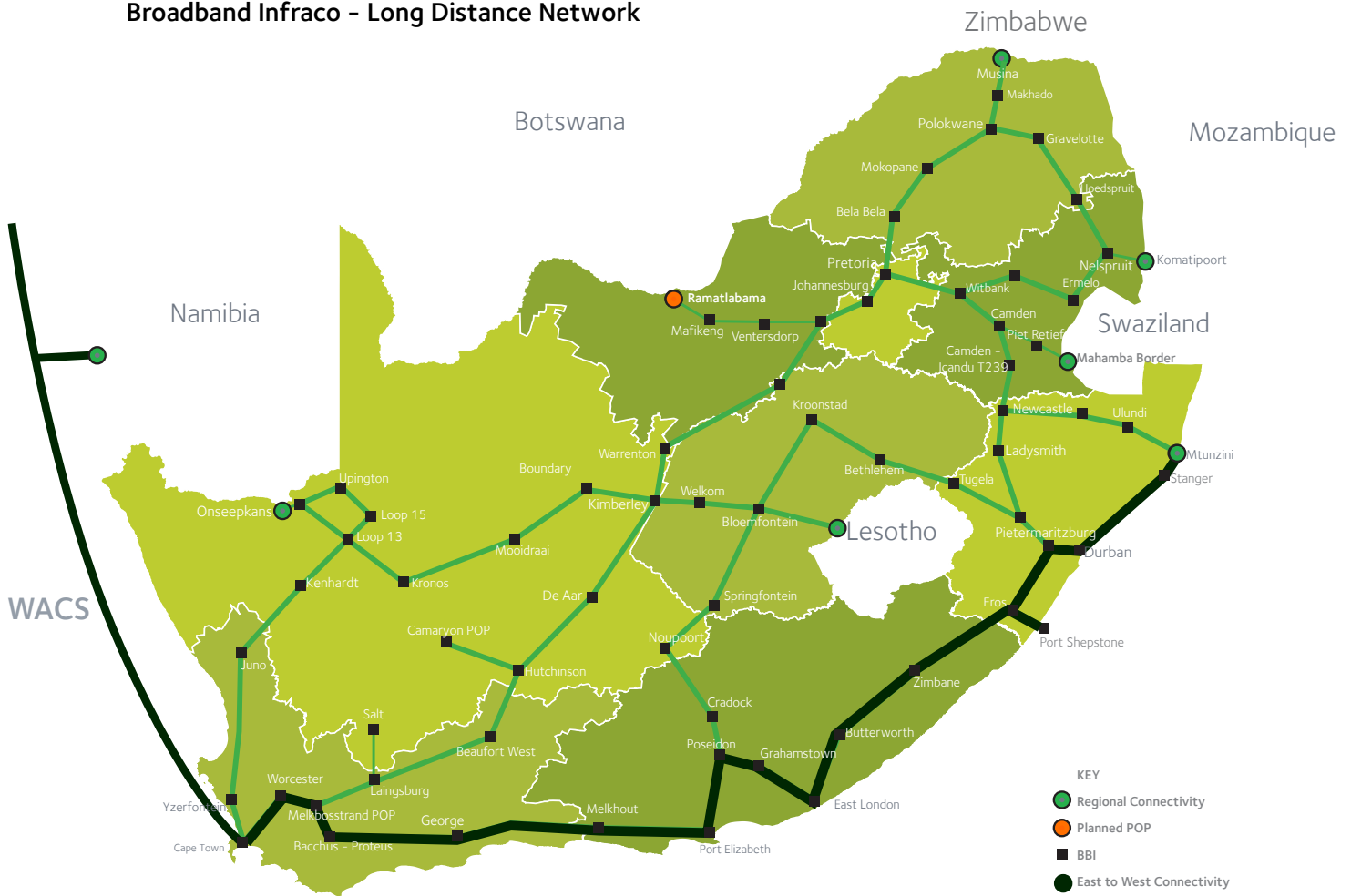
The Broadband Infraco business is comprised of several key elements, namely:

1.7.1 National Connectivity

The Broadband Infraco fibre optic network currently comprises of approximately 12 765 km fibre. The backbone network utilises Dense Wavelength Division Multiplexing (DWDM) equipment, providing a number of 2.5 Gbit/s and 10 Gbit/s Lambdas along the majority of fibre routes. Broadband Infraco's National Long Distance Network covers most major cities and towns and all nine provinces.

Plans are in place to improve the resilience and scalability of the network to accommodate the expected market demand and to continue to exceed the carrier class expectations of the wholesale market. The continued roll-out of the capital investment programme will extend the reach of the network and improve accessibility to both urban and under serviced areas.

Broadband Infraco - Long Distance Network





1.7.2 Regional Connectivity

Network extensions have also been implemented to provide fibre connectivity to the neighbouring countries of South Africa such as Botswana, Lesotho, Mozambique, Namibia, Swaziland, and Zimbabwe. Broadband Infraco is able to interlink the international cables landing on the East Coast and international cables landing on the West Coast of South Africa.

1.7.3 International Connectivity

Broadband Infraco is a Tier 1 investor in the 5.1 Terabit/s West Africa Cable System (WACS)* Project. The cable will connect South Africa to the United Kingdom, with landing stations in Portugal and 11 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.

Broadband Infraco has reserved seventy percent of its share of WACS capacity for the international connectivity requirements of the projects of national importance that are being developed by the Department of Science and Technology. These projects include the South African National Research Network (SANReN), Karoo Array Telescope (KAT-7), Southern African Large Telescope (SALT) and the Square Kilometre Array (SKA). The remaining thirty percent of capacity will be used in the provision of international telecommunications services in the market.



Figure 2: WACS International Connectivity

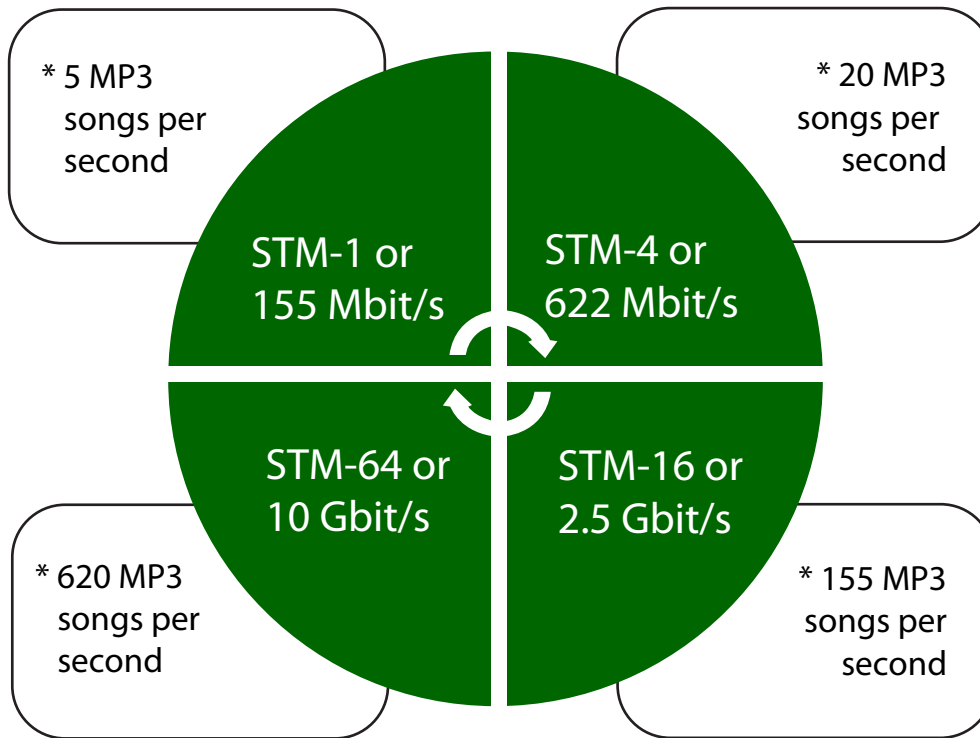
* **Note:** WACS is an undersea cable system linking South Africa to the United Kingdom with landings along the West Coast of Africa, developed by a consortium of 14 members. Broadband Infraco has a 11.4% stake in this cable system.



1.7.4 Products and Services

Broadband Infraco's services are based upon the provision of high capacity managed bandwidth from Point of Presence (POP) to POP within its National Long Distance fibre-optic network.

Services are Synchronous Digital Hierarchy (SDH) based and are available in the following bandwidths and multiples thereof:



Services can also be delivered in Ethernet format in the following bandwidths and multiples thereof:

- 100 Megabits per second (entry level);
- 1 Gigabit per second; and
- 10 Gigabits per second.

Note: The various capacities indicated are equivalent to the bandwidth demand and download speed requirements of data-intensive products such as MP3 format songs.





1.7.5 Operations and Maintenance

Broadband Infracore runs a comprehensive in-house operations and maintenance infrastructure:

- This gives Broadband Infracore full control of the network and the ability to drive through service improvements including reduced Mean Time To Repair (MTTR) profiles.
- A new state of the art Network Operations Centre (NOC) operates at Broadband Infracore's Woodmead Head Office, providing large screen views of the network, detailed reporting on Service Level Agreements (SLAs) and a customer support centre.
- The NOC is operational 24/7/365 days per year. The NOC continuously monitors the network and ensures that all SLAs with Broadband Infracore's customers are met through a combination of the use of alternative routes to ensure services are available and the prompt use of the Broadband Infracore maintenance organisation to repair faults in the shortest possible timeframes.
- All maintenance contracts have defined SLAs which are measured and monitored on a continuous basis. These SLAs have been designed in conjunction with the available network protection to ensure that SLAs with Broadband Infracore's customers are continuously achieved.





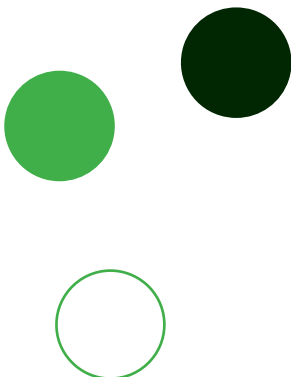
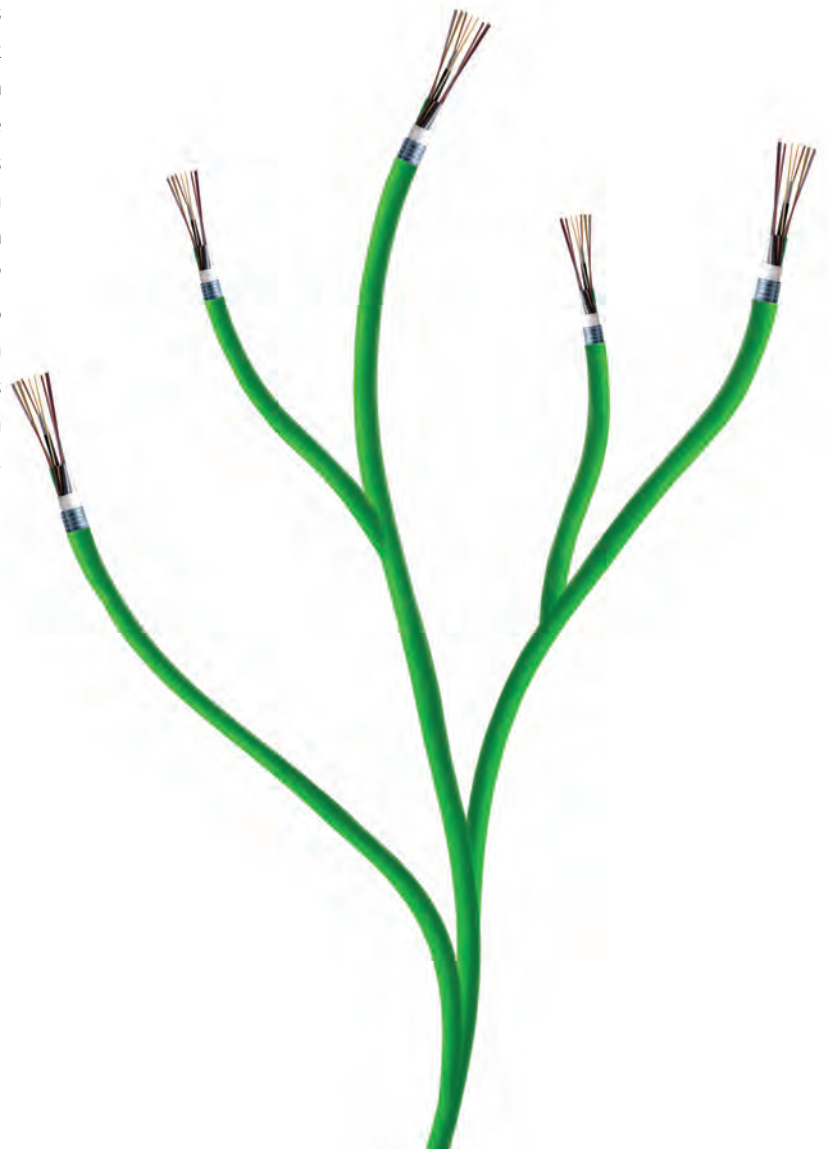
1.7.6 Unlocking Economic Growth

Economic development is the process of raising the level of prosperity and standards of living in a society through increasing the productivity and efficiency of its economy.

Broadband has become an important part of almost every aspect of the knowledge economy and especially so in activities that rely on the provision of data and information, particularly in service sectors. Many aspects of producing, delivering, consuming, co-ordinating and organising are now taking place over broadband communications networks. Broadband generates increased efficiency, productivity welfare gains, and potentially contributes to job creation and occupational change.

Broadband Infraco is becoming increasingly important as an enabling technology for structural changes in the South African and African economy, most notably via the direct impact on productivity growth, but also by raising product market competition in many sectors, especially in the services sector. In particular Information Communication Technology (ICT) and broadband are facilitating the globalisation of many services, with broadband connectivity making it feasible for consumers and producers of services to be in different locations.

Broadband connectivity is a proven Gross Domestic Product (GDP) multiplier. World Bank and Organisation for Economic Co-operation and Development (OECD) reports revealed the impact of broadband on growth in 120 countries from 1980 to 2006. Its analysis shows that each ten percentage points of broadband penetration results in a 1.21% increase in per capita GDP growth in developed countries, and a 1.38% increase in per capita GDP growth increase in developing countries. The research generally points in the direction of a causal relationship between broadband expansion and a large increase in local, national employment growth in certain sectors.



LEADERSHIP



SECTION 2 DIRECTORS' STATEMENTS AND PROFILES



2.1 Chairman's Report



Mandla Ngcobo, Chairman

Introduction

It is my great pleasure and privilege to present, on behalf of the Board, the fourth Annual Report of Broadband Infraco.

The previous financial year has seen a new picture emerge and a number of efforts have been put in place to turn Broadband Infraco around, starting with the appointment of an almost entirely new Executive Team, whose overall instruction is to institute operational efficiencies.

I am confident that the Company is now in a much improved position and condition to begin to implement a more robust and externally focused initiative to achieve both the mandate of the Company and ultimately improve its overall financial sustainability.

Broadband Infraco is gearing towards establishing itself as a credible and formidable force in the South African and African telecommunications market. This implies growing the customer base, improving revenue, further expanding the network and better aligning ourselves to achieve our mandate in under-served areas.

The Telecommunications Sector

The telecommunications market in South Africa and Africa has felt the brunt of the global financial crisis, similar to many sectors in the economy. Competition has intensified and there is a great deal of pressure on margins across the telecommunications industry.

Broadband Infraco's challenge remains to demonstrate its resilience to shifts in the market and to grow its bandwidth capacity and number of customers. Thus far, Broadband Infraco continues to retain competitive advantage, simply through the size of its network footprint of 12 765 km and its direct link into both east and west coast submarine cables, with an 11.4% stake in the WACS undersea cable and connectivity to five of the SADC countries.

In addition, its presence in all provinces and its mandate to service under serviced rural areas provides an opportunity for the Company to move ahead of its competitors and claim parts of the market that have not been accessible to the incumbent operators before. I am thus enthusiastic and optimistic about Broadband Infraco's opportunities.

Operational and Financial Performance

In view of the challenges that Broadband Infraco has had to overcome, I believe that the financial results contained in the report are commendable. Much progress has been made on service reliability and performance and the Company continues to install additional internal capacity to meet market demand and to exceed customer expectations.



Leadership

As part of the organisation's renewal efforts, a new Accounting Authority was appointed in October 2011 and I would like to take this opportunity to extend a warm welcome to new members, whom I am confident will provide a range of expertise and experience necessary to guide Broadband Infraco in its future endeavours. The Board has already demonstrated much passion and commitment as they have become engaged with the issues necessary for moving Broadband Infraco to the next phase.

Part of this effort has been the appointment of a full-time Chief Executive Officer (CEO) for Broadband Infraco and on behalf of the Board, I would like to welcome Ms Puleng Sejanamane, who joins the Company with a wealth of telecoms experience. She has the full support of the Board, as she leads Broadband Infraco into the next phase of growth.

Our sincere thanks to Dr Andrew Shaw, the outgoing acting CEO for presiding over the difficult period that required much stabilising.

The current Board intends to build on and maintain the positive effects of this stabilisation and improved internal environment providing us with the opportunity to explore further improvements and a focus on growth in the customer base and network offered by Broadband Infraco.

To achieve this and with the understanding that internal stakeholders are critical to the Company's objectives, the Board is working closely with the Executive Team towards the restoration of a positive working culture, within Broadband Infraco.

The successful stabilisation of Broadband Infraco should position the Company to focus on delivering against its mandate and generating greater returns from its commercial operations. Much good work has been done and I would once again like to commend the Boards, past and present, as well as the new executive management team, for maintaining focus and sustaining the ongoing development and operation of the Broadband Infraco network during difficult circumstances.

At the same time I would like to reiterate that much work lies ahead in order to secure the true potential of Broadband Infraco and to get closer to bringing broadband to each and every home and business across South Africa.

Corporate Governance

Since its appointment, the current Board has had to give much focus towards improving internal controls. On 29 November 2011, the very next month after appointment, the current Board immediately set up the following committees: Audit and Risk, Human Resources and Remuneration, Investment and Finance, and Social and Ethics, as a vehicle for giving oversight to internal executive efforts.

The work of these committees has demonstrated the commitment of the members and the respective chairpersons, with focus on supporting the Company's need for renewed governance policies and frameworks, capital project commitments and support for the intensified PFMA compliant procurement programme.



Strategy

The corporate planning process developed for the 2012/13 financial year allowed the current Board the opportunity to interrogate and refine the future of this new and innovative Company. This was the first opportunity many Board members had to get to grips with the opportunities and challenges faced by this entity.

Much of the emphasis in the forthcoming years is likely to focus on developing stronger revenue streams. For this strategy to be effective, the network should be priced correctly, expanded and enhanced to support the growth and expansion prospects of both large and smaller telecommunications providers.

Strong emphasis should be given to expansion in under-serviced areas and much of the forward-looking strategy attempts to unpack how this may be achieved. I believe that Broadband Infraco can be used as a catalyst by government to achieve broadband roll-out in these areas and that many operators, and certainly government, would be willing to follow our lead if we provided the necessary infrastructure, by providing the necessary services to customers. Even with the kind of outlook and plans that Broadband Infraco has, the challenge however, remains the funding of initiatives.

The acquisition of government business therefore remains a key target for Broadband Infraco and this is underpinned by our strong vision of utmost collaboration with other state-owned companies (i.e. Sentech and SITA) in the delivery of telecommunication services to the broader South Africa and the region. (Additional capacity and spectrum also remains in our view key and we are confident that this position will better enhance our efforts of unlocking economic backlogs, by ensuring access to affordable broadband connectivity.)

Our current and mid-to-long-term focus is to give support to government business and service delivery objectives and other projects of key national interest, that require high capacity connectivity.

We believe that Broadband Infraco remains a strategic vehicle for injecting efficiencies into the national broadband needs of the country and we remain ready to assist both the government (in realising its ten (10) point plan and including the new growth path), as well as the private sector, in terms of providing backbone infrastructure and high capacity connectivity.

The life-cycle of our network will soon require us to focus on revitalisation efforts, in order to ensure that it is in line with the current technology trends. Therefore, if unaddressed, the funding burden will start to be a threat to both the growth of the Company and equally and potentially our ability to render a high-tech network, that meets the demands of the market.

A number of provincially orientated initiatives have been identified that position the Company to unlock developmental potential through the provision of broadband access in areas not previously serviced. This aims to position the Company as a conduit for government's ambitions to rapidly roll out infrastructure into under-serviced areas and become the lead consolidating agent of choice.

WACS came into service on 11 May 2012. WACS provides international capacity to meet the increasing demand for mobile content, Internet Protocol (IP) and data services across Africa. In addition, it provides diversity for other cables



in West Africa, the African continent, India and Asia.

WACS provides Namibia, Togo and Congo and the DRC with the first direct international submarine cable connectivity, thus playing a crucial role in the development of the African continent. The agreement between the WACS investing parties contains the open access principles that will further enable the liberalisation of the markets where WACS is present.

Broadband Infraco has reserved seventy percent of its share of WACS capacity for the international connectivity, requirements of the projects of national importance that are being developed by the Department of Science and Technology.

These projects include the South African National Research Network (SANReN), Karoo Array Telescope (KAT-7), Southern African Large Telescope (SALT) and the Square Kilometre Array (SKA). The remaining thirty percent of capacity will be used in the provision of international telecommunications services in the market.

Appreciation

We also extend our thanks and gratitude to former Board Chairman, Mr Andrew Mthembu, and all the members of the previous Board who have been integral in the creation and early development of this innovative state-owned business initiative.

A special thanks and appreciation to our Shareholders and, in particular, the Minister of Public Enterprises, Mr Malusi Gigaba and his department, as well as the Chairperson of the Industrial Development Corporation of South Africa, Ms Monhla Hlahla and her Executive Team, for their ongoing support.

Gratitude is expressed also to the many staff members who have worked tirelessly to reposition the Company through this difficult period.

We thank all our stakeholders, especially customers, clients and investors, for their patience and support during the year and look forward to their continuing support during the forthcoming years.

Mr BMC NGCOBO
Chairman of the Board



2.2 Acting Chief Executive Officer's Report



Dr Andrew Shaw

Introduction

Broadband Infraco has emerged from an intense and challenging year characterised by a number of operating and governance shortcomings. Significant progress has been made in addressing these, and appropriate accountability and internal controls are now in place across the organisation. With a new leadership team in place, I am confident that the Company will consolidate these gains and focus on delivering on its mandate, expanding operations and growing its customer base.

The evolution of Broadband Infraco over 2011/12

Whilst much was achieved from a network perspective in the early years of start up since 2007, the realities of operating as a fully-fledged State-owned Company (SOC) since 2009/10 have brought a new perspective. After launch in November 2010 the Company began tentatively capturing new customers, although lack of sufficient Points of Presence (POPs) hampered customer take-up.

As acting CEO since the beginning of 2011/12 my mandate was to follow-up on investigations of non-compliance and to pursue the disciplinary hearing process. The stabilisation programme was two-fold and first began with the appointment of key personnel such as Chief Financial Officer (CFO), a position that was filled in July, with the rest of the executive posts filled in the last quarter of 2011. A second and parallel initiative was to improve the weak internal control environment. During 2011/12 policies and procedures in key areas such as procurement, IT, finance, project management and human resources were implemented across the business.

The organisational structure was adjusted in October 2011. This was necessary to meet newly defined market needs, improve accountability, enhance capital project roll-out and address a number of governance related shortcomings in the previous structure. This was followed by actions to improve the quality of performance and the resilience of the network and also a focus on attracting new customers, something that had been impossible during the instability of the first and second quarter.

By the end of calendar year 2011 the presence of the newly appointed executive management was felt in earnest and more forward looking initiatives such as strategic business planning, network integrity management, in-sourcing the Network Operations Centre (NOC) and more effective marketing and sales could be suitably initiated.

Financial

Broadband Infraco has posted improved financial performance, recording a net loss of R95.2 million for 2011/12, an improvement on the net loss of R206.9 million posted in the previous year and an improvement against budget of 80%. Revenue of R393.6 million (up from R297.6 million in the previous year) was posted by year-end. A large part of the



difference between this and the previous year's revenue is attributable to International Financial Reporting Standards (IFRS) requirements for a reversal of R93 million in terms of the straight lining of revenues from Neotel.

Broadband Infraco's customer base has grown, from contracts with Neotel, Liquid Telecommunications and MTN in the previous financial year-end, now it includes R100 million worth on new short-term lease or Indefeasible Right of Use (IRU) contracts with SALT/KAT (via Neotel), Seacom, Vodacom, Internet Technologies (Namibia) and Business Connexion.

The improved financial performance provides assurance that the Company is steadily moving in the right direction and expanding its customer base beyond its anchor customer, Neotel. During the year under review, this historic relationship, in the form of a Right of Use (ROU) between Broadband Infraco and Neotel, ended. A standard five-year customer relationship with Neotel is now established, providing Broadband Infraco with greater overall control of its own telecommunications network as a result.

Business Process

Broadband Infraco has achieved a number of key strategic objectives contained in the Shareholders' Compact. Key performance indicators that contributed to the positive outcome were: network infrastructure development, operations, maintenance and finance. Challenges were encountered in areas where governance structures remained weak, such as business enablers, and project delivery. Considerable progress was made in the second half of the year in addressing these shortcomings, but this has been insufficient to meet the targets set for the year as a whole.

The approved 2011/12 Corporate Plan became, in part, a strategic review exercise to determine Broadband Infraco's true positioning as a wholesale carrier of carriers. It defined five new or modified value propositions and opened up the opportunity to work collectively or in partnership with other players in the telecommunications sector, thus effectively defining the next level of evolution for the Company. This same theme has been continued in the more comprehensive Corporate Plan for 2012/13.

Customer engagements intensified during the final quarter of 2011/12 with a strong focus on engaging and developing joint strategies with provinces. The intensity of marketing activity will continue with emphasis at this stage on MTN, Cell C and Vodacom. All three show considerable interest in progressing to trials on the network.

The Company has made outstanding progress in creating the necessary policies and support systems to embed appropriate business process. Management systems, operating methodologies, internal audit follow-up, risk management processes, record keeping and policies that govern employee behaviour have all been revamped. Ensuring compliance with the requirements of the Public Finance Management Act (PFMA) 1 of 1999 (as amended), was a key driver for these improvements. Procurement was one of the areas that received attention early in the current year. Capital Programme, as a unit within Technical, had faced a number of deep governance challenges that were addressed in earnest from the second half of 2011/12 with improved and robust systems now in place to avoid the shortcomings of the past.



Network Operations

Customer service availability continues to follow an increasingly positive trend, with all customers experiencing levels of service well above contracted Service Level Agreements (SLAs). Network integrity continues to improve with various optimisation programmes underway. Full spares and life extension programmes have been established and maintenance and operations teams across the country have been augmented with additional resources, tools and equipment. Much of this work has only been possible from the third quarter onward, and is a function of the in-sourcing of the Network Operating Centre (NOC) and greater control over network maintenance.

The ability of customers to connect directly to the Broadband Infraco network has been considerably enhanced, with open access POPs increasing from 6 in 2010/11 to 110 in 2011/12, well in excess of the target for this year. From a developmental delivery perspective, progress has been made in the Universal Service Access POP roll-out programme. To date, 55 POPs have been established in under serviced areas. The current ICASA licence conditions required the establishment of 18 POPs in specific locations by October 2012. Seventeen of these have been completed as at the end of 2011/12, with the remaining one (1) planned to be addressed early in 2012/13.

WACS, of which Broadband Infraco is an 11.4% shareholder, was commercialised with effect from 11 May 2012 and efforts are to ensure that our capacity is fully operational. The completion of this project will finalise the loop in providing a global link to the Company's terrestrial fibre optic network. Whilst WACS will be leveraged in the provision of commercial services, a large part of the available capacity is reserved for projects of national importance, such as the Square Kilometre Array (SKA). South Africa's success in attracting the largest portion of this international initiative provides Broadband Infraco with a place in history as well as an important long-term customer.

Appreciation

I would like to thank my executive management team, many of whom are new to Broadband Infraco, for their continued contribution and enthusiasm in turning this Company around. I believe that I leave the Company in very capable hands. I also wish to welcome and congratulate Ms Puleng Sejanamane as the permanently appointed CEO as she takes up the challenge of steering the Company into a new and exciting future. Her background in telecommunications and in sales and marketing bodes well for the future challenges faced by Broadband Infraco. I would also like to commend the many employees across Broadband Infraco who remained stalwart and committed and continued to deliver outstanding performance during what has been a challenging year for most of the Broadband Infraco family. A special word of thanks goes to the previous Chairman and Board of Directors as well as to the current Chairman and Board, who have both been unwavering in their valued support and guidance to me over the year under review.

Dr A Shaw

Acting Chief Executive Officer



2.3 Board of Directors



Mandla Ngcobo (52)

Chairman of the Board

Non-executive Director

Qualifications: LLB (Natal), LLM in Company Law (WITS), Business Management Programme (UCT)

Expertise: Telecommunications and Business Management

Appointed: 18 October 2011



Salim Essa (34)

Non-executive Director

Qualifications: BCom (WITS), BCom (Economics and Management) (WITS)

Expertise: Financial and Business Management

Appointed: 18 October 2011



Dr Anthony Githiari (44)

Non-executive Director

Qualifications: PhD (Electrical Engineering) Cambridge University, BSc (Electrical Engineering) (Univ. of Nairobi)

Expertise: Telecommunications Industry Specialist

Appointed: 18 October 2011



2.3 Board of Directors



Xoliswa Kakana (47)

Non-executive Director

Qualifications: Master of Public Administration (MPA) (Harvard-USA), Masters in Technology (MIT), MSC (Electrical Engineering) (F-H Giessen-Germany)

Expertise: Telecommunications, Engineering and Business Management

Appointed: 18 October 2011



Shakeel Meer (49)

Non-executive Director

Qualifications: BSc (Engineering) (UKZN), MBA (UNISA), Advanced Management Programme (Inseed Business School-France)

Expertise: Finance, Strategy and General Management

Re-appointed: 18 October 2011



Meta Maponya (32) CA(SA)

Non-executive Director

Qualifications: CA(SA), BCom (Accounting) (WITS), BCom (Honours) (Natal)

Expertise: Auditing, Corporate Finance, and General Management

Appointed: 18 October 2011



Sydney Mabalayo (48)

Non-executive Director

Qualifications: BS (Electrical Engineering) (UCT), MBA (WITS)

Expertise: Project and General Management

Re-appointed: 18 October 2011



Nokuthula Selamolela (36)

Non-executive Director

Qualifications: BCom (Accounting) (North West University), BCom(Honours) (UKZN)

Expertise: Telecommunications, Finance and General Management

Appointed: 18 October 2011



2.3 Board of Directors



Ramasela Magoale (37) CA (SA)

Chief Financial Officer

Executive Director

Qualifications: CA (SA), BCom (Accounting) (Vista), BCom (Honours and CTA) (University of Pretoria)

Expertise: Financial Management

Appointed: 18 October 2011



Dr Andrew Shaw (45)

Acting Chief Executive Officer

Executive Director

Qualifications: Phd (Transport Economics) (Leeds University), MBA, BSc and MSc (Engineering) (WITS)

Expertise: General Management, Strategy Formulation, Financial Modelling, Operation and Capital Investment Appraisal, Transport and Telecommunication Economics

Appointed: 18 October 2011

Retired: 31 May 2012



Ms Puleng Sejanamane (44) CM (SA)

Chief Executive Officer

Executive Director

Qualifications: BSc Honours (WITS), Postgraduate Diploma in Management (WITS), Certificate in Financial Management (UJ)

Expertise: Telecommunications and Business Management

Appointed: 01 June 2012



SECTION 3

ABOUT THE COMPANY



ABOUT THE COMPANY

3.1 Legislative and Regulatory Environment

The Broadband Infraco Act No. 33 of 2007 mandates the Company to, amongst others, expand the availability and affordability of access to electronic communications, including, but not limited, to underdeveloped and under-served areas. In pursuit of this mandate, Schedule 2 of the Individual Electronic Communications Service (I-ECNS) licence of the Company contains universal access obligations in terms of which the Company is expected to have rolled out POPs to 37 under-served areas identified in the licence over a seven year period. Phase 1 of this roll-out project requires the Company to roll-out 18 POPs by the end of October 2012. Broadband Infraco is committed to rolling out 17 of the Phase 1 POPs by this date. The remaining POP located in the Westrand area will be evaluated in accordance with customer requirements. Phase 2 of the roll-out project requires the Company to roll-out 11 POPs by the end of October 2014. Broadband Infraco is in a position to roll out 5 of the Phase 2 POPs by October 2012. The remainder of the POPs in Phases 2 and 3 will be evaluated in terms of the long-term capital plan of the Company. The POP roll-out project bodes well for the sustainability and viability of a broadband initiative, and takes into account the efficiency of deploying the requisite infrastructure.

The I-ECNS licence also contains the network roll-out obligations. The Company has complied with its network roll-out obligations by, amongst others, establishing 137 long distance sites and 26 Metro POP sites respectively. It has also deployed 3 IP edge routers and 3 IP core switches on its network in accordance with its current technology requirements. The Company expects customer demand for its services to accelerate in the 2012/2013 financial year, and this uptake will enable it to meet its outstanding network roll-out obligations.

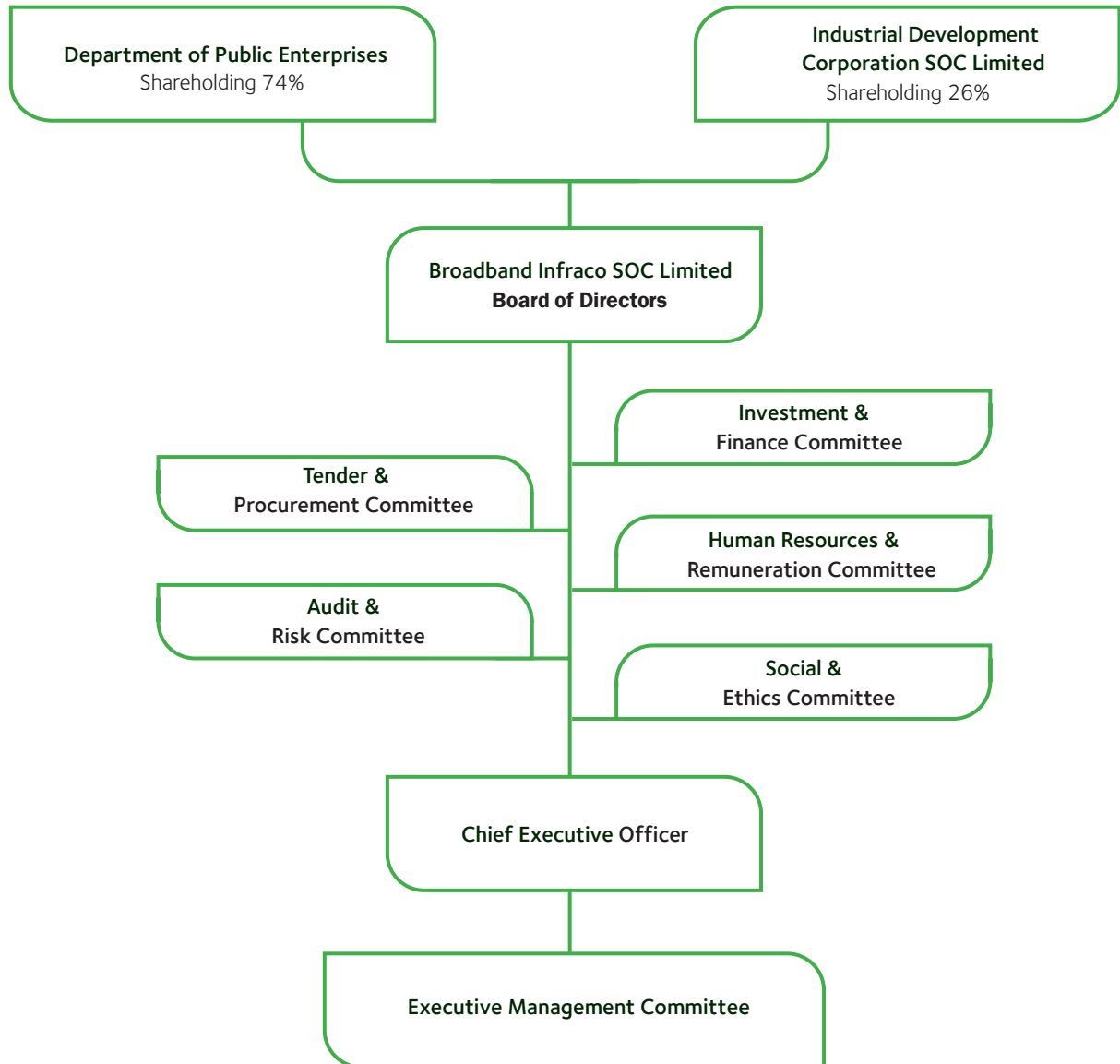
The regulatory authority, ICASA, has issued a compliance report for the 2010/2011 financial year, which gives account of Broadband Infraco's compliance to various regulatory requirements. The report indicates that the Company has complied with the End-user and Subscriber Service Charter Regulations and the General Licence Fees Regulations respectively. It further reflects that the Company has discharged its obligations in terms of the Universal Service and Access Fund Regulations by making payment of the prescribed contribution into the fund. Broadband Infraco is expected to maintain its compliance to the regulatory environment during 2012/2013 financial year.

During July 2010 the Department of Communications (DoC) gazetted the Broadband Policy of South Africa. The objective of the policy is to, amongst others; facilitate the provisioning of affordable, accessible and universal access to broadband infrastructure. The promulgation of the policy was followed, during August 2011, by the signing of a compact between the DoC and the ICT Industry in terms of which the parties committed to delivering a 100% broadband penetration by 2020. The DoC is now in the process of completing a broadband mapping study to identify the existing broadband infrastructure and services gaps. The DoC is also currently considering a policy direction in respect of the high demand spectrum (800 MHz & 2.6 GHz bands) in order to facilitate the roll-out of broadband in the country. Broadband Infraco has actively participated in the development of the Vision 2020 document. The Company also welcomes the intention, by the DoC, of licensing the high demand spectrum on a wholesale open access network basis as this approach will stimulate the provision and uptake of broadband services, particularly in underdeveloped and under-served areas.



3.2 Organisational Structure

Broadband Infraco is a state-owned company (SOC) owned by the Department of Public Enterprises (74%) and Industrial Development Corporation of South Africa (26%)





3.3 Our Vision, Mission and Values

Vision

To be recognised as the wholesale provider of choice for backhaul connectivity.

Mission

To enable national and regional private and public collaboration regarding infrastructure development;

To expand the availability and affordability of access to electronic communications networks and services, including but not limited to underdeveloped and under-served areas;

To ensure that the high capacity connectivity and bandwidth requirements for specific projects of national interests are met; and

To unlock economic growth in the provinces through the provision of broadband connectivity considering the requirements of the underdeveloped and under-served areas.

Values

Stakeholder Engagement

Broadband Infraco proactively engages its stakeholders to understand their expressed and unexpressed needs.

Broadband Infraco prides itself for Excellence in Service Delivery

Broadband Infraco is dedicated to satisfying its customers' needs and believe in respecting customers, listening to their requests and understanding their expectations. It endeavours to exceed their expectations in terms of quality, time and cost.

Execution in a Simple and Flexible Manner

Broadband Infraco's design philosophy shall be flexible to accommodate customisation of solutions for its customers.

Act with Integrity in all we do

Broadband Infraco people are each personally accountable for the highest standards of behaviour, including honesty and fairness in all aspects of their work. They fulfil their commitments as responsible citizens and employees, consistently treating customers and Company resources with the respect they deserve.

Open Communication

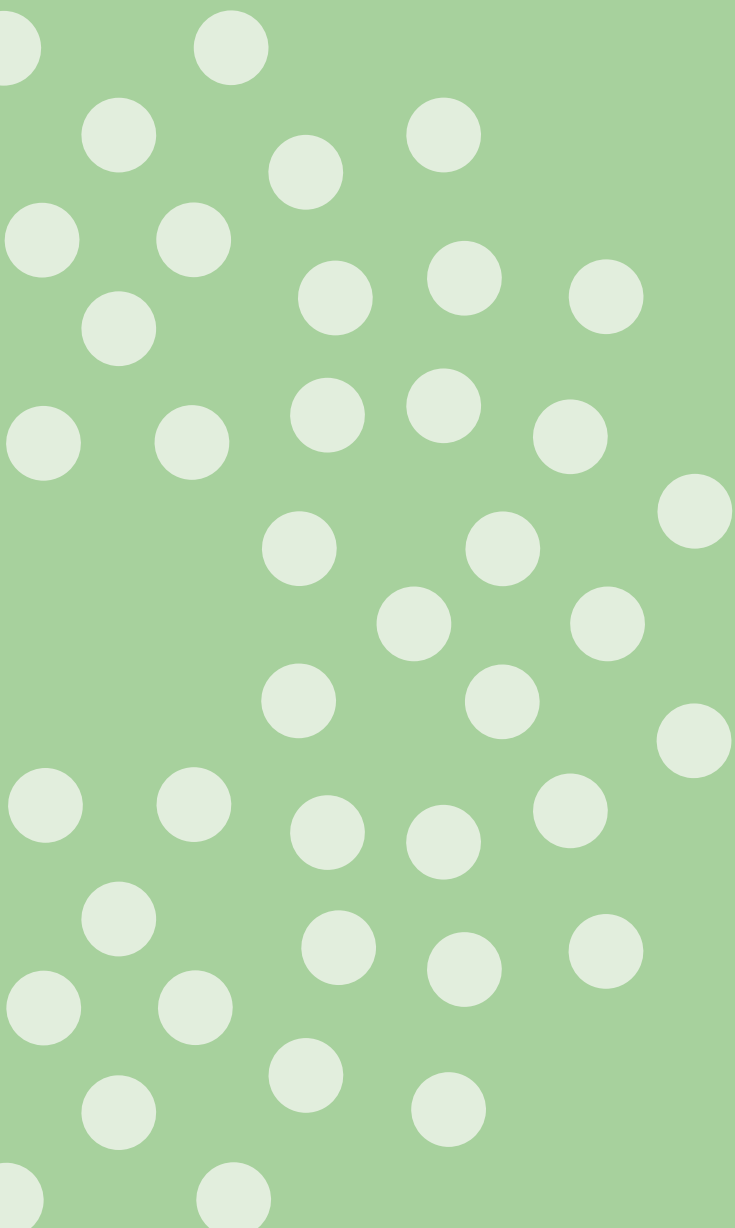
Broadband Infraco will strive to communicate openly, honestly and supportively. Honest interaction with all stakeholders creates an atmosphere of trust, promoting a higher quality of public service.



SECTION 4

CORPORATE GOVERNANCE REPORT

Broadband **Infracore**





CORPORATE GOVERNANCE REPORT

4.1 Introduction

This report sets out the key governance principles 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 Code and Report on Governance for South Africa (King III) and also endorses the principles contained in the Protocol on Corporate Governance for state-owned companies.

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

The 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, directors or external committee members may use teleconference facilities to participate in meetings and they are counted as having attended the meeting. The attendance of members at Board meetings is reflected on pages 34. 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 71 of 2008 as amended and augmented by the Public Finance Management Act 1 of 1999, as amended (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;
- 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 present fairly the financial position of the Company as at 31 March 2012 and its financial performance and cash flows for the year ended.



4.2 Changes in Board Composition

Broadband Infraco has a unitary Board structure with a majority of non-executive directors. For the period under review, the Board consisted of eight directors. This included five independent non-executive directors, one non-independent non-executive director and two executive directors being the CEO and CFO. 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. There were two resignations from the Board of Directors. Mr S Maharaj (Chief Financial Officer) resigned from the Board on 1 April 2011 and Ms M Singer Saul (non-executive director) resigned on 7 October 2011.

Dr A Shaw was seconded to Broadband Infraco as the acting Chief Executive Officer by the Minister of Public Enterprises and commenced with his duties on 1 April 2011.

Mr AFB Mthembu (previous Board Chairperson), Mr C Groesbeek and Mr LN Letele retired from the Board on 18 October 2011.

At a Special General Meeting of the Shareholders held on 18 October 2011, Mr BMC Ngcobo, Ms N Bulbulia, Mr SA Essa, Dr A Githiari, Ms X Kakana, Ms MM Maponya, and Ms N Selamolela were appointed as non-executive directors and at the same meeting Mr SAU Meer and Mr ST Mabalayo were re-appointed to the Board. Dr A Shaw (acting CEO) and Ms R Magoele (CFO) were also appointed to the Board as Executive Directors.

Ms N Bulbulia resigned as a non-executive director on 20 December 2011.

4.3 Commitment to Good Corporate Governance

Good corporate governance is an integral part of Broadband Infraco's business philosophy. The organisation faced an enormous amount of scrutiny in the previous financial year due to internal control breakdown and poor adherence to corporate governance principles. In spite of the difficulties and challenges, the organisation had to assess and develop preventative and corrective measures and take a much more proactive approach in resolving the weaknesses identified in the internal control environment. As the organisation was striving towards a good corporate culture, a new Board of Directors and executive management team was established.

The Company's ethics and values are imperative to achieving our objectives. Broadband Infraco continuously implements and embeds a good corporate culture.

The Governance function has been continuously assessing the following principles of good corporate governance and reporting to all relevant stakeholders on the following areas:

Internal Control Environment

The Board has developed and implemented a Combined Assurance Model to facilitate a coordinated and optimised assurance approach to the management of key risks. Management is responsible for ensuring adequate internal controls to safeguard the assets of the Company. Management is continuously developing business processes to correct the internal control weaknesses as previously highlighted.



Internal Audit Function

The Internal Audit function has been in place throughout the financial year although execution of the approved internal audit plan only started in October 2011. This was to allow management to implement corrective action on previously reported findings. The function is positioned at a strategic level within the Company, although currently outsourced and reporting to the Executive Governance, the Chief Audit Executive role is fulfilled by the Governance Executive who reports functionally to the Chairperson of the Audit and Risk Committee and administratively to the Chief Executive Officer. The Internal Audit function follows a risk-based approach in developing the internal audit plans as required by the PFMA, King III and the Standards for the professional practice of Internal Auditing issued by the Institute of Internal Auditors.

Internal Audit has provided written assessments, in the form of audit reports to the Board and Management on the adequacy and effectiveness of the system of governance, marketing management and compliance.

All internal audits have been performed as per the approved Internal Audit Plan by the end of the financial year.

For the purpose of tracking and ensuring the implementation of corrective action plans for both external and internal audit findings, an Issue Log Register was implemented by Internal Audit. Significant and critical weaknesses in the control environment were escalated in terms of protocol to Executive Management Committee (Exco) and the Audit and Risk Committee where remedial procedures and processes are considered and monitored by management. This process will ensure that audit findings are addressed by management timeously to prevent repeat findings.

Risk Management

Risk management is a fundamental and inherent part of the existence of our organisation. The Board understands and recognises the value add of appropriate risk management and is cognisant of the fact that ignorance and avoidance can paralyse a company's successful growth strategy. A risk management plan has been put in place, which included the strategic and operational risk assessments. The outcome of these assessments was a clear defined Company risk profile and a risk register which the Company systematically utilises to monitor, communicate and report risk.

Broadband Infracore has increased focus on preventing fraudulent activities as prescribed by the PFMA. A comprehensive fraud prevention strategy has been incorporated into the Company's risk management framework. The Company has adopted both preventative and detective approaches rather than reactive initiatives. The Fraud Risk Register is monitored on an ongoing basis.

The Company strives to maintain transparency and has also established a fraud hotline that has been operational during the year under review. All reported allegations have been evaluated and where necessary, investigations were instituted and reported.

Business Process Development

Efficient and effective processes create competitive advantage for a communications company. Business Process Development (BPD) has been constantly working with business process owners to ensure processes are defined and implemented. In ensuring this, the technology processes were prioritised and developed as they create, add and deliver customer value which enables Broadband Infracore to generate revenue. As revenue generation has been a key strategic objective in the year under review, BPD put processes and KPIs in place to assist management in achieving the value proposition.

Processes were reviewed to incorporate governance, risk management and compliance requirements. The governance component included the policies that guide decision making including Supply Chain Management.



In assisting the organisation to achieve its business objectives, processes have been developed to ensure seamless integration between Network Operations, Marketing, Sales and Finance thus creating a sustainable business.

Compliance

Good governance and compliance practices are crucial in developing and sustaining Broadband Infraco and the Board has committed to incorporating good governance and compliance processes into the Company's strategy. The compliance function is independent and identifies, evaluates, advises on, monitors and reports on the Company's compliance risk. Compliance with relevant legislations such as the Public Finance Management Act, Occupational and Safety Act, Treasury Regulations, etc. have been performed during the year under review and the level of compliance has been reported to the Board through the Audit and Risk Committee.

Way forward

Broadband Infraco strives for a more focused awareness on better governance, whilst driving to maintain adequate and effective controls to protect the Company's resources. The organisation will continuously monitor and improve processes which will alert management to changes in the business and control environment in a timely manner. The Company will ensure proper alignment of its internal environment controls with the strategic objectives or changing operational constraints.





4.4 Delegation of Authority

In terms of Sections 54(2) and 55(2) of the PFMA, Broadband Infraco must develop and agree on a framework of acceptable levels of significance and materiality with the Shareholders. A Significance and Materiality Framework has been developed and agreed and a Memorandum of Understanding between the Shareholders and Broadband Infraco has been agreed and signed.

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

4.5 Accounting Authority's (Board of Directors) Report

The details of Board of Directors and executive directors appear on pages 21 to 23 of the Annual Report.

The Company's Memorandum of Incorporation (Mol), is being reviewed by the Department of Public Enterprises for all its state-owned companies and once this is done and approved at the next Annual General Meeting, the Board Charter will be aligned to the new Mol and approved by the Board accordingly.

In the interim, the Board has adopted a previous Board Charter which provides a concise overview of:

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

Within the powers conferred upon the Board, 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.

Board meetings are scheduled annually in advance. Special meetings are convened as and when required in order to address specific issues of strategic importance.



Attendance of previous Board Members at Board meetings up to 18 October 2011

Name of Director	1	2	3	4	Total
Meeting Date	31 May 2011	15 June 2011	30 June 2011	8 Sept. 2011	4
A F B Mthembu ¹	√	√	√	√	4/4
C Groesbeek	√	√	√	√	4/4
L N Letele	A	√	A	√	2/4
S T Mabalayo	√	√	√	√	4/4
S A U Meer	A	√	A	A	1/4
M J Singer Saul	√	√	√	√	4/4
A Shaw ²	√	√	A	√	3/4
R Magoele ³				√	1/1

√ Attendance
A Absent with apology

1 Chairman of the Board
2 Acting CEO-commenced duties on 1 April 2011
3 New CFO – commenced duties on 1 July 2011

Attendance of new Board Members at Board Meetings Commencing after 18 October 2011

Name of Director	1	2	3	4	5	Total
Meeting Date	29 November 2011	30 January 2012	31 January 2012	27 February 2012	29 March 2012	5
BMC Ngcobo ¹	√	√	√	√	√	5/5
N Bulbulia ²	A	R	R	R	R	0/1
SA Essa	√	√	√	√	√	5/5
A Githiari	√	√	√	√	√	5/5
X Kakana	√	√	√	√	A	4/5
MM Maponya	√	√	√	A	√	4/5
ST Mabalayo	√	√	√	A	A	3/5
SAU Meer	A	A	√	A	A	1/5
N Selamolela	√	A	A	√	√	3/5
A Shaw ³	√	√	√	√	√	5/5
R Magoele ⁴	√	√	√	√	√	5/5

√ Attendance
A Absent with apology
* Teleconference
R Resigned

1 Chairman of the Board
2 N Bulbulia – resigned 20 December 2011
3 Acting CEO
4 CFO



4.6 Board Committees

The Board has established five 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, Human Resources and Remuneration Committee and the Social and Ethics Committee.

The Committees are tasked with assisting the Board in carrying out its responsibilities. Their recommendations and feedback 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.

Sub-committees may also be formed on an ad hoc basis to deal with specific matters.

The executive management committee (EXCO) is not a sub-committee of the Board but meets on a regular basis to deal with issues of operational importance and recommends matters of strategic importance to the Board or its sub-committees for consideration and approval. It also considers and recommends those matters out of its delegation of authority to the Board or its sub-committees.

4.6.1 Audit and Risk Committee

The Audit and Risk Committee was established in compliance with section 94(2) of the Companies Act 71 of 2008. The previous members of the committee during the period under review comprised Ms M Singer Saul (Chairperson), Mr C Groesbeek, Mr SAU Meer and Mr I Kajee (External Committee member).





The new committee, constituted on 29 November 2011 by the Board of Directors, comprises three independent non-executive directors namely, Ms MM Maponya (Chairperson), Ms X Kakana, Mr ST Mabalayo, and one non-independent non-executive director, Mr SAU Meer.

The Audit and Risk Committee is an important element of the Board's system of monitoring and control. All Audit and Risk Committee members have extensive experience, as well as financial, risk, and accounting expertise. The acting Chief Executive Officer, the Chief Financial Officer as well as the Governance Executive attend Audit and Risk Committee meetings by invitation.

The Committee monitors and ensures that internal control is maintained to protect Broadband Infracore'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 audits. 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, the adequacy of available internal audit resources and governs the external audit.

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

A report by the Chairperson of the Committee is included on page 63.





Attendance of previous Audit and Risk Committee Members at Meetings until 18 October 2011

Committee Member	1	2	3	Total
Meeting Date	4 April 2011	27 May 2011	8 September 2011	3
M Singer Saul ¹	✓	✓	✓	3/3
I Kajee ²	✓	✓	✓	3/3
S Meer	A	✓	A	1/3
C Groesbeek	A	✓	✓	2/3

✓ Attendance

A Absent with apology

1 Chairperson

2 External Committee Member

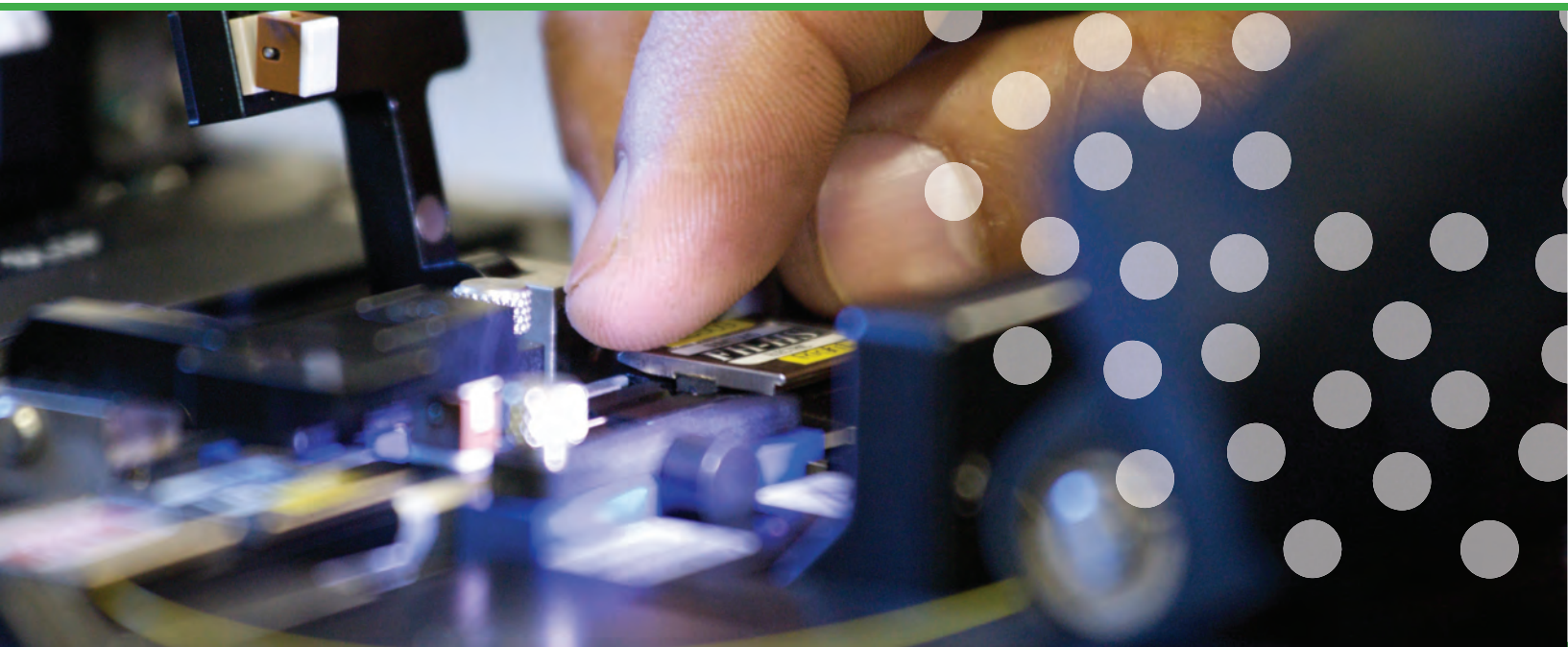
Attendance of the new Audit and Risk Committee Members for Meetings Commencing after 18 October 2011

Committee Member	1	2	Total
Meeting Date	19 January 2012	14 March 2012	2
MM Maponya ¹	✓	✓	2/2
X Kakana	✓	A	1/2
ST Mabalayo	✓	✓	2/2
S A U Meer	A	A	0/2

✓ Attendance

A Absent with apology

1 Chairperson





4.6.2 Investment and Finance Committee

The previous Investment and Finance Committee (IFC) up to 18 October 2011 comprised of Mr N Letele, Mr AFB Mthembu, Mr C Groesbeek, Mr ST Mabalayo and Mr SAU Meer. The two executives, namely, Mr RD Smith and Mr S Maharaj, were also members of the committee.

The new members appointed by the Board of Directors on 29 November 2011 are Dr A Githiari (Chairperson), Ms X Kakana, Mr ST Mabalayo and Ms N Selamolela. The acting Chief Executive Officer and the Chief Financial Officer attend meetings by invitation.

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 and which are approved by the Board.

The previous IFC did not convene any meetings during the financial year due to all capital expenditure being suspended by the Minister of Public Enterprises in June 2011, and the Corporate Plan being approved only on 6 September 2011.

The new IFC appointed on 29 November 2011 convened for one meeting and also took decisions via Round Robin.

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

Attendance of the new Investment and Finance Committee Members for Meetings Commencing after 18 October 2011

Committee Member	1	Total
Meeting Date	23 February 2012	1
A Githiari *	√	1/1
ST Mabalayo	A	0/1
X Kakana	√ *	1/1
N Selamolela	√	1/1

√ Attendance
A Absent with apology
* via Teleconference

* Chairperson



46.3 Tender and Procurement Committee

The previous Tender and Procurement Committee comprised of four independent non-executive directors and two executive directors. These were Mr C Groesbeek, Mr LN Letele, and Mr ST Mabalayo, Mr RD Smith (CEO) and Mr S Maharaj (CFO).

The new members appointed by the Board on 29 November 2011 are Mr SA Essa (Chairperson), Dr A Githiari, and Ms N Selamolela. The acting Chief Executive Officer, Chief Financial Officer, and Chief Technical Officer attend meetings by invitation.

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

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

- formulating of and maintaining procurement policies and processes that are fair, equitable, transparent, competitive, cost-effective and subject to legislation regulating tender and procurement processes;
- making recommendations to the Board in respect of tenders and contracts exceeding its delegated authority;
- ensuring that the Broadband Infraco procurement systems, 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).

The previous Tender and Procurement Committee did not convene any meetings during their tenure due to the suspension of capital investments by the shareholders; however, the new committee did convene for two meetings.

A report by the Chairperson of the committee is included on page 45.

Attendance of the new Tender and Procurement Committee Members for Meetings Commencing after 18 October 2011

Committee Member	1	2	Total
Meeting Date	27 January 2012	23 February 2012	2
SA Essa *	√	√	2/2
A Githiari	√	√	2/2
N Selamolela	√	√	2/2

√ Attendance

* Chairman



4.6.4 Human Resources and Remuneration Committee

The previous Human Resources and Remuneration Committee (HRRC) during the period under review comprised of three independent non-executive directors. These were Ms M Singer Saul (Chairperson), Mr AFB Mthembu, and Mr LN Letele.

The new members appointed by the Board on 29 November 2011 are Mr BMC Ngcobo (Chairperson), Ms X Kakana, Mr SA Essa, and Mr ST Mabalayo. The acting Chief Executive Officer and Chief Financial Officer attend meetings by invitation.

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 Infracore and approving the principles regarding the reward and incentive schemes. The HRRC further plays the role of the Nominations Committee of the Board.

In consultation with the Board:

- the Committee recommends the remuneration policy for executive and non-executive directors for approval by the shareholder;
- determines and approves the individual remuneration packages, benefits, bonuses, incentive schemes, and adjustments to such packages of all executives of the Company, within the framework approved by the shareholder;
- evaluates the effectiveness of the executive remuneration policy and considers, if necessary, independent surveys;
- determines any criteria necessary to measure the performance of executive directors of the Company in discharging their functions and responsibilities;
- makes recommendations to the Shareholders on matters pertaining to remuneration and other emoluments of executive and non-executive Board members;
- makes recommendations to the Board on matters pertaining to appointments, removals, and resignations of executive and non-executive directors; and
- regularly reviews the Board structure, size and composition, and makes recommendations to the Board with regard to any adjustments that are deemed necessary.

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

The previous HRRC convened twice during the previous financial year, and the new Committee convened for two meetings. A report by the Chairperson of the Committee is included on page 46.

Attendance of previous HRRC Members at Meetings until 18 October 2011

Committee Member	1	2	Total
Meeting Date	11 May 2011	29 Aug 2011	2
M Singer Saul *	√	√	2/2
AFB Mthembu	√	√	2/2
N Letele	√	√	2/2

√ Attendance

* Chairperson



Attendance of the new HRRC Members for Meetings Commencing after 18 October 2011

Committee Member	1	2	3	4	5	6	7	
Meeting Date	2 Dec 2011	12 Jan 2012	15 Feb 2012	20 Feb 2012	24 Feb 2012	27 Mar 2012	29 Mar 2012	Total 7
BMC Ngcobo ¹	✓	✓	✓	✓	✓	✓	✓	7/7
SA Essa	✓	✓	✓	✓	✓	✓	✓	7/7
X Kakana	✓	A	A	✓	✓	A	A	3/7
ST Mabalayo	✓	✓	✓	✓	✓	✓	✓	7/7

✓ Attendance

¹ Chairperson

A Absent with apology

4.6.5 Social and Ethics Committee

The Social and Ethics Committee was established in compliance with Section 72(4) of the Companies Act No. 71 of 2008 and constituted by the Board of Directors on 29 November 2011. The members of the Committee are Mr SAU Meer (Chairperson), Ms X Kakana, Mr SA Essa, and Mr ST Mabalayo. The acting Chief Executive Officer and Chief Financial Officer attend meetings by invitation.

The Committee has been developing its Terms of Reference and has not convened for the period under review. The Terms of Reference were approved by the Committee on 13 April 2012.

Given that this is a new Committee required to be established in terms of the Companies Act No 71 of 2008, members will receive training in the next financial year in order to fully understand the requirements of this Committee, implement the terms of reference and ensure that the Committee is fully functional going forward.

In consultation with the Board, the Committee will:

- review and approve the policy, strategy and structure to manage social and ethics issues in the organisation;
- monitor to the best of its ability significant investments by ensuring the development of policies, guidelines and practices, which are congruent with the Company's social and ethics policies;
- assess and measure performance in social and ethics areas with reference to the Department of Trade and Industry Broad Based Black Economic Empowerment scorecard, International Labour Organisation protocols and the King Code of Governance Principles for South Africa 2009 (King III);
- review compliance by the Company with policies, guidelines and appropriate local and international standards and relevant local laws in social and ethics matters including competition laws;
- consider substantive national and international regulatory developments as well as practice in the fields of social and ethics management;
- review the Company's broad-based economic empowerment performance disclosures;
- as appropriate, consult and communicate with internal and external stakeholders with respect to social and ethics issues;
- report annually to shareholders at the Company's Annual General Meeting on social and ethics issues; and
- ensure that management has allocated adequate resources to comply with social and ethics policies, codes of best practice and regulatory requirements.



4.7 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 20 September 2011 and were satisfied with the report and the overall performance of the Board.

4.8 Directors' Remuneration

Please refer to note 24 to the annual financial statements on page 106 and 107 for details of directors' remuneration.

4.9 Company Secretarial Function

In compliance with section 86 of the Companies Act 71 of 2008, which makes the appointment of a Company Secretary mandatory. Broadband Infraco has in its employ a Company Secretary who is accountable to the Board and is knowledgeable and experienced in relevant laws as a Company Secretary.

The Company Secretary reports to the Chairman of the Board functionally and to the CEO administratively. 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 fulfils those roles and responsibilities as set out in section 88(2) of the Companies Act 71 of 2008.

4.10 Public Finance Management Act, 1 of 1999 (PFMA)

The Board is the Accounting Authority in terms of the Public Finance Management Act (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 and that directors comply with their fiduciary duties as set out in the PFMA. The Board is referred to as the Accounting Authority in terms of the Act and its responsibilities are also set out in the PFMA further to those set out in the Companies Act 71 of 2008.

It is important to note that in the event of any inconsistencies between the PFMA and other legislation, the constitution excluded, the PFMA prevails.





4.11 Committee Reports

4.11.1 Investment and Finance Committee Report for the Financial Year ended 31 March 2012

As Chairperson of the Investment and Finance Committee, it is my pleasure to submit the Investment and Finance Committee report for 2011/12. The new members of the Committee namely: Dr A Githiari (Chairperson), Ms X Kakana, Mr S T Mabalayo, and Ms N Selamolela were appointed on 29 November 2011 by the Board of Directors.

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 2011/12 financial year is reflected on page 38.

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

- endorsement of the Investment and Finance Committee Terms of Reference;
- approval of capital expenditure to the maximum value of R26.3 million for the establishment of the terrestrial transmission route interconnections from the Yzerfontein Submarine Cable Landing Station to the existing national Broadband Infraco network;
- approval of operational expenditure to the maximum value of R16.1 million related to leasing of fibre cable, power and secure facilities for a period of five years;
- consideration of the status of Broadband Infraco's capital programme;
- consideration of Broadband Infraco's Funding Strategy;
- consideration of the Network Development Plan / CAPEX Plan Creation Process;
- consideration of the Capital Programme Management Policy and Methodology; and
- monitoring of investments to date.

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

Dr A Githiari
Chairperson:
Investment and Finance Committee



4.11.2 Tender and Procurement Committee Report for the Financial Year ended 31 March 2012

As the Chairperson of the Tender and Procurement Committee, it is my pleasure to submit the Tender and Procurement Committee report for 2011/12. The new members of the Committee were appointed on 29 November 2011 by the Board of Directors. These are Mr SA Essa (Chairperson), Dr A Githiari and Ms N Selamolela.

The overall objectives of the Committee are to assist the Board with procurement decisions and to approve procurement policies within its delegated authority.

The Tender and Procurement Committee did not convene during the period preceding the appointment of the new Board, however, during the period and, subsequent to the appointment of the new Committee, the Committee convened twice.

The meeting attendance for 2011/12 financial year is reflected on page 39.

During the period under review, the Committee considered, reviewed and approved various issues delegated to it by the Board. These included the following:

- endorsement of the Tender and Procurement Committee Terms of Reference;
- consideration and recommendations of the Supply Chain Management Policy to the Board for approval;
- consideration of Broadband Infraco's Multiple-Vendor Strategy going forward;
- consideration of Broadband Infraco's Procurement Strategy going forward; and
- authorisation of management to initiate the open market procurement process which will result in separate multi-vendor contracts for the following equipment and services supply categories:
 - a) Category 1: Containers
 - b) Category 2: Rectifiers and Batteries
 - c) Category 3: Cabinets
 - d) Category 4: Transmission Equipment

Mr SA Essa
Chairperson:
Tender and Procurement Committee

SECTION 5

BUSINESS PERFORMANCE AND REVIEW



4.11.3 Human Resources and Remuneration Committee Report for the Financial Year ended 31 March 2012

As Chairperson of the Human Resources and Remuneration Committee (HRRC), it is my pleasure to submit the HRRC report for 2011/12. The new members of the committee were appointed on 29 November 2011 by the Board of Directors. These are Mr BMC Ngcobo (Chairperson), Mr SA Essa, Ms X Kakana and Mr ST Mabalayo.

The Committee assists the Board in enhancing 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 and approving the principles regarding the reward and incentive schemes. The HRRC further plays the role of the Nominations Committee of the Board.

The meeting attendance for 2011/12 financial year is reflected on pages 40 and 41.

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

- endorsement and recommendation of the Human Resources and Remuneration Committee Terms of Reference;
- approval of the 2010/11 Employee Annual Salary Increase;
- undertaking of a process for the recruitment, selection, and recommendation of the Chief Executive Officer;
- approval of the extension of the Acting CEO's contract for a further two-months' period;
- approval of the appointment of the Human Resources Executive;
- review of Broadband Infraco's Performance Management Policy; and
- consideration of Broadband Infraco's Performance Management System.

Mr BMC Ngcobo
Chairperson:
Human Resources and Remuneration Committee



BUSINESS PERFORMANCE AND REVIEW

5.1 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 (IDC) of South Africa, 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, as amended (PFMA), was submitted to the AGM on 20 September 2011 for approval, however it was agreed that additional review and input was required from the shareholders. Subsequent to further inputs, the Shareholders approved and signed the Shareholders' Compact during the period under review for implementation by the Board and management.

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

The Shareholders' Compact is set out as Appendix A on pages 120 to 125.





5.2 Market Outlook

The market outlook for Broadband Infraco for the year under review remains eminently positive.

Several studies internationally have looked at the relationship between broadband and economic development with conclusions which point in a similar direction. High-speed communications networks via broadband infrastructure have a coordination function and reduce transaction costs for existing businesses. On top of that, this infrastructure accelerates the distribution of ideas and information and foster competition for and development of new products, processes, and business models, thereby further facilitating macro-economic growth.

Broadband Infraco continues to provide competitive backhaul connectivity to a cross-section of clients in accordance with our I-ECNS Licence, reducing the price of National Long Distance connectivity to stimulate innovation, competition and national development.

Some of the top priority focus areas are as follows:

- further diversifying and growing the revenue base whilst retaining the current anchor customer;
- SOC alignment and collaboration with other state-owned ICT companies particularly Sentech; and
- achieving better Southern African regional connectivity.

In support of the Southern African Development Community (SADC) regional socio-economic development programmes as well as provisions of the SADC protocol on transport communications and meteorology, Broadband Infraco is collaborating with a number of SADC neighbouring countries and is providing commercial services to telecommunications providers in the neighbouring countries.

Strong overtures and collaborative engagements commenced with all nine provinces in the last quarter of the year under review, also extending to key municipalities and other SOCs active in the ICT industry.

As the lead ICT spender with ambitions to connect thousands of schools, health facilities, clinics, administrative buildings, amongst other's, Government, through the Departments of Communications and Public Enterprises has embarked on a technology agnostic approach to addressing its total connectivity needs in a most cost-effective method.

Broadband Infraco is well positioned to deliver on the identified "Knowledge" Strategic Infrastructure Projects (SIP) number 15 and number 16. SIP 15 refers to expanding access to communication technology which is in line with Broadband Infraco to expand access and availability of telecommunications services. SIP 16 refers to global science projects like the Square Kilometre Array and Meerkat, Broadband Infraco has reserved 70% of the current available capacity on the West Africa Cable System (WACS) reserved for these specific projects.

Broadband Infraco is thus in prime position to be a provider of choice to all Government's National Long Distance and International connectivity needs. Its network expansion plans provide redundancy and diversity extending an already extensive footprint.



Marketing Review

Intense work was also done on preparing a re-positioning of the brand to be aligned to the new market posture in terms of articulating a value proposition to that connects with unlocking customer's growth potential, whilst simultaneously meeting its mandate and licensing requirements of extending connectivity services at affordable rates.

Technological Product Evolution

Broadband Infraco's current services are based upon the provision of high capacity managed bandwidth from POP to POP located within its national long distance fibre optic cable network.

Significant progress has been made to prepare the Company for the introduction of Carrier Ethernet Layer 2 services. Proof of concepts have been undertaken to test specific classes of services with positive results. This work will continue into the forthcoming year.

Customer Engagement

Broadband Infraco customer engagement advanced significantly in the following areas:

I. National Connectivity:

Broadband Infraco has served as an enabler in respect of the following:

- Main backhaul provider to Neotel;
- Only connectivity for MTN to the EASSY undersea cable;
- Backhaul connectivity for a major route in the golden triangle for a mobile operator; and
- Indirect connectivity provider for SANReN, SALT and KAT projects of national interest.

II. Projects of National Interest

During the period of review, Broadband Infraco approved an investment decision to roll out connectivity to the value of R53 million for the SALT and the KAT national connectivity requirements.

The route spanned over 300 km from Cape Town to Laingsburg, Sutherland, Hutchinson finishing at Carnarvon. Broadband Infraco commenced with deploying its network infrastructure in March 2011 and the project was completed successfully and handed over to the CSIR in October 2011. This is a public private partnership where the customer relationship is with Neotel and Broadband Infraco is the infrastructure provider.



5.3 Operational Review

Network Planning

Capital planning has undergone a revision, with major capital plans now aligned with customer demands, and also serving to match the operational requirements of the business. The revised capital plan has been integrated into the Corporate Plan for 2012/13. As a function of the finalisation of network architecture principles, and design philosophies, the process to create specifications, and hence enabling contracts, is well under way.

Network optimisation programmes are nearing completion. The current programme has enabled 110 customer access POPs, and has highlighted the network service provisioning potential of the network. It is intended to leverage off this potential to service immediate customer requirements. Further network optimisation programmes are planned with a view to entrenching operating fulfilment capability (operating processes, planned maintenance approaches etc), as well as establishing life extension programmes.

Capital Programme

A major challenge for Broadband Infracore has been the implementation of the Capital Programme. The 2011/12 year has seen the programme stalled, with a requirement for a complete overhaul of the programme. Normalisation programmes in the second half of the financial year have produced a clean-up of the environment, and the management of existing projects receiving increased attention to allow for closure, as many projects have been running over multiple years.

In order to ensure minimisation of the potential for replication of these past anomalies, new Project Management Body of Knowledge (PMBOK) based Capital Programme methodology, processes and tools have been approved by the Board, and have been retrospectively applied to all projects.

Network Operations Centre, Operations and Maintenance

As a function of the network optimisation programmes already implemented, network availability has shown an increasingly positive trend, with service availability trends matching. The Mean Time to Repair (MTTR) trend has stabilised at under 5 hours, with this performance within acceptable limits based on the SLA commitment of eight hours of customer availability, having exceeded all contractual obligations, hence no penalties were payable.

The network performance improvement strategies currently being pursued are:

- Implementation of the Automatically Switched Optical Network (ASON) functionality for improved service availability;
 - Procurement of additional tools and test equipment for Broadband Infracore field services. This is projected to lead to improvements in the MTTR for network faults;
 - Key Programmes:
 - Worst performing link programme;
 - Single point of failure programme; and
 - Cleared While Localising (CWL) programme.
- Network operations and maintenance functions have now been fully in-sourced:



- New network operating contracts have been concluded with the incumbent Original Equipment Manufacturer (OEM) in respect of OEM Support contracts for the NOC;
- An enabling agreement has been finalised to provide support for spares and hardware repair support; and
- Network maintenance has now been in-sourced except for the maintenance associated with fibre optic maintenance on Transnet and Eskom infrastructure.



Information Technology (IT) Strategic Alignment

As part of the new corporate plan and structure, IT has been integrated into the technical operations of the business. A new IT Governance framework has been developed which integrates IT operations into the holistic telecommunications business. IT architecture, designs, philosophy and governance will henceforth be reviewed by the Design Review Committee



which reviews all Broadband Infraco architecture frameworks and technical specifications. Help desk, Service Operations and Change Control processes have all been integrated with NOC Operations and the Change Advisory Committee (CAC).

An IT optimisation programme has also been initiated with a view to optimising on IT asset utilisation, licencing, contracts and IT administrative and control procedures.

Safety, Health, Environment and Quality (SHEQ)

The SHEQ function continued to support departmental units, management and staff by providing assistance in the form of advice, interpretation of regulations and practical assistance to all work areas within Broadband Infraco. These efforts will continue into the next financial year, with an enhanced focus on integration and transformation of current work practice's as required in order to meet longer-term business objectives.

The SHEQ Framework has now been fully established with OHSACT appointments and training now completed together with the required policy and methodology frameworks. Health and Safety committees are also now operational, and formal Quality and SHE (Safety, Health and Environmental) policy has been established.

Significant Incidents Recorded for the period 2011 – 2012:

- Long-Term Injury Frequency Rate
Broadband Infraco : 0.6 (1 incident)
Contractors : 2.9 (2 incidents)
- One Environmental Incident,

Broadband Infraco aims to achieve significant progress toward developing and implementing a systematic and structured SHEQ Management Programme for Divisional Areas within the Organisation. Fundamental principles of the Programme are intended to address management of risk, enhancement of business efficiency, ability to meet business/customer objectives and reinforcing of stakeholder confidence. Broadband Infraco further aims to reduce the occurrence of significant incidents to zero.

A major new focus is the focus on the quality dimension. Business Process Mapping (BPM) to enable this is currently in progress. The outcome of the BPM programme is intended to enable the organisation to achieve ISO quality certification for the technical operating processes, and will also facilitate the establishment of the OSS/BSS requirements of the business.



5.4 Human Capital Matters

In order to ensure that Broadband Infraco is able to deliver its strategic goals through its human capital, the human resource function strengthened its functional capacity and capability through specialised development programmes. The major focus area was the review of policies and procedures with the aim of enhancing the organisation's people management practices.

Talent Acquisition

Broadband Infraco's staff complement increased by 7.7% from 156 to 168 permanent employees during the reporting period. Among these were appointments of top leadership positions, namely, Chief Financial Officer, Chief Technical Officer, Chief Marketing and Sales Officer and Executive Governance. Three of these senior appointments were females (African), which brought about an improvement in gender equity at leadership level.





Headcount Demographics

Occupational Levels	Male				Female				Foreign Nationals		Total	
	A	C	I	W	A	C	I	W	M	F	No	%
Executive	0	0	2	1	3	0	0	0	0	0	6	3.6%
Senior Management	6	0	1	3	4	2	0	2	1	0	19	11.3%
Middle Management	21	1	4	2	11	0	0	2	0	0	41	24.4%
Operational	50	0	0	3	21	0	1	1	1	0	77	45.8%
Support Staff	0	0	0	0	13	0	0	1	0	0	14	8.3%
Sub-total (Perm)	77	1	7	9	52	2	1	6	2	0	157	93.5%
Temporary Employees & Interns	5	0	1	0	5	0	0	0	0	0	11	6.5%
TOTAL	82	1	8	9	57	2	1	6	2	0	168	100%
Percentage	48.7%	0.6%	4.8%	5.4%	33.9%	1.2%	0.6%	3.6%	1.2%	0	100%	

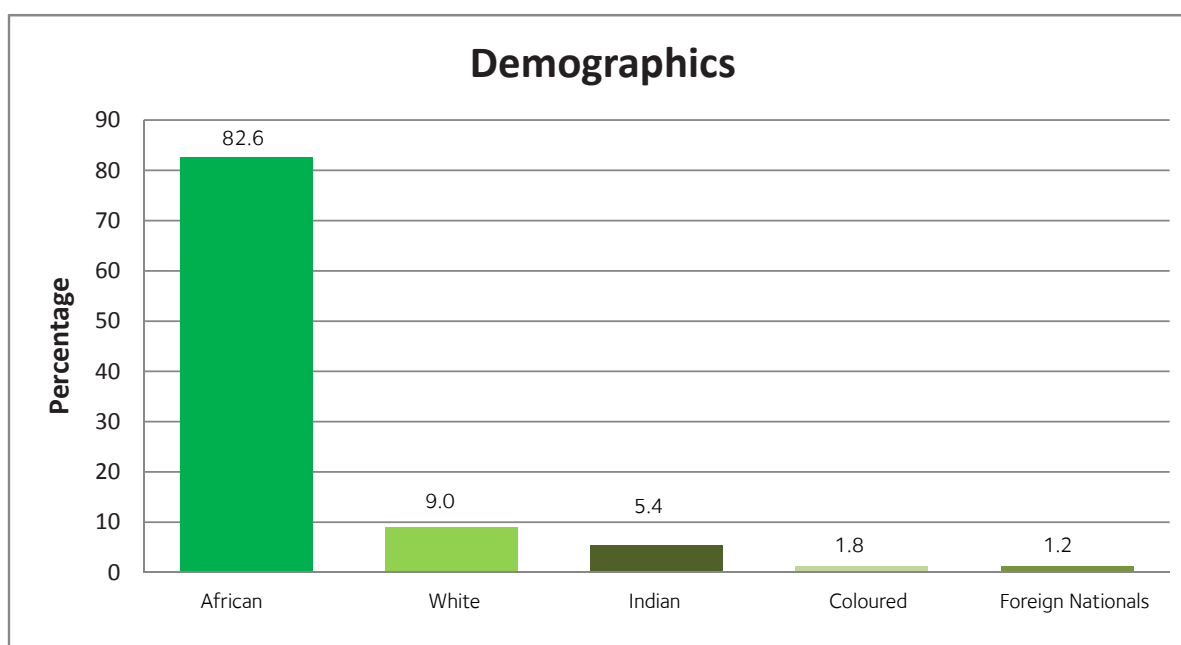
A-African

I-Indian

C-Coloured

W-White

There were 20 terminations from Broadband Infraco's permanent employment which included voluntary and involuntary separations.





Human Resources Development

Broadband Infraco recognises skills development as a priority and acknowledges that there is a growing local and international demand for scarce technical skills. To this effect, the strategy to create a culture of learning by up-skilling our employees and managing talent with more emphasis on scarce and critical skills, received priority, during the period under review, Broadband Infraco spent R1.6 million on skills development, seventeen employees received educational assistance to improve their qualifications through part-time formal higher education learning programmes.

Internship Programme

Due to its status as a new establishment, the Company is still experiencing challenges in competing fairly for critical and scarce skills in the job market. As a result, part of the talent development strategy includes a Graduate Development Programme to equip young graduates from previously disadvantaged backgrounds with requisite technical skills for career development and workplace exposure. Six interns who were being nurtured in Network Engineering, Network Operations, Capital Programme and Maintenance have been retained and one has been appointed to a permanent position.

Employee Relations Management

The signing of the Recognition Agreement with the Communications Workers Union (CWU) in May 2011 was a significant milestone towards the enhancement of the employee/employer relations. Of 168 staff members, 67% are subscribed members of organised labour. During the year under review organised labour reached a threshold to engage in a substantive negotiation process.



5.5 Financial Performance Overview

Broadband Infraco is pleased to announce an improvement in its financial performance for the year ended 31 March 2012 despite challenges experienced during the year under review. The 2012 financial year represents the second year of operation after being issued with the licence by ICASA in 2010 financial year. As a carrier of carriers, Broadband Infraco targeted customers are mostly Telecoms, IT companies, licensed and exempted entities that have long existing contracts with the Company's main competitor. However, during the year under review, Broadband Infraco managed to signed-on four new major customers. Operating costs increased by 5.9% year on year.

Results of Operations

The operating loss after tax for the year under review was R95.2 million (2011: R206.9 million). The improved financial position is due to a combination of improved revenue base, positive net finance charges and increased cost of operations. These are detailed below.

Revenue

Revenue for the year to 31 March 2012 was R393.6 million (R297.6 million). Revenue is made up of Managed Services, Indefeasible Right of Use (IRU) and Operation and Maintenance fees.

Managed Services fees of R380 million (R388.2 million) represent a major portion of total revenue for the year. The decrease of 2% year on year is made up of a combination of price adjustment and decline of 25% (R21.3 million) and increase in revenue from new customers amounting to R13.0 million.

The price adjustment and decline of 25% relates the IRU agreement with an anchor customer that came to end on 7 January 2012.

This agreement included fees for operations and maintenance of Broadband Infraco's network infrastructure and Network Operating Centre. The fee charged from 8 January 2012 to 31 March 2012 takes into account the price decline and does not include operations and maintenance fees hence the decline.

Revenue from new customers include contracts with Internet Technologies of Namibia, Vodacom, Seacom and Business Connexion.

Figure 1: Managed Service Fee

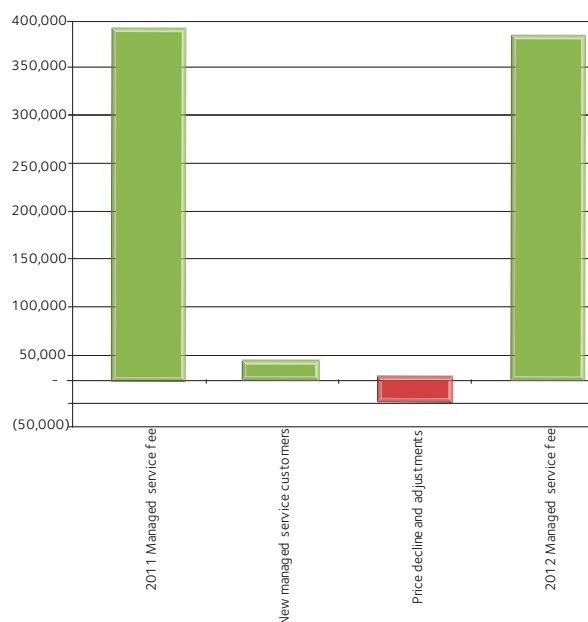
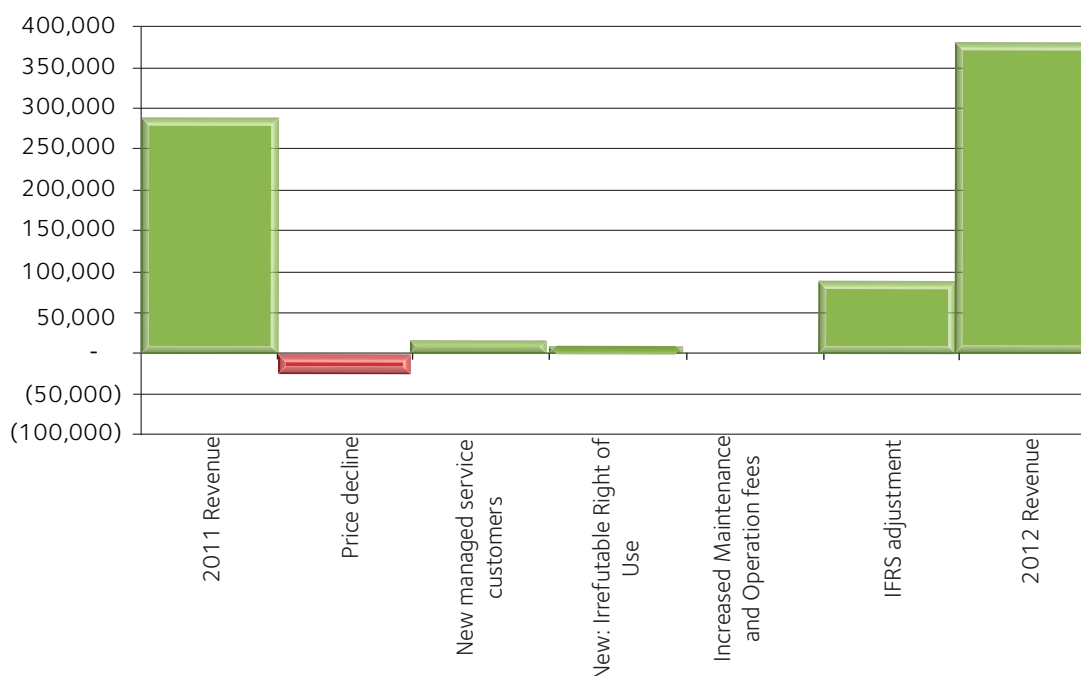


Figure 2: Total revenue



The IRUs are currently structured for a period of ten years and the fee is paid in advance of the service being rendered. During the year under review, Broadband Infraco signed-on two IRUs amounting to R81 million, one relating to a project of national interest, namely the SKA, and the other regional connectivity i.e. connecting a Zimbabwean based company. The fees are allocated over the period of the contract and each year one tenth is recognised in the statement of comprehensive income.

Primary Network Operating Costs

The primary network operating costs include costs of operating the Network Operating Centre, the network infrastructure, leases of fibre and sites including data centres. Costs for the year under review were R275.3 million (2011: R261.1 million). These are fixed costs that the Company incurs regardless of the capacity utilisation and to ensure integrity of the network. Only a third of the capacity was utilised during the year under review. The increase of 5.4% is mainly due to additions to the fibre per kilometre through leases as well as rental of data centres to connect new customers.

The maintenance agreements with Eskom and Transnet Freight Rail (TFR) were ceded to Broadband Infraco from Neotel on 8 January 2012. Broadband Infraco is in the process of finalising the terms and conditions of the new agreement as the ceded contracts expired on 31 March 2012.

Operating Costs

The Company operating costs consist of:

Employee Costs

Broadband Infraco employee numbers have increased by 7.7% from 156 to 168 permanent employees in the 2011 financial year.



Four new executives were appointed and in addition, the Head of Capital Programme and the Finance Manager were appointed as well as ten interns.

Service fees

Service fees include services rendered by internal auditors, external auditors, legal advisors and other professional consultants. Fees for the year under review were R21.3 million (2011: R10.3 million). The increase in fees paid to consultants was a result of the breakdown in controls in the capital programme and supply chain management division in the previous year.

Description	R'000
• Consultants to head the Capital Programme Division	1 980
• Consultants to head and run the Supply Chain Management department	2 195
• Drafting of Corporate Plan	4 480
• Market research	1 136
• Consultants for IT services	711
• Consultants on WACS project	525
• Other*	1 790
• Total	12 817

*Other includes among others expenses paid to consultants on the asset management system and change management programme.

Depreciation, Amortisation, Impairment and Write-off

The depreciation charge for the year was R113.8 million (2011: R126.5 million), this represent a decline of 10%. In the 2011 financial year, Broadband Infraco derecognised equipment amounting to R12.3 million, this being the major reason for this decline.

Net Finance Income

Finance income was R53.8 million (2011: R47.5 million). This is made up of interest received from investments and foreign exchange gain of R29.8 million (2011: R3.8 million) on the derivative instrument used to cover foreign exchange fluctuation on the payment of the WACS investment.

Finance cost was R8.7 million (2011: R45.4 million). This major contributor was an exchange loss of R45.4 million incurred in the 2011 financial year on the derivative instrument used to cover foreign exchange fluctuation on the payment of the WACS investment.



Broadband Infraco

SECTION 6

ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2012

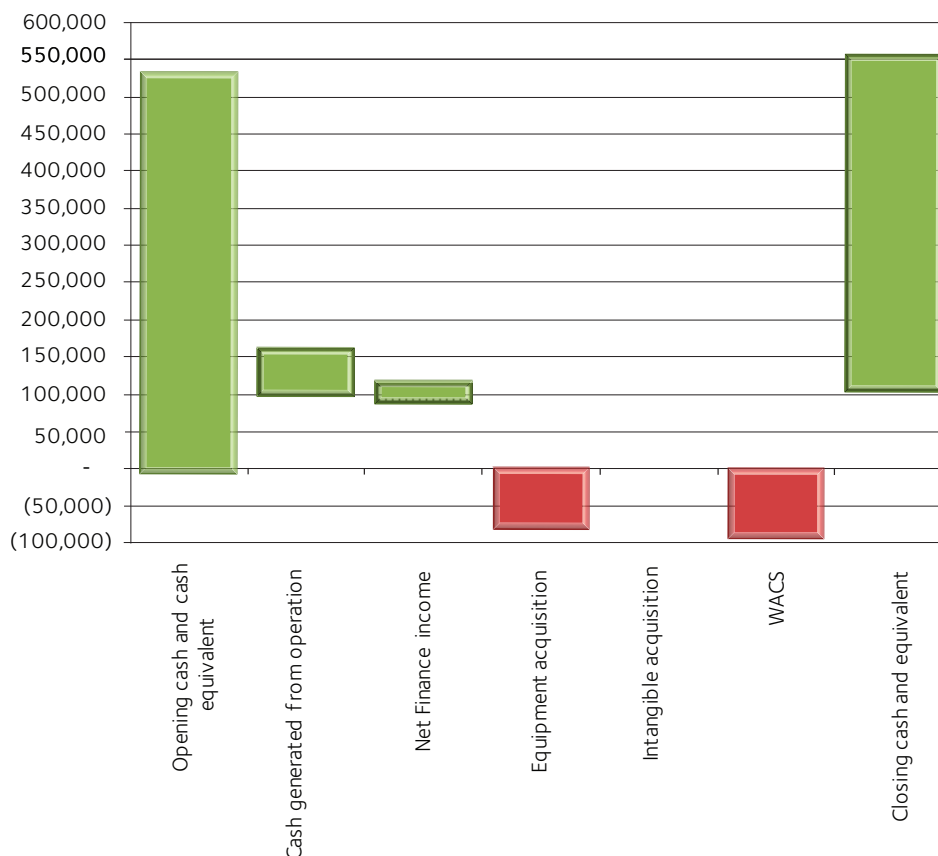
Audited in terms of Section 30 of the Companies Act No. 71 of 2008



Liquidity and Capital Resources

Cash and cash equivalents decreased from R529.1 million to R422.2 million as of 31 March 2012. However, if all liquid funds of R506 million are taken into account, Broadband Infraco currently carries sufficient funds to meet more than 12 months operational cash flows requirements. The intention is to raise debts for the capital expansion roll-out programme in the coming year.

Cash and Cash Equivalent



Supply Chain Management

During the period under review, the Board developed and implemented a detailed Supply Chain Management (SCM) Policy. Procurement Specialists and key managers that are involved in the procurement activities attended detailed training sessions to ensure compliance with the policy and clear understanding of the legislations.

In support of Government's economic transformation and the Broad Based Black Economic Empowerment (BBBEE) Act, No. 53 of 2003, Broadband Infraco endeavours to foster business relationships with companies that include black participation within their organisational structures.

During the year under review, Broadband Infraco developed a detailed supplier database that is used for all normal purchases. The process of developing the database has highlighted the gap/shortage of suppliers in the areas that Broadband Infraco requires goods and services. Broadband Infraco has regional sites throughout the country and this shortage affects the total cost of procurement as the Company spends more on transportation than for the actual service delivery. This highlights the urgency for Broadband Infraco to develop a detailed Competitive Supplier Development Programme (CSDP).

Broadband **Infracore**

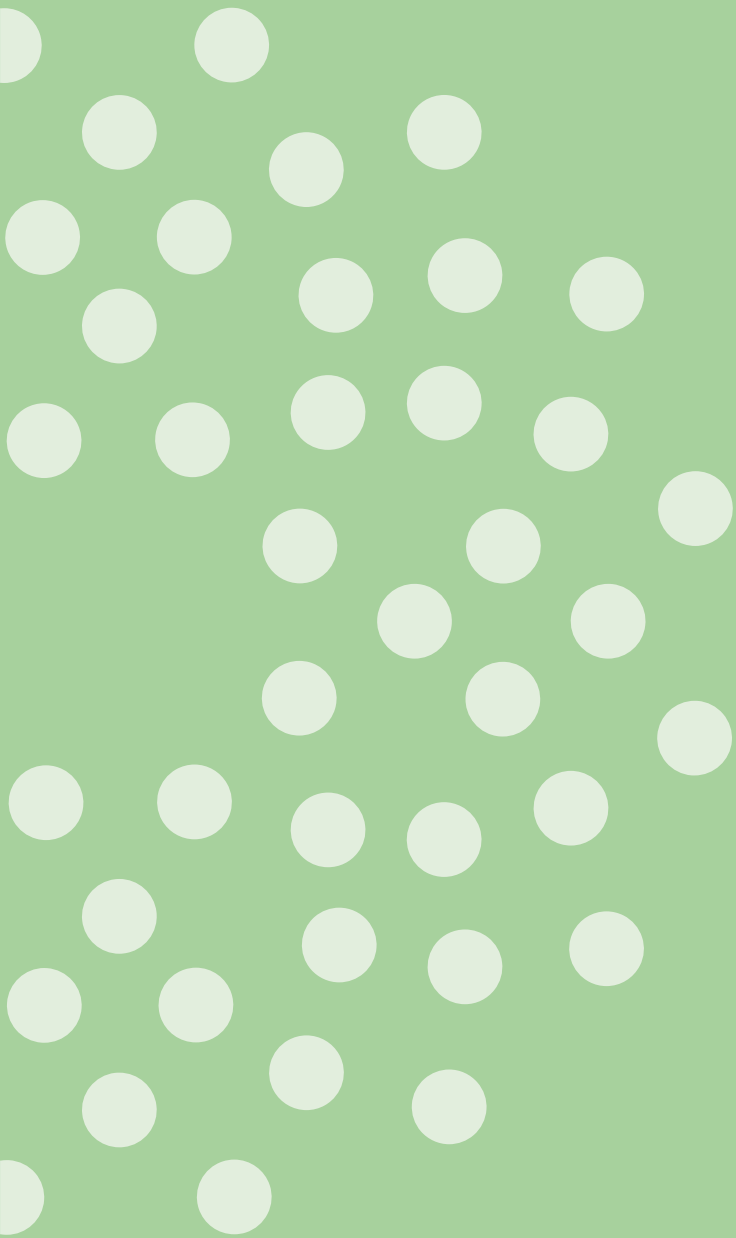




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Report of the Audit and Risk Committee

The Audit and Risk Committee presents its report for the year ended 31 March 2012. The Audit and Risk Committee of Broadband Infraco is constituted as per the requirements of the Companies Act, 2008 (Act No. 71 of 2008) as amended. These responsibilities are incorporated in the Audit and Risk Committee terms of reference which is revised and approved annually by the Board of Directors. The Audit and Risk Committee is satisfied that it has complied with the legal, regulatory and other responsibilities.

Audit and Risk Committee Members, Meeting Attendance and Assessment

The members of the Audit and Risk Committee are Ms MM Maponya CA (SA) (Chairperson), Ms X Kakana, Mr ST Mabalayo, and Mr SAU Meer, effective 18 October 2011. The qualifications, skills and expertise of the members are reflected on pages 21 to 23 of this Annual Report. The attendance of committee members at meetings are reflected on page 37. The performance of the Committee has been independently evaluated and the report was submitted to the Shareholders for consideration.

Internal Audit

The Audit and Risk Committee is responsible for ensuring that Broadband Infraco's internal audit function is independent and has the necessary resources and authority to discharge its responsibilities.

In order to promote the independence and objectivity of the internal audit function, the Chief Audit Executive position is fulfilled by the Executive Governance and reports functionally to the Chairperson of the Audit and Risk Committee and administratively to the Chief Executive Officer.

The Internal Audit Function is currently fulfilled by an external firm through an outsourced arrangement. The approved Audit Plan for the 2011/2012 financial year was executed from October 2011. This was to provide management with sufficient time to implement corrective action on previously reported findings.

All critical and significant findings resulting from audits for the 2011/12 are reported to the Audit and Risk Committee. At the end of the financial year, all planned audits as per approved audit plans were executed with only a few at a reporting stage.

The Committee also ensures a combined assurance model is applied to provide a coordinated approach to all assurance activities and that significant risks facing the Company are adequately addressed. An Audit Issue Log has been implemented to track all internal and external audit findings. This process will improve the internal control environment by ensuring management addresses critical and significant audit findings and avoids possible repeat audit findings.



The Internal Audit Function has carried out its activities as per the Institute of Internal Auditors (IIA) Standards. An internal quality assurance programme is implemented by the service provider. A quality assurance programme has been approved by the Audit and Risk Committee and an external quality assurance review will be undertaken in the 2012/13 financial year to ensure Internal Audit conforms with the Standards as set by the IIA.

Internal Financial Controls

The Audit and Risk Committee has reviewed the process by which internal audit performs the assessment of the adequacy and effectiveness of the Company's system of internal control including the internal financial controls. Based on the internal audit reports to date, much effort is required by management to address audit findings which have been raised by internal audit. The Committee is continuously assessing the effectiveness of the internal control environment to ensure all critical and significant findings are addressed and corrected by management.

Expertise of the Finance Function

The Audit and Risk Committee is satisfied with regard to the expertise, resources and experience of the finance function.

Governance of Risk

Effective risk management is fundamental to the Audit and Risk Committee of Broadband Infraco.

The Committee fulfils an oversight role regarding the financial risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks. The Enterprise Risk Committee, which is fulfilled by Exco, assists the Audit and Risk Committee to fulfil their oversight role with regard to the governance of risk.

The Committee is satisfied that risk management is an integral part of Broadband Infraco's strategic and business processes. The Board, through the Audit and Risk Committee has considered the Risk Policy and plan for the period under review. The Risk Register has been monitored on a quarterly basis to ensure adequate and effective management of risks.

Compliance with Legislation

The Audit and Risk Committee reviews and ensures that compliance forms an integral part of the Company's risk management process. The compliance function has reviewed the level of compliance with relevant legislation of Broadband Infraco. The level of compliance with relevant legislation is reported to the Audit and Risk Committee on a quarterly basis with Public Finance Management Act, (Act 1 of 1999), as amended (PFMA) being the most important piece of legislation. An assessment of Companies Act and King III Report is underway. The Accounting Authority, in its meeting on 29 March 2012 approved the Compliance Policy, Framework, Manual and the Public Access to Information Act Manual (PAIA).

Based on previously reported audit findings on non-compliance, specifically with the PFMA, the Audit and Risk Committee is satisfied with the improvement made in striving to comply with the PFMA. Any areas of identified non-compliance are currently being addressed by management.



External Audit

The Audit and Risk Committee is satisfied that KPMG Inc. is independent of the Company and have ensured their appointment has complied with the Companies Act.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budget fees for the year ended 31 March 2012.

The current contract with KPMG Inc., as the external auditors of Broadband Infraco is coming to an end in September 2012 and the procurement process of appointment of new external auditors has commenced.

Irregular, Fruitless and Wasteful Expenditure

The Audit and Risk Committee reviews the completeness, accuracy and validity of irregular, fruitless and wasteful expenditure on an ongoing basis. The Committee is satisfied with measures in place by management to prevent and detect irregular and fruitless and wasteful expenditure. Such expenditure once detected, is tracked and reported to the Audit and Risk Committee and subsequently to the Accounting Authority. Management ensures that corrective action, as required by the PFMA, is instituted to prevent the expenditure from recurring.

Going Concern

The Audit and Risk Committee has evaluated the financial statements of Broadband Infraco for the year ended 31 March 2012 and based on the information provided to the Audit and Risk Committee, considers that they comply, in all material respects, with the requirements of the Companies Act No. 71 of 2008, and the Public Finance Management Act, 1 of 1999, as amended (PFMA), and International Financial Reporting Standards. The Audit and Risk Committee concurs with the Board of Directors and management that the adoption of the going concern premise in the preparation of the financial statements is appropriate.

On behalf of the Broadband Infraco Audit and Risk Committee

Ms MM Maponya

11 July 2012



Statement by Company Secretary

In terms of section 88(2)(e) of the Companies Act, No. 71 of 2008, as amended, 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.

Mr F Mohamed
Company Secretary
11 July 2012



Accounting Authority's Responsibilities and Approval

The Accounting Authority ('Board') is responsible for the preparation and fair presentation of the annual financial statements of Broadband Infraco, comprising the statement of financial position at 31 March 2012, 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 (IFRS), and the requirements of the Companies Act, No. 71 of 2008 of South Africa and the Public Finance Management Act, Act 1 of 1999 as amended (PFMA) of South Africa.

The Accounting Authority is also responsible for such internal control as the Accounting Authority determine is 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, as identified in the first paragraph, were approved by the Accounting Authority on 11 July 2012 and are signed by:

Mr BMC Ngcobo
Chairman of the Board
Authorised Director

Dr. A Shaw
Acting Chief Executive Officer
Authorised Director



Accounting Authority's Report for the Year ended 31 March 2012

The Accounting Authority submits their report for the year ended 31 March 2012.

Review of Activities

Main Business and Operations

Customer engagements have intensified during the final quarter of 2011/12 with a strong focus on engaging and developing joint strategies with provinces. This intensity of marketing activity will continue with emphasis on establishing another customer of roughly the same size as Neotel. In this regard, ongoing engagements have and continue to occur with all mobile operators, but with particular emphasis at this stage on MTN and Vodacom.

From a network perspective, there have been a number of ongoing actions to improve network integrity and to shift Neotel to a normal customer relationship and provide Broadband Infraco with control over the network. Average service availability is improving month on month and as at March 2012 stands at 99.8%, the highest level for a year.

Financial performance continues to improve with measures of loss well ahead of budget at year-end. This is largely attributable to revenue of R393.6 million (up 32% on the previous year). Gross profit for the year improved from 12% to 30% due to higher revenue and only marginal increases in cost. Operating costs for the year as compared to the previous year increased by only 6%, in line with inflation.

Whilst Broadband Infraco continues to be loss making (as per the 2011/12 Corporate Plan and due to the start-up nature of this business) the level of loss of R95.2 million is considerably less than the budgeted loss of R164.3 million. At the EBITDA level, Broadband Infraco managed to achieve a loss of R26.6 million, 22% better than the budget loss of R33.9 million.

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 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 activities of the Company during the year under review were the consolidation of the process post 2010/11 launch, enhancement and implementation of internal controls and processes to address break-down in internal controls and improve compliance.

The final stages of the implementation of the international marine cable network construction of WACS, the Company's share of the cable system is 11.4%. The WACS capital contribution of US\$ 59.0 million has been paid with the remaining portion of US\$ 13.8 million is still payable in terms of the agreement. The official launch of WACS was 11 May 2012.



Accounting Authority's Report for the Year ended 31 March 2012 (continued)

Customers

During the year under review, Broadband Infraco signed major a deal which include the SALT & KAT project for Neotel amounting to R80 million under Indefeasible Right of Use (IRU) agreement. The Company has the following major customers on its network: Neotel, Business Connexion, Vodacom, MTN, Internet Technologies of Namibia, Seacom and Liquid Telecoms.

The Right of Use and Operate Agreement between Broadband Infraco and Neotel Proprietary Limited (Neotel) ended on 7 January 2012. The Agreement provided for:

- The right of use of Broadband Infraco's long-distance network infrastructure;
- The right to maintain and operate the network as well as the management of the Network Operating Centre. Neotel had direct maintenance contract with Transnet Freight Rail, Eskom and Nokia Siemens Network; and
- The requirements for the ongoing expansion and upgrade of Broadband Infraco's long-distance infrastructure to meet Neotel's business development needs.

A new Master Sales Agreement between Neotel and Broadband Infraco was concluded subsequent to the financial year under review. In terms of the new contract, Broadband Infraco provides managed services. The agreement has two conditions that are required to be fulfilled:

- approval from the Minister of Public Enterprises, in terms of s54 of the PFMA;
- a direct agreement needs to be concluded between the parties.

Financial Results

Revenue for the year under review amounted to R393.6 million (2011: R297.6 million). The growth of 32% is mainly due to additional Irrefutable right of use contracts with Neotel SALT/KAT, Vodacom, Seacom, Internet Technologies and Business Connexion. In the prior year, a reversal of R93 million straight lining of the lease agreement was made. The new agreement with Neotel was substantially lower than expected.

Cost of sales has increased due to increase in co-location costs as a result of increased point of presence and network expansion.

The increase in operating expenditure is mainly attributable to consulting services in the areas of supply chain management, IT and strategic planning and also legal fees attributable to disciplinary process that occurred in the previous year and first quarter of the financial year. Employee costs also increased due to employment of executive staff.

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

Basis of Preparation of Financial Information

The annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the Companies Act of South Africa, No. 71 of 2008 and the Public Finance Management Act of South Africa, No.1 of 1999, as amended (PFMA).



Accounting Authority's Report for the Year ended 31 March 2012 (continued)

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 reporting 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:

Financial

- Total assets exceed total liabilities by R1.5 billion as at 31 March 2012;
- The Company has an accumulated deficit of R303.4 million as at 31 March 2012;
- The loans from the shareholders amounting to R1.8 billion have been subordinated until such time as the Company and the shareholders agree to repay the loans; and
- The loss after taxation was R95.2 million compared to the prior year loss after taxation of R206.9 million.

A significant portion of the revenue has been derived from the Right of Use and Operate Agreement signed with Neotel. This agreement expired on 7 January 2012, and a Memorandum of Agreement was entered into, which expired on 31 May 2012, on the same basis as the previous agreement. This was to enable management to finalise the new Master Service Agreement (MSA) with Neotel, which was concluded on 8 May 2012, however, it is subject to PFMA approval and a direct agreement being signed.

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.

Conclusion

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

Post-year-end events

- A new Master Sale Agreement with Neotel for a period of five years was concluded on 8 May 2012.
- A dispute has arisen between Broadband Infraco and Neotel relating to the provision of services (and payment thereof) that Broadband Infraco used to provide to Neotel under the ROU, and which were not ordered by Neotel under the new MSA. This dispute has been referred to arbitration.
- The appointment of a new Chief Executive Officer, effective 1 June 2012.
- Broadband Infraco paid R65 million relating to payment due to WACS on 25 April 2012.
- WACS was officially launched on 11 May 2012.



Accounting Authority's Report for the Year ended 31 March 2012 (continued)

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

BMC Ngcobo	Chairperson	Appointed 18 October 2011
N Bulbulia		Resigned 20 December 2011
SA Essa		Appointed 18 October 2011
X Kakana**		Appointed 18 October 2011
MM Maponya *		Appointed 18 October 2011
N Selamolela		Appointed 18 October 2011
A Githiari		Appointed 18 October 2011
ST Mabalayo **		
SAU Meer**		
AFB Mthembu	Chairperson	Retired on 18 October 2011
LN Letele		Retired on 18 October 2011
M Singer Saul *		Resigned on 7 October 2011
C Groesbeek **		Retired on 18 October 2011

Executive directors

PD Sejanamane	Chief Executive Officer	Appointed 1 June 2012
RJ Magoele	Chief Financial Officer	Appointed 1 July 2011
A Shaw	Acting Chief Executive Officer	Appointed 1 April 2011, retired 31 May 2012
S Maharaj	Chief Financial Officer	Resigned 30 April 2011

* Audit and Risk Committee Chairperson.

** Member of the Audit and Risk Committee.

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



Accounting Authority's Report for the Year ended 31 March 2012 (continued)

Shareholders

As at 31 March 2012, the Company's shares are held by the State, represented by the Department of Public Enterprises (DPE) and the Industrial Development Corporation of South Africa (IDC), as 74% and 26%, respectively.

Compliance with the Public Finance Management Act (PFMA)

In terms of S55(2)(b) of the Public Finance Management Act of South Africa (PFMA) 1 of 1999, as amended, the annual report and financial statements of the Company are required to include particulars of any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year. This is included under note 28 of the annual financial statements.

Section 51(1)(b)(ii) 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, supply chain management policy, regular financial reviews.



Independent Auditor's Report

To Parliament and the Shareholders, the Department of Public Enterprises and the Industrial Development Corporation of South Africa

Report on the Financial Statements

We have audited the financial statements of Broadband Infraco as set out on pages 77 to 119, which comprise the statement of financial position as at 31 March 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's Responsibility for the Financial Statements

The Board of Directors which constitutes the Accounting Authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and 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 the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Broadband Infraco as at 31 March 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.



Other Reports Required by the Companies Act

As part of our audit of the financial statements for the year ended 31 March 2012, we have read the Accounting Authority's Report, the Report of the Audit and Risk Committee and the Statement by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on Other Legal and Regulatory Requirements

Public Audit Act Requirements (PAA)

In accordance with the Public Audit Act of South Africa, and the *General Notice* issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined Objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the shareholders Compact 2011/2012 as set out on pages 120 to 125 of the annual report, and reported thereon to the Accounting Authority.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the predetermined objectives report concerning the usefulness and reliability of the information.

We drew attention to the following matter in our report to the Accounting Authority:

Achievement of Planned Targets

Of the total 27 planned targets, only 21 were achieved during the year under review. This represents 22% of total planned targets that were not achieved during the year under review. The Accounting Authority has indicated the reasons for the non-achievement of targets in the section headed Shareholders' Compact 2011/2012 as set out on pages 120 to 125 of the Annual Report.



Compliance with Laws and Regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. Our findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Strategic Planning and Performance Management

The Accounting Authority did not report on the measurable objectives and targets for the predetermined objectives as required by Treasury Regulations 29.3.1, for the first and second quarterly reporting for the financial year ended 31 March 2012 to the executive authority in order to facilitate effective performance monitoring, evaluation and corrective action.

Internal Control

We considered internal control relevant to our audit of the financial statements, predetermined objective report and compliance with laws and regulations. The matter reported below is limited to the significant deficiency that resulted in the finding on the compliance with laws and regulations.

Financial and Performance Management

The internal control procedures on the inclusion of the reporting of the measurable objectives and targets for the predetermined objectives as required by Treasury Regulations 29.3.1, in the quarterly reports were not in operation for the first six months of the year. The objectives and targets had not yet been agreed with the shareholders. The Accounting Authority should have continued to report the objectives and targets based on the previous agreed objectives and targets.

We did not identify any other deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

Other Reports

Investigations

Investigations Completed as Advised to Us

In the previous year, the Accounting Authority commissioned an investigation into alleged misconduct resulting from the 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 matter has been concluded and the disciplinary actions will be taken in the coming financial year.

The Accounting Authority commissioned an investigation based on instruction from the Department of Public Enterprises regarding an enquiry received from the Public Protector. The report was submitted by the Chairperson of the Accounting Authority to the Department of Public Enterprises and in turn to the Public Protector. No further action was taken by



the Company as the majority of the matters had been dealt with in the investigation regarding tender and procurement irregularities which is pending finalisation, as indicated below.

Investigations in Progress as Advised to Us

In the previous year, the Acting Chief Executive Officer commissioned investigations to assess compliance with procurement and contract management based on findings from internal audit reports relating to procurement and contract management. All awarded contracts/tenders exceeding R10 million were included in the scope of this investigation. The portion of the investigation relating to the non-compliance with policies and procedures has been concluded and the Accounting Authority has taken all relevant disciplinary action against employees. However, the investigation relating to the possible criminal misconduct has not been concluded at the date of finalising this report, as a result of the forensic investigators not obtaining key information from the South African Police Services.

A handwritten signature in black ink, reading 'Maureen Rattigan', written over a horizontal line.

KPMG Inc.
Registered Auditor
Per Maureen Rattigan
Chartered Accountant (SA)
Registered Auditor
Director
11 July 2012

KPMG Crescent
85 Empire Road
Parktown



Statement of Financial Position

at 31 March 2012

	Note	2012 R'000	2011 R'000
Assets			
Equipment	3	1 178 983	1 136 205
Intangible assets	4	10 942	12 004
Total non-current assets		1 189 925	1 148 209
Trade and other receivables	7	64 383	29 805
Cash and cash equivalents	8	442 201	529 102
Derivatives held for risk management	13	-	60
Total current assets		506 584	558 967
Total assets		1 696 509	1 707 176
Equity and liabilities			
Equity			
Share capital	9	*	*
Accumulated deficit		(303 356)	(208 134)
Shareholders' loans	10	1 825 851	1 825 851
Total equity		1 522 495	1 617 717
Liabilities			
Deferred income	11	90 676	29 368
Total non-current liabilities		90 676	29 368
Trade and other payables	12	70 448	26 652
Deferred income	11	12 472	3 822
Derivatives held for risk management	13	418	29 617
Total current liabilities		83 338	60 091
Total liabilities		174 014	89 459
Total equity and liabilities		1 696 509	1 707 176

* Amount less than R1000



Statement of Comprehensive Income

for the Year ended 31 March 2012

	Note	2012 R'000	2011 R'000
Revenue	14	393 563	297 560
Cost of sales	15	(275 370)	(261 149)
Gross profit		118 193	36 411
Operating expenses	16	(258 585)	(244 120)
Employees expenses		(80 230)	(57 065)
Directors emoluments		(5 136)	(7 155)
Service fees		(21 336)	(10 239)
Selling, general and administrative expenses		(29 098)	(35 081)
Operating leases		(9 023)	(8 095)
Depreciation, amortisation, impairment and write-off		(113 762)	(126 485)
Results from operations		(140 392)	(207 709)
Finance income	17	53 877	47 506
Finance costs	18	(8 707)	(45 405)
Loss before taxation		(95 222)	(205 608)
Income tax expense	19	-	(1 324)
Loss for the year		(95 222)	(206 932)
Loss for the period attributable to the parent		(95 222)	(206 932)
Total comprehensive income attributable to the parent		(95 222)	(206 932)



Statement of Changes in Equity

for the Year ended 31 March 2012

	Share capital R'000	Accumulated deficit R'000	Shareholders' loans R'000	Total equity R'000
Balance at 31 March 2010	*	(1 202)	1 638 554	1 637 352
Loss for the year	–	(206 932)	–	(206 932)
<i>Total comprehensive income for the year</i>	–	(206 932)	–	(206 932)
Shareholder loan raised from DPE	–	–	138 600	138 600
Shareholder loan raised from IDC	–	–	48 697	48 697
<i>Transactions with owners, recorded directly in equity</i>			187 297	187 297
Total changes	–	(206 932)	187 297	(19 635)
Balance at 31 March 2011	*	(208 134)	1 825 851	1 617 717
Loss for the year	–	(95 222)	–	(95 222)
<i>Total comprehensive income for the year</i>	–	(95 222)	–	(95 222)
Total changes	–	(95 222)	–	(95 222)
Balance at 31 March 2012	*	(303 356)	1 825 851	1 522 495

* Amount less than R1000



Statement of Cash Flows

for the Year ended 31 March 2012

	Note	2012 R'000	2011 R'000
Cash flow from operating activities			
Cash receipts from customers		428 591	425 724
Cash payments to suppliers and employees		<u>(376 397)</u>	<u>(430 234)</u>
Cash generated from/(used in) from operations	20	52 194	(4 509)
Finance income received	21	54 289	46 331
Finance costs paid	21	<u>(37 906)</u>	<u>(15 175)</u>
Net cash from operating activities		<u>68 577</u>	<u>26 647</u>
Cash flows from investing activities			
Purchase of equipment	3	(154 423)	(535 315)
Purchase of intangible assets	4	<u>(1 055)</u>	<u>(1 301)</u>
Net cash from investing activities		<u>(155 478)</u>	<u>(536 616)</u>
Cash flows from financing activities			
Shareholders' loan received		<u>-</u>	<u>187 297</u>
Net cash from financing activities		<u>-</u>	<u>187 297</u>
Total cash movement for the year		(86 901)	(322 672)
Cash and cash equivalents at the beginning of the year		<u>529 102</u>	<u>851 774</u>
Total cash and cash equivalents at end of the year	8	<u>442 201</u>	<u>529 102</u>



Notes to the Financial Statements

for the Year ended 31 March 2012

1. Presentation of Financial Statements

1.1 Reporting Entity

Broadband Infraco 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 deployed between South Africa and the United Kingdom.

1.2 Basis of Preparation

1.2.1 *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.71 of 2008 of South Africa and the Public Finance Management Act 1 of 1999 of South Africa.

The financial statements were approved by the Accounting Authority on 11 July 2012.

1.2.2 *Basis of Measurement*

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

- Derivative financial instruments measured at fair value.

1.2.3 *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, rounded to the nearest thousand.

1.2.4 *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 are included in the following notes:



Notes to the Financial Statements

for the Year ended 31 March 2012

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.

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;
- Customers' current and anticipated future financial status;
- Estimated future cashflow;
- 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.



Notes to the Financial Statements

for the Year ended 31 March 2012

2. Significant Accounting Policies

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

2.1 Foreign Currencies

Foreign Currency Translation

Transactions in foreign currencies are translated to the respective functional currencies of entity at exchange rates applicable 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 items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items measured at historical cost in a foreign currency are not retranslated. When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any exchange component of that gain or loss is recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

2.2 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.



Notes to the Financial Statements

for the Year ended 31 March 2012

Subsequent Costs

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

Depreciation

Depreciation is recognised in profit or loss on a systematic 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	10–20 years
• Long-distance and operation centre equipment	10–15 years
• Operational and network management equipment	5 years
• Fibre-optic cables	15 years
• Mobile equipment	5 years
• Office equipment	10 years
• IT equipment	3–6 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

Work-in-progress (WIP) refers to the network under construction. WIP is recorded at the cost price at the stage of completion and transferred to equipment once the asset is ready for use.



Notes to the Financial Statements

for the Year ended 31 March 2012

2.3 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, but not through a separate entity. The Company’s annual financial statement 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 work-in-progress and will be depreciated in line with the useful life once when it’s ready for use.

2.4 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.

2.5 Financial Instruments

Fair Value Determination

2.5.1 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.



Notes to the Financial Statements

for the Year ended 31 March 2012

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.

2.5.2 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.



Notes to the Financial Statements

for the Year ended 31 March 2012

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.

2.6 Impairment of Assets

2.6.1 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 correlate 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.



Notes to the Financial Statements

for the Year ended 31 March 2012

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.

2.6.2 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").

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.

2.7 Income Tax

Current Tax Assets and Liabilities

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

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



Notes to the Financial Statements

for the Year ended 31 March 2012

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.

2.8 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.

2.9 Employee Benefits

Defined Contribution Plans

The Company contributes to defined contribution funds for the benefit of employees and these contributions are expensed as 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.



Notes to the Financial Statements

for the Year ended 31 March 2012

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.

2.10 Provisions and Contingent Liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect of the time value of money is material.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised but are disclosed unless they are remote.

2.11 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.



Notes to the Financial Statements

for the Year ended 31 March 2012

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.

2.12 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.

2.13 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 Financial Statements

for the Year ended 31 March 2012

2.14 Standards and Interpretation Issued but not yet Effective

The Company has considered and adopted all new standards, interpretations and amendments to existing standards that are effective as at year-end. There has been no material impact of these amendments on the financial statements.

New accounting standards or amendments thereto and interpretations of accounting standards effective after the financial year ended 31 March 2012.

IFRS 9, *Financial Instruments* ("IFRS 9") will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, deferred the effective date to annual periods beginning on or after January 1, 2015, with earlier adoption permitted.

IFRS 11, *Joint Arrangements* ("IFRS 11") will replace guidance in IAS 31, *Interests in Joint Ventures*. IFRS 11 provides focus on the rights and obligations of the joint arrangement, rather than its legal form in the current standard. IFRS 11 also addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interest in jointly controlled entities. IFRS 11 is effective for periods beginning on or after January 1, 2013.

IFRS 13, *Fair Value Measurement* ("IFRS 13") replaces the fair value guidance that is currently contained within individual IFRS with a single source of fair value measurement guidance. IFRS 13 is effective for periods beginning on or after January 1, 2013.

Amendments to IAS 1, *Presentation of Financial Statements* ("IAS 1") retains the "one or two statement" approach to presenting the statements of income and comprehensive income at the option of the entity and only revises the way other comprehensive income is presented. This revised standard is effective for periods beginning on or after July 1, 2012.

IAS 19, *Employee Benefits* ("IAS 19") eliminates the use of the "corridor" approach and requires that all remeasurement impacts be recognised in other comprehensive income. It also enhances the disclosure requirements by providing more information regarding the characteristics of defined benefit plans and the risk that entities are exposed to through participation in those plans. This revised standard is effective for periods beginning on or after January 1, 2013.

The directors anticipate that the adoption of the aforementioned standards and interpretations and amendments to existing standards will not have a material impact on the profits or financial position of the Company.



Notes to the Financial Statements

for the Year ended 31 March 2012

3. Equipment

	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
2012			
Mobile equipment	3 954	(1 069)	2 885
Work-in-progress	152 905	-	152 905
Office equipment	7 866	(1 349)	6 517
IT equipment	14 920	(7 195)	7 725
Fibre optic cables	446 871	(138 849)	308 022
Optical transmission equipment	521 100	(260 705)	260 395
WACS	440 534	-	440 534
	1 588 150	(409 167)	1 178 983
2011			
Mobile equipment	3 700	(260)	3 440
Work-in-progress	115 601	-	115 601
Office equipment	8 093	(580)	7 513
IT equipment	15 806	(3 039)	12 767
Fibre optic cables	436 576	(98 428)	338 148
Optical transmission equipment	530 389	(227 989)	302 400
WACS	356 336	-	356 336
	1 466 501	(330 296)	1 136 205



Notes to the Financial Statements

for the Year ended 31 March 2012

3. Equipment (continued)

Reconciliation of equipment

	Opening carrying value	Additions	Write-off and impairments	Transfers	Depreciation	Closing carrying value
2012	R'000	R'000	R'000	R'000	R'000	R'000
Mobile equipment	3 440	-	-	240	(795)	2 885
Work-in- progress	115 601	69 720	-	(32 416)	-	152 905
Office equip- ment	7 513	38	(8)	(240)	(786)	6 517
IT equipment	12 767	435	(284)	-	(5 193)	7 725
Fibre optic cables	338 148	-	(154)	10 513	(40 485)	308 022
Optical transmission equipment	302 400	32	(3 683)	21 903	(60 257)	260 395
WACS	356 336	84 198	-	-	-	440 534
	1 136 205	154 423	(4 129)	-	(107 516)	1 178 983
2011						
Mobile equipment	33	3 667	-	-	(260)	3 440
Work-in- progress	80 997	245 884	(12 328)	(198 952)	-	115 601
Office equip- ment	2 731	839	-	4 356	(413)	7 513
IT equipment	2 947	1 334	-	10 677	(2 191)	12 767
Fibre optic cables	234 878	-	-	137 171	(33 901)	338 148
Optical transmission equipment	330 865	403	(784)	46 748	(74 832)	302 400
WACS	73 148	283 188	-	-	-	356 336
	725 599	535 315	(13 112)	-	(111 597)	1 136 205



Notes to the Financial Statements

for the Year ended 31 March 2012

4. Intangible Assets

	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
2012			
Computer software	4 496	(3 336)	1 160
Servitudes	12 487	(2 705)	9 782
	16 983	(6 041)	10 942
2011			
Computer software	3 561	(1 963)	1 598
Servitudes	12 487	(2 081)	10 406
	16 048	(4 044)	12 004

Reconciliation of intangible assets

	Opening carrying value R'000	Additions R'000	Amortisation R'000	Write – off and impairments R'000	Closing carrying value R'000
2012					
Computer soft- ware	1 598	1 055	(1 467)	(26)	1 160
Servitudes	10 406	-	(624)	-	9 782
	12 004	1 055	(2 091)	(26)	10 942
2011					
Computer soft- ware	1 450	1 300	(1 152)	-	1 598
Servitudes	11 030	-	(624)	-	10 406
	12 480	1 300	(1 776)	-	12 004



Notes to the Financial Statements

for the Year ended 31 March 2012

2012	2011
R'000	R'000

5. Deferred Tax Asset

Deferred tax asset	–	–
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Reconciliation of deferred tax asset

At beginning of the year	–	1 324
Movement in temporary differences	28 352	53 544
Prior year under provision	–	(579)
Deferred tax assets not recognised	(28 352)	(54 289)
At the end of the year	–	–

Deferred tax rates

The deferred tax rate applied was 28% (2011 – 28%).

Recognised deferred tax assets/(liabilities)

Deferred tax assets and (liabilities) are attributable to the following:

Straight lining of lease liabilities	912	385
Capital allowances	(8 820)	(19 323)
Prepayments	(529)	347
Leave pay accrual	1 147	850
Deferred income	28 543	9 293
Unrealised foreign exchange differences	117	8 448
Tax losses recognised	–	–
Deferred tax assets not recognised	(21 370)	–
	–	–

The estimated accumulated tax loss is R214.9 million (2011: R193.7 million). The estimated losses exceeding the deferred tax credit and other deferred tax assets of R22.4 million have not been recognised as there is uncertainty when the tax losses may be utilised by the Company in the foreseeable future.



Notes to the Financial Statements

for the Year ended 31 March 2012

6. 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:

	2012 R'000	2011 R'000
<i>Cumulative effect</i>		
Operating lease income recognised as revenue	–	963 676
Less: actual operating lease income received	–	(963 676)
	<u>–</u>	<u>–</u>
 Total minimum future operating lease income	 –	 –
– not later than one year	<u>–</u>	<u>–</u>

7. Trade and other Receivables

Trade and other receivables consists of:

Loans and receivables		
– trade receivables	52 264	13 857
– deposits	1 629	1 683
– interest accrued	764	1 116
	<u>54 657</u>	<u>16 656</u>
 Other receivables		
– prepayments	1 566	1 420
– VAT	8 160	11 729
	<u>9 726</u>	<u>13 149</u>
	<u>64 383</u>	<u>29 805</u>



Notes to the Financial Statements

for the Year ended 31 March 2012

2012	2011
R'000	R'000

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Current accounts – The Standard Bank of South Africa Limited	12 966	41 062
Short-term deposits – The Standard Bank of South Africa Limited (bearing interest at 5.45% p.a)	190 388	209 179
Short-term deposits – Nedbank Limited (bearing interest at 5.35% p.a)	119 398	166 045
Short-term deposits – First National Bank, a division of First Rand Bank Limited (bearing interest at 5.4% p.a)	119 449	112 816
	442 201	529 102

The Standard Bank of South Africa Limited has secured a maximum of R65 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 13 and 27.

The Standard Bank of South Africa Limited has granted trading facilities amounting to R42 million and fleet management facilities of R1 million to the Company.

9. Share Capital

Authorised

1 000 ordinary shares of R1 each	1	1
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Issued

100 ordinary shares of R1 each	*	*
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Shares are held as follows:

- 74 ordinary shares held by the State, represented by Department of Public Enterprises;
- 26 ordinary shares held by the Industrial Development Corporation of South Africa.

Unissued shares are controlled by the Accounting Authority.

*Amount less than R1 000



Notes to the Financial Statements

for the Year ended 31 March 2012

2012
R'000

2011
R'000

10. Shareholders' Loans

Subordinated loans

Department of Public Enterprises (DPE)	1 351 130	1 351 130
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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	474 721
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The loan has no fixed terms of repayment and no interest was charged on the balance outstanding.

1 825 851	1 825 851
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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.

11. Deferred Income

The income received in advance relates to Indefeasible Right of Use (IRU) contracts over various year periods.

Non-current liabilities	90 676	29 368
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Current liabilities	12 472	3 822
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103 148	33 190
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Cumulative effect

Total income received in advance	121 906	35 583
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Less: amount recognised in revenue	(18 758)	(2 393)
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103 148	33 190
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12. Trade and other Payables

Trade and other payables consists of:

Financial liabilities	65 093	23 448
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– trade payables	59 999	19 625
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– accrual		
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– unrealised foreign exchange losses	–	613
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– pension fund and trade union	386	–
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– audit fees internal	1 010	594
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– audit fees external	1 704	1 120
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– retentions	1 994	1 496
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Notes to the Financial Statements

for the Year ended 31 March 2012

2012	2011
R'000	R'000

12. Trade and other Payables (continued)

Other liabilities

- South African Revenue Services – PAYE
- Accrual: Straight lining of leases

5 355	3 204
2 096	1 827
3 259	1 377
70 448	26 652

13. Derivatives held for Risk Management

Derivatives (liabilities)/assets 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 \$8.4 million (2011: US \$26.4 million). These contracts had a commitment value of R65 million (2011: R183.4 million) at year end, giving rise to unrealised foreign exchange gains/(losses) as follows:

	2012	2011
	R'000	R'000
Instrument type		
Foreign exchange contracts		
– liabilities	(418)	(29 617)
– assets	–	60
	(418)	(29 557)

14. Revenue

Rendering of rental services	379 953	295 167
Irrefutable right of use income	11 506	1 367
Operations and maintenance income	2 104	1 026
	393 563	297 560

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

Rendering of rental services	379 953	388 267
Irrefutable right of use income	11 506	1 367
Operations and maintenance income	2 794	1 026
Rental income (straight lining of operating lease income)	(690)	(93 100)
	393 563	297 560



Notes to the Financial Statements

for the Year ended 31 March 2012

15. Cost of Sales

	2012	2011
	R'000	R'000
Cost of sales consists of:		
Managed service contract*	(68 340)	(67 272)
Co-location costs	(16 769)	(13 286)
Fibre lease costs	(21 525)	(14 596)
Neotel outsource fee**	(168 736)	(165 995)
	(275 370)	(261 149)

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

** The outsource fee is paid to Neotel who have subcontracted to Eskom Holdings SOC Ltd and Trasnet SOC Ltd. The Company is not a party to this contract.
The agreement expired on 7 January 2012.

16. Operating Expenses

Operating expenses consists of:

16.1 Employee expenses	(80 230)	(57 065)
Salaries	(78 789)	(55 375)
Other benefits*	(1 441)	(1 690)
* Other benefits includes cellphone allowance and annual leave.		
16.2 Directors emoluments	(5 136)	(7 155)
Executive directors	(2 876)	(4 695)
Non-executive directors*	(2 260)	(2 460)
* Refer to note 24 for details.		
16.3 Service fees	(21 336)	(10 239)
Auditors remuneration	(5 821)	(3 589)
Internal audit services	(3 621)	(1 475)
External audit services	(2 200)	(2 114)
– current year	(1 534)	(1 217)
– prior year under provision	(650)	(309)
– other services	(16)	(588)
Consultancy services	(12 817)	(5 554)
Legal fees	(2 698)	(1 096)



Notes to the Financial Statements

for the Year ended 31 March 2012

2012

2011

R'000

R'000

16. Operating Expenses (continued)

16.4 Selling, general and administrative expenses

(29 098)

(35 081)

Repairs and maintenance

(2 023)

(2 282)

Marketing

(3 286)

(5 082)

Travelling costs

(9 713)

(7 500)

Recoveries – travel reimbursement (WACS)

7 093

–

Insurance

(1 714)

(2 145)

Recruitment costs

(2 126)

(890)

Telephone costs

(1 307)

(1 465)

Training costs

(1 553)

(1 714)

IT charges

(2 046)

(1 936)

Penalties-SARS

–

(955)

Licence fee

(1 134)

(1 669)

Commission paid

(4 172)

–

Other expenses

(7 117)

(9 443)

16.5 Operating leases

(9 023)

(8 095)

Land and building

(7 875)

(7 370)

Equipment

(1 148)

(725)

16.6 Depreciation, amortisation, impairment and write-off

(113 762)

(126 485)

Depreciation of equipment

(107 516)

(111 597)

Amortisation of intangible assets

(2 091)

(1 776)

Write-off and impairment of equipment

(4 129)

(784)

Scrapping of intangible assets

(26)

–

Derecognition of equipment

–

(12 328)

(285 585)

(244 120)

17. Finance Income

Finance income consists of the following:

Interest received on bank deposits

24 124

43 709

Foreign exchange gains

29 753

3 797

53 877

47 506

18. Finance Costs

Finance costs consists of the following:

Foreign exchange losses

(8 677)

(45 405)

Suppliers – interest

(30)

–

(8 707)

(45 405)



Notes to the Financial Statements

for the Year ended 31 March 2012

2012	2011
R'000	R'000

19. Income Tax Expense

Major components of the tax (expense)/credit

Deferred

Deferred tax expense

– current year	–	(745)
– prior year under provision	–	(579)
	<u>–</u>	<u>(1 324)</u>

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense:

Accounting loss	95 222	205 608
Tax at the applicable tax rate of 28%	26 662	57 570
Tax effect on adjustment on taxable income:		
Permanent differences	1 690	(4 026)
Prior year under provision	–	(579)
Deferred tax assets not recognised	(28 352)	(54 289)
	<u>–</u>	<u>(1 324)</u>

20. Cash Generated /(used in) from Operations

Loss before taxation	(95 222)	(205 608)
Adjustments for:		
Depreciation and amortisation	109 607	113 373
Derecognition and scrapping of equipment	4 155	13 112
Finance income	(53 877)	(47 507)
Finance costs	8 707	45 405
Movement in straight lining of operating lease assets	–	93 100
Movement in straight lining of operating lease accrual	1 882	(1 190)
Deferred income	69 959	33 189
Changes in working capital:		
Trade and other receivables, excluding straight lining of leases	(34 930)	1 878
Trade and other payables, excluding straight lining of leases	41 913	(49 648)
Unrealised foreign exchange losses included in trade and other payables	–	(613)
	<u>52 194</u>	<u>(4 509)</u>



Notes to the Financial Statements

for the Year ended 31 March 2012

2012	2011
R'000	R'000

21. Finance Income Received/(costs paid)

21.1 Finance income received

Finance income per statement of comprehensive income	53 877	47 507
Decrease / (increase) in interest receivable	352	(1 116)
Unrealised foreign exchange gains – derivative held for risk management	60	(60)
	<u>54 289</u>	<u>46 331</u>

21.2 Finance costs paid

Finance expense per statement of comprehensive income	(8 707)	(45 405)
Unrealised foreign exchange losses – derivative held for risk management	(29 199)	29 617
Unrealised foreign exchange losses included in trade and other payables	–	613
	<u>(37 906)</u>	<u>(15 175)</u>

22. Related Parties

Relationships

Ultimate holding company	The State, represented by the Department of Public Enterprises
--------------------------	--

Shareholder with significant influence	Department of Public Enterprises and Industrial Development Corporation of South Africa
--	---

Related parties that have the same shareholder (DPE)	Eskom SOC Limited and Transnet SOC Limited
--	--



Notes to the Financial Statements

for the Year ended 31 March 2012

22. Related Parties (continued)

	2012 R'000	2011 R'000
<i>Related party balances</i>		
Loan accounts – Owing to related parties		
Department of Public Enterprises	(1 351 130)	(1 351 130)
Industrial Development Corporation of South Africa	<u>(474 721)</u>	<u>(474 721)</u>
<i>Related party transactions</i>		
Lease of fibre optic cables		
Eskom Holdings SOC Limited	3 538	8 263
Transnet SOC Limited	<u>5996</u>	<u>6 369</u>
Other service contracts		
Eskom Holdings SOC Limited	1 290	854
Transnet SOC Limited	<u>–</u>	<u>191</u>
Co-location lease agreement		
Transnet SOC Limited	<u>3 025</u>	<u>2 690</u>
Maintenance service		
Eskom Holdings SOC Limited	33 504	–
Transnet SOC Limited	<u>1 540</u>	<u>–</u>
Director (Interest) (Entity)		
AFB Mthembu (2012 – 0%, 2011 – 0.81%)* (Nokia Siemens Network)	–	49 003
WT Magasa (2011 – 16%) (ZTE Corporation)	–	310
C Groesbeek (2012 – 50 %, 2011 – 50%) (Scalos Investment Consulting)	<u>–</u>	<u>914</u>
* AFB Mthembu holds 98% (2011 – 98%) of Imphandze (Pty) Limited, this company holds 0.83% in Nokia Siemens Network. This investment was sold on 31 March 2011.		

23. Lease Commitments

Operating leases		
– payable within one year	25 031	9 963
– payable within two to five years	30 205	17 346
	<u>55 236</u>	<u>27 309</u>



Notes to the Financial Statements

for the Year ended 31 March 2012

24. Directors' and key Management Personnel Compensation

2012	Services as	Service period in months	Basic salary	Severances -packages paid	Expenses, other allowances	Total
			R'000	R'000	R'000	R'000
<i>Non-executive directors</i>						
AFB Mthembu	Board chairperson	6	372	–	–	372
BMC Ngcobo	Board chairperson	6	361	–	–	361
LN Letele	Board member	6	151	–	–	151
M Singer Saul	Board member	6	180	–	–	180
C Groesbeek	Board member	6	149	–	–	149
N Bulbulia	Board member	3	35	–	–	35
SAU Meer*	Board member	12	211	–	–	211
ST Mabalayo	Board member	12	249	–	–	249
SA Essa	Board member	6	110	–	–	110
N Selamolela	Board member	6	93	–	–	93
A Githiari	Board member	6	99	–	–	99
MM Maponya	Board member	6	96	–	–	96
X Kakana	Board member	6	121	–	–	121
<i>Executive directors</i>						
S Maharaj	Chief Financial Officer	1	113	396	157	666
A Shaw**	Acting Chief Executive Officer	12	1 425	–	7	1 432
RJ Magoele	Chief Financial Officer	9	1 338	–	9	1 347
Total directors emoluments			5 103	396	173	5 672
<i>External committee members</i>						
	Audit and Risk Committee					
I Kajee	Member	6	33	–	–	33
<i>Key management</i>						
K Pillay	Chief Technical Officer	6	1 000	–	5	1 005
V Maharaj	Executive Special Projects	12	1 238	–	11	1 249
F Msiza	Executive Governance	6	700	–	5	705
P Sejanamane	Chief Marketing and Sales Officer	4	600	–	***301	901
M Letsoalo	Executive Business Support	2	202	–	62	264
R Pillay	Executive Capital Programme	3	298	–	124	422
Total key management personnel			4 038		508	4 546
Total Remuneration paid to Directors & Key Management Personnel			9 174	396	681	10 251

* Paid to the Industrial Development Corporation of South Africa.

** A further amount of R807 000 was paid to the Acting Chief Executive Officer, by the Department of Public Enterprises for performing services for the company. The amount relates to the monies paid by the DPE for the 6 months that Dr A Shaw was seconded by the DPE to stabilise Broadband Infraco.

*** This amount includes a sign-on fee of R297 000



Notes to the Financial Statements

for the Year ended 31 March 2012

24. Directors' and Key Management Personnel Compensation(continued)

2011	Services as	Service period in months	Basic salary R'000	Bonuses and commissions paid R'000	Expenses, other allowances R'000	Total R'000
<i>Non-executive directors</i>						
AFB Mthembu	Board chairperson	12	767	–	–	767
LN Letele	Board member	12	303	–	–	303
WT Magasa	Board member	10	208	–	–	208
C Groesbeek	Board member	12	265	–	–	265
M Singer Saul	Board member	12	337	–	–	337
S Mabaso-Koyana	Board member	6	85	–	–	85
ST Mabalayo	Board member	12	244	–	–	244
SAU Meer*	Board member	12	251	–	–	251
<i>Executive directors</i>						
RD Smith	Chief Executive Officer	12	2 042	906	–	2 948
S Maharaj	Chief Financial Officer	12	1 358	378	11	1 747
Total directors emoluments			5 860	1 284	11	7 155
<i>External committee members</i>						
I Kajee	Audit and Risk Committee member	12	66	–	–	66
<i>Key management</i>						
M Letsoalo	Executive Business Support	12	1 135	313	11	1 459
V Maharaj	Executive Special Projects	12	1 153	327	11	1 491
R Pillay	Capital Programme Executive	12	1 134	279	11	1 424
Total key management personnel			3 422	919	33	4 374
Total			9 348	2 203	44	11 595

* Paid to the Industrial Development Corporation of South Africa.



Notes to the Financial Statements

for the Year ended 31 March 2012

25. 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:

Loans and receivables	Other financial liabilities	Total	Fair value
R'000	R'000	R'000	R'000
54 657	–	54 657	54 657
442 201	–	442 201	442 201
–	(65 093)	(65 093)	(65 093)
496 858	(65 093)	431 765	431 765
16 656	–	16 656	16 656
529 102	–	529 102	529 102
–	(23 448)	(23 448)	(23 448)
545 758	(23 448)	522 310	522 310

Fair value hierarchy

The points below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).



Notes to the Financial Statements

for the Year ended 31 March 2012

25. Financial Risk Management (continued)

2012	Level 1 R'000	Total R'000
Foreign exchange contracts (liabilities)	<u>(418)</u>	<u>(418)</u>
2011		
Foreign exchange contracts (liabilities)	(29 617)	(29 671)
Foreign exchange contracts (assets)	60	60
	<u>(29 557)</u>	<u>(29 557)</u>

25.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter party 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:

	2012 R'000	2011 R'000
<i>By geographical area</i>		
Domestic	<u>52 264</u>	<u>13 857</u>
<i>By customer type</i>		
Telecom service provider companies	<u>52 264</u>	<u>13 857</u>

Impairment losses

The ageing of trade receivables at the reporting date was:

	2012		2011	
	Gross R'000	Impairment R'000	Gross R'000	Impairment R'000
Not past due	42 995	-	13 857	-
30 days	4 236	-	-	-
60 days	5 033	-	-	-
	<u>52 264</u>	<u>-</u>	<u>13 857</u>	<u>-</u>

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:

Loans and receivables	54 657	16 656
Cash and cash equivalents	<u>442 201</u>	<u>529 102</u>
	<u>496 858</u>	<u>545 758</u>

The maximum exposure to credit risk on trade receivables at the reporting date was domestic.



Notes to the Financial Statements

for the Year ended 31 March 2012

25. Financial Risk Management (continued)

25.2 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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 fixed forward exchange contracts to the value of \$8.4 million (2011: \$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 27).

Sensitivity analysis

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

Forward exchange contracts

	2012		2011	
	1% strengthening of the rand	1% depreciation of the rand	1% strengthening of the rand	1% depreciation of the rand
	R'000	R'000	R'000	R'000
USD	<u>(672)</u>	<u>672</u>	<u>(1 788)</u>	<u>1 770</u>

25.3 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).



Notes to the Financial Statements

for the Year ended 31 March 2012

25. Financial Risk Management (continued)

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

	2012 R'000	2011 R'000
Current accounts: The Standard Bank of South Africa Limited	12 966	41 062
Investments		
- The Standard Bank of South Africa Limited	190 388	209 178
- Nedbank Limited	119 398	166 046
- First National Bank, a division of FirstRand Bank Limited	119 449	112 816
	<u>442 201</u>	<u>529 102</u>

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 2011.

Cash and cash equivalents

	50 bp increase R'000	50 bp decrease R'000
2012		
Recognised in profit/(loss)	<u>2 211</u>	<u>(2 211)</u>
2011		
Recognised in profit/(loss)	<u>2 646</u>	<u>(2 646)</u>

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

25.4 Foreign currency 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. The Company's main USD exposure is in respect of its ongoing 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 affect profits/(losses) of the Company.



Notes to the Financial Statements

for the Year ended 31 March 2012

25. Financial Risk Management (continued)

25.4 Foreign currency risk (continued)

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)	
	2012	2011
	R'000	R'000
Weakening of ZAR against USD	8 834	14 672
Strengthening of ZAR to USD	<u>(8 834)</u>	<u>(14 672)</u>

25.5 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:

	Carrying amount	Contractual cash flows	6 months or less	6 – 12 months
	R'000	R'000	R'000	R'000
2012				
Trade and other payables	<u>65 093</u>	<u>(65 093)</u>	<u>(61 828)</u>	<u>(3 265)</u>
2011				
Trade and other payables	<u>23 448</u>	<u>(23 448)</u>	<u>(22 884)</u>	<u>(564)</u>



Notes to the Financial Statements

for the Year ended 31 March 2012

26. 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.

27. Capital Commitment

	2012	2011
	R'000	R'000
Capital commitments		
– approved, but not contracted	17 217	194 401
– approved, and contracted	126 407	207 810
	143 624	402 211

The Company has entered into the West African Cable System (WACS) as a participant to share in 11.4% of the capacity. The revised contract value is \$72.8 million, (R582 million) (which management anticipate will be reduced, due to more participants), of which \$59.0 million (R472 million) has been paid. The remaining portion of \$13.8 million (R110 million) has been included in the approved and contracted capital commitment. Management have taken out fixed forward exchange contracts to the value of \$8.4 million (R65 million) to manage the foreign exchange exposure to the Company.



Notes to the Financial Statements

for the Year ended 31 March 2012

28. Fruitless and Wasteful Expenditure and Irregular Expenditure

Expenditure through irregular and fruitless and wasteful expenditures

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:

Irregular Expenditure	2012	2011
	R'000	R'000
Opening balance	158 835	7 659
Incurred in the current year	3 925	151 176
Identified in the current year relating to previous year	69 529	–
Condoned during the year	(28 827)	–
Amount awaiting condonement	(130 008)	–
	73 454	158 835

2012	Action taken	Expenditure identified	Amounts ratified/condoned	Remaining irregular expenditure
		R'000	R'000	R'000
Expenditure incurred in the current year				
Amount paid in excess of contract value due to non-adherence to contract rates	Engaging the service provider to obtain credit note for amounts in excess of contract rates.	1 925	–	1 925
Expenditure incurred in transgression of commercial processes, policies and procedures	Matters are in the process of ratification.	2 000	–	2 000
		3 925	–	3 925



Notes to the Financial Statements

for the Year ended 31 March 2012

28. Fruitless and Wasteful Expenditure and Irregular Expenditure (continued)

Identified in the current year relating to previous financial years

2012	Action taken	Expenditure identified R'000	Amounts ratified/ condoned R'000	Remaining irregular expenditure R'000
Expenditure incurred in transgression of commercial processes, policies	Matters are in the process of being ratified.	52 694	–	52 694
Additional services incurred not provided for in the initial contract	Matter is in the process of being ratified.	4 271	–	4 271
Expenditure incurred without correct authorisation/level of authorisation	Matter is being referred to correct level of authority for ratification.	12 564	–	12 564
		69 529	–	69 529
Total		73 454	–	73 454



Notes to the Financial Statements

for the Year ended 31 March 2012

28. Fruitless and Wasteful Expenditure and Irregular Expenditure (continued)

Expenditure through irregular and fruitless and wasteful expenditures (continued)

	Action taken	Expenditure identified R'000	Amounts ratified/ condoned R'000	Remaining irregular expenditure R'000
2011				
Expenditure incurred in transgression of commercial processes, policies and procedures for staff placements	Internal audit investigation and disciplinary action implemented.	451	–	451
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 have not been exceeded.	130 008	–	130 008
Expenditure incurred without correct authorisation/level of authorisation	Under investigation by internal audit, relevant disciplinary action to follow.	253	–	253
Expenditure incurred outside of contract value/contract period	Procedures have been put in place to prevent these irregularities from re-occurring.	165	–	165



Notes to the Financial Statements

for the Year ended 31 March 2012

28. Fruitless and Wasteful Expenditure and Irregular Expenditure (continued)

	Action taken	Expenditure identified R'000	Amounts ratified/ condoned R'000	Remaining irregular expenditure R'000
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.	880	–	880
Non-compliance to HR policies & procedures with regard to performance bonus payments	A Performance Management System aligned to the business has been initiated.	2 426	–	2 426
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	–	4 695
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	–	11 172
Expenditure incurred without signed contract with supplier	Contract has subsequently been signed by the supplier.	1 126	–	1 126
		<u>151 176</u>	<u>–</u>	<u>151 176</u>



Notes to the Financial Statements

for the Year ended 31 March 2012

28. Fruitless and Wasteful Expenditure and Irregular Expenditure (continued)

Losses through criminal conduct, irregular, fruitless and wasteful expenditure

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:

Fruitless and wasteful expenditure	2012 R'000	2011 R'000
Opening balance	457	–
Identified in the current year	1 112	1 972
Recovered	(175)	(91)
Losses written off	(1 340)	(1 424)
	54	457

Fruitless and wasteful expenditure	Action taken	Losses identified R'000	Losses recovered year to date R'000	Losses written off R'000	Recovery outstanding* R'000
2012					
Environmental penalty	Penalty recovered from the contractor.	175	(175)	–	–
Interest incurred from suppliers	Matter under investigation.	22	–	–	22
Double payments to service provider	Service provider was engaged to recover the amounts through provision of credit note or the amount will be a prepaid for future service request.	16	–	–	16
Breach of supplier contract	Matter settled out of court, relating to contract entered into in the previous financial years.	883	–	(883)	–
Costs incurred for training courses subsequently cancelled	Employee currently in a disciplinary process – awaiting outcome.	16	–	–	16
		1 112	(175)	(883)	54

*For IFRS reporting required the amount has been fully impaired, however, the Company is investigating the matter to ensure that there is no recurrence



Notes to the Financial Statements

for the Year ended 31 March 2012

28. Fruitless and Wasteful Expenditure and Irregular Expenditure (continued)

Losses through criminal conduct, irregular, fruitless and wasteful expenditure (continued)

Material losses through fruitless and wasteful expenditures (continued)

Fruitless and wasteful expenditure	Action taken	Losses identified	Losses recovered year to date	Losses written off	Recovery outstanding
		R'000	R'000	R'000	R'000
2011					
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.	520	–	(520)	–
SARS penalty for late filing of EMP201 resulting in late release of payment	Currently engaging with SARS to recover penalties.	457	–	–	457
Costs incurred for training courses subsequently cancelled	Employee currently in a disciplinary process – awaiting outcome.	16	–	(16)	–
Overpayment of staff costs after resignation	In process of attempting to recover this from the employees who resigned.	80	–	(80)	–
Environmental restoration costs deemed unnecessary	In process of recovering costs from contractor. Procedures are in place to ensure environmental restoration costs are appropriate.	263	–	(263)	–
International travel costs incurred without benefit to the Company	This expense approved by an 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	–	(46)	–
Penalty for late submission of IRP5 return 2009	Under investigation by internal audit, relevant disciplinary action to follow.	499	–	(499)	–
Duplicate payments to suppliers	Investigated and amounts recovered and procedures implemented to avoid future duplicate payments.	91	(91)	–	–
		1 972	(91)	(1 424)	457

APPENDIX A: SHAREHOLDERS' COMPACT 2011/2012

KPI	Weight %	KPI	Sub-weight %	Unit	Actual	Target	Descriptions	Exceeded/Achieved/Not achieved	Comment
Business Enablers	25	Appointment of key personnel	7	Number	5	7	Filling of key vacant positions at executive and top management level including CEO, CFO, COO, CTO, Capital Programme Executive, Governance, Sales and Marketing Executive vacancies.	Not achieved	Organisational restructuring in October 2011 resulted in a combined position for CTO and COO. The Capital Programme Executive changed to a General Manager position. The CEO position remained the only unfilled position by year-end, and was finalised in April 2012.
		Business operations strategy	6	%	40%	100	Broadband Infraco must develop an operational strategy which includes the implementation of the OSS/BSS system. The OSS/BSS plays an essential part in the reliable delivery of services and in ensuring that Broadband Infraco meets the SLAs defined for each service/customer.	Not achieved	<p>a) Immediate strategies implemented – Operations and maintenance in-sourcing enabled, key support contracts renegotiated, Operations reporting enabled, policies and procedures defined, audits addressed, business processes defined and mapped.</p> <p>b) Enablement of new business processes and process reporting currently underway.</p> <p>c) OSS/BSS system designed to automate and improve these business processes.</p> <p>d) Formal tender processes for an OSS/BSS system based on these business processes will be implemented once the processes are fully validated.</p>

KPI	Weight %	KPI	Sub-weight %	Unit	Actual	Target	Descriptions	Exceeded/ Achieved/ Not achieved	Comment
		Development of a portfolio of products	6	%	60%	100	Currently Broadband Infracore uses Synchronous Digital Hierarchy (SDH) technology to offer Time Division Multiplexed (TDM) services. Broadband Infracore must develop point-to-multipoint Ethernet carrier grade services.	Not achieved	Proof of concept Ethernet trials are currently running, with customer testing in progress. Once test procedures are signed-off and pricing and billing concluded the commercial launch of Ethernet products will commence.
		Develop and implement business policies, procedures and processes including a procurement policy	6	%	100%	100	Develop and adopt a procurement, risk and business strategies which will include a multi-vendor strategy for transmission equipment and network roll-out as per the agreed framework.	Achieved	The Supply Chain Management policy and procedures was developed and approved by Board, and is being implemented across the business. The multi-vendor strategy is in the process of being implemented, with the requirement for multi-vendor being incorporated into the network architectural design, and hence into the tender specifications. Four tender requirements with this requirement have been issued to the market. The tenders are currently in the evaluation process.
Financial	15	Revenue ¹	3	Rands	R 394m	R 352m	In millions – Irrespective of straight lining.	Exceeded	Revenue is 11% higher than budget, due to: -Extension of the Neotel Right of Use agreement from September 2011 to year-end. -Extension of the Neotel Right of Use agreement from September 2011 to year-end. -New revenue in relation to the SALT/KAT project. -Revenue from new customers to the network.

¹ Excluding straight – lining of revenue for leases

KPI	Weight %	KPI	Sub-weight %	Unit	Actual	Target	Descriptions	Exceeded/ Achieved/ Not achieved	Comment
Financial		EBITDA ¹	3	Rands	(R 27m)	(R 34m)		Exceeded	Increased EBITDA resulted from increased revenue against minimal overall increase in operating cost.
		Net loss after tax	3	Rands	(R 95m)	(R164m)		Exceeded	Savings on operating costs and lower depreciation charge resulting in a lower loss for the year.
		Debt Equity	6	Rands	Nil	R 300m	R 300 million minimum senior debt facilities secured from financial institutions.	Not Achieved	No debt funding required, due to cost savings and a slower rollout on capital expenditure.
Network Infrastructure Development	25	Fibre cable route length	3	Kms	293	250	Including owned infrastructure for the financial year.	Exceeded	The achievement is a function of the new link built to accommodate the SALT / KAT project.
		Number of long distance sites ²	3	Number	151	151	Development of long distance sites as per the ECNS license Network Rollout Obligations as per the Corporate Plan 2011/12, with the balance completed by the end of October 2012.	Achieved	Delivered as planned.
		Open Access POP sites	3	Number	6	6	Development of Open Access POPs as per the Corporate Plan 2011/12.	Achieved	Of the six Open Access POPs, five are owned and managed by third parties.
		Other Metro POP sites	3	Number	10	10	Development of long distance metro sites as per the ECNS license Network rollout obligation with the balance completed by the end of October 2012.	Achieved	Delivered as planned.
		Universal Service Obligation POP Sites	4	Number	55	7	Development of USAL sites as per the ECNS licenses Network Roll-out Obligations with the balance in terms of the ICASA licensing obligations completed by the end of October 2012.	Exceeded	The re-configuration of repeater sites within proximity of the USAL site requirement has allowed delivery of many more POP sites than had been originally planned.

¹ Excluding straight – lining of revenue for leases

² This is a cumulative value, and represents the total number of sites in the network.

KPI	Weight %	KPI	Sub-weight %	Unit	Actual	Target	Descriptions	Exceeded/ Achieved/ Not achieved	Comment
Network Infra- structure Develop- ment	25	Customer Termina- tion Sites	3	Number	110	23	Development of long distance sites as per the ECNS licenses Network Rollout Obligations with the balance in terms of the ICASA licensing obligations completed by the end of October 2012.	Exceeded	The re-configuration of repeater sites across the network has allowed delivery of many more POP sites than had been planned for, thus substantially improving customer access.
		IP Core Switches	3	Number	3	3	Development of long Distance Sites as per the ECNS licences Network Rollout Obligations with the balance completed by the end of October 2012.	Achieved	Equipment has been installed and is active on the Broad-band Infraco network. Customers are connected and are performing IP trials on the network.
		IP Edge Routers	3	Number	3	3	Development of long Distance Sites as per the ECNS licenses Network Rollout Obligations with the balance in terms of the ICASA licensing obligations completed by the end of October 2012.	Achieved	Equipment has been installed and is active on the Broad-band Infraco network. Customers are connected and are performing IP trials on the network.
Operations and Main- tenance	25	Actual time to restore core network faults	4	hours	4.73	8	Actual time to restore a core network (fibre network and associated electronics) fault on 80% of all reported faults per month.	Exceeded	Restoration times reduced due to implementation of in-house maintenance and improved national coverage through additional regional offices.
		Percent- age of projects put into com- mercial operation against approved plan	3	%	0	100	The number of projects completed and put into commercial operation to earn revenue, against approved annual plan.	Not achieved	Not achieved due to governance shortcomings. This necessitated a thorough review of internal controls and business strategy and thus the 2011/12 Corporate Plan approved only in September 2011. The project environment was normalised in the last quarter of the year.

KPI	Weight %	KPI	Sub-weight %	Unit	Actual	Target	Descriptions	Exceeded/ Achieved/ Not achieved	Comment
Operations and Main-tenance	25	Availability at the services level (protected)	3	%	99.94	99.5	Availability calculated as a percentage of the uptime to the downtime of a customer service (with reference to Service Level Agreements with Customers).	Exceeded	Improvement a function of embedding new operations and maintenance telecommunication based processes.
		Availability at the services level (unprotected)	3	%	99.69	98	Availability calculated as a percentage of the uptime to the downtime of a customer service.	Exceeded	Improvement a function of embedding new operations and maintenance telecommunication based processes.
		Project time variance	3	%	Not achieved	20	The percentage variance in time between the agreed delivery date with the customer and the project completion date.	Not achieved	Not achieved due to governance shortcomings. A renewed internal control procedure is now in place to normalise, with recent projects now meeting the target.

KPI	Weight %	KPI	Sub-weight %	Unit	Actual	Target	Descriptions	Exceeded/Not Achieved/Not achieved	Comment
Operations and Maintenance	25	Project cost variance against approved budget	5	%	Not achieved	5	The variance in final project expenditure from the approved project budget.	Not achieved	Not achieved due to governance shortcomings. A renewed internal control procedure is now in place to normalise, with recent projects now meeting the target.
		Availability of customer services in accordance with commercial contracts	4	%	99.81	99.5	Availability calculated as a percentage of the uptime to the downtime of a customer service.	Exceeded	Improvement a function of embedding new operations and maintenance telecommunication based processes.
Supporting the developmental objectives of South Africa	5	Skills development	2.5	%	100%	100	A total of 10 Engineers and Technicians to be trained in the scarce skills areas of Network Engineering, Project Management and Operations and Maintenance.	Achieved	Successful skills development a function of insourcing of key services and functions.
		Local content in Capital Expenditure contracts	2.5	%	73	26	26% out of Capital Expenditure (excluding WACS).	Exceeded	Local content measures exceeded.
International Connectivity	5	Expenditure	2.5	USD	10.4	13.1	The estimated cost (in millions) for Broadband Infra participation in the development of the WACS cable during FY2010/2011.	Exceeded	WACS consortium effectively managed project budget. Projected costs for the financial year reduced due to ongoing optimisation of budgeted items. The company thus incurred an expenditure of R84 million below target of R105 million.
		Project implementation	2.5	%	100%	100	The cumulative % technical rollout completion of the WACS project by the 31 March 2012.	Achieved	The roll out of the portion of the project for the FY 2011/12 was on target as per the agreed work package of the consortium.

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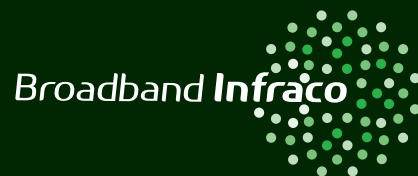
APPENDIX B

GLOSSARY OF TERMS

ASON	Automatically Switched Optical Network
BBBEE	Broad Based Black Economic Empowerment
BPD	Business Process Development
CAC	Change Advisory Committee
CSDP	Competitive Supplier Development Programme
CWL	Cleared While Localising
DCN	Digital Telecommunications Network
DoC	Department of Communications
DPE	Department of Public Enterprises
DST	Department of Science and Technology
DWDM	Dense Wavelength Division Multiplexing
ECA	Electronic Communications Act
ECNS	Electronic Communications Network Services
FSN	Full Services Network
GDP	Gross Domestic Product
HRRC	Human Resources and Remuneration Committee
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 of South Africa
IFRS	International Financial Reporting Standards
IP	Internet Protocol
ITU	International Telecommunication Union
IRU	Indefeasible Right of Use
KPA	Key Performance Area
KPI	Key Performance Indicator
MOU	Memorandum of Understanding
MTS	Multiwavelength Transport System
MTTR	Mean Time to Repair
NMS	Network Management System
NT	National Treasury
NOC	Network Operations Centre
OECD	Organisation for Economic Co-operation and Development
OEMs	Original Equipment Manufacturers
OSS / BSS	Operating and Support Systems/Business Support Systems
PFMA	Public Finance Management Act
POP	Point of Presence
POTS	Plain Old Telephone Service
RSA	Republic of South Africa



SADC	South African Development Community
SANReN	South African National Research Network
SDH	Synchronous Digital Hierarchy
SHEQ	Safety, Health, Environment and Quality
SITA	State Information Technology Agency
SKA	Square Kilometre Array
SNO	Second Network Operator
SOC	State-owned Company
TENET	Tertiary Education Network
TFR	Transnet Freight Rail
USALs	Under Serviced Area Licencees
VANS	Value Added Network Service
VPN	Virtual Private Network
WACC	Weighted Average Cost of Capital
WACS	West Africa Cable System
ZAR	South African Rand



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RP: 198/2012

ISBN: 978-0-621-41035-8

Title of Publications: Broadband Infraco Annual Report 2012.